

INTERNAL AUDIT REPORT

FROM: Audit and Risk Manager

SUBJECT: Collection of National Non-Domestic Rates

TO: Head of Finance

DATE: 9 November 2016

C.C. Chief Executive
Deputy Chief Executive (AJ)
Revenues Manager
Principal NNDR, Systems and
Recovery Officer.

1 Introduction

- 1.1 In accordance with the Audit Plan for 2016/17, an examination of the above subject area has been completed recently and this report is intended to present the findings and conclusions for information and action where appropriate.
- 1.2 Wherever possible, results obtained have been discussed with the staff involved in the various procedures examined and their views are incorporated, where appropriate, in any recommendations made. My thanks are extended to all concerned for the help and co-operation received during the audit.

2 Background

- 2.1 The administrative framework for National Non-Domestic Rates (NNDR), together with the duty of the Council to collect them, is enshrined in the Local Government Finance Act 1988 and various successor legislation. The management of NNDR at the Council is undertaken by a team of staff in the Revenues Division of Finance which also handles the back-office management of NNDR for Stratford-on-Avon District Council.
- 2.2 At the time of this report, the amount of NNDR to be collectable by Warwick District Council in the year ending 31st March 2017 is around £70 million, after allowing for various reliefs and exemptions. As at the last reconciliation, the number of chargeable properties is 4,706.
- 2.4 The NNDR assessment and collection processes are supported by the Civica "OpenRevenues" computerised application. These processes have changed little in recent years and have benefited from a fairly settled, knowledgeable and experienced staff base and stable working environment.

3 Scope and Objectives of the Audit

- 3.1 The purpose of the audit examination was to report a level of assurance on the adequacy of systems for administering the collection of (NNDR) due to Warwick District Council. This does not incorporate any assessment in support of the assurance framework for Stratford-on-Avon District Council.
- 3.2 The systems are made up of processes for compiling and maintaining local valuation list, assessing liability, billing, collection, enforcement and granting of reliefs.
- 3.3 The approach to the audit was to ascertain and evaluate the controls in place by applying the CIPFA Control Matrices for NNDR. This entailed updating a pre-compiled internal control questionnaire (ICQ) and performing a set of compliance tests.
- 3.4 Under the phased approach designed to cover the five CIPFA modules for NNDR over a three-year cycle, the examination on this occasion was scoped to cover the modules in respect of valuation and liability for rating. Areas regarding procedures and regulations common to all NNDR modules were also reviewed.

4 Findings

4.1 Recommendations from previous report

- 4.1.1 There were no recommendations from the previous audit covering NNDR valuation and liability modules (2013).

4.2 Procedures and Regulations

- 4.2.1 All relevant staff have access to a range of electronic information resources that cover legislation, practice and internal procedures in respect to NNDR. These include the authoritative Rating Law and Practice manual and Business Rates Information Letters downloaded from the Department for Communities and Local Government (DCLG).
- 4.3.2 Staff also have their own copy of the Civica manual which describes in detail the operation of the system. The settled nature and experience of key staff means that specific ongoing training is rarely required and training of new staff and of existing staff arising from system or legislative changes can normally be accommodated in house.
- 4.3.3 Compliance with notification requirements of the Data Protection Act 1998 was confirmed and use of the Civica system during the audit demonstrated appropriate data security measures in place, including all supporting documentation the bulk of which is held electronically.
- 4.3.4 Details of rated properties, including rateable values, are freely available via the Valuation Office Agency (VOA) website. Business ratepayers can check their accounts on the Council's website provided they have registered and received a user name and password.

4.4 Valuation

- 4.4.1 Although property valuations are carried out by the VOA, the process relies heavily on Council the reporting new and amended properties. The Council in turn relies on the provision of regular and ad hoc information from a number of sources including the council's planning, building control and street numbering functions.
- 4.4.2 Periodic reports of delegated planning decisions and Planning Committee minutes provide the main pro-active sources of information from which new properties and significant alterations and extensions to existing ones are captured. Plan Record Cards are generated from these to trigger a monitoring and inspection process until actual chargeable properties that can be entered up to Civica come on stream.
- 4.4.3 Analysis of properties added and removed over the twelve-month period prior to the audit shows the following breakdown:

	<u>Added</u>	<u>Removed</u>
New hereditaments	103	
Reconstitutions – 1 for 1	14	14
Reconstitutions – split	84	38
Reconstitutions – merged	8	22
Changed to domestic hereditament		19
Demolished		24
Taken out of rating		10
Correction of duplicate		<u>2</u>
	<u>209</u>	<u>139</u>

- 4.4.4 Sample testing using a sample of high impact developments from planning reports independently extracted covering the year prior to the audit showed the card-based capture process to be generally effective.
- 4.4.5 Periodic plot completion reports from Building Control support the process by pointing to developments completed or potentially approaching completion. Subject to physical inspections and referrals from the Street Naming and Numbering service (now part of ICT Services), the reports enable the new rateable properties (or 'hereditaments') to be created in Civica and consequent notification generated for the VOA.
- 4.4.6 The plot completion reports are also used to identify alterations and extensions to existing properties, again triggering notification to the VOA for revaluation.
- 4.4.7 Testing based on an independent extrapolation of commercial plot completions over the two-year period prior to the audit confirmed that the appropriate action had been taken promptly in all cases, with isolated exceptions subject to individual query. What was particularly demonstrated is the effectiveness of the process in capturing showhomes in major housing developments for temporary rating.

4.4.8 Testing on the ongoing reconciliation process and on a sample individual new properties confirmed that all rated properties have the correct rateable value.

4.5 **Liability**

4.5.1 There are a number of ways in which the party liable for the rate charge to any property is identified. In the case of the new properties sampled in this examination, there were two typical scenarios:

- correspondence from a party effectively acknowledging liability by requesting the first bill;
- completion of a canvass form, either return of a system-generated form or completion of a pro-forma by on-site by the inspecting officer.

4.5.2 When new accounts are set up with the relevant details including the effective vacation and occupation dates the calculation of charges is carried out by the system using the parameters notified by the DCLG. The input of the parameters is an annual process undertaken by senior staff in Revenues and then tested before going live for the new year.

4.5.3 Sample tests on amendments to liability confirmed these to be correctly and promptly reassessed based on proper supporting evidence. Most of these were the result of changes in rateable value which were verified directly to the VOA schedules.

4.5.4 As well as through rateable value change, the amount of the initial liability can also be reduced application of exemption and reliefs. From the most recent information, the amount of the current year's reductions for exemptions and reliefs are broken down as:

	<u>Amount (£000)</u>
Exemption	2,524
Mandatory Relief	3,977
Discretionary Relief	156
Additional Relief	20
Discretionary Transitional Relief	7
Small Business Rate Relief	3,000

4.5.5 Over the period since the previous audit, there has been a downward trend in the overall amounts of exemptions and mandatory relief, partly counterbalanced by an upward trend in discretionary relief and small business relief.

4.5.6 In the sample of new liability accounts selected for testing, none had mandatory or discretionary relief and only three had small business relief (SBR). These were traced to their respective application forms and eligibility verified.

4.5.7 The main target of testing in this area was exemptions, since these are by nature more fluid being applied to chargeable properties only when they are unoccupied.

- 4.5.8 There is an automatic exemption from NNDR charge for the first three months after a property becomes unoccupied, after which a void charge is applied equivalent to the full charge. Only for certain types of property is there an ongoing exemption while continuing to be unoccupied after three months and, in the case of Warwick District, one type understandably dominates – listed buildings.
- 4.5.9 Ongoing exempt properties are monitored through periodic reports run off Civica and a card record system in which site inspection visits are recorded.
- 4.5.10 Within the test sample (part randomly selected and part skewed toward the accounts with the highest amounts of exemption), two-thirds of the cases had listed building exemptions, some of them continuous over several years. No evidence could be found from the testing that listed status of these properties is routinely verified, therefore it was decided to verify the cases in the sample directly against the Historic England register.
- 4.5.11 In two cases, the property could not be traced to the Historic England site and look-up on the on-line Development Services property status display showed them as not listed (one of them previously de-listed). These two account for a combined notional annual rate charge foregone of £31,460, although both have received the exemption for less than one year to date.
- 4.5.12 In consultation on this report at draft stage, it was advised that listed building 'markers' had been loaded into the Civica system some years ago, probably from Development Services data, and retained as standing data against the relevant properties. A process of re-checking properties with these 'markers' is under way at the time of this report with further properties incorrectly marked 'listed' known to have come to light, although none of these are currently unoccupied.
- 4.5.13 In recognition of the fact that listed buildings can occasionally be de-listed, it is recommended that listing status is re-checked individually on the property whenever a listed building exemption is applied to the applicable account.

Risk

Business rate income may be lost through invalid claim for listed building exemption.

Recommendation

Applications for exemption on listed building grounds should be verified for valid listed building status.

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 for the valuation and liability functions of non-domestic rating are appropriate and are working effectively.
- 5.2 The assurance bands are shown overpage:

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 the controls that do exist.

5.3 The only issue of any significance to crop up is the absence of evidence in the system and supporting documentation validating properties as being listed buildings or contained within listed buildings. This is reinforced by the test finding that failed to verify in two cases that the properties in question were in fact within listed buildings.

5.4 It is noted that re-verification of the properties flagged in the system as listed is under way at the time of this report and the overall assurance rating reflects this. It is considered that checks should also be undertaken on individual accounts whenever the listed building exemption is applied in case of subsequent de-listing.

6 **Management Action**

6.1 The recommendation arising above is reproduced in the attached Action Plan (Appendix A) with management response.

Richard Barr
Audit and Risk Manager

Action Plan

Internal Audit of NNDR – November 2016

Report Ref.	Recommendation	Risk	Risk Rating*	Responsible Officer(s)	Management Response	Target Date
4.5.10	Applications for exemption on listed building grounds should be verified for valid listed building status.	Business rate income may be lost through invalid claim for listed building exemption.	High	Exchequer Services Manager	Verification of Listed buildings has always been via a listing from a team within Development Services however it has since been established that Historic England are the oracle on listed buildings therefore we have started an exercise to cross reference the listed buildings we hold with Historic England.	March 2017

* 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.