Building a Better Bournemouth

Internal Audit

Final Report

Strategic Finance

National Non-Domestic Rates

May 2015

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DISTRIBUTION LIST

Final Report to:	Acting Executive Director, Finance Service Director, Strategic Finance Partnership Contract Manager Client Manager, Revenues & Benefits Partnership Service Delivery Manager (Mouchel) Service Delivery Manager, Revenues & Benefits (Mouchel)

EXECUTIVE SUMMARY

AUDIT OPINION

Internal Audit can provide **Reasonable Assurance** to Management. Whilst there is basically sound risk management, internal control and governance processes, there are some weaknesses which may put service objectives at risk.

All audit conclusions will be signed off by the Head of Audit & Management Assurance to provide consistency and confirm that the opinion is appropriate given the issues identified in the audit.

SCOPE & DETAILED OPINION

The Internal Audit Review of National Non-Domestic Rates has been carried out in accordance with the Internal Audit Plan for 2014/15. Key risks to the delivery of the Service's objectives were defined at the outset of the audit.

The following table records the gross risk (the risk of exposure with no controls in place) and the Auditor's assessment of the risk exposure after the control environment has been tested.

Risks	Gross Risk Assessment	Auditor's Assessment
1. There is a risk that valuations are inaccurate or not fully utilised resulting in incorrect levies being charged	High	Low
2. There is a risk that empty / void properties / discounting regulations are being applied inconsistently or ineffectively	High	Low
3. There is a risk that billing runs are inaccurate resulting in inaccurate bills being produced or non domestic properties not being billed	Medium	Low
4. There is a risk that income collection processes and reconciliations are not giving effective assurance that all income owed is collected	High	Low
5. There is a risk that credit balances are not returned to rate payers and debts are not pursued in line with agreed procedures	High	Medium
6. There is a risk that the service provider fails to meet contractual requirements	High	Medium

SUMMARY OF RECOMMENDATIONS AND PRIORITIES

Impact	Number	Action
High	0	High priority recommendations identify weaknesses which have serious implications for the effective delivery of objectives and which must be addressed by management immediately. Monitoring of the effectiveness of the actions agreed is essential.
Medium	7	Medium priority recommendations identify weaknesses which have implications for the effective delivery of objectives and which must be addressed by management within a reasonable timescale. Monitoring of the effectiveness of the actions agreed is necessary.
Low	1	Low priority recommendations identify weaknesses which may have implications for the effective delivery of objectives and which management should address. Monitoring of the effectiveness of the actions agreed should be carried out.
Improvement Suggestions	0	Improvement suggestions identify enhancements which could support the achievement of objectives.

The Action Plan on page 20 has been proposed by management to address these recommendations.

OVERVIEW AND AUDIT OBJECTIVES

OVERVIEW

The Internal Audit Review of National Non-Domestic Rates has been carried out in accordance with the Internal Audit Plan for 2014/15. This audit represents a full risk based audit approach and expands on the 2013/14 key control review with further review of a number of areas within National Non-Domestic Rates.

The collection of National Non-Domestic Rates (NNDR) forms part of the Council's partnership agreement with Mouchel for the delivery of Revenues & Benefits services. NNDR is collected from rateable non-domestic properties within the Borough and forms a significant part of Bournemouth Borough Council's revenue income stream.

This report provides Management with a summary of the findings from this review.

Due reference was given throughout the review to the possible risks of fraud and corruption.

We would like to thank all staff for their assistance and co-operation throughout the course of this review.

CONTROL OBJECTIVES

The objectives of the audit are to seek assurance that controls and procedures put in place by managers are effective and ensure that:

- Non domestic property valuations are accurate and ensure maximum income has been collected
- Small Business Rate Relief and empty property discounts have been correctly applied
- Billing is accurate
- Credit and debit balances are managed appropriately
- The outsourced provider is effectively meeting contractual requirements

This audit has been undertaken as part of a risk based Internal Audit plan. This means that:

- The objectives and risks have been discussed and agreed with managers prior to the start of the audit.
- The controls established to manage risks have been discussed with key staff and relevant documentation reviewed.
- The controls have been evaluated to assess whether they are proportionate to the risks and evidence sought to confirm controls are operating effectively.
- At the end of the audit review, findings have been discussed with managers at a close out meeting and suggestions for improvement have been agreed.

AUDIT FINDINGS

Risk 1	Assessment
Valuations are inaccurate or not fully utilised resulting in incorrect levies being charged	Low

1.1 Quarterly Valuation Reports

1.1.1 Assurances were sought to ensure that any changes to the values of Non-Domestic properties, including the amalgamation / breaking up of properties into separate offices or working spaces, have been entered into the NNDR Civica database accurately. In addition, confirmation was sought that a reconciliation of the quarterly valuation report produced by the Valuation Office is undertaken to the total value and number of properties in the Civica database. This was confirmed during the audit.

1.1.2 Internal Audit carried out a reconciliation in respect of four quarterly reports to confirm that the changes to values of collation / breaking up of properties recorded in the reports had been entered into the Civica database accurately. This process was successful for each of the four quarterly reports reviewed.

1.1.3 It was noted that there were a number of properties that were present on Civica but not present on the valuation report from the Valuation Office. It was found that these were properties which had been entered onto Civica had not received a valuation from the Valuation Office as yet and were therefore flagged as an anomaly. These properties would be subsequently updated when the valuation reports were received and information obtained with which to make the necessary amendments to the database.

1.2 Weekly Valuation Reports

1.2.1 A sample of four weekly valuation office reports showing changes to business property values was reviewed. The changes to chargeable property details listed on these valuation reports (ranging from changes in defined business purpose to the combination of two separate properties into a single rateable entity) were reconciled against the related Civica entries in order to confirm that these changes had been updated onto the system accurately.

1.2.2 This process was successful, with each of the 'revised details' listed in the four Valuation Office reports being reconciled successfully.

1.3 New Valuations / Properties

1.3.1 The Council informs the Valuation Office of properties that need to be rated through a weekly update, this then informs the Valuation Office of the requirement to visit and rate the sites passed to them by the Council.

1.3.2 Until the Council receives this rating, it cannot bill the client. When the rating comes through, the client then receives a backdated bill for the full amount from the time at which the property has been occupied.

Risk 2	Assessment
Empty / void properties / discounting regulations are being applied inconsistently or ineffectively	Low

2.1 Empty Properties

2.1.1 A sample of ten currently empty properties was selected at random from a report provided by the Senior Revenues Officer. The records of each of these ten sample sites were then reviewed to ensure that:

- The three month rate relief for empty properties had been allocated accurately for each one;
- the period for which each property was eligible for this relief had not been exceeded;
- the amount charged for the remaining part of the year in which the property had become vacant and all subsequent years had been charged in line with expected standard NNDR rates for that property; and that
- any 100% ongoing vacant property relief allocations meet with the set exemption criteria provided by the Senior Revenues Officer.

2.1.2 The testing concluded that all empty properties reviewed were administered correctly with no issues to report.

2.1.3 Further testing was undertaken to identify evidence of inspections having been carried out to confirm that 'empty' properties were still vacant. The Anite records for each of the ten properties identified for meeting the empty property criteria were also reviewed to ensure each had been visited.

2.1.4 This process was successful with inspection records for nine of the ten properties in the test sample being identified for inspections carried out during 2014/15.

2.1.5 The remaining property had only been declared 'vacant' in December 2014, meaning that an inspection would not be due until 2015/16.

Visiting Officers

2.1.6 Mouchel currently employs several officers to visit properties in the Borough. This includes reviewing properties to ensure that they are empty and therefore the application of empty property relief is being applied correctly. The review of Anite records showing reports of these visits substantiate this.

2.1.7 The Council's partner Mouchel employs an external officer to serve summons on individuals who do not pay their Council Tax or Business Rates; and who also assists the overpayments team within the Benefits function. The Revenues Operations Manager stated that the officer also assists the Council in identifying new business properties that have not yet been identified by the Valuation Office or the Council, and may need to pay business rates.

2.1.8 However, as identifying new properties which are not paying business rates is not the main focus of either the Senior Revenues Officer or the contractor's work, there is a risk that new business properties are operating within Bournemouth which are either not being charged business rates, or being charged incorrectly. The Council should consider what the likely benefits are of employing a dedicated visiting officer and give consideration to undertaking a programme of work to identify new business properties.

Recommendation 1:

It is recommended that the Council looks for ways to identify businesses which may not be accurately represented on the rating list, so as to maximise all business rate income due.

Priority Rating: Medium

2.2 Small Business Rate Relief

Applications for Small Business Rate Relief

2.2.1 Since 1st April 2012 there has been no legislative requirement for a ratepayer to fill in a written application or a renewal application for Small Business Rate Relief. An application can be made either in writing or verbally.

2.2.2 Individuals and companies can only be in receipt of Small Business Rate Relief for a single rateable property at any given time. When applying verbally, if the applicant states that they are not in receipt of small business rate relief for another property, the Revenues and Benefits section will allow the relief unless concerns are raised.

2.2.3 Where concerns are raised, there are a number of checks made including contacting neighbouring Councils to confirm that the applicant does not have properties registered in their area. If trading names are available, checks are made against internet records to see if other sites are registered against the applicant's details. The Team will also undertake a credit check via Experian where such information is considered appropriate.

2.2.4 There is a residual risk that applicants who already have small business rate relief allocated to another property, under a different trading name or under a spouse's name for example, will be allocated additional relief they are not eligible for.

2.2.5 In 2014/15 a total of 3,843 rateable sites within the borough were in receipt of Small Business Rate Relief, with a total allocation of £4,449,800. Since 1st April 2014, the Council has been responsible for funding 49% of the total Small Business Rate Relief allocation. For 2014/15, the Council's contribution will total £2,180,400.

2.2.6 Due to the value of the Small Business Rate Relief scheme and the Council's contribution to it, a sample check of all recipients of Small Business Rate Relief should be undertaken in 2015/16 in liaison with the Corporate Fraud Team. This sample check should be repeated on a cyclical basis, in accordance with an appropriate interval agreed with the Council's Revenues and Benefits Client Manager. This would help further mitigate the residual risk by making use of in-house expertise available.

Recommendation 2:

It is recommended that a 10% sample check of Small Business Rate Relief recipients is undertaken in liaison with the Corporate Fraud Team. This check should be completed within the 2015/16 financial year. The results of this process should be verified by the Council's Client Monitoring Team, and reliefs removed and backdated where any business is found to have claimed relief inappropriately.

The success of this one off review will be fully considered at the next audit with a view to recommending the review is annualised if proven to be beneficial.

Priority Rating: Medium

Allocations of Small Business Rate Relief

2.2.7 A sample of twenty properties currently in receipt of Small Business Rate Relief were selected at random. The records of each of these properties were then reviewed to ensure that the amounts allocated by the Revenues and Benefits Section to rateable properties comply with legislation.

2.2.8 Those properties with a rateable value below £6,000 are eligible for 100% rate relief. Of the twenty sample properties, fourteen had a rateable value of under £6,000. In each case it was confirmed that 100% relief had been applied in line with requirements.

2.2.9 The remaining six properties in the test sample had a rateable between £6,000 and £12,000. In these cases a 'sliding scale' of rate relief, calculated using the lower rate multiplier as set by Central Government, is applied. In each case the calculation process was confirmed to have been followed in line with requirements.

2.2.10 The testing therefore concluded that Small Business Rate Relief had in each case been allocated in accordance with legislative requirements.

2.3 Mandatory Rate Relief

2.3.1 Mandatory Rate Relief is allocated to charities, community sports clubs and some educational facilities. The relief can be up to 80% of the total rateable value of each eligible site. Since 1st April 2014, the Council has been responsible for funding 49% of the total Mandatory Rate Relief allocation.

2.3.2 In 2014/15 Mandatory Rate Relief was provided to 269 sites within the Borough with a total combined relief value of £5,183,950, the Council's contribution towards this amount will be £2,540,136.

2.3.3 There is no requirement for a written applications to be submitted in support of Mandatory Rate Relief allocations. In a similar manner to the checks carried out for Small Business Rate Relief discussed in Section 2.2 above, if concerns are raised the Revenues and Benefits Section carry out a number of checks, including confirming the charitable status of organisations with the Charity Commission.

2.3.4 It was confirmed that a review of those sites currently in receipt of Mandatory Rate Relief was undertaken by the Revenues and Benefits Section in May 2014 to confirm that their registrations, and subsequent eligibility for rate relief, were still valid. Verification of this check was confirmed during the audit.

2.4 Discretionary Rate Relief

2.4.1 The Council has a Discretionary Rate Relief scheme that was agreed in April 2014, which can provide additional rate relief to sites and properties that already receive the 80% Mandatory Relief (i.e. charities and community sports clubs).

2.4.2 A review was undertaken of the 'record of decision made by the cabinet member with the portfolio for resources', where the Discretionary Rate Relief scheme was formally endorsed by both the Leader of the Council and the Executive Director for Finance in March 2014.

2.4.3 This record contains a list of all sites (charities, trusts, schools and community sports clubs) that receive discretionary relief rate, along with the percentage value of rate relief that each is entitled to, up to a maximum of £4,000. In 2014/15, Discretionary Rate Relief was provided to 68 sites within the Borough with a total combined relief value of £120,400.

2.4.4 A sample of ten sites currently in receipt of Discretionary Rate Relief was selected randomly from a report of all rateable properties recorded on Civica provided by the Revenue and Benefits section.

2.4.5 A direct comparison was carried out between the sample properties listed in this report and the corresponding details in the Decision Record to ensure that:

- Only properties listed as having been allocated relief in the Decision Record were recorded as being in receipt of relief in the Civica report;
- the level of discretionary relief provided was not in excess of £4,000 (the discretionary rate relief limit stated in the Decision Record) and that;
- the level of relief provided was not in excess of the agreed percentage of the total chargeable rate.

2.4.6 This process was confirmed in each case, with no anomalies or overpayments being highlighted.

2.5 Reoccupation Rate Relief

2.5.1 The Council has passed a discretionary power to allow rate relief of 50% for reoccupations of retail properties that have been empty for over a year. Since 1st April 2014, the Council has been responsible for funding 49% of the total Reoccupation Rate Relief allocation.

2.5.2 There have been three applications for this relief so far, with written applications required for each. The total value of this relief for 2014/15 was £16,255.

2.5.3 It was confirmed that applications for Reoccupation Relief could be identified in the Anite system for each of the three properties. Each application confirmed that the property for which the claim had been made was occupied from a particular date; a reconciliation against the corresponding entries in the Civica system confirmed that these dates reflected the period against which exemptions had been applied.

Risk 3	Assessment
Billing runs are inaccurate resulting in inaccurate bills being produced or non domestic properties not being billed	Low

3.1 Annual Billing Run Reconciliation

3.1.1 A review of the most recent billing run process, last carried out in February 2014, was undertaken. The amount of opening debt as stated on the 'NNDR Financial Control Report for Accounting Year 2014/15' of £67,321,710 was reconciled with the balance of accounts stated in the Civica extract year-end report for the same period.

3.1.2 The number of chargeable properties stated in the annual bill run reconciliation report of 6,980 was also reconciled against the number of chargeable properties stated in Civica end of year extract reports, namely 6,976 plus 4 properties deferred to following year.

3.1.3 No anomalies or discrepancies were highlighted by this review and it was further confirmed that each stage of the billing run had been agreed and signed off by an appropriate manager.

Risk 4	Assessment
Income collection processes and reconciliations are not giving effective assurance that all income owed is collected	Low

4.1 Income Reconciliation

4.1.1 Monthly reconciliations are carried out to ensure that the collection fund is on track and is meeting budgetary requirements. This reconciliation is combined with Council Tax and makes use of totals of cash income received and the amounts recorded on the Civica system. Once these figures are agreed (with differences being highlighted and challenged accordingly) a further reconciliation between the Civica reports and the income records held on the Oracle system for the same period is undertaken.

4.1.2 The reconciliation records for December 2014 were reviewed. These records included:

- A summary of the reconciliation process undertaken
- The cash monitoring figures taken from the Civica system
- The Oracle control figures for the same period

4.1.3 It was confirmed with Accountancy that where differences are highlighted as part of the reconciliation, these are queried directly with the Revenues and Benefits Section, evidence in support of which was provided for review.

4.1.4 Two minor differences were highlighted as part of the reviewed reconciliation process and work is ongoing to address this.

4.2 Daily Income Collection

4.2.1 Testing was carried out to ensure that income collected by the Council is recorded and posted against the corresponding Civica record on the day of receipt.

4.2.2 The daily record of income received by the Council for NNDR in February 2015 was reconciled against the corresponding income records held on the Civica system for the same date.

4.2.3 The 33 NNDR related payments recorded on the Oracle report were reconciled against Civica with details of payment amounts, accounts and dates payments were received matching successfully. No discrepancies were highlighted.

4.3 Charging of Rateable Sites

4.3.1 Testing was carried out to confirm that rateable sites are recorded on the Civica system and are being charged accordingly.

4.3.2 A sample of twenty Bournemouth listed businesses was selected at random from the '2014-16 Bournemouth, Poole and Christchurch Business Directory'. A reconciliation between these businesses and the Civica system was then carried out to confirm that they had been listed.

4.3.3 The reconciliation between the sample of businesses and the Civica system was initially successful for twelve of the twenty, with records being identified on the system.

4.3.4 The remaining eight properties were queried with the Senior Revenues Officer:

- One of the eight properties was confirmed as being a Poole based business despite having a Bournemouth listed address in the Directory
- Two of the eight were businesses that made use of individual suites within office blocks, thereby confusing the initial reconciliation process. Evidence from the Civica system was obtained in support of both being charged in line with legislation; and
- The remaining five sites were identified as being the home addresses of the business owners as opposed to being the site where the business operates from.

Consequently, no issues were found.

Risk 5	Assessment
Credit balances are not returned to rate payers and debts are not pursued in line with agreed procedures	**Medium**

5.1 Credit Balances

Credit Balance Review Procedure

5.1.1 It was identified that a regular monthly review of credit balances is carried out, which is split into reviewing "open" accounts, which are accounts where the account holder is still a ratepayer, and "closed" accounts, where the account holder is no longer a rate payer.

5.1.2 For open accounts, the account in credit and the reason for why it is in credit are considered. If the amount of credit is small then it will be carried forward onto the next bill for the rate-payer.

5.1.3 For closed accounts, the NNDR team will attempt to find the ex-ratepayer through a review of the Council Tax register and through a search using Experian. If the ex-ratepayer can be found, a refund is issued. If not, the credit will be kept on the account for a period of six years, after which it will be written on. During those six years regular attempts to trace the ex-ratepayer will be made.

Current Credit Balances / Write On Values

5.1.4 A list of all credit balances as at January 2015 was obtained and subsequently reviewed. It was noted that there are currently 241 credit balances with a total value of £111,630. These credit balances date from as far back as 1995 and have a range of values from £0.01 to £25,590. There are a total of 20 accounts with credit balances over £1,000 with a total value of £96,680

5.1.5 A sample of 10 credit balances was selected for review. It was noted that the two credit balances in the sample with the highest value had been created shortly before the list of credit balances had been run. Of the remaining eight credit balances selected for testing, two had occurred within the past month and as such had not yet been reviewed. Five balances had, upon review, been scheduled for write-on; however these had not yet been approved by the Section 151 Officer. It was identified that the January list of credit balances for write- had, at the date of the audit, not yet been subject to review by the Revenue and Benefits Client Management Team.

5.1.6 The final credit balance reviewed was a suspense account that had not seen any transactions since 1998. It was identified that these transactions should be written on and it was agreed that this will be completed in the next set of credit balances to be approved by the Section 151 Officer.

5.1.7 As such, it is considered that there are no significant issues arising from the testing carried out.

5.1.8 A review of the 2013/14 NNDR key control review had identified that there were two recommendations in relation to credit balances. These were as follows;

- It is recommended that the Council's current NNDR credit balances are reviewed. After all reasonable efforts have been made to return the credit to the ratepayer and after a period of 6 years has elapsed, the credit should be written back onto the Council's accounts and the reasons for this retained.

- It is further recommended that an annual review be completed to ensure this write on process forms part of the annual review of credit balances on NNDR accounts.

5.1.9 It was confirmed that a review of credit balances was carried out in April 2014, which resulted in £22,325 of credit balances being written onto the Councils accounts.

5.1.10 Further investigation of this review process confirmed that there are a total of 46 credits older than six years (i.e. relate to 2008/09 and before). A review of the write-on lists that are pending approval had noted that there are 44 NNDR credit balances which are scheduled for write on. Discussions with the Senior Revenues Officer has identified that the remaining two balances will be written on in the next batch of write-ons.

5.1.11 As such, it is considered that no issues have been identified.

5.2 Debt Collection / Write offs

5.2.1 The Council's Corporate Debt Policy was reviewed and it is noted that this policy was due to be updated in January 2014; a revised version has been written but has not yet been approved nor disseminated. This has been raised as part of the Corporate Debt Management review.

5.2.2 The Corporate Debt Policy states at paragraph 4.2 that the recovery procedures for National Non-Domestic Rates are laid down by statute in the Local Government Finance Act 1988 and subsequent regulations and amendments. Furthermore, it is noted that there is an NNDR recovery timetable which details when reminder and summons letters are due to be sent out and court dates.

5.2.3 A list of all NNDR debts outstanding as at 22nd January 2015 was obtained and a sample of ten debts was reviewed. Within the test sample, five were considered on course to be recovered satisfactorily.

5.2.4 Of the remaining five, one had been submitted for write-off but this had not yet been authorised by the Section 151 Officer. Two of the five are potentially barred under statute unless a liability order has been obtained. In reality, Liability Orders would be obtained to ensure the Council is legally entitled to collect the debt with no discernable time limit. If no Liability Order has been obtained the Limitation Act 1980 would apply and this states that a simple contract debt (such as Council Tax or NNDR) is barred under statute if:

- the creditor (i.e. the Council) has not obtained a county court judgement against the debtor;
- there has been no payment made by the debtor towards the debt during the last six years; and
- the debtor has not written to the creditor admitting they owe the debt in the last six years.

5.2.5 Although the Limitation Act is not likely to apply, the Council should consider the likelihood of collecting any debts where there have been no payments and no contact in the last 6 years even if a Liability Order has been obtained. Any debts falling into this category should be considered for write off.

5.2.6 The fourth debt of the five was identified as being of low value and consideration is currently being given to whether the debt should be written-off

5.2.7 The final sampled debt reviewed was owed by the Council to itself. Discussions with the Senior Revenues Officer have identified that there are a number of debts which relate to advertising rights for BH Live properties, which were not transferred over to BH Live when the leases were initiated. There is an ongoing discussion with BH Live as to who is to pay these charges, however this has left these debts outstanding and remaining on the Council's outstanding debt list.

5.2.8 Other NNDR debts that the Council owes to itself include rates for the sites of beach huts which were washed away in the storms in 2014 and a cycle track which the Council considers to have been incorrectly valued, meaning that the rateable value is incorrect.

5.2.9 In order to give the most accurate figures of NNDR income, these debts should be paid or written off in order to reduce the amount of outstanding NNDR debt that the Council has incurred.

Recommendation 3:

It is recommended that all outstanding debts, in particular those approaching six years old and older, where those debts are of high value, are reviewed on a regular basis to ensure that any debts that are highlighted as being unlikely to be collected be written off.

Priority: Medium

Recommendation 4:

It is recommended that all NNDR debts that the Council owes to itself are considered for either paying or writing off in order to reduce the amount of outstanding NNDR debt that the Council has.

Priority: Low

5.2.10 Discussion with the Revenues & Benefits Client Manager identified that write-offs have been carried out for April to July 2014 inclusive. At the time of reporting no write-offs have been carried out for August 2014 through to March 2014. The value of debt due to be written off for this period is £202,161.

5.2.11 A sample of write-offs between April and July 2014 was reviewed to ensure that the write-off is supported by sufficient evidence and that the process has been carried out correctly and in line with policy and procedure. No issues were identified from the work carried out.

Recommendation 5:

It is recommended that the backlog of write-offs is promptly reviewed and authorised by the Revenues & Benefits Client Manager, and passed to the Strategic Finance Service Director and the Section 151 Officer for authorisation.

Priority: Medium

5.3 Debt allocation

5.3.1 The methodology for allocating payments to debts was considered. This is important when the rate payer has outstanding debts in prior years as well as in the current year, as the Council has to decide which debt to allocate the payment to.

5.3.2 There are three methods through which payments can be allocated:

- If the amount of the payment identifies the debt, i.e. forms part of an instalment plan or a specific arrangement, then the payment must be allocated to that debt.
- If the debtor states or implies that the payment must be allocated to a specific debt, then the Council must abide by their wishes.
- If the amount does not indicate which debt it should be allocated to, and the debtor has not specified either, then it is up to the Council to decide.

5.3.3 Currently, the process followed by the NNDR team is that payments which do not form part of an agreed instalment plan or arrangement, nor have had anything specified by the debtor, are allocated to the current debt first rather than to prior year debts; which are, by their very age, more difficult to recover and for which the Statute of Limitations is more pertinent.

5.3.4 There are therefore clear disadvantages to the Council arising from this method of allocation; namely that this does not reduce outstanding NNDR debt from prior years resulting in the need to write off debts which are more than six years old and for which the debtor is more likely to be untraceable. On the converse side, the Partner has the advantage that allocation to the current year debt improves the in-year NNDR collection rate, which is the only KPI currently in place for the delivery of the NNDR service.

Recommendation 6:

It is recommended that, following agreement with the Section 151 Officer, payments which are not linked to a specific debt are allocated to the oldest debt first. This will ensure that recovery is targeted at debts which are most susceptible to the restrictions of statute and are more difficult to collect.

Priority: Medium

Risk 6	Assessment
The outsourced provider fails to meet contractual requirements	**Medium**

6.1 Collection Rate

6.1.1 The Section 151 Officer requested that Internal Audit provide assurance and independently corroborate the collection figure stated on the Highlight Report, which provides information to the Corporate Leadership Team and Members on the performance of the NNDR team in respect of the sole key performance indicator in place under the current contract, namely the collection rate.

6.1.2 The process for calculating the collection rate was obtained from the Revenue Operations Manager. This details the process that officers from Mouchel undertake when completing and reporting the collection rate for the Highlight Report.

6.1.3 The figures for calculating this figure were obtained as at the end of January 2015. The calculation is as follows:

Estimated Net Collectable Debt	
Property Charge Total	£66,785,952.40
Total receipt of NNDR for YTD	
Payments Total	£62,412,897.58
LESS Refunds Total	£1,002,294.27
LESS Payments Received	£7,180.83
LESS Transferred Direct Debits	£492,485.21
EQUALS	£60,910,937.27
KPI $= \frac{£60,910,937.27}{£66,785,952.40} \times 100 =$ **91.20%**	

6.1.4 This KPI sum was agreed to the figures which populate the Highlight Report detailing Mouchel's overall performance. A minor error of £7,000 in the figures recorded on the Highlight Report was identified, however this was confirmed to be an administrative error which was raised with the Revenue Operations Manager and corrected accordingly.

6.1.5 However, it should be noted that whilst this work was completed and the figures produced for the Highlight Report corroborated, there were some anomalies identified within the figures which should be resolved.

6.1.6 When reviewing the methodology for the calculation, it was noted that additional costs incurred during the year by ratepayers, such as costs for court summonses or bailiff costs, were not added to the net collectible debt calculation. The Revenue Operations Manager stated that the rationale for this was that payments received against costs do not count against the calculated tax base; i.e. payments made by ratepayers who have incurred additional costs are first allocated to those costs before allocation to the original debt. However, not including these costs does not provide a true representation of the level of total NNDR debt outstanding.

6.1.7 This was discussed with the Revenue & Benefits Service Delivery Manager where it was agreed that it is a Government reporting requirement that these costs are not included due to them being specific costs to the Council of collecting NNDR.

6.1.8 Discussions with the Revenues & Benefits Service Delivery Manager identified that the amount of estimated net collectible debt used to calculate the collection rate includes credit balances on in-year accounts. As at January 2015, there were credit balances on accounts relating to 2014/15 with a total balance of £83,230. As these credits are currently included in the calculation of debt collected, this means that the collection rate is being overstated. Whilst this is merely 0.13% of the estimated net collectible debt, this could impact on whether the collection rate target of 98.5% is met.

6.1.9 Further discussions indicated that this was again due to external government report requirements. However, from an internal KPI and reporting viewpoint, it does not give a true and fair view of the actual net realisable income the Council can expect to achieve. The Council should therefore consider removing the value of credit balances collected in year from the reportable KPI.

Recommendation 7:

It is recommended that the Revenue & Benefits Client Monitoring Team consider that including in year credit balances is artificially inflating the overall amount of income collected. Credit balances which the Council owes ratepayers is not income that the Council is able to retain and therefore including it in the KPI reporting figure is misleading.

Priority rating: Medium

6.2 Key Performance Indicators & Performance Indicators

6.2.1 A review was instigated of the KPI and PI dataset for the collection of NNDR. It should be noted at this stage there is only one KPI/PI that is reported to measure performance and this is the percentage amount of NNDR successfully collected in year. NNDR is a significant income source for the Council and constitutes over £60m for the Council's budgetary position. It is questionable as to whether a single KPI for the collection of NNDR income gives the Council adequate assurance over the delivery of this key financial system.

Recommendation 8:

It is recommended that the Council implements a more robust set of KPI's and PI's for monitoring the operation of the NNDR service, including for example, indicators in respect of NNDR outstanding debt recovery and the accuracy of rate reliefs. This will help to gain further assurance over the delivery of this important service and its resultant income for the Council.

Priority rating: Medium

ACTION PLAN – National Non-Domestic Rates 2014/15

Ref	Report Ref	Finding / Issue	Recommendation	Priority Rating	Management Response	Responsible Officer and Target Date
R1	2.1.8	Income is not maximised	It is recommended that the Council looks for ways to identify businesses which may not be accurately represented on the rating list, so as to maximise all business rate income due.	Medium	The Client Team will meet with the Mouchel Operations Manager to agree an action plan to address the recommendation. Once this plan is agreed progress will be monitored by Client Team	Mouchel Operations Manager & Client Team. By 30/06/15
R2	2.2.6	Small Business Rate Relief claimed by those not eligible.	It is recommended that a 10% sample check of Small Business Rate Relief recipients is undertaken in liaison with the Corporate Fraud Team. This check should be completed within the 2015/16 financial year, and should encompass as a minimum of 380 accounts. The results of this process should be verified by the Council's Client Monitoring Team, and reliefs removed and backdated where any business is found to have claimed relief inappropriately. The success of this one off review will be fully considered at the next audit with a view to recommending the review is annualised if proven to be beneficial.	Medium	1. The NNDR Team Leader will be asked to provide a list of SBR cases. 2. The checking methodology will be agreed with the Corporate Fraud Team and who will undertake the check. 3. The Client Team will approve the methodology and review the results.	Mouchel Operations Manager 30/09/15 Corporate Fraud Manager 31/12/15 Client Team By 31/03/16

Ref	Report Ref	Finding / Issue	Recommendation	Priority Rating	Management Response	Responsible Officer and Target Date
R3	5.2.9	Debts not written off when no longer collectable	It is recommended that all outstanding debts, in particular those approaching six years old and older, where those debts are of high value, are reviewed on a regular basis to ensure that any debts that are highlighted as being unlikely to be collected be written off.	Medium	Run aged debt reports for NNDR monthly and ensure that recovery action has been taken. To submit for write off debts where recovery is no longer possible.	Mouchel Operations Manager To start immediately
R4	5.2.9	Debts not written off when not viable to collect	It is recommended that all NNDR debts that the Council owes to itself are considered for either paying or writing off in order to reduce the amount of outstanding NNDR debt that the Council has.	Low	A report will be run monthly to identify cases to be written back to the Council and where appropriate these will be submitted for write off.	Mouchel Operations Manager To start immediately
R5	5.2.11	Debts not written off in a timely manner	It is recommended that the backlog of write-offs is promptly reviewed and authorised by the Revenues & Benefits Client Manager, and passed to the Strategic Finance Service Director and the Section 151 Officer for authorisation in a timely manner.	Medium	It is noted that write offs for the period August 2014 - January 2015 have been completed at the end of March 2015.	Mouchel Operations Manager Completed
R6	5.3.4	Debt payment allocation process	It is recommended that, following agreement with the Section 151 Officer, payments which are not linked to a specific debt are allocated to the oldest debt first. This will ensure that recovery is targeted at debts which are most susceptible to the restrictions of statute and are more difficult to collect.	Medium	The appropriation of payments will be agreed with the S151 Officer.	Mouchel Operations Manager and Client Team Manager. By 30/06/15

Ref	Report Ref	Finding / Issue	Recommendation	Priority Rating	Management Response	Responsible Officer and Target Date
R7	6.1.8	Allocation of credit balances in collection figures	It is recommended that the Revenue & Benefits Client Monitoring Team consider that including in year credit balances is artificially inflating the overall amount of income collected. Credit balances which the Council owes ratepayers is not income that the Council is able to retain and therefore including it in the KPI reporting figure is misleading.	Medium	Client Team to agree methodology with Mouchel Operations Manager that ensures that credit balances are reported separately in the performance report so that senior management are able to identify the in year credit balances in the collection rate reported in the KPI.	Client Team Manager By 30/06/15
R8	6.2.1	Inadequate KPI and PI implementation	It is recommended that the Council implements a more robust set of KPI's and PI's for monitoring the operation of the NNDR service, including for example, indicators in respect of NNDR outstanding debt recovery and the accuracy of rate reliefs. This will help to gain further assurance over the delivery of this important service and its resultant income for the Council.	Medium	The Client Team will review the NNDR KPI/PI and introduce, where appropriate, additional measures in consultation with the Partnership Contract Team and S151.	Client Team Manager By 30/09/15

EXPLANATION OF AUDIT OPINIONS

Audit Opinion	
Substantial Assurance	There is sound risk management, internal control and governance processes which are designed to achieve the service objectives, with key controls being consistently applied.
Reasonable Assurance	Whilst there is basically sound risk management, internal control and governance processes, there are some weaknesses which may put service objectives at risk.
Partial Assurance	There are weaknesses in the risk management, internal control and governance processes which are putting service objectives at risk.
Minimal Assurance	The risk management, internal control and governance processes are generally poor and as such service objectives are at significant risk.