

Non-Domestic Rating Account

2024/25 Annual Audit Report



Prepared for the Scottish Government and the Auditor General for Scotland

10 September 2025

Contents

Key messages	3
Introduction	4
Audit of the annual report and accounts	6
Financial sustainability and governance	10
Appendix 1 – Action plan	15
Appendix 2 – National reports	16

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Key messages

2024/25 Non-Domestic Rating Account

- 1 All audit opinions on the 2024/25 Non-Domestic Rating Account are unmodified.
- 2 Our audit did not identify any issues that required to be reported to those charged with governance under ISA260.

Financial Sustainability and Governance

- 3 The 2024/25 NDR Account shows Scottish Ministers received £3,369 million of non-domestic rates contributions in the year and paid out £3,245 million to local authorities. This resulted in an in-year surplus of £124 million. This was mainly attributable to the gross amount payable by ratepayers increasing due to increases in the intermediate and higher property rates, as well as lower-than-forecasted prior-year losses from appeals.
 - 4 The in-year surplus achieved was a significantly better position than the projected outturn included in the 2024/25 Scottish Budget. This was mainly attributed to the actual prior year losses due to appeals being £104 million lower than estimated by local authorities in their 2024/25 provisional contributable amounts.
 - 5 The NDR Account showed a cumulative surplus of £77 million at 31 March 2025. However, the Scottish Government is projecting the NDR Account to be in deficit at 31 March 2026, with plans to bring it back in to financial balance by the end of 2028/29.
 - 6 The Scottish Government should make improvements to the foreword and notes to the NDR Account to provide readers with a fuller understanding of how the account operates.
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Introduction

Purpose of the Annual Audit Report

1. The purpose of this Annual Audit Report is to report the significant matters identified from the 2024/25 audit of the Non-Domestic Rating (NDR) Account and the relevant wider scope areas specified in the [Code of Audit Practice \(2021\)](#). The report is addressed to the Scottish Government and the Auditor General for Scotland, and will be published on the [Audit Scotland website](#).

Scope of the audit

2. The audit is performed in accordance with the Code of Audit Practice, including supplementary guidance, International Standards on Auditing (ISA) (UK), and relevant legislation. The scope of the 2024/25 audit was set out in our Annual Audit Plan presented to the March 2025 meeting of the Scottish Government Audit and Assurance Committee (SGAAC), and includes:

- An audit of the NDR Account and the issue of an Independent Auditor's Report setting out the audit opinions on the financial statements, including the regularity of receipts and payments.
- An opinion on statutory other information published with the NDR Account, namely the Foreword to the NDR Account.
- Concluding on the financial sustainability of the NDR Account, and the governance arrangements that relate to its operation.

Appointed auditor and independence

3. Carole Grant, Audit Scotland, has been appointed by the Auditor General for Scotland as external auditor of the NDR Account for the period from 2022/23 until 2026/27. As reported in the Annual Audit Plan, Carole Grant and the audit team are independent of the Scottish Government in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. There have been no developments since the issue of the Annual Audit Plan that impact on the continued independence of any member of the audit team, including the provision of non-audit services.

Responsibilities and reporting

4. The Code of Audit Practice sets out the respective responsibilities of the auditor and the Scottish Government as summarised below.

Auditor's responsibilities

5. The responsibilities of auditors in the public sector are established in the Public Finance and Accountability (Scotland) Act 2000. These require the provision of an independent opinion on the financial statements and other information reported within the NDR Account, and concluding on the body's arrangements in place for the wider scope areas.

6. This report includes an agreed action plan at [Appendix 1](#). This sets out specific recommendations to address matters identified during our audit and includes details of agreed actions, the responsible officer and the date for implementation.

7. Weaknesses or risks identified in this report are only those that have been identified by the audit team during normal audit work and may not be all that exist. Communicating these does not absolve management or SGAAC, as those charged with governance, of the responsibilities set out below.

The Scottish Government's responsibilities

8. The Scottish Government is responsible for maintaining accounting records and preparing the NDR Account in accordance with the accounts direction issued by Scottish Ministers. The Scottish Government is also responsible for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity.

National and performance audit reporting

9. The Auditor General for Scotland and the Accounts Commission regularly publish national and performance audit reports. These cover a range of matters, many of which will be of interest to the Scottish Government. Details of national and performance audit reports published over the last year can be seen in [Appendix 2](#).

Acknowledgements

10. We would like to thank the Scottish Government and its staff, particularly those involved in the operation of the NDR Account, for their cooperation and assistance during the audit. We look forward to continuing to work together constructively over the remainder of the five-year audit appointment.

Audit of the annual report and accounts

Main judgements

All audit opinions on the 2024/25 NDR Account are unmodified.

Our audit did not identify any issues that required to be reported to those charged with governance under ISA260.

Audit opinions on the NDR Account are unmodified

11. SGAAC approved the NDR Account on 8 September 2025. The Independent Auditor's Report included the following audit opinions on the accounts:

- the financial statements properly present, in accordance with applicable legislation and directions made thereunder by the Scottish Ministers, the receipts and payments of the fund for the year ended 31 March 2025 and the balances held at that date,
- in all material respects the sums paid out of the fund were applied in accordance with applicable enactments and guidance issued by the Scottish Ministers, and
- the information given in the Foreword is consistent with the financial statements. There are no matters which I am required by the Auditor General to report by exception.

The 2024/25 NDR Account audit was completed in line with the agreed timetable

12. The unaudited NDR Account was provided on 5 June 2025. The accounts and working papers presented for audit were of a good standard and finance staff supported the team during the audit process. This helped ensure that the final accounts audit was completed in line with the agreed audit timetable, with the NDR Account 2024/25 certified by the appointed auditor on 9 September 2025.

The fee for the 2024/25 external audit was £12,870

13. The fee for the 2024/25 external audit was reported in the Annual Audit Plan and was set at the baseline level of £12,870. There have been no developments that impact on the planned audit work required, therefore the audit fee reported in the Annual Audit Plan remains unchanged.

Our audit approach and testing was informed by the overall materiality level of £61 million

14. Materiality is applied by auditors in planning and performing an audit, and in evaluating the effect of any uncorrected misstatements on the financial statements or other information reported in the accounts.

15. The concept of materiality is to determine whether misstatements identified during the audit could reasonably be expected to influence the decisions of users of the accounts. Auditors set a monetary threshold when determining materiality, although some issues may be considered material by their nature. Therefore, materiality is ultimately a matter of the auditor's professional judgement.

16. Materiality levels for the audit of the NDR Account were determined at the risk assessment phase of the audit and were reported in the Annual Audit Plan. These were reassessed on receipt of the unaudited NDR Account and it was concluded that the materiality levels remained appropriate, and are shown in [Exhibit 1](#).

Exhibit 1

2024/25 Materiality levels for the NDR Account

Materiality type	Value
Materiality: Based on an assessment of the needs of users of the financial statements and the nature of the NDR Account. Materiality has been set at 2 per cent of the NDR distributable amount as set in the Scottish Budget 2024/25.	£61 million
Performance materiality: This acts as a trigger point. If the aggregate of misstatements identified during the audit exceeds performance materiality, this could indicate that further audit procedures are required. Using professional judgement, this has been set at 75 per cent of materiality.	£45 million
Reporting threshold: We are required to report to those charged with governance on all misstatements greater than this reporting threshold amount.	£0.6 million

Source: Audit Scotland

Our audit identified and responded to the significant risks of material misstatement

17. [Exhibit 2](#) sets out the significant risk of material misstatement identified for the 2024/25 audit of the NDR Account, summarises the further audit procedures we performed to obtain assurances over this risk, and details the outcome of this work.

Exhibit 2

Significant risks of material misstatement to the NDR Account

Risk of material misstatement	Audit response	Outcome of audit work
Fraud caused by management override of controls As set out in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to override controls that otherwise appear to be operating effectively. This is presumed to be a significant risk in all audits.	The audit team: - Assessed the design and implementation of controls over journal entry processing. - Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. - Tested journal entries and other adjustments during the financial year focusing on those assessed as higher risk. - Evaluated significant transactions outside the normal course of business.	Audit testing did not identify any evidence of management override of controls.

Source: Audit Scotland

Our audit did not identify any issues that required to be reported to those charged with governance under ISA260

18. ISA (UK) 260 requires auditors to communicate significant findings from the audit to those charged with governance, which for the NDR Account is SGAAC.

19. The Code of Audit Practice also requires public sector auditors to communicate key audit matters. These are the matters that, in the auditor's professional judgement, are of most significance to the audit of the financial statements.

20. In determining key audit matters, auditors consider:

- areas of higher or significant risk of material misstatement,

- areas where significant judgement is required, including accounting estimates that are subject to a high degree of estimation uncertainty, and
- significant events or transactions that occurred during the year.

21. Our audit also identified some presentational and disclosure issues, including suggested improvements to the narrative explanations in the accounts. These were discussed with management and all were adjusted in the audited 2024/25 NDR Account, but none of these were significant enough to be reported under ISA260. Therefore, we have no issues that require to be reported to those charged with governance under ISA260.

Financial sustainability and governance

Conclusions and judgements

The 2024/25 NDR Account shows Scottish Ministers received £3,369 million of non-domestic rates contributions in the year and paid out £3,245 million to local authorities. This resulted in an in-year surplus of £124 million. This was mainly attributable to the gross amount payable by ratepayers increasing due to increases in the intermediate and higher property rates, as well as lower-than-forecasted prior-year losses from appeals.

The in-year surplus achieved was a significantly better position than the projected outturn included in the 2024/25 Scottish Budget. This was mainly attributed to the actual prior year losses due to appeals being £104 million lower than estimated by local authorities in their 2024/25 provisional contributable amounts.

The NDR Account showed a cumulative surplus of £77 million at 31 March 2025. However, the Scottish Government is projecting the NDR Account to be in deficit at 31 March 2026, with plans to bring it back in to financial balance by the end of 2028/29.

The Scottish Government should make improvements to the foreword and notes to the NDR Account to provide readers with a fuller understanding of how the account operates.

Approach to wider scope audit

22. Reflecting the fact that public money is involved, the Code of Audit Practice requires that public audit is planned and undertaken from a wider perspective than in the private sector. The wider scope audit includes consideration of additional aspects or risks in:

- financial management,
- financial sustainability,
- vision, leadership and governance, and
- use of resources to improve outcomes.

Less complex bodies approach

23. The Code of Audit Practice also includes provisions relating to the audit of less complex bodies. Where the application of the full wider audit scope is judged by auditors not to be appropriate to an audited body then the annual audit work can focus on the appropriateness of the disclosures in the governance statement and financial sustainability.

24. As reported in our Annual Audit Plan, due to the nature of the NDR Account and its limited financial activity, we concluded that the less complex bodies approach could be applied to this audit.

The NDR Account reported an in-year surplus of £124 million for 2024/25. This was mainly attributable to the gross amount payable by ratepayers increasing due to increase in the intermediate and higher property rates, as well as lower-than-forecasted prior-year losses from appeals.

25. The NDR Account operates on a receipts and payments basis and is managed by the Scottish Government. It serves as a national “pool” for all NDR receipts. The receipts of local authorities across Scotland are recognised in the NDR Account as contributions. The Scottish Government distributes these receipts to local authorities as part of its overall local government funding arrangements.

26. The amount distributed as non-domestic rates funding to local authorities (the Distributable Amount) was set in Scottish Budget 2024/25 at £3,068 million for the year ended 31 March 2025. The Distributable Amount payable is set in proportion to each local authority’s 2023/24 mid-year non-domestic rates income return, net of any prior year adjustments.

27. The Scottish Government guarantees the combined amount of revenue grant funding and non-domestic rates distributions provided to local authorities each year. Where variances in non-domestic rates occur, the Scottish Government adjusts the associated General Revenue Grant to ensure funding levels to local government align to the levels agreed in the finance settlement for that year.

28. The total NDR receipts contributed by local authorities for 2024/25 were £3,369 million. The total amount distributed from the NDR Account to local authorities for the year was £3,245 million. In 2024/25, adjustments of £91 million to contributions and £177 million to distributions have been recognised as a result of recalculations in relation to prior years.

29. The excess of contributions over distributions resulted in an in-year surplus of £124 million for 2024/25 (2023/24 in-year surplus: £35 million). The in-year surplus was mainly attributable to the gross amount payable by ratepayers increasing due to increase in the intermediate and higher

property rates, as well as lower-than-forecasted prior-year losses from appeals.

The in-year surplus of £77 million was a significantly better position than the projected outturn included in the 2024/25 Scottish Budget. This was mainly attributed to the actual prior year losses due to appeals being £104 million lower than estimated by local authorities in their 2024/25 provisional contributable amounts.

30. The level of the Distributed Amount set in the 2024/25 Scottish Budget resulted in a cumulative deficit on the NDR Account of £85 million being forecast for 31 March 2025. However, as detailed above, the excess of contributions over distributions during 2024/25 actually resulted in a cumulative surplus of £77 million at 31 March 2025. The main reason for this improved position were that the Scottish Fiscal Commission's December 2024 forecast of the contributable amount for 2024/25, which was used for the 2024/25 Scottish Budget, was £104 million lower than the actual 2024/25 contributable amount. This was due to the Scottish Fiscal Commission's forecast including higher prior year losses due to appeals, than was estimated by local authorities in their 2024/25 provisional contributable amounts.

The NDR Account showed a cumulative surplus of £77 million at 31 March 2025. However, the Scottish Government is projecting the NDR Account to be in deficit at 31 March 2026, with plans to bring it back in to financial balance by the end of 2028/29

31. The in-year surplus for 2024/25 resulted in a cumulative surplus balance of £77 million at 31 March 2025 (cumulative deficit of £48 million at 31 March 2024). This surplus has been carried forward into 2025/26.

32. The 2025/26 Scottish Budget reflected the latest NDR financial information and forecast a cumulative surplus for 2024/25 of £79 million, £2 million more than the actual position reported for the year, as detailed at paragraph [29](#). The 2025/26 budget also projected a large deficit for 2025/26 which would result in the NDRA Account moving in to cumulative deficit of £89 million at 31 March 2026, followed by projected surpluses in 2027/28 and 2028/29 which would result in the NDR Account being in financial balance by the end of 2028/29.

33. Non-domestic properties are periodically revalued to reflect prevailing economic circumstances. The last revaluation took effect on 1 April 2023 with a tone date (the date that the valuations are based on) of 1 April 2022. The 2025/26 Scottish Budget confirmed that the next revaluation is scheduled for 1 April 2026 with a tone date of 1 April 2025. The impact of this valuation exercise on the NDR Account will be considered in the Scottish Budget in future years.

The Scottish Government should make improvements to the foreword and notes to the NDR Account to provide readers with a fuller understanding of how the account operates

34. The purpose of the foreword and notes to the NDR account is to provide readers with an understanding of how the account operates and the level of receipts and payments during the financial year. It should also explain the main factors that resulted in any significant variance from the budgeted surplus or deficit for the account during the year.

35. As reported in previous years, the foreword and notes to the NDR account should be improved to better explain the activity during the year and the future plans to return the NDR Account to financial balance. It could also be further enhanced by including information on NDR forecasts and funding within the medium-term financial strategy, and scenario planning and sensitivity analyses on the impact of fluctuations in NDR contributions or distributions.

36. These improvements would provide greater transparency for the Scottish Parliament and the wider public, and enable the Scottish Government to demonstrate more clearly its plans for the NDR Account, the funding choices that these plans represent, and how they align to the Government's wider decision-making on financial sustainability.

37. We note that no significant improvements have been implemented during 2024/25 so recommend that these are now progressed and reflected in the 2025/26 NDR Account.

Recommendation 1

The Scottish Government should make improvements to the foreword and notes to the NDR Account to provide readers with a fuller understanding of how the account operates.

Governance arrangements are appropriate

38. The governance arrangements for the NDR Account operate within the context of the Scottish Government's overall system of corporate governance. My judgement on the adequacy of the governance arrangements forms part of my reporting on the 2024/25 Scottish Government Consolidated Accounts.

39. The Non-Domestic Rating Account and the Scottish Consolidated Fund are scrutinised and approved by the Scottish Government Audit and Assurance Committee in their role as those charged with governance.

40. A separate governance statement is not prepared for the NDR Account, as it is not an entity but an extract of the Scottish Consolidated

Fund. The NDR Account is subject to the same controls and assurance procedures that apply to the Scottish Government.

41. We are content that the governance arrangements in place are appropriate for the operation of the NDR Account.

Appendix 1 – Action plan

2024/25 recommendations

Issue / Risk	Recommendation	Agreed action, officer and timing
1. Transparency of reporting We continue to recommend that the Scottish Government should improve the transparency of financial information and reporting on NDR. Risk: The Scottish Government is not able to demonstrate its plans for the NDR Account, the funding choices it presents, and how these align to the Government's wider decision-making on financial sustainability.	The Scottish Government should make improvements to the foreword and notes to the NDR Account to provide readers with a fuller understanding of how the account operates. Paragraphs 34. to 37.	Accepted The Scottish Government has finalised NDR guidance that has been shared with external stakeholders and we are currently working to produce a version that can be published online. The Scottish Government will continue to consider how best to improve clarity and transparency to provide a fuller understanding of how the NDR account operates. Responsible Officer: Team Leader – Local Government Finance Agreed date: 31 March 2026

Follow-up of prior year recommendations

Recommendation	Agreed action	Progress
PY1. Transparency of reporting The Scottish Government should continue to improve the clarity and transparency of reporting for the Non-Domestic Rating Account.	Accepted The Scottish Government will continue to consider how best to improve clarity and transparency to provide a fuller understanding of how the NDR Account operates, including providing additional information in the Scottish Government Budget and Medium Term Financial Strategy. Responsible officer: Team Leader - Local Government Finance Agreed date: 31 March 2025	Ongoing See Recommendation 1 above.

Appendix 2 – National reports

Report name	Date published
Auditor General for Scotland reports	
Fiscal sustainability and reform in Scotland	21 November 2024
NHS in Scotland 2024: Finance and performance	3 December 2024
Administration of Scottish income tax 2023/24	17 January 2025
Scottish National Investment Bank	15 May 2025
NHS in Scotland: Spotlight on governance	28 May 2025
Accounts Commission publications	
Local government budgets 2024/25	15 May 2024
Integration Joint Boards: Finance and performance 2024	25 July 2024
Transformation in councils	1 October 2024
Local government in Scotland: Financial bulletin 2023/24	28 January 2025
Transparency, transformation and the sustainability of council services	28 January 2025
A review of Housing Benefit overpayments 2018/19 to 2021/22: A thematic study	20 February 2025
Integration Joint Boards: Finance bulletin 2023/24	6 March 2025
Integration Joint Boards finances continue to be precarious	6 March 2025
Council Tax rises in Scotland	28 March 2025
Other Publications	
The National Fraud Initiative in Scotland 2024	15 August 2024
Public service reform in Scotland: how do we turn rhetoric into reality?	26 November 2024

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