

FROM: Audit and Risk Manager **SUBJECT:** National Non-Domestic Rates
TO: Head of Finance **DATE:** 12 January 2021
C.C. Chief Executive
Deputy Chief Executive (AJ)
Exchequer Manager
Revenues & Recovery
Manager
Portfolio Holder (Cllr Hales)

1 **Introduction**

- 1.1 In accordance with the Audit Plan for 2020/21, an examination of the above subject area has recently been completed by Ian Davy, Principal Internal Auditor, and this report presents the findings and conclusions for information and, where appropriate, action.
- 1.2 Wherever possible, findings have been discussed with the staff involved in the procedures examined and their views are incorporated, where appropriate, into the report. My thanks are extended to all concerned for the help and cooperation received during the audit.
- 1.3 The audit was undertaken during the COVID-19 pandemic. This has meant a slightly different approach has been taken to complete the audit. Rather than observing staff members and meeting staff face to face, correspondence has been via email or Teams video calls.

2 **Background**

- 2.1 National Non-Domestic Rates (NNDR) is managed by members of staff in the Revenues section of Finance. The team is also responsible for the management of NNDR on behalf of Stratford-on-Avon District Council.
- 2.2 There are currently 5,415 chargeable properties in the district with a total rateable value of £170,801,919.
- 2.3 The net charge for 2020/2021 is currently £80,195,692.01. The collection rate as at the end of December 2020 was 78.69% which represents a decrease of 2.84% on December 2019. This is understandable given the current trading position in light of the COVID-19 pandemic.
- 2.4 Most NNDR transactions and routines are processed by a management system called Civica Open Revenues. This has been in place for several years and, while the basic functions remain broadly unaltered, it has undergone a number of revisions in response to changes in legislation.

3 **Scope and Objectives of the Audit**

3.1 The controls identified within the systems based audit programmes are covered on a rolling basis to reflect the current evaluation of risk, as well as available resources. As set out below, this audit has concentrated on the controls in place regarding valuation and liability.

3.2 An extensive examination has been undertaken using the CIPFA systems-based control evaluation models. Detailed testing was performed to confirm that controls identified have operated, with documentary evidence being obtained where possible, although some reliance has had to be placed on verbal discussions with relevant staff, including the Revenues & Recovery Manager.

3.3 The objectives that have been considered as part of this audit include:

- Appropriate legislative and procedural guidance is in place and is available to adequately trained staff
- New and amended properties that should be subject to non-domestic rates are identified with the Valuation Office Agency (VOA) being notified accordingly
- Information provided by the VOA is acted upon in a timely manner
- The correct liable individuals are identified, with changes being processed accurately
- Reliefs and exemptions are only awarded to relevant properties / organisations.

3.4 The expected controls under the relevant matrices are categorised into the following areas:

Valuation:

- (1) Procedures and regulations
- (2) New and amended properties
- (3) Notifications to the Valuation Office
- (4) Valuation Office listings
- (5) Reconciliations and checks
- (6) Security of data

Liability:

- (7) Procedures and regulations
- (8) Determination of liability
- (9) Amendments to liability
- (10) Reliefs and exemptions
- (11) Reconciliations and checks
- (12) Security of data

3.5 Some specific tests were not performed as they were either considered not relevant to the operations at the Council or are covered under separate audits (e.g. data security is covered under a specific IT audit of the Civica Open Revenues system).

4 Findings

4.1 Recommendation from Previous Report

4.1.1 The current position in respect of the recommendation from the previous audit of these subsystems, undertaken in January 2019 was also reviewed. The current position is as follows:

Recommendation	Management Response	Current Status
1 The VOA should be informed on the change of property use in the cases identified.	Now that we have the Visiting Team Admin Officer (VTA) in post, I will ensure that the VTA report all of these to the VOA by way of Billing Authority Reports from now on.	Sample testing on Building Control Completion lists highlighted similar issues with the VOA not being informed of works performed in four of the 20 sampled cases (see 4.3.1.6 below).
2 Follow-up action should be taken with the VOA for all outstanding notified amendments.	As above, the newly created VTA post will now run the reports using all amendment codes and chase these with the VOA as we do the 'new' properties.	It was confirmed that a report covering the other amendment codes is run on a quarterly basis with these being chased accordingly. The 'new properties' reports are still run on a monthly basis (see 4.3.2.3 below).
3 The identified cases (and any other similar cases) should be reviewed to ensure that they are either billed where appropriate or deleted from the system.	We will look into these, however if a property is not bought into rating, it is excluded from any reporting on total property numbers. I see this as more of a file tidy exercise than a risk.	The 'unrated' properties were specifically excluded from the test this time (see 4.4.3.5 below). However, upon review of the report showing the empty, it was noted that 118 of the 599 properties on the report had a zero rating. The Exchequer Manager (EM) highlighted that non-rated businesses that have been set up on the system but not rated by the VOA do not impact on any other work or reports and do not cause any concern. Some of these may well suddenly be rated by the VOA and some will have had their rateable value reduced to zero by the VOA requiring that they remain in the rating list. A recommendation is not, therefore, required this time around.

Recommendation	Management Response	Current Status
4 The listed status of the identified property should be confirmed.	We do check all new cases with 'Historic England' and any cases that are queried, however some have been within the system for years and when I asked Historic England if they could provide a definitive list for our Council, this was not something that was possible. We will look into the case identified and refer to Historic England for advice.	No issues were identified in relation to listed buildings covered by the relevant tests performed for this audit (see 4.4.3.6 below). The specific identified property (2A Church Terrace) has now been taken out of rating as it has been converted to domestic, so no further review was considered necessary.
5 A review of discretionary reliefs should be performed with applications sought as appropriate. The scoring of the applications should then be undertaken to ensure that the correct amounts of relief are being awarded.	This was planned for 2019/20 anyway so will be done as planned.	The review has now been performed (for 2021/22) (see 4.4.3.10 below).

4.2 Procedures & Regulations

- 4.2.1 Relevant regulations and guidance are held on the Revenues & Benefits I Drive which is available to all relevant staff. The information held includes the latest 2018 edition of the IRRV Rating Law & Practice with a hard copy also being held.
- 4.2.2 Business Rates Information (BRI) letters from the Ministry of Housing, Communities & Local Government (previously DCLG) are also held in the I drive. These date back to 2005 with the 2020 folder containing the latest eight letters.
- 4.2.3 The Revenues & Recovery Manager (RRM) confirmed that there is no specific office procedure manual in place although on-line guidance is available and CIVICA training will be undertaken as required. However, a 'trainer' is now in post and the aim is for them to draw up a procedure manual.
- 4.2.4 Training needs are covered under the appraisal scheme. The RRM highlighted that new starters would follow a pattern of on-the-job training

and team leaders would undertake one-to-one training with staff. Staff would also be made aware when new guidance or information letters were made available. The new trainer will also be looking to set up a training matrix, although this is likely to be after the next billing run (March 2021).

- 4.2.5 Details of rated properties, including rateable values, are freely available via the VOA website. Sample testing was undertaken to ensure that the rateable value shown on the website agrees to the figure on the CIVICA system and that each property has a unique reference on the system. This test proved satisfactory.

4.3 **Valuation**

4.3.1 **New & Amended Properties**

- 4.3.1.1 There are many different sources used for identifying new properties or changes to existing buildings. The main source of information is the Building Control completion lists that are provided on a weekly basis by Building Control. As the properties on these reports are already confirmed as completed, the relevant details for new properties will be entered onto CIVICA and the VOA will be informed of the need to visit the property.
- 4.3.1.2 Planning Committee approvals are also provided following each committee and reports are received from the GIS team regarding new street naming and numbering.
- 4.3.1.3 The RRM also suggested that other means of identifying relevant properties employed include the use of Analyse (an external contractor) and their RV Finder product. She highlighted that, following notification from Analyse, the Council's records will be checked to ascertain if we were already aware of the property / amendment. If we were not aware of the change, then a commission payment is due.
- 4.3.1.4 The RRM suggested that partly due to the requirements of the VOA and also the number of COVID-related grants that had been applied for (or not in some cases), more property visits are being undertaken now, with site plans being obtained / photos taken etc. with these being attached to workflow and diary notes on CIVICA and sent to the VOA.
- 4.3.1.5 The visiting team is now fully resourced which allows the visits to be undertaken as required. The use of the old 'hard-copy' visiting cards has now ceased, with a spreadsheet being maintained of visits performed and diary notes being maintained on the system.
- 4.3.1.6 Sample testing was undertaken to ensure that completed works included on the Building Control completion lists were being updated on the system and were reported to the VOA for action. This proved largely satisfactory although four cases were noted where the VOA had not been notified of the changes undertaken.

Risk

Incorrect rates may be charged.

Recommendation

Staff should be reminded of the need to advise the VOA of all relevant change to non-domestic properties.

4.3.2 Notifications to the Valuation Office

4.3.2.1 Weekly reports are generated of property amendments and the associated export files are uploaded onto the VOA site the following morning. Testing was undertaken on a sample of notified amendments to ensure that CIVICA has been updated to show the subsequent ratings reported by the VOA or details have been recorded as to why no action has been taken. The system was found to have been updated appropriately in all sampled cases where the VOA had actually taken action.

4.3.2.2 VO Notification Statistics reports are automatically run on a monthly basis (on the last day of each month) by the PTC scheduler, with the reports being retained on the spool manager. There are six reports run each month, with three of these relating to NNDR and the others relating to Council Tax.

4.3.2.3 The different reports cover different lengths of time that the notifications have been outstanding (42, 84, and 126 days) for 'new properties'. There is also another report covering the 'other' codes which is run on a quarterly basis. The Visiting Team Administrator provided evidence of the chasing email that had been sent to the VOA to cover cases that had not been actioned by them.

4.3.3 Valuation Office Listings

4.3.3.1 The VOA sends through schedules detailing the relevant alterations to ratings on (roughly) a weekly basis.

4.3.3.2 A sample of amendments was chosen from schedules received during the current financial year and testing was undertaken to ensure that the property records on CIVICA had been updated appropriately. This test proved satisfactory.

4.3.4 Reconciliations & Checks

4.3.4.1 Weekly reconciliations are undertaken between the totals on the VOA schedule and the figures on CIVICA with a balancing sheet being created and supporting reports being retained, either on the Spool Manager on CIVICA or on the relevant network files. The latest balancing sheet was reviewed and was agreed to the corresponding VOA schedule and the RV report on CIVICA.

4.4 Liability

4.4.1 Determination of Liability

4.4.1.1 Identification of the correct liable person is not always straightforward. However, the RRM advised that a number of methods would be employed

such as sending out canvas forms, contacting the relevant agents or 'Googling'. Copies of lease agreement are also now being requested when liable persons have been identifying themselves, with this being implemented during the processing of the recent COVID grant payments.

4.4.1.2 Once the correct liable person and the date they became liable has been identified, the system will automatically calculate the charge based on the parameters set within the system and the dates entered. An account with a liability period that did not start on 1 April was identified and it was confirmed that the charge was based on a daily rate multiplied by the remaining number of days after the liability started.

4.4.1.3 The parameters are loaded as part of the new year creation process on CIVICA. The current year parameters were checked to the information contained in the relevant Business Rates Information Letter (BRIL2) and figures on the GOV.UK website. This confirmed that the parameters had been entered correctly.

4.4.2 **Amendments to Liability**

4.4.2.1 If the rateable value is reduced during the year, the liable amount will also be reduced and if the payments made are greater than the new liability a refund will be due.

4.4.2.2 A sample of reductions in rateable value were identified from VOA schedules received and testing was undertaken to ensure that the CIVICA had been amended to take account of these changes and that refunds had been made where appropriate. The controls had operated as expected and no issues were identified.

4.4.3 **Reliefs & Exemptions**

4.4.3.1 The liability can also be amended via the application of exemptions and reliefs.

4.4.3.2 Transitional relief is applied to ensure that bills do not increase or decrease rapidly following a general revaluation. A sample of accounts that had received transitional relief was identified and testing confirmed that this had been applied as appropriate.

4.4.3.3 When a property becomes empty it is exempt from rates for three months (or six months if it is an industrial property), after which it becomes liable for full rates (allowing for some exceptions which are covered below).

4.4.3.4 Sample testing was undertaken to ensure that the empty property relief was being applied correctly based on the dates notified and that evidence was being obtained to confirm this status.

4.4.3.5 Of the twenty cases sampled, relevant notification was held in all cases. However, it was noted that the exemption in two cases had been incorrectly calculated, one through human error (due to the exemption covering year-end) and one due to system error (again covering year-end). These were rectified at the time of the audit once Revenues staff were informed and

plans have been put in place to ensure that similar issues are identified in the future.

- 4.4.3.6 As suggested above, some empty properties are exempt from charges, over and above the initial period (e.g. listed buildings, properties with a rateable value under £2,900). Sample testing was undertaken to ensure that the exemption was being applied correctly and this proved to be the case in all sampled cases.
- 4.4.3.7 Mandatory reliefs are available to some types of organisations (e.g. charities and community amateur sports clubs (CASC)). A sample of these reliefs awarded was reviewed to ensure that the liable persons met the criteria for the relief. It was confirmed that the ratepayers for the 17 of the sampled accounts were appropriately registered as charities / associated sports clubs with two others being exempt charities and did not need to register. However, the other account related to a Community Interest Company (CIC) and, as such, is not eligible.

Risk

The Council may not receive all rates due.

Recommendation

The relief paid to the Community Interest Company should be reviewed, with a further check being undertaken to ascertain whether there are any other such accounts in place.

- 4.4.3.8 Those that are not entitled to mandatory relief, or organisations requiring a 'top-up' to the 80% mandatory relief awarded, can apply for discretionary relief, with the amount awarded based on scores awarded against set criteria.
- 4.4.3.9 Upon review of a sample of discretionary relief awards, it was established that:
- The applications, where held, were generally from 2016, with none relevant to the current financial year.
 - The applications were generally supported by relevant financial information and policy documents as appropriate.
 - The scoring (to confirm relevant percentages) was also not apparent in most cases.
- 4.4.3.10 Whilst the applications held were generally from 2016, new applications were also on workflow for 2021/22 for eleven of the sampled accounts and it was evident that a review of discretionary reliefs has been undertaken.
- 4.4.3.11 A local discretionary rate relief scheme also operates which is funded by central government to support business that faced the steepest increases following the 2017 revaluation. This has automatically been applied to relevant accounts based on the criteria set by the Council.

- 4.4.3.12 The most frequent relief awarded is small business rate relief (SBRR). This is based on the rateable value of the property with a different rate being charged. Sample testing confirmed that the amounts awarded had been calculated correctly.
- 4.4.3.13 Although a number of application forms for the current financial year could not be found on the system it was confirmed that, once an application has been received, there is no need to reapply and there was actually nothing in legislation that required forms to be submitted; thus, some applications may have been considered over the phone. With this taken into account, the test proved satisfactory.

4.4.4 **Reconciliations & Checks**

- 4.4.4.1 The Exchequer Manager advised that, as part of the year-end processes, the total amounts of reliefs and exemptions would be reviewed. The totals have to be recorded on the NDR1 and NDR3 returns and the figures would be checked against the previous year's figures to ensure that they appear 'reasonable'. If the figures are not roughly comparable, they would be investigated, with comments being required on the relevant return.
- 4.4.4.2 He advised that, the NDR1 form is currently being worked on as it is submitted at the end of January, with the NNDR3 form being submitted at a later date (April / May).

5 **Conclusions**

5.1 Following our review, in overall terms we are able to give a SUBSTANTIAL degree of assurance that the systems and controls in place in respect of valuation and liability processes for National Non-Domestic Rates are appropriate and are working effectively.

5.2 The assurance bands are shown below:

Level of Assurance	Definition
Substantial Assurance	There is a sound system of control in place and compliance with the key controls.
Moderate Assurance	Whilst the system of control is broadly satisfactory, some controls are weak or non-existent and there is non-compliance with several controls.
Limited Assurance	The system of control is generally weak and there is non-compliance with controls that do exist.

5.3 Two minor issues were identified relating to:

- The VOA not being notified of a number of potentially relevant changes to properties.
- Mandatory (charities) relief had been awarded to a Community Interest Company which does not meet the relevant criteria.

6 **Management Action**

- 6.1 The recommendations arising above are reproduced in the attached Action Plan (Appendix A) for management attention.

Richard Barr
Audit and Risk Manager

Action Plan

Internal Audit of National Non-Domestic Rates – January 2021

Report Ref.	Recommendation	Risk	Risk Rating*	Responsible Officer(s)	Management Response	Target Date
4.3.1.6	Staff should be reminded of the need to advise the VOA of all relevant change to non-domestic properties.	Incorrect rates may be charged.	Low	Revenues & Recovery Manager	This has been raised in the team meeting and also the individuals' one-to-ones.	Completed
4.4.3.7	The relief paid to the Community Interest Company should be reviewed, with a further check being undertaken to ascertain whether there are any other such accounts in place.	The Council may not receive all rates due.	Low	Exchequer Manager / Revenues & Recovery Manager	We will investigate the CIC identified that is receiving Mandatory Charity Relief and check to ensure they are eligible. This has never been picked up before so we were unaware of this issue.	31 March 2021

* Risk Ratings are defined as follows:

High Risk: Issue of significant importance requiring urgent attention.

Medium Risk: Issue of moderate importance requiring prompt attention.

Low Risk: Issue of minor importance requiring attention.