

# **The Scottish Government Non Domestic Rating Account for the year ended 31 March 2018**

**Laid before the Scottish Parliament  
by the Scottish Ministers  
27 September 2018**

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## Foreword

### Statutory Background

1. All references to sections relate to the Local Government Finance Act 1992 as amended by Schedule 13 to the Local Government etc. (Scotland) Act 1994. All references to paragraphs relate to Schedule 12 of the Local Government Finance Act 1992.
2. This account is prepared under paragraph 6 of Schedule 12 to the Local Government Finance Act 1992 and shows:-
  - 2.1. Payments to Scottish Ministers in 2017-18 under paragraph 11(3) as amended by paragraph 176(19)(d) of Schedule 13 to the Local Government etc. (Scotland) Act 1994 in respect of the provisional amount of non domestic rates estimated to be collectable in 2017-18 under paragraph 11(2) as amended by paragraph 176(19)(c) of Schedule 13 to the Local Government etc. (Scotland) Act 1994 and 12(5);
  - 2.2. Payments made by Scottish Ministers in 2017-18 under paragraph 1 in respect of non domestic rates distributed to the authorities in proportion to each local authority's 2016-17 mid-year non domestic rates income return net of any prior year adjustments as specified in The Local Government Finance (Scotland) Order 2017;
  - 2.3. Payments made to and by Scottish Ministers in 2017-18 under paragraphs 11(8), (9) and (10) in respect of prior year adjustments. Adjustments are necessary where the notified amount of an authority's non domestic rating contribution for the year differs from the provisional amount referred to in paragraph 11(3), and also where the audited amount of an authority's non domestic rating contribution for the year differs from the notified amount.

### Pooling and Redistribution of Non Domestic Rates

3. Under the system of local government finance which began on 1 April 1993, the yield of non domestic rates was paid to the Secretary of State for Scotland by local authorities who collect non domestic rates from businesses in their areas. The non domestic rates are thus, in effect, pooled. These sums are redistributed to authorities in proportion to each local authority's share of the most recent prior year mid-year non domestic rates income return net of any prior year adjustments available at the time of calculation. For example if local authority "A" has recorded that it expected to collect 10% of the total non domestic rates to be collected in Scotland in the most recent prior year then it is allocated 10% of the distributable amount of non domestic rates for the year in question.

The distributable amount is set with reference to the forecast NDR income to be collected for the year and the accumulated balance on the NDR account. From 2018-19 the Scottish Fiscal Commission (SFC) is responsible for preparing the forecast for NDR income to be collected. The forecast of the likely NDR income for the year is developed based on a number of factors (including the impact of a revaluation, an assessment of likely successful appeals losses, the level at which the poundage is set and the package of reliefs that Ministers wish to put in place). The distributable amount is based on that forecast, the accumulated balance in the NDR account and the overall financial outlook for the Scottish Budget.

The operation of the pool is now governed by Section 108 of and Schedule 12 to the Act and the Non Domestic Rating Contributions (Scotland) Regulations 1996 (S.I. 1996/3070), as amended. Following the devolution of local government finance in Scotland to the Scottish Executive on 1 July 1999, as set out in the Scotland Act 1998, these sums became due to Scottish Ministers and redistribution also became their responsibility.

The purpose of the account is to demonstrate that all non domestic rates paid to Scottish Ministers are redistributed to authorities.

4. Non domestic rates paid to and by Scottish Ministers are credited to or drawn from the Scottish Consolidated Fund. There is no separate fund through which these monies pass. Scottish Ministers are, however, required to maintain a “Non Domestic Rating Account” for each financial year. They must credit to the account, as items of account, non domestic rates received by them and must debit to the account payments made to authorities in the course of the year.
5. In order to avoid unnecessary cash transfers between Scottish Ministers and local authorities, only net payments are made, reflecting the net balance of sums due to be paid by them to authorities and of sums due from authorities to them. However, if the non domestic rating account showed only net payments it would give an uninformative picture of the operation of the non domestic rating system. The account therefore shows as items of account all the non domestic rate entitlements and liabilities which have been discharged, rather than merely cash sums received or paid out.
6. In accordance with paragraph 176(19c) of Schedule 13 to the Local Government etc. (Scotland) Act 1994 (and the appropriate Non Domestic Rating Contributions (Scotland) Regulations) contributions from authorities to Scottish Ministers have been based on each authority’s “provisional amount” (calculated by the authorities themselves at the beginning of each financial year). This amount represents the non domestic rates which the levying authorities estimate will be collectable from non domestic ratepayers in the area of the authority. The authority is liable to pay that amount to Scottish Ministers during the year. An authority may, in prescribed circumstances, recalculate its provisional contribution during the year if the amount of rates collectable falls below that originally estimated. Each authority is also required to recalculate its contribution after the year ends. As a result, it may be required to make further payments to Scottish Ministers if the result of this calculation is greater than the provisional amount, or Scottish Ministers may be required to reimburse the authority for any overpaid contributions.
7. With effect from 1 April 2012 the Scottish Ministers introduced the Business Rates Incentivisation Scheme to incentivise local government to exceed the non-domestic rates income expected to be collected within their area. This original Scheme was revised with effect from 1 April 2014. Under the terms of both Schemes any local authority that exceeds its non-domestic rate income target, set by Scottish Ministers, retains 50 per cent of that additional income. Scottish Ministers agreed with local government that a total of £6.4 million could be retained by 8 local authorities in respect of 2015-16 as set out in Annex A of the Local Government Finance Circular 4/2017<sup>1</sup> and this loss to the pool was reflected in the 2017-18 non-domestic rates returns and reflected in the 2017-18 Non-Domestic Rating Account. Any future retention as a result

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<sup>1</sup> <https://beta.gov.scot/publications/local-government-finance-circular-42017/>

of the revised Scheme will be accounted for, and reflected within, the relevant future Non-Domestic Rating Accounts.

8. The non domestic rating pooling arrangement requires all non domestic rates paid to Scottish Ministers to be redistributed to local authorities. The sum to be redistributed in any one year (the “Distributable Amount”) is calculated by Scottish Ministers before the financial year using estimates of the items to be credited and debited to the account in the year (Local Government Finance Act 1992, Schedule 12, Paragraph 9), as amended. The distributable amount is set with reference to the forecast NDR income to be collected for the year and the accumulated balance on the NDR account. From 2018-19 the Scottish Fiscal Commission (SFC) is responsible for preparing the forecast for NDR income to be collected. The forecast of the likely NDR income for the year is developed based on a number of factors (including the impact of a revaluation, an assessment of likely successful appeals losses, the level at which the poundage is set and the package of reliefs that Ministers wish to put in place). The distributable amount is based on that forecast, the accumulated balance in the NDR account and the overall financial outlook for the Scottish Budget. However, it is unlikely that the aggregate of payments into the pool in any one year will exactly equal the estimates used to calculate the Distributable Amount. As a result, the sum of the items credited to the account in any one year may be higher or lower than payments debited to the account in that year. If there is a surplus, it is carried forward by debiting the account for the year and crediting the next year’s account, so increasing the amount available for redistribution the following year. A deficit is carried forward by crediting the account for the year and debiting the next year’s account (Schedule 12, Paragraph 8). This account demonstrates that, looking at the non-domestic rates account over a number of years, all non domestic rates paid to Scottish Ministers are redistributed to authorities.
9. As noted above the distribution of Non Domestic Rates is operated on a pooled basis and is derived from a series of estimates.

The Distributable Amount for 2017-18 was calculated in December 2016 as part of the one year 2017-18 local government finance settlement. At that time non-domestic subjects with a total rateable value of £4,946 million had appealed against the valuation set in April 2010.

Estimates in respect of the impact of the above were taken into account in setting the Distributable Amount for 2017-18.

It is in the nature of the process that the various estimates above will require to be updated in the light of improved or additional information. This additional information can include policy decisions including on the annual rates poundage and on reliefs and supplements. The calculation of Distributable Amounts going forward will reflect revised estimates for these variables.

The level of funding to Local Authorities in a financial year is not affected by variations in the levels of non-domestic rates receipts; equivalent adjustments are made to the levels of General Revenue Grant paid by the Scottish Government. Those sums are not reflected in this account. The Scottish Government Consolidated Accounts report the funding provided to Local Government as a whole within the Education, Communities, Justice Portfolio. An explanation of Local Government finance can be accessed online<sup>2</sup>.

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<sup>2</sup> <https://beta.gov.scot/policies/local-government/local-government-revenue/>

## *Review of 2017-18*

10. In 2017-18 Scottish Ministers received £2,868.7 million of non domestic rates and £2,713.2 million was paid to authorities. The surplus of £155.5 million was debited to the account for 2017-18 and credited from the account for 2018-19. As noted above, appropriate adjustments were made to the level of General Revenue Grant to Local Authorities in year because the amounts collected were higher than estimated.

Taking the accumulated deficit of £296.6 million, carried forward from the previous financial year, this produces an overall debit on the account of £141.1 million to be carried forward in 2018-19. This is the cumulative position of funding distributed in excess of actual non-domestic rates receipts.

11. The budget concerned with this expenditure is held within the Scottish Government Education, Communities and Justice Portfolio, which is covered in the Scottish Government Consolidated Accounts<sup>3</sup>.

## **Statement of Accountable Officer's Responsibilities**

Under paragraph 6 of Schedule 12 to the Local Government Finance Act 1992, the Director-General Education, Communities and Justice is required to prepare a statement of accounts for each financial year in the form and on the basis determined by Scottish Ministers, in the Accounts Direction issued by them. The accounts are prepared on a cash basis and must properly present the receipts and payments for the financial year and the balances held at year end.

The responsibilities of the Accountable Officer are described in the Memorandum to Accountable Officers from the Principal Accountable Officer published in the Scottish Public Finance Manual.

## **Governance Statement**

A separate statement is not given for the Non Domestic Rating Account as it is not the account of a separate entity but an extract of the Scottish Consolidated Fund Accounts<sup>4</sup>. The Governance Statement given by the Principal Accountable Officer for the accounts of the Scottish Consolidated Fund covers all of the receipts and payments relating to the Non Domestic Rating Account. I have provided assurances to the Principal Accountable Officer on the systems of internal control within the Education, Communities and Justice Portfolio, including those relating to Non Domestic Rating.



### **Accountable Officer**

Director General Education, Communities and Justice  
12 September 2018

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<sup>3</sup> [https://beta.gov.scot/publications/?term=scottish government consolidated accounts](https://beta.gov.scot/publications/?term=scottish%20government%20consolidated%20accounts)

<sup>4</sup> [https://beta.gov.scot/publications/?term=consolidated fund accounts](https://beta.gov.scot/publications/?term=consolidated%20fund%20accounts)

## ***Independent auditor's report to the Auditor General for Scotland and the Scottish Parliament***

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Auditor General for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

### ***Report on the audit of the financial statements***

#### ***Opinion on financial statements***

I have audited the financial statements in the Scottish Government Non-Domestic Rating Account for the year ended 31 March 2018 under Schedule 12 of the Local Government Finance Act 1992. The financial statements comprise the Receipts and Payments Account, Statement of Balances and the Notes to the Account. The financial reporting framework that has been applied in their preparation is applicable law and the receipts and payments basis.

In my opinion the accompanying financial statements:

- properly present in accordance with Schedule 12 of the Local Government Finance Act 1992 as amended by Schedule 13 of the Local Government etc (Scotland) Act 1994 and directions made thereunder by the Scottish Ministers the receipts and payments of the account for the year ended 31 March 2018 and the balances held at that date; and
- have been prepared in accordance with the requirements of Schedule 12 of the Local Government Finance Act 1992 and directions made thereunder by the Scottish Ministers.

#### ***Basis of opinion***

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)). My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the account in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### ***Responsibilities of the Accountable Officer for the financial statements***

As explained more fully in the Statement of the Accountable Officer's Responsibilities, the Accountable Officer is responsible for the preparation and proper presentation of financial statements in accordance with the financial reporting framework, and for such internal control as the Accountable Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## ***Auditor's responsibilities for the audit of the financial statements***

My objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of my auditor's report.

## ***Other information in the Scottish Government Non-Domestic Rating Account***

The Accountable Officer is responsible for the other information in the Scottish Government Non-Domestic Rating Account. The other information comprises the information other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Auditor General for Scotland to the extent explicitly stated later in this report.

In connection with my audit of the financial statements, my responsibility is to read all the other information in the Scottish Government Non-Domestic Rating Account and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

## ***Report on regularity of receipts and payments***

### ***Opinion on regularity***

In my opinion in all material respects:

- the receipts and payments in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers, the Budget (Scotland) Act covering the financial year and sections 4 to 7 of the Public Finance and Accountability (Scotland) Act 2000; and
- the sums paid out of the Scottish Consolidated Fund for the purpose of meeting the payments shown in the financial statements were applied in accordance with section 65 of the Scotland Act 1998.



### ***Responsibilities for regularity***

The Accountable Officer is responsible for ensuring the regularity of receipts and payments. I am responsible for expressing an opinion on the regularity of receipts and payments in accordance with the Public Finance and Accountability (Scotland) Act 2000.

### ***Report on other requirements***

#### ***Opinion on matter prescribed by the Auditor General for Scotland***

In my opinion, based on the work undertaken in the course of the audit, the information given in the Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

#### ***Matters on which I am required to report by exception***

I am required by the Auditor General for Scotland to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.



Stephen Boyle CPFA  
Audit Director  
Audit Scotland  
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G2 1BT

13 September 2018

**Receipts and Payments Account for the year ended 31 March 2018**

	<b>2017-18</b> £	<b>2016-17</b> £
Contributions from authorities (Note 2)	2,843,956,250	2,754,164,616
Gross additional receipts as a result of interim recalculations for 2016-17 (Note 4)	24,548,014	
Gross additional receipts as a result of final recalculations for 2016-17 (Note 5)	147,830	
Gross additional receipts as a result of interim recalculations for 2015-16		43,735,279
Gross additional receipts as a result of final recalculations for 2015-16		1,333,607
<b>Total Contributions</b>	<b>2,868,652,094</b>	<b>2,799,233,502</b>
Sums paid to authorities as the Distributable Amount (Note 3)	2,665,800,000	2,768,500,000
Gross additional sums paid as a result of interim recalculations for 2016-17 (Note 4)	47,201,333	
Gross additional sums paid as a result of final recalculations for 2016-17 (Note 5)	177,686	
Gross additional sums paid as a result of interim recalculations for 2015-16		38,681,414
Gross additional sums paid as a result of final recalculations for 2015-16		100,723
<b>Total Distributions</b>	<b>2,713,179,019</b>	<b>2,807,282,137</b>
Net sums paid to and from the account during the year	155,473,075	(8,048,635)

The notes on page 10 form part of these accounts.


**Accountable Officer**

Director General Education, Communities and Justice

The Accountable Officer authorised these statements for issue on 12 September 2018

## Statement of Balances as at 31 March 2018

	2017-18 £	2016-17 £
Balance as at 1 April	(296,609,200)	(288,560,565)
Add surplus/(deficit) of contributions over amounts distributed for the year	155,473,075	(8,048,635)
<b>Balance as at 31 March (Note 1)</b>	<b>(141,136,125)</b>	<b>(296,609,200)</b>

The notes on page 10 form part of these accounts.



**Accountable Officer**

Director General Education, Communities and Justice  
12 September 2018

## Notes to the Account

1. The “Non Domestic Rating Account” for each financial year is audited by Audit Scotland appointed by the Auditor General for Scotland. It shows, as items of account (rather than actual cash), sums paid to and from the account during 2017-18 (Schedule 12, paragraph 7). Surpluses at the end of the year are carried forward by debiting the account for the year and crediting the next year’s account. Deficits at the end of the year are carried forward to the following year by crediting the account for the year and debiting the next year’s account (Schedule 12, paragraph 8) e.g. this balance will be offset against expenditure within financial year 2017-18. This ensures, that when years are taken together, all non domestic rates paid to Scottish Ministers are redistributed to authorities.
2. Each levying authority is required to calculate the non domestic rating contribution for the year before it begins (the provisional amount; Schedule 12, paragraph 11(2) as amended by paragraph 176(19c) of Schedule 13 to the Local Government etc. (Scotland) Act 1994) and the authority is required to do a final calculation after the year ends (Schedule 12, paragraph 11(5)). The provisional amount is paid during the year in such instalments as Scottish Ministers direct (Schedule 12, paragraph 11(4)). Contributions from authorities in respect of the provisional amount for 2017-18 totalled £2,844 million.
3. Scottish Ministers paid out the Distributable Amount of £2,665.8 million for 2017-18 (Schedule 12, paragraph 9) as set out in the Local Government Finance (Scotland) Order 2017. The Distributable Amount is paid to authorities in proportion to each local authority’s 2016-17 mid-year non domestic rates income return net of any prior year adjustments.
4. Due to the nature of the non domestic rates returns cycle the interim returns for any given year are received after the Account is prepared. By 31 March 2018 all interim payments (£47.2 million) and interim receipts (£24.5 million) in respect of interim adjustments to the provisional contributable amounts for 2016-17 had been completed. They are, therefore, included within this Account.
5. By 31 March 2018 final payments (£0.2 million) and final receipts (£0.1 million) from all 32 local authorities, following the end year calculations, had also been received for 2016-17.
6. The figures for 2017-18 are net of the sums totalling £6.4 million retained by local authorities under the Business Rates Incentivisation Scheme in respect of the year 2015-16.
7. The accounts are prepared on a receipts and payments basis in accordance with the requirements of the Local Government Finance Act 1992.
8. This account although serving a specific purpose has a direct link to and from the following publications. The Scottish Budget: Draft Budget 2018-19<sup>5</sup>; The Scottish Government’s Medium Term Financial Strategy<sup>6</sup>; the outcome of the 2017 Non

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<sup>5</sup> <http://www.gov.scot/Publications/2017/12/8959>

<sup>6</sup> <http://www.gov.scot/Publications/2018/05/1497>

Domestic Rates Revaluation 2017<sup>7</sup>; and the Scottish Government's response to the Barclay Review of Non-Domestic Rates<sup>8</sup>.



**Accountable Officer**

Director General Education, Communities and Justice

12 September 2018

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<sup>7</sup> <https://beta.gov.scot/publications/revaluation-2017-scotland/>

<sup>8</sup> <https://beta.gov.scot/publications/barclay-review-of-non-domestic-tax-rates-implementation-plan/>

## Appendix A - Account Direction



### NON-DOMESTIC RATING ACCOUNT

#### DIRECTION BY THE SCOTTISH MINISTERS

1. The Scottish Ministers, in pursuance of paragraph 6(1) of Schedule 12 to the Local Government Finance Act 1992, hereby give the following direction.
2. The account which it is the duty of the Scottish Ministers to prepare in respect of the financial year ended 31 March 2014 and in respect of any subsequent financial year, shall comprise:
  - 2.1. a foreword;
  - 2.2. a receipts and payments account;
  - 2.3. a statement of balances; and
  - 2.4. notes to the account.
3. The account shall properly present the receipts and payments for the financial year and balances at the financial year-end, and shall be drawn up in such a form as will enable the information described in the attached schedule to be separately identified.
4. The Scottish Ministers shall send copies of the account to the Auditor General for Scotland as soon as possible after the end of the financial year, and in any case not later than 30 September in each year
5. This direction shall be reproduced as an appendix to the statement of accounts. The direction given on 23 November 2001 is hereby revoked.

Signed by the authority of the Scottish Ministers

Dated 18 June 2014



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