

News release

For immediate release

Greater transparency needed over non-domestic rates funding

The Scottish Government needs to increase the transparency of its financial reporting on non-domestic rates, says the Auditor General.

Non-domestic rates (NDR) are collected by councils and pooled by the Scottish Government before being redistributed back to local authorities through the Scottish budget.

NDR made up around 29 per cent of total revenue funding provided to councils by the Scottish Government in 2016/17. However, forecasting and timing differences mean the balance on the NDR account is either in surplus or deficit.

A new report by Caroline Gardner, the Auditor General, highlights that the balance on the account was £297 million in deficit at the end of 2016/17. This means the Scottish Government has redistributed more NDR income in recent years than councils have collected.

Ms Gardner's report notes that although the Scottish Government has signalled its intention to bring the account into balance over a number of years, it has no formal plan in place.

The Auditor General also found that information about non-domestic rates is currently fragmented across a number of different Scottish Government accounts and budget documents.

She said: "The arrival of new financial powers brings significant changes and increasing complexity to the Scottish budget.

"Better and more transparent information about the key components of the budget, including non-domestic rates, is essential to supporting effective parliamentary decision making in this new environment."

Ms Gardner said that the establishment of the Scottish Fiscal Commission to provide independent forecasts of non-domestic rates provided an opportunity to increase transparency of NDR financial reporting.

"This will help the Parliament to build a comprehensive picture of non-domestic rates and better understand how it contributes to the Scottish budget and its impact on longer-term financial sustainability," she added.

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Notes to editors:

1. The Auditor General has prepared the report on the 2016/17 Scottish Government's Non-Domestic Rating Account under Section 22 of the Public Finance and Accountability (Scotland) Act 2000. This allows the Auditor General to bring to the Parliament and the public's attention matters of public interest related to the financial statements of public bodies.

2. Each year, the Scottish Government prepares an account to show the amount of non-domestic rates collected by councils and redistributed to them by the Scottish Government. The independent audit opinion on the 2016/17 non-domestic rating account is unqualified. This means that the auditor is content that the account properly presents the receipts and payments of the account for the year ending 31 March 2017 and the balance as at that date.

3. Each year, the Scottish Government determines the NDR amount to be redistributed to councils as part of the Scottish budget. This is a policy decision made before it knows how much will be collected by councils for that year. The Scottish Government guarantees this amount to councils and therefore holds the financial risk, which it manages as part of its overall budget.

4. Audit Scotland has prepared this report for the Auditor General for Scotland. All Audit Scotland reports published since 2000 are available at www.audit-scotland.gov.uk

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