INTERNAL AUDIT REPORT

FROM:	Audit and Risk Manager	**SUBJECT:**	National Non-Domestic Rates
TO:	Head of Finance	**DATE:**	9 December 2022
C.C.	Chief Executive Exchequer Manager Revenues and Recovery Manager Portfolio Holder (Cllr Hales)		

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1 **Introduction**

1.1 In accordance with the Audit Plan for 2022/23, an examination of the above subject area has recently been completed by Emma Walker, 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.

2 **Background**

2.1 National Non-Domestic Rates (NNDR) are managed by the Revenues section of the Finance department. The team is also responsible for the management of NNDR on behalf of Stratford-upon-Avon District Council.

2.2 Thus far, the current collection of business rates for 2022/23 amounts to £49,085,648.92, which is a collection rate of 58.12%. This has seen an increase of 0.26% when compared to the collection rate figures for October 2021.

2.3 NNDR transactions and procedures are processed through the CIVICA Open Revenues management system. There are currently 5,386 commercial properties on the system with a total rateable value of £175,579,620. The rateable value of each property is determined by the Valuation Office Agency (VOA). A multiplier, set by the Department of Communities and Local Government (DCLG), is then applied to determine the percentage of rateable value due to be paid by the proprietor.

3 **Objectives of the Audit and Coverage of Risks**

3.1 The management and financial controls in place have been assessed to provide assurance that the risks are being managed effectively. The findings detailed in the following sections confirm whether the risks are being appropriately controlled or whether there have been issues identified that need to be addressed.

3.2 In terms of scope, the audit covered the following risks (overleaf):

1. Financial loss through ineffective collection of rates.
2. Breaches of NNDR legislation.
3. Late or inaccurate billing leading to adverse publicity.
4. Shortage of business rates officers leading to reduced service, loss of skills, and increased pressure on existing staff.
5. Provision of incorrect information/advice to stakeholders.
6. Deliberate evasion of charges by occupiers/proprietors of non-domestic properties.
7. Employee collusion with occupiers/developers.
8. Physical harm to collection agents/verbal abuse to Council officers.
9. Loss of IT resulting in inability to bill customers/issue demands.
10. Failure to upload account information onto CIVICA system.
11. Failure of BACS resulting in Council taking unnecessary recovery action.

3.3 A 'risk-based audit' approach has been adopted, whereby key risks have been identified during discussions between the Internal Auditor and key departmental staff. The Finance and Significant Business Risk Registers have also been reviewed.

3.4 These risks, if realised, would be detrimental to the Council with regards to meeting the 'Money' theme of the Council's Fit for the Future Strategy.

3.5 It should be noted that the internal auditor allocated to this review, had a previous role in the Revenues department nine months ago. As per the Internal Audit Standards, Standard 1130.A1 states that 'internal auditors should refrain from assessing operations for which they were previously responsible for at least one year after leaving the operation'. Both the Head of Finance and Audit & Risk Manager did not believe this to carry a significant risk; it is merely an occasional disadvantage of having a smaller internal audit team. The scope of the audit was agreed with the Principal Internal Auditor, Exchequer Manager and Revenues and Recovery Manager, in order to avoid potential conflicts of interest wherever possible.

4 Findings

4.1 Recommendations from Previous Reports

4.1.1 The current position in respect of the recommendations from the audit reported in January 2020 was reviewed. The current position is as follows:

Recommendation	Management Response	Current Status
A variation of contract should be completed to ensure the correct authority is listed.	A variation of contract will be completed to ensure WDC is listed as the authority.	This was completed at the end of January 2020. Any references to 'authority' within the contract now refer to Warwick District, Stratford-on-Avon District and Rugby Borough Authorities. This has been signed by Bristow & Sutor (enforcement agents), the former Head of Finance and the Head of Procurement.

4.2 **Financial Risks**

4.2.1 **Risk: Financial loss through ineffective collection of rates.**

Bills are initially issued early-March and outline the total payable charge for the entire financial year; this includes any under or over payments carried over from previous years. Ratepayers can request an updated bill or copies of the original bill at any time, providing that these only relate to the charges for which the ratepayer requesting the bill was liable.

There is currently no report to confirm that the total amount of income corresponds with the number of commercial properties held on the system. However, the total rateable value is monitored each week once schedules from the VOA have been received. This ensures that the rateable value is fully consistent with VOA records. Income is checked when the NNDR3 return is sent to the government. The statutory framework requires that the Council should forecast the amount of business rates that it will collect during the course of the year. The Council is expected to disregard certain amounts and make a number of allowable deductions in order to arrive at a figure for its non-domestic rating income. At the end of the financial year, the Council is then required to recalculate its non-domestic rating income, allowable deductions, and disregarded amounts; the difference in non-domestic rating income between the NNDR1 and the NNDR3 is reflected in the Council's calculations of the estimated collection fund balance, included in the future NNDR1.

A contract is in place with the enforcement agents, Bristow & Sutor. The most recent contract was signed in October 2019 and will not expire until October 2023. As aforementioned in the review of the previous recommendations, there has since been a variation to this contract; however, this has been appropriately signed off by the Head of Procurement and the previous Head of Finance. The contract sets out the specifications required of the enforcement agents. All letters, notices, and other documentation sent to debtors by the Contractor are subject to approval by the Council. It is also a requirement that the Council have access to Bristow & Sutor's online software system. All Revenues staff have basic level access to the Bristow & Sutor client portal. However, only the Exchequer Manager (EM) and Senior Recovery Court Officer (SRCO) have full access.

Regular case reports are received from the enforcement agents. Bristow & Sutor rarely seize goods, as they must obtain 'lift approval' either from the EM or from the SRCO in order to physically take control of goods. If this is given, the system will detail the value of goods of which they have taken control. However, this does not mean that the goods will be removed, as this is seen as a last resort. In the majority of cases, the value of the goods is less than the debt and therefore goods can rarely be removed. As outlined in the contract, the EM has regular account management meetings with Bristow & Sutor, wherein performance is discussed, and any issues or concerns are highlighted. These take place approximately four times a year. This is to ensure that the correct fees have been charged, visits have taken place and necessary actions have been taken. The number of accounts that have progressed to the enforcement agents are monitored through a spreadsheet which is updated monthly; this was last completed 24 October 2022.

Write-offs over £5000 are usually authorised by the Revenues and Recovery Manager (RRM). The EM authorises any write-offs over £50,000 and all write-offs are checked by the SCRO. Testing conducted by the auditor revealed that all samples had been checked by the SCRO and authorised either by the RRM, or by the EM where appropriate. There were, however, two samples which were found to have no write-off form held on file.

Advisory – Although this did not suggest a widespread issue, consideration should be given to reminding staff to ensure that all write-off forms and diary notes are evidenced on the account.

4.3 **Legal and Regulatory Risks**

4.3.1 **Risk: Breaches of NNDR legislation.**

The latest copy of the Institute of Rating, Revenues and Valuation (IRRV) Manual (updated in June 2018) is held on the shared drive for all Revenues officers to access. The Rating Law and Practice covers the administration of non-domestic rates, exemptions and liability for both occupied and unoccupied hereditaments, relief calculations, appeals with the Valuation Tribunal, insolvency, and debt administration. There are also specific chapters dedicated to billing, collection, and enforcement. There are many examples throughout the document of court cases that are used by the RRM for benchmarking purposes. The team keep abreast of any changes or updates to regulations; these are saved on file and accessible to all officers.

4.4 **Reputational Risks**

4.4.1 **Risk: Late or inaccurate billing leading to adverse publicity.**

Reminder letters are not physically available to view on CIVICA, as the software does not save these in letter format. This is purely down to the vast number of reminders that are distributed per week. It was, however, possible to view the accounts that had received reminders on certain dates. The SCRO confirmed that there are no set timescales in which the Council are expected to send first, second and final reminders. Under the regulations, the duty to serve a reminder notice is a duty without time limit, and therefore, a reminder may be served at any time after the sum has fallen due.

Reminder progressions are run every week and the parameters identify any account that is in default. If an account has not been brought up to date within the required time after the issue of the reminder, a summons is the next automatic stage of recovery. Under the regulations, a summons cannot be issued until after the fourteenth day from the issue of the reminder. If the ratepayer brings themselves up to date on the reminder, a further reminder will only be issued if there is further default on the instalments demanded.

During testing, it was found that three accounts had started to pay in instalments after the liability order was issued, meaning that there was no need for a fourteen-day letter to be sent. Two further samples also paid the charge in full at the summons or liability order stage and so the recovery process was ceased. Ten samples had not paid the 2021 charge in full and so immediately received summons in 2022. An incorrect ratepayer had been charged on one sample and another sample had been passed to Bristow & Sutor; therefore, no fourteen-day letter had been sent. All samples were appropriately diary noted.

It was discovered that two accounts in the name of Warwick District Council had been issued with a summons. The EM confirmed that liabilities in the name of Warwick District Council are supposed to go into a specific payment group, which the Finance team pay in October. Often the account is allocated to the wrong payment group and therefore summonses are issued if the demands are not paid in the usual manner. These discrepancies are dealt with in-house by the Assistant Accountant.

It was found during testing that one account had not received a fourteen-day letter after the liability order had been issued. Upon review of the account, there was no reason supplied as to why this had occurred. It later transpired that the summons had been reversed due to issues with the remittance notices; however, the account should have been set back to the billing stage and diary noted accordingly. The RRM rectified this during the audit.

Advisory – Consideration should be given to reminding staff to diary note accounts where summonses have been reversed.

The recovery team maintain a spreadsheet which outlines the number of fourteen-day letters sent, phone calls received, special arrangements made, cases paid in full, and cases that have either progressed to or been returned by the enforcement agents. This spreadsheet is regularly monitored and was last updated 27 October 2022.

4.4.2 **Risk: Shortage of business rates officers leading to reduced service, loss of skills, and increased pressure on existing staff.**

There is a folder designated to NNDR training held on the network files. Amongst other topics, this includes notes on how to apply relief, interpret schedules and deal with deceased and bona vacantia accounts. The NNDR team meet weekly to discuss particularly difficult enquiries; training needs are also picked up during these meetings. Breakout sessions for specific training are then organised accordingly. Due to the nature of these team meetings, minutes are not usually taken.

Officers are encouraged to consult the IRRV Rating Law and Practice, as this provides procedural guidance. CIVICA have compiled three training manuals regarding system access, property maintenance and account maintenance. These are available to all staff and provide step-by-step instructions on all CIVICA-based procedures. Training is highlighted in appraisals and Personal Development Plans; one business rates officer attended IRRV training in March 2022.

4.4.3 **Risk: Provision of incorrect information/advice to stakeholders.**

There are no set refund limits on CIVICA; however, the RRM will check these before they are released. The refund collection spreadsheets for 2021/22 and 2022/23 were compared with the weekly refund totals for 2021 and 2022; these figures all aligned. The collection rate for 2021/22 was 97.36%. On average, 51.3 % of these collections were from Direct Debit payments. Although the collection rate for 2022/23 is thus far predicted at 87.67%, this is likely to increase. The Direct Debit collection for 2022/23 has simultaneously increased; on average, 58.6% of collections have been obtained from Direct Debit payments. Upon review, it was found that the Direct Debit collection column on the collection rate spreadsheet for 2021/22 had not been updated. The EM advised that due to the processes involved in both year-end and the Council Tax rebate scheme, this task was not seen as a priority. The percentage of collection rates for the February and March-2022 Direct Debits cannot be calculated retrospectively, as this would result in a false percentage. These figures are predominantly maintained for information purposes. The Systems Officer (SO) confirmed that in theory the collection rate and NNDR cash book figures should align with one another. However, because unallocated payments go into a CIVICA suspense account, this is not always feasible.

Testing conducted by the auditor revealed that twenty-five refunds had been appropriately diary noted on the account. A reason for the refund request was documented on account and evidence supplied in all twenty-five cases. In terms of awarding retail relief, the onus has always been placed on the ratepayer to inform the Council that they do not hit the government caps. The first round of retail relief was awarded automatically. A letter was sent to the relevant businesses and businesses that did not qualify for the relief, were required to return these letters to the Council. Businesses now requesting retail relief are asked to sign and return a CIVICA review form. These are not available to view in CIVICA workflow; however, they are generated on the diary notes each time a review form is printed. This creates an automatic reminder in the CIVICA workflow, to check that the account is still eligible for the relief.

In two cases tested, it was found that the properties in question were void. In order to decrease the amount of Revenues inspections required, there is now a form on the Council website that businesses must complete in order to receive void exemptions; this requires photographic evidence and proof of an itinerary of equipment stored at the premises claiming the exemption. One sample had this form held on file; the other sample had a LISTED exemption attached to the account, which was substantiated by a Listed Buildings search on the Historic England website. The team now also ask for delivery removal notes to substantiate the fact that commercial spaces are empty.

CIVICA automatically progresses accounts through recovery stages without the need for manual input. Ratepayers are sent two reminders to pay, and a liability order is issued by the Court before the account is passed on to the enforcement agents. This is then followed by a summons if recovery has been unsuccessful. Where ratepayers have contacted the Council to set up a special arrangement (SPAR), a letter is issued to confirm the repayment schedule.

The timetable for hearings over the financial year is usually agreed with the Court by the end of March. Since the COVID-19 pandemic, however, these have been booked on an ad-hoc basis. Summonses are only issued to ratepayers when all other routes of recovery have failed. Contact is made with the enforcement agents on a daily basis in order to update changes to the account recovery. Additional reports can be run from Bristow & Sutor’s website, and all Revenues staff are able to generate reports from this system as required.

Summonses must be served at least fourteen days before the date of the Court hearing. Reminder letters must also be served on every person listed on the account. All twenty samples tested during the audit, had the correct amount of debt contained on the summons and the period of debt this related to clearly indicated to the ratepayer. The stages of recovery had been appropriately communicated to the ratepayer and in six cases, where the accounts were in joint names, summonses had been sent to both parties. The recovery team monitor the number of accounts at different stages of recovery; a spreadsheet details the reminder letter statistics for each financial year and records how many summons and liability orders have been applied.

4.5 **Fraud Risks**

4.5.1 **Risk: Deliberate evasion of charges by occupiers/proprietors of non-domestic properties.**

Whilst refunds are created by Revenues staff, the actual processing of the refund is undertaken by the SO who has no valuation, liability, billing, or recovery duties. Revenues officers agree payment schedules with customers in arrears or resolve queries if payments have been misallocated.

There exists a Memorandum of Understanding (MOU) between Warwick District Council (WDC) and Stratford District Council (SDC). SDC pay for two Revenues officers and one supervisor role at WDC. Staff are under the line management supervision of the RRM at WDC. The MOU originally began as a trial, with a view to creating a single NNDR team, employed by one of the partnering authorities after twelve months. At the end of the twelve-month term, the Project Board should have decided whether to recommend to the partnering authorities, the creation of a single NNDR team. However, the decision to continue the MOU has never been formalised. It is only if one party wishes to exit, that they are expected to give three months' notice, as outlined in the MOU; 'any partnering authority wishing to withdraw from this Memorandum may do so by giving no less than three months' notice in writing to the remaining partnering authority.'

Advisory – Consideration should be given to formally acknowledging the decision to continue a joint NNDR service each financial year.

Credits can occur if a customer has vacated a property and overpaid, if there has been an adjustment to the rateable value, or if a payment has been posted in error. All fifteen samples tested by the auditor held a credit note on the account and in fourteen of these samples the ratepayer had been offered a refund. Two samples had set future work items to check for a response to the refund forms and two further samples had the returned refund form waiting to be processed in workflow. Three samples had a large credit sat on a closed account, but these were either waiting on bank details of for refund forms to be returned. It was, however, acknowledged that one ratepayer had not been sent a refund request form since March; this was chased by the RRM during the audit. Due to the COVID-19 business grants, large credit runs have been performed approximately every six months. Businesses are sent refund request forms three times and if no response is received, a write-off is then created.

Advisory – Staff should be reminded to create future work items in order to monitor large credits sat on closed accounts.

4.5.2 **Risk: Employee collusion with occupiers/developers.**

Instalments are offered on a monthly payment option over twelve months. Recovery staff can access the accounts and set up instalment arrangements on the system. Recovery staff do not have income collection duties and the Council no longer accept payment via cheque. All business rates officers have the authority to amend recovery action or set special arrangements (SPARS). SPARS that are not upheld are cancelled by the SRCO. If the ratepayer continues to pay at a reduced cost, the SPAR remains on the account. All twenty samples tested had been diary-noted and the SPAR confirmed to the ratepayer in writing. In two cases, the SPAR had not been maintained by the ratepayer; however, these were both cancelled. On three occasions, the first instalment was not yet due at the time of testing.

All rejected Direct Debits are saved on the network file. They are also stored in the SO's spool manager when loaded onto the system. The auditor performed testing on revised demands to ensure that a valid reason had been supplied on the account. In all twenty samples subject to testing, the account had been appropriately diary-noted and a reason for the revised demand recorded by the relevant Revenues officer.

4.6 **Health and Safety Risks**

4.6.1 **Risk: Physical harm to collection agents/verbal abuse to Council officers.**

Bristow & Sutor are not directly made aware of customers on the Council's staff alert list, although it is outlined in the contract that 'enforcement agents should be trained to recognise and avoid potentially hazardous and aggressive situations and withdraw when in doubt about their own or others' safety.'
The Revenues team advise Bristow & Sutor if a customer has previously made threats of violence towards staff; these are recorded as severe diary notes on the account. There are no specific courses offered to officers regarding conflict management. However, if it was highlighted that specific training was needed, staff could be booked onto this through the I-Trent system. The majority of calls for the NNDR team are outbound calls, as the Contact Centre take any incoming calls from customers.

4.7 **Other Risks**

4.7.1 **Risk: Loss of IT resulting in inability to bill customers/issue demands.**

The EM confirmed that CIVICA will ensure that a system is available for the Council to use if the Council's own version is lost. This is outlined in the contract with CIVICA, where it is stated that 'the Processor shall ensure that it has in place Protective Measures which are appropriate to protect against a Data Loss Event, which the Controller may reasonably reject (but failure to reject shall not amount to approval by the Controller of the adequacy of the Protective Measures).'

It is also stipulated in Annex four of this contract that priority will be given to main server malfunction or failure. This contract was renewed on 15 August 2022 and is due to expire 14 August 2024. The current contract value stands at £383,377.64. Ci Anywhere was reviewed by the auditor and it was confirmed that software expenditure has only reached £206,331.71 to date.

There is also an ICT Business Continuity Plan in place which outlines that IT would have a back-up system in place within twenty-four hours. 'The business continuity provider requires twenty-four hours from the point of invocation to 'build' the Council's recovery environment based on the equipment defined in the contract equipment schedule. After which ICT Services' Infrastructure team will recover all services within six days.' ICT are often required to provide signed evidence for Court hearings, which acknowledge that the computer was operating correctly at the time of the statement of accounts for the persons summoned being produced.

4.7.2 **Risk: Failure to upload account information onto CIVICA system.**

Throughout all forms of testing conducted by the auditor, only two accounts were found not to have had the diary notes sufficiently updated or supporting evidence/documentation uploaded onto CIVICA.

4.7.3 **Risk: Failure of BACS resulting in Council taking unnecessary recovery action.**

All bills include the name of the ratepayer, and the address of the property giving rise to the charge. All property references are included, as is a property description, date of issue, current rateable value, multiplier, the period the demand relates to, the amount payable, account reference numbers and any reliefs/exemptions applied. Methods with which to contact the Council and methods of how to pay the demand either by Direct Debit, freephone or internet e-payments are highlighted. The Council website also lists the options available for paying bills. Barcodes on bills can be taken to any Post Office or Pay Point outlet; the Council's sort code and account number is included on the bill. Testing of a sample of bills confirmed that the charge on the account agreed to the charge quoted on the bill. On three samples, the customer was in receipt of small business rates relief and therefore no charge ensued. On two occasions, the charge was already subject to recovery action before the bill was issued.

When testing those accounts which had been inhibited, it was found that all twenty samples had been diary noted and a reason supplied by the relevant Revenues officer as to why recovery had been put on hold. There are training notes held on file regarding the reminder process which have been issued to all relevant officers and the Contact Centre. Guidance notes regarding the processing of write-offs and SPARS has also been collated.

5 Summary and Conclusions

5.1 Section 3.2 sets out the risks that were reviewed as part of this audit. Reassuringly, the review did not highlight any significant weaknesses against these risks.

5.2 Although minor 'issues' were identified, no formal recommendations were warranted as there is minimal risk attached to them; instead, advisory notes have been reported.

5.3 In overall terms, therefore, we are able to give a SUBSTANTIAL degree of assurance that the systems and controls in place in respect of National Non-Domestic Rates are appropriate and are working effectively to help mitigate and control the identified risks.

5.4 The assurance bands are shown below:

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

6 Management Action

6.1 There are no formal recommendations arising from this report.

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