



Internal Audit Report

Finance

Business Rates

Issued to:

Richard Ellis, Interim Director of Corporate Governance
Steven Whyte, Head of Finance
Wayne Connell, Revenues and Benefits Manager
Ewan Wallace, Revenues Support Manager
Anne MacDonald, Audit Scotland

EXECUTIVE SUMMARY

Business Rates are levied in respect of all non-exempt commercial properties. The amount to be paid by the liable party is based on the rateable value (as determined by the Assessor) and the poundage rate set by the Scottish Government each year. The Council is responsible for the billing, collection and enforcement of Business Rates, with its main area of discretion being the award of various types of relief.

The objective of this audit was to ensure that Business Rates billing and collection arrangements are robust and adequately applied and that reliefs awarded are adequately supported. This involved reviewing written procedures, interviewing staff and accessing the system.

In general, Business Rates billing and collection arrangements were found to be robust, well managed and adhered to. Reliefs were also adequately supported.

1. INTRODUCTION

- 1.1 Business Rates are levied in respect of all non-exempt commercial properties. The amount to be paid by the liable party is based on the rateable value (as determined by the Assessor) and the poundage rate set by the Scottish Government each year. The Council is responsible for the billing, collection and enforcement of Business Rates, with its main area of discretion being the award of various types of relief.
- 1.2 All Business Rates collected by local authorities are paid into the national non domestic rating pool, maintained by the Scottish Government. This is then redistributed to local authorities according to population.
- 1.3 The Council uses the Northgate System to manage Business Rates. The scanning and workflow system, Unified Revenues & Benefits (URB) is used to store all documents and correspondence.
- 1.4 The poundage rate set for 2016/17 was 48.4p, with a supplement of 2.6p for rateable values in excess of £35,000. The public health supplement concluded at the end of 2014/15. Therefore there is no longer an additional supplement for large properties selling both alcohol and tobacco.
- 1.5 The current net amount collectable by Aberdeen City Council for Business Rates for 2016/17 is approximately £217.7 million, after the granting of various forms of exemption and relief totalling £33.6 million. As at August 2017, Business Rates applied to 8,612 rateable subjects, with 4,099 qualifying for some type of exemption or relief.
- 1.6 The objective of this audit was to ensure that Business Rates billing and collection arrangements are robust and adequately applied and that reliefs awarded are adequately supported.
- 1.7 The factual accuracy of this report and action to be taken with regard to the recommendations made has been agreed with Ewan Wallace, Revenues Support Manager.

2. FINDINGS AND RECOMMENDATIONS

2.1 Written Procedures

- 2.1.1 Written procedures and their effective communication are an essential element in any system of control. The Business Rates Team have access to an intranet site which contains relevant legislation and guidance on Business Rates. However, it was noted that the site has not been updated for the changes introduced by the The Non-Domestic Rates (Levying) (Scotland) Regulations 2016 (2016 Regulations) in relation to empty relief for industrial and non-industrial properties and the new rateable values for Small Business Bonus Scheme (SBBS) relief.
- 2.1.2 While guidance is available on Business Rates write offs and the acceptable reasons, authorised signatories and limits for writing off debts is not included within this guidance.

Recommendation

Written procedures should be updated to reflect the changes introduced by the 2016 Regulations.

Written procedures on writing off of debts should be updated to include authorised signatories and authorisation limits.

Service Response / Action

Agreed. The updates to the on-line Procedure Guide have been finalised to reflect the changes to empty property relief from 2016, the amended SBBS thresholds and write-off authorisations and limits. The external provider of the on-line Procedure Guide will apply these updates.

Implementation Date

November 2016

Responsible Officer

Revenues Support
Manager

Grading

Important within audited
area.

2.2 Annual Billing

- 2.2.1 As per the 2016/17 Business Rates Annual Billing Timetable, annual billing was complete by 8 April 2016. Billing information is sent electronically to the Print and Design section at Woodhill House via a batch job in the Northgate NDR system. The bills are printed and enveloped and then returned to the Business Rates Team at Marischal College for issue. For customer enquiries, the system has an enhanced display screen which gives all the information included in the relevant document issued.

2.3 Assessor's Reconciliation

- 2.3.1 At annual billing, the Business Rates team obtain information, by email, from Northgate regarding the total number of accounts on the system for the year, the total number of accounts billed for the year (as at a defined issue date), breakdown by pay type and any variations between the total number of accounts on the system and total billed. The Business Rates team use this information to verify that the number of bills being issued is complete.
- 2.3.2 A full extract of the Assessor's database is reconciled to Northgate every week. The most recent reconciliation showed that the total number of properties in Northgate was higher than the Assessor's database by one property. The additional property was a business destroyed by a fire which is no longer liable to Business Rates as a result. While the number of properties differed the total rateable value was the same in both systems.

Recommendation

Northgate should be updated to remove the property no longer subject to Non-Domestic Rates.

Service Response / Action

Agreed. Instances of property mis-matches between the Assessor Valuation Roll and the NDR system are reported via the Assessor Valuation Roll Audit Report. This highlights cases where action is required and these are resolved in conjunction with either the Assessor or Northgate. Such action has been taken with regard to this noted case and Northgate will remove the property destroyed by fire from the NDR system as a result.

Implementation Date

Implemented

Responsible Officer

Revenues Support
Manager

Grading

Important within audited
area.

2.4 Calculation of Rates

- 2.4.1 A sample of thirty accounts was reviewed and it was confirmed that that the rateable value reflected on Northgate matched the rateable value shown on an extract from the Assessors database.
- 2.4.2 A sample of ten accounts was reviewed and it was confirmed that the correct poundage rate had been applied and the additional supplement had been applied to those with a rateable value of over £35,000).

2.5 Changes in Liability

- 2.5.1 On a weekly basis the Assessors send reports to the Business Rates team advising them of changes to the valuation roll. These can be changes to rateable value, liable parties, or property status and are applied to the Northgate system which will recalculate the rate payer's liability and print a revised bill. Many changes relate to previous periods and therefore this can affect previous year's bills that may have already been fully paid.
- 2.5.2 A sample of ten accounts with liability changes was reviewed and all were supported with appropriate documentation and had liabilities correctly recalculated.

2.6 Exemptions

- 2.6.1 Statutory exemptions apply to properties which are exempted from the valuation roll (e.g. agricultural lands and heritages) or included on the valuation roll but fully exempt from payment of rates (e.g. churches and other places of worship).
- 2.6.2 A sample of ten accounts with exemptions was selected. Data in Northgate was checked as well as the documentation held in the Unified Revenues and Benefits (URB) system (e.g. application forms, photos of empty properties, refund forms and correspondence). Each of the sampled accounts fell into one of the exemption categories set out in the legislation.
- 2.6.3 Churches / buildings being used for religious purposes are not visited. While initial application forms are completed and review forms are sent every two years, no visits are made unless the review form suggests the property is being used for business purposes. There is a risk that a church / building used for religious purposes may also be being used for business purposes. However, as there is no legislative requirement for Billing Authorities to review Statutory Exemptions, and the use of premises for religious purposes is usually on Sundays or evenings, the Service considers that visits would be impractical.

2.7 Empty Property Relief

- 2.7.1 Since 1 April 2016, there are three tiers of Empty Property Relief. Empty industrial properties are eligible for 100% relief for the six months after becoming empty and then 10% relief thereafter. Empty non-industrial properties are eligible to 50% relief for the first three months and then 10% relief thereafter. There are also limited exceptions which qualify for indefinite 100% relief whilst vacant. These include listed buildings, insolvency, bankruptcy or administration, and properties with a rateable value of less than £1,700.
- 2.7.2 Empty property relief must be claimed on an application form or in writing and should detail the vacant nature of the property and be supported by suitable evidence. Evidence includes photographs, stock manifests, removal fees, as well as utility and water bills showing no or reduced consumption.
- 2.7.3 The Business Rates Team spot check 10% of empty properties (usually 50 – 70 properties). A sample of fifteen accounts with empty property relief were tested. Thirteen of the accounts were adequately supported with application forms and photographs / other evidence such as bills. One property has been receiving empty relief since before 2011 when there was no requirement to visit / photograph properties. The other property lacking evidence is owned by the Council and was visited recently but no photographs were taken to demonstrate it was empty.
- 2.7.4 Review forms are completed on an annual basis. Where properties have a rateable value of £50,000 or over, they are visited every time a Review Form is received. In view of the number of empty properties (around 600 at any given time), the Service does not consider that it is viable to undertake any further visits, particularly due to the changing nature of the properties concerned.
- 2.7.5 There are emails within the URB system for one of the accounts reviewed (00001057), which suggest that the property rating has been altered from Business to Residential (and therefore subject to Council Tax instead of Business Rates). The Business Rates Team are waiting for information from the Assessor before removing the property from Northgate. The emails from the property owner advise that the property was empty between 23 March and 30 April 2016, when the new tenant moved in. The email dated 20 May 2016 confirms that the new tenant has been in the property for three weeks. Empty Property Relief has been awarded starting 20 March 2016 until 31 March 2017 to avoid Business Rates being charged in the absence of information from the Assessor.
- 2.7.6 When a property is empty, the Business Rates Team select one of the 'empty' categories from a drop down list within Northgate. The system then automatically tracks when an exemption should end. The empty categories do not appear to have been updated following the most recent update to legislation in April 2016. The empty exempt category options within Northgate are Empty Exempt, Empty Short Term (s24a 1966 Act), Empty 50/90% Charge (Non-Exempt) and Empty New Build.
- 2.7.7 The empty exempt category in Northgate is currently selected for different types of empty property relief. Account 00003417 has been empty exempt since 2005. As per Northgate, since 1 April 2016, this is 'empty exempt' due to being industrial property. Empty industrial property is eligible to 100% relief for 6 months followed by 10% relief thereafter.
- 2.7.8 Account 00001255 has also been 'empty exempt' in Northgate since February 2016. This is empty exempt due to being vacant land (no buildings). Business rates do not apply to vacant land with no actual buildings or infrastructure.
- 2.7.9 If the empty exempt categories in Northgate are not clear, the wrong category could be selected, resulting in incorrect rates being billed. However, the Service has stated that it

is conversant with the terminology used and are clear on the relevant system / processing requirements. To effect any change would require the agreement of all system users.

2.8 Mandatory & Discretionary Reliefs

- 2.8.1 All reliefs, mandatory and discretionary, must be applied for. Mandatory relief is prescribed by legislation and discretionary relief is decided at Council level.
- 2.8.2 Mandatory and discretionary relief are both considered on receipt of an application for charitable rates relief. Mandatory charitable relief is available for all organisations registered with the Office of the Scottish Charity Regulator (OSCR). A determination is made based on the application as to whether only 80% mandatory relief is available in the case of a registered charity or whether additional discretionary relief is also available depending on the use of the property, e.g. where the property is not used for education, training, research, administrative function.
- 2.8.3 Both mandatory and discretionary relief are reviewed annually. 'Review of charitable rates relief' letters are issued to check the property is still occupied, being used for charitable activities, a description of activities undertaken and the charity's OSCR registration number. If the information is not returned or the circumstances have changed, mandatory and / or discretionary relief will be cancelled if appropriate.
- 2.8.4 A sample of 10 accounts with mandatory and / or discretionary relief was selected for testing. Two of these accounts have been receiving discretionary relief since 1989 although there are no authorisation forms within the URB system for this relief. Despite this both organisations have returned 'Review of charitable rates relief' forms enabling an assessment of eligibility to be made.
- 2.8.5 The sample of ten accounts in receipt of mandatory and / or discretionary relief was tested to ensure that the reliefs had been correctly calculated and that the correct documentation had been received to substantiate the application and satisfy the required criteria.
- 2.8.6 One account (00001149) was identified where Small Business Bonus Scheme Relief has been awarded to an account without evidence that the relief still applies. The relief should be cancelled unless the 'Review of charitable rates relief' letter is returned, confirming that the relief should still be awarded. A review letter was sent to account 00001149 but it has not been returned. The Service was advised that this relief should therefore be cancelled and they have done so.

2.9 Payments

- 2.9.1 Customers have a number of payment options available to them. Their annual Business Rates Bill will indicate their current method of payment, the amount of each instalment and the due date by which each payment must reach the Council. The Bill also details other payment methods available.
- 2.9.2 'Advice of unpaid Direct Debits' BACS reports are received by the Payments Control Team on a daily basis. These list direct debits which have failed, detailing name, sort code, account number, amount and reason for the rejection. The report is reviewed and "failed direct debit" letters are issued as appropriate to tenants and the rejected direct debit transactions are manually posted to the Business Rates system.
- 2.9.3 There have been 324 failed direct debits so far for 2016/17, totalling approximately £1.3 million. A copy of the latest daily 'Advice of unpaid Direct Debits' BACS report was provided which showed evidence of review.

2.10 Suspense

- 2.10.1 As at September 2016, the Suspense Account balance relating to Business Rates was approximately £114,000.
- 2.10.2 Where a payment is received and has an incorrect, or no Business Rates account number recorded it is accepted and banked, but initially recorded in a Northgate suspense account. Until recently the Business Rates Team ran a suspense account report on a monthly basis. Three teams had access to the suspense account – Business Rates, Payment Control and the Bank Reconciliation team. Personnel within each of these departments reviewed and cleared the account.
- 2.10.3 The responsibility for reviewing and clearing the Business Rates suspense account report has recently been transferred from the Business Rates Team to the Payment Control Team.

2.11 Arrears Recovery

- 2.11.1 The Business Rates Team use a spreadsheet to track recovery status and the Northgate Top Debts Report records the recovery status of every account. As at August 2016, there were no accounts at final notice stage but there were accounts at first reminder stage. These are highlighted in the Top Debts Report. First reminders were sent to accounts in arrears at the end of August 2016 and will be followed by a Final Notice, if required.

2.12 Write Offs

- 2.12.1 The Business Rates team run Write Offs Reports on a weekly basis. This Report was obtained and a sample of eight Write Offs was requested to verify that they were adequately supported.
- 2.12.2 Although not written as a procedure as indicated in paragraph 2.1.2, the Team Leader (Non Domestic Rates) can authorise write offs up to £10,000. An authorisation sheet must be completed. Write offs with a value higher than £10,000 are approved by either the Revenues Support Manager or the Head of Finance.
- 2.12.3 Each of the Write Offs tested were supported by signed authorisation sheets.
- 2.12.4 Write Offs are now only authorised when one of the following categories applies: Insolvency, Authorised Charge Adjustment, Sheriff Officer Recommendation, Ceased Trading or Small Balance Uncollectable.

2.13 Refunds

- 2.13.1 Overpayments by rate payers can occur for a number of reasons, the most common being the award and application of back dated relief or the retrospective decrease of rateable value of a property. Where this occurs, the Business Rates Team will notify the rate payer by letter and arrange for a BACS payment to be made for the refund. Prior to this being done checks are made for any outstanding debts due by the rate payer against which the refund could be offset. Overpaid Accounts Reports are run on a regular basis to identify refunds due.
- 2.13.2 The most recent Refunds Report was obtained and a sample of ten refunds were selected for testing. All refunds were correctly calculated and authorised with supporting documentation held in the URB system.

2.14 Performance Measurement & Reporting

- 2.14.1 The Business Rates Team has set internal performance targets for the processing of reliefs which are measured on a monthly basis and reported to the Revenues Support Manager and Finance SMT. These reports show the progress against the performance indicators, including the collection target for 2016/17 of 98%. As at 31 March 2016, the Council had collected 97.3% of the 2015/16 liability. The actual collection rate to date for 2016/17 is 54.39% which compares to 54.49% for the same period in 2015/16.
- 2.14.2 Should there be an issue with regard to performance, this would be escalated to the Corporate Governance SMT or, if a significant issue, as an exceptional item in the Service's performance reporting to Committee.

AUDITORS: D Hughes
A Johnston
A Mitchell

Appendix 1 – Grading of Recommendations

GRADE	DEFINITION
Major at a Corporate Level	The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss, or loss of reputation, to the Council.
Major at a Service Level	<p>The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss to the Service/area audited.</p> <p>Financial Regulations have been consistently breached.</p>
Significant within audited area	<p>Addressing this issue will enhance internal controls.</p> <p>An element of control is missing or only partial in nature.</p> <p>The existence of the weakness identified has an impact on a system's adequacy and effectiveness.</p> <p>Financial Regulations have been breached.</p>
Important within audited area	Although the element of internal control is satisfactory, a control weakness was identified, the existence of the weakness, taken independently or with other findings does not impair the overall system of internal control.