

**SCOTTISH GOVERNMENT
LOCAL GOVERNMENT
PORTFOLIO:
NON – DOMESTIC RATING
ACCOUNT 2011-12**

Laid before the Scottish Parliament by the Scottish Ministers under the Public Finance and Accountability (Scotland) Act 2000

December 2012

SG/2012/210

SCOTTISH GOVERNMENT: LOCAL GOVERNMENT PORTFOLIO NON-DOMESTIC RATING ACCOUNT 2011-12

Foreword

Statutory Background

1 This account is prepared under paragraph 6 of Schedule 12 to the Local Government Finance Act 1992 and shows:-

1.1 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.

1.2 Payments to Scottish Ministers in 2011-12 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 2011-12 under paragraphs 11(2) as amended by paragraph 176(19)(c) of Schedule 13 to the Local Government etc (Scotland) Act 1994 and 12(5);

1.3 Payments made by Scottish Ministers in 2011-12 under paragraph 1 in respect of non-domestic rates distributed to the authorities in proportion to each local authority's 2010-11 mid-year non domestic rates income return net of any prior year adjustments as specified in the Local Government Finance (Scotland) Amendment Order 2011;

1.4 Payments made to and by Scottish Ministers in 2011-12 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**

2 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. Up to and including 2010-11, the total of these sums was redistributed to authorities in proportion to their relevant populations. With effect from 1 April 2011 these sums are now redistributed to authorities in proportion to each local authority's 2010-11 mid-year non domestic rates income return net of any prior year adjustments. 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 by the Non-Domestic Rating Contributions (Scotland) Amendment Regulations 1997 (S.I. 1997/2867), 1998 (S.I. 1998 (2957) and 1999 (S.I. 1999/153). 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 became their responsibility under the same legislation.

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- 3 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.
- 4 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.
- 5 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.

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- 6 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 (Schedule 12, Paragraph 9). 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, taking one year with another, all non-domestic rates paid to Scottish Ministers are redistributed to authorities.
- 7 As noted above the distribution of NDR is operated on a pooled basis and is derived from a series of estimates.

The Distributable Amount for 2011-12 was calculated in November 2010. At that time non-domestic subjects with a total rateable value of £4699 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 2011-12.

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. The calculation of Distributable Amounts going forward will reflect revised estimates for these variables.

**Review of
2011-12**

- 8 In 2011-12 Scottish Ministers received £2,259.2 million of non-domestic rates and paid to authorities £2,237.8 million. The surplus of £21.4 million was debited from the account for 2011-12 and credited to the account for 2012-13. Taking the accumulated surplus of £12.6 million, carried forward from the previous financial year, this produces an overall credit on the account of £34.0 million to be carried forward in 2012-13. From 1 April 1999, the receipts and payments for the financial year and the balances held at year end accrued to the Scottish Consolidated Fund.
- 9 The budget concerned with this expenditure is that for the Scottish Government: Local Government Portfolio. The Scottish Government Consolidated Accounts can be accessed here:-
<http://www.scotland.gov.uk/Publications/2012/09/1505/downloads>

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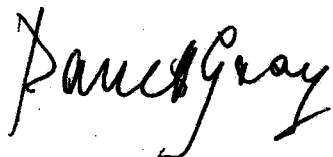
**Statement of Accountable Officer's
Responsibilities**

Under paragraph 6 of Schedule 12 to the Local Government Finance Act 1992, the Director-General Governance and Communities is required to prepare a statement of accounts for each financial year in the form and on the basis determined by Scottish Ministers. 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 account of the Scottish Consolidated Fund. 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 Local Government Portfolio, including those relating to Non-Domestic Rating.



Accountable Officer
DIRECTOR-GENERAL GOVERNANCE AND COMMUNITIES

7 NOVEMBER 2012

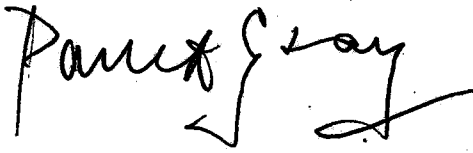
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Receipts and Payments Account for the year ended 31 March 2012

	2011-12 £	2010-11 £
Contributions from authorities (Note 2)	2,235,225,658	2,165,191,434
Gross additional receipts as a result of interim recalculations for 2010-11	22,046,827	
Gross additional receipts as a result of final recalculations for 2010-11 (Note 4)	1,787,352	
Gross additional receipts as a result of interim recalculations for 2009-10		21,008,926
Gross additional receipts as a result of final recalculations for 2009-10	109,157	
Total Contributions	2,259,168,994	2,186,200,360
Sums paid to authorities as the Distributable Amount (Note 3)	2,182,000,000	2,068,200,000
Gross additional sums paid as a result of interim recalculations for 2010-11	50,850,656	
Gross additional sums paid as a result of final recalculations for 2010-11 (Note 4)	12,420	
Gross additional sums paid as a result of interim recalculations for 2009-10		63,102,086
Gross additional sums paid as a result of final calculations for 2009-10	4,898,554	
Gross additional sums paid as a result of final calculations for 2008-09		7,872,189
Total Distributions	2,237,761,630	2,139,174,275
Net sums paid to and from the account during the year	21,407,364	47,026,085

The notes on page 9 form part of these accounts.

Signed

A handwritten signature in black ink, appearing to read "Paul Gray". The signature is written in a cursive style with a large initial 'P' and a long horizontal stroke at the end.

Accountable Officer

The Scottish Government
Director-General Governance and Communities

7 NOVEMBER 2012

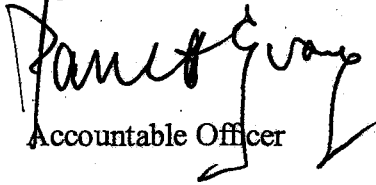
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Statement of Balances as at 31 March 2012 (Note 1)

	2011-12 £	2010-11 £
Balance as at 1 April	12,633,078	(34,393,007)
Net sums paid to and from the account during the year	21,407,364	47,026,085
Balance as at 31 March	34,040,442	12,633,078

The notes on page 9 form part of these accounts.

Signed



Accountable Officer

The Scottish Government
Director-General Governance and Communities

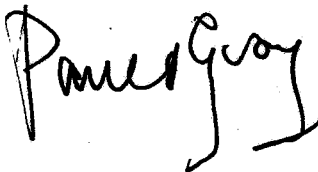
7 NOVEMBER 2012

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Notes to the Account

- 1 The "Non-Domestic Rating Account" for each financial year is to be audited by the Auditor General for Scotland. It shows, as items of account (rather than actual cash), sums paid to and from the account during 2011-12 (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). This is to ensure 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 2011-12 totalled £2,235.2 million.
- 3 Scottish Ministers paid out the Distributable Amount of £2,182.0 million for 2011-12 (Schedule 12, paragraph 9) as set out in the Local Government Finance (Scotland) Amendment (No. 2) Order 2011. The Distributable Amount is paid to authorities in proportion to each local authority's 2010-11 mid-year non domestic rates income return net of any prior year adjustments.
- 4 By 31 March 2012 all payments (£12,420) and receipts (£1,787,352) in respect of final adjustments to provisional contributable amounts for 2010-11 had been completed following the end year recalculation.

Signed



Accountable Officer

The Scottish Government
Director-General Governance and Communities

7 NOVEMBER 2012

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

I have audited the financial statements of Scottish Government Local Government Portfolio: Non-Domestic Rating Account for the year ended 31 March 2012 under the Public Finance and Accountability (Scotland) Act 2000. These comprise the Receipts and Payments Account, Statement of Balances and related notes. These financial statements have been prepared 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 the directions made thereunder by the Scottish Ministers.

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 125 of the Code of Audit Practice approved by the Auditor General for Scotland, I do not undertake to have responsibilities to members, in their individual capacities, or to third parties.

Respective responsibilities of the Accountable Officer and auditor

As explained more fully in the Statement of the Accountable Officer's Responsibilities, the Accountable Officer is responsible for the preparation of the financial statements and for being satisfied that they properly present the receipts and payments for the financial year, and is also responsible for ensuring the regularity of receipts and payments. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors. I am also responsible for giving an opinion on the regularity of receipts and payments.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts, disclosures, and regularity of payments and receipts in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the body's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accountable Officer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the Non-Domestic Rating Account to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- properly present the receipts and payments of the Scottish Ministers in respect of the Non-Domestic Rating for the year ended 31 March 2012 and the balance held at that date 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 Scottish Ministers
- have been properly prepared in accordance with Schedule 12 of the Local Government Finance Act 1992 and directions made thereunder by the Scottish Ministers.

Opinion on Regularity

In my opinion in all material respects:

- the receipts and payments shown 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 expenditure shown in the financial statements were applied in accordance with section 65 of the Scotland Act 1998.

Opinion on prescribed matter

In my opinion 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 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.



Mark Taylor CPFA
Assistant Director
Audit Scotland
18 George Street
Edinburgh EH2 2QU
30 November 2012



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 2001 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 22 July 1994 is hereby revoked.

Signed by the authority of the Scottish Ministers

Dated

P. S. Collins
23 November 2001

