



EXAMPLE PRESENTATION OF
NON DOMESTIC RATES
IN 2012/13 FINANCIAL STATEMENTS

MAY 2013

LASAAC [The Local Authority (Scotland) Accounts Advisory Committee] is constituted of volunteer members representing the five funding bodies: CIPFA, ACCA, ICAS, Audit Scotland and the Scottish Government. LASAAC is primarily concerned with the development and promotion of proper accounting practice for Scottish local government. A key task in achieving this is LASAAC's representation on CIPFA-LASAAC which produces the UK-wide 'Code of Practice on Local Authority Accounting in the United Kingdom'.

Further information about LASAAC can be obtained at <http://www.cipfascotland.org.uk/technical/lasaac.cfm>

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LASAAC Example Non-Domestic Rate Presentation: Background

1. This paper provides an example of the presentation of non-domestic rate income, cash and balances in 2012/13 Scottish local government financial statements.
2. The example is intended to illustrate various aspects of Non-Domestic Rate presentation including:
 1. The presentation of non-domestic rate income retained by an authority under the Business Rate Incentivisation Scheme (BRIS)¹ which allows councils, where the target income figure is exceeded, to retain 50% of the 'above target' income
 2. The presentation of a disclosure note to analyse the non-domestic rate income included within the 'Taxation and Non-specific Grant Income line' of the Comprehensive Income and Expenditure Statement
 3. The separate presentation of NDR income distributed by the Scottish Government to Councils from the national non-domestic rate pool.
3. The presentation of retained non-domestic rate income under a Tax Incremental Financing (TIF) scheme is not addressed in this example.
4. This paper does not seek to fully replicate or restate the requirements of the Code or other published guidance.

Recognition Criteria for BRIS Retained Income

5. The Code of Practice Update 12/13² paragraph 2.8.2.1A requires that where a BRIS scheme exists authorities should consider the application of the Code of Practice Section 2.6 (Principal and Agent Transactions) to any retained non-domestic rate income.
6. Section 2.6 of the Code of Practice requires reference to IAS 18 (Revenue), IPSAS 9 (Revenue from Exchange Transactions) and IPSAS 23 (Revenue from Non-Exchange Transactions (Taxes and Transfers))³. For non-domestic rate income reference to IPSAS 23 is appropriate. IPSAS 23 states (paragraph 60):

"Resources arising from taxes satisfy the definition of an asset when the entity controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured."

7. For non-domestic rates the 'taxable event' for property tax is normally (as per IPSAS 23 paragraph 65 (f))" ... the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis."

¹ See Scottish Government Finance Circulars 12/2011 and 1/2012 regarding the establishment of BRIS. These are available at: <http://www.scotland.gov.uk/Topics/Government/local-government/17999/11203>

² Code of Practice 12/13 Update available: <http://www.cipfa.org/-/media/files/policy%20and%20guidance/panels/lasaac/201213%20code%20update%20including%20tracked%20amendments.pdf>

³ IPSAS 23 available at: <http://www.ifac.org/sites/default/files/publications/files/ipsas-23-revenue-from-non-2.pdf>

8. For income under BRIS however there is no entitlement on the part of the council to retain the income until the income target has been exceeded. Therefore there should be no recognition of BRIS income until the council is satisfied that it has exceeded the agreed BRIS target.

BRIS Target

9. As set out in the Scottish Government Local Government Finance Circular 1/2012 the BRIS target is based on audited contributable amounts. The determinant of whether a council has achieved the BRIS target will therefore be based on the audited 'Contributable Amount' figure reported in the Non Domestic Rates Income Return for 2012/13. Therefore the BRIS target is an accrual based income target.
10. The BRIS target is set for the accrual based non domestic rate income in the financial year and does not differentiate between the 'Rateable Year' that the income relates to. This implies that adjustments for BRIS retained income are not required to be identified to specific rateable years but may be made against the totality of non domestic rate income transactions and balances for all relevant rateable years.

Mechanism for Settlement of Balances with the Scottish Government

11. In line with current practice no non-domestic rate income is paid to the Scottish Government. All non-domestic rate cash is retained by the Council. The "Contribution to the Non-Domestic Rate Pool" will include only the National non domestic rate pool share (50%) of the rate income which exceeds a council's individual non domestic rate income target. The monthly revenue grant payments from the Scottish Government (in the next financial year) will take into account the BRIS adjusted amount to ensure a council retains its 50% share and the Non domestic rate pool receives its 50% share.
12. The Scottish Government has advised that the national non domestic rate pool's share of the 'above target' income should be recognised as an adjustment to the net balance with the Pool for NDR income in 2012/13. No adjustment to General Revenue Grant is to be made in 12/13 to show a reduction in General Revenue Grant, the Scottish Government NDR net balance should be adjusted instead.

Treatment of Non-Domestic Rate Debtors

13. BRIS retained income is not specific to individual NDR Debtors. Therefore any analysis of NDR Debtors into amounts owing related to the council (income as principal) and those relating to the Non-Domestic Rate Pool (agency income) needs to be undertaken at an aggregate level. This is considered to require a notional prioritisation method for 'cash allocation' to assign total cash collected between the relevant income streams. This may alternatively be expressed as an order of priority for the analysis of NDR Debtors.
14. It is recommended that NDR debtor balances at the end of the financial year are identified and assigned in the following order:

A	Income above the agreed BRIS target. This income would be appropriately split between the authority as principal (50%) and the Scottish Government Non-Domestic Rate Pool (50%). The Scottish Government share should be included in the net balance with the Scottish	Since the BRIS mechanism is not triggered until the BRIS target is met it is considered that cash collected should initially be notionally allocated (at an aggregate level) to income that is fully administered on behalf of the Scottish Government. Therefore
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	Government Non-Domestic Rate Pool.	where any balance of NDR Debtors exist on the balance sheet they can first of all be notionally regarded as relating to amounts above the BRIS target (where the BRIS target has been achieved).
B	Where, after the above, there are still NDR debtor balances they may appropriately be regarded as relating to the Non-Domestic Rate Pool (Scottish Government).	The debtors value included in this is regarded as being administered on behalf of the Scottish Government NDR Pool. This will include (a) income which is subsequently re-assigned to the authority (i.e. the 'distributable amount' per the statutory order) and (b) any income, up to the BRIS target, in excess of this which is submitted to the pool.

15. It should be noted that this approach is a 'notional' approach at an aggregate NDR Debtor level. From 1 April in the following year cash should not need to be allocated to opening principal / agency balances, since the BRIS target is effectively 'reset' from 1 April and any income collected is due to the Scottish Government until the BRIS target for the new financial year has been achieved. At the end of the new financial year the approach above can be adopted to assign the NDR Debtors to the relevant income streams.

Distribution of Non-Domestic Rate Income from the National Pool

16. The amount of income shown as "Distribution from Non-Domestic Rate Pool" should equate to the relevant statutory order which specifies the amount distributed to each local authority. For 2012/13 the value of NDR distributed to each authority is set out in 'The Local Government Finance (Scotland) Amendment Order 2012' (SSI 2012/94): <http://www.legislation.gov.uk/ssi/2012/94/schedule/made>

17. The distributable amount of non-domestic rate income is calculated by the Scottish Government using forecasts of net income from non-domestic rates expected for the financial year in question (e.g. 2012-13). It also draws on council estimates of the amounts they will contribute to the pool in the prior financial years. The distribution of non-domestic rate income seeks to distribute back to each council the amount they contribute to the pool. This approach means that the difference between the distributed non-domestic rates and the contribution to the national non-domestic rate pool in any year is unlikely to be significantly different for any council. The two figures will not however match as there are (a) timing differences between the estimated council contribution (2011-12) and the actual contribution to the pool for the year (2012-13) and (b) the estimate used to calculate each council's distribution from the pool and the final audited value may differ.

EXAMPLE NON-DOMESTIC RATE INCOME ACCOUNT
(prior year comparatives are required)

2012/13 **Comment**
£000 (see over)

Gross Rates Levied & Contributions in Lieu	295.500	1
Reliefs & Other Deductions	(5.000)	
Write -offs of uncollectable debts & allowance for impairment	(3.100)	
Net Non-Domestic Rate Income	287.400	
Adjustment to previous Years' National Non-Domestic Rates	1.250	2
Total Non-Domestic Rate Income (before authority retentions)	288.650	3
Non-Domestic Rate Income Retained by Authority (BRIS)	(0.325)	4
Contribution to Non-Domestic Rate Pool	288.325	5

EXAMPLE NOTE TO CIES ON NON-DOMESTIC RATE INCOME
(prior year comparatives are required)

2012/13 **Comment**
£000 (see over)

Non-Domestic Rate Income as reported under Taxation and Non-Specific Grant Income comprises income assigned by the Scottish Government from the national non-domestic rates pool, as well as non-domestic rate income which is not submitted to the national pool but is retained by the Council.

[This text may be regarded as optional]

Distribution from Non-Domestic Rate Pool	294.000	1
Non-Domestic Rate Income Retained by Authority (BRIS)	0.325	2
Non-Domestic Rate Income credited to the Comprehensive Income and Expenditure Statement	294.325	3

EXAMPLE BALANCE SHEET*(prior year comparatives are required)***2012/13**
£000**Debtor*****[Amounts due from NDR Debtors which are related to BRIS income retained by the authority]*****0.250****Creditor*****[Net amount due to the Scottish Government Non Domestic Rate Pool. This will include the Scottish Government's share of income above the BRIS target.]*****(20.475)****EXAMPLE CASH FLOW STATEMENT***(prior year comparatives are required)***2012/13**
£000Operating Activities**• Taxation*****[i.e. Non-Domestic Rate cash collected as principal. If the NDR element is material a note identifying the amount may be appropriate]*****0.325**Financing Activities**• Other payments for financing activities*****[i.e. Non-Domestic Rate net balance of 'agency' cash transactions with (to & from) the Scottish Government. Note that the example is based on a net cash outflow. A net cash inflow would be disclosed within 'Other receipts from financing activities']*****(0.525)**

Comments – NDR Account

1	This includes all Non-Domestic Rates levied for the financial year
2	This line relates to changes relating to previous years NDR bills, for example due to the difference between the impairment allowed and the amount collected, or later revision to the impairment allowance.
3	This line should reflect the audited initial 'contributable amount' which is used to determine whether the BRIS target has been achieved. It may also be appropriate to provide a brief disclosure of the final agreed BRIS target.
4	This line should reflect the income retained by the authority under the Business Rate Incentivisation Scheme (BRIS). A brief note explaining the BRIS scheme may be appropriate: for example: "The Business Rate Incentivisation Scheme (BRIS) permits the authority to retain half of the NDR income which exceeds the income target set by the Scottish Government."
5	This line should reflect the amount of NDR income administered by the authority on behalf of the Scottish Government.

Comments – Note to the CIES (Taxation & Non-Specific Grant Income)

1	<p>This line should reflect the amount of NDR income from the National Pool which is distributed by the Scottish Government to the authority for the 2012/13 financial year. This should be based on the statutory notification issued, including any specific in year adjustments as notified by the Scottish Government.</p> <p>For amended 2012/13 NDR assignment figures see 'The Local Government Finance (Scotland) Amendment Order 2012' (SSI 2012/94): http://www.legislation.gov.uk/ssi/2012/94/schedule/made</p>
2	This line is expected to agree to the income shown for BRIS in the NDR Account
3	This should agree to the amount of Non-Domestic Rate Income credited to the Comprehensive Income & Expenditure Statement under 'Taxation and Non-Specific Grant Income'.