Northern Ireland
Assembly

COMMITTEE FOR
FINANCE AND PERSONNEL

OFFICIAL REPORT
(Hansard)

Land and Property Services Update

13 October 2010

NORTHERN IRELAND ASSEMBLY

COMMITTEE FOR FINANCE AND PERSONNEL

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Members present for all or part of the proceedings:
Ms Jennifer McCann (Chairperson)
Dr Stephen Farry
Mr Paul Frew
Mr Simon Hamilton
Mr Daithí McKay
Mr Mitchel McLaughlin
Mr Declan O'Loan
Ms Dawn Purvis

Witnesses:

Mr Iain Greenway	)	
Mr Stephen Peover	)	Department of Finance and Personnel
Mr John Wilkinson	)	

The Chairperson (Ms J McCann):

I welcome Stephen Peover, the permanent secretary of the Department of Finance and Personnel (DFP), John Wilkinson, the chief executive of Land and Property Services (LPS), and Iain Greenway, the director of operations in LPS. On behalf of the Committee, I thank you for bringing us out here today and for taking us on a very detailed tour of the building; some of the work that is going on is very impressive.

Mr Stephen Peover (Department of Finance and Personnel):
I thank Committee members for coming out here; it is very good to have you on site.

We had prepared presentations but I know that you are running behind schedule, so we are happy to move straight into questions if you want. Iain is here to deal with issues related to rate debt; that is his side of the business. We expected you to have some questions about rates, and Iain is our expert.

Ms Purvis:
I really appreciate the tour that we were given this morning; it brought home to me the value of the service that you provide and everything that goes on in here, particularly the work that is being done with the Department of Agriculture and Rural Development (DARD) on the single farm payment.

I want to ask a couple of questions about the report that was published and the new service delivery model. The report refers to the service delivery model as being a critical success factor in the development and evolution of a more integrated and effective LPS. The report lists a number of dependent service delivery model actions, some of which are out of kilter and some that are unachievable. Which of those actions are out of kilter and which are unachievable?

Mr John Wilkinson (Department of Finance and Personnel):
The service delivery model looks to draw together a number of strands of our rate collection service. It spans right across various parts of the organisation. For example, one directorate collects data and information, another is concerned with valuation and another is to do with the collection of rates. We have tried to pull that together as a single process. The service delivery model is big and it has a lot of connected parts that reach into various parts of the organisation. One of the issues that resulted in it not progressing as smoothly as we would have liked is the development of a management information system (MIS), which is mentioned elsewhere in the report. We have pockets of information across the legacy bodies. To help us to run the service delivery model effectively, one of the issues that we have looked at is how we pull together management information systems across the organisation so that, in parallel with a smooth flow

of process, we have a smooth flow of information. That is one of the strands that have been held up in relation to wanting to make progress against a service delivery model. That is just one example.

Mr Peover:

I am the chairperson of the strategic oversight group that looks after all of that. We took the attitude that the action plan as a whole was built up in consultation between John and us in the Department in the wake of the production of the performance and efficiency delivery unit (PEDU) report and the Public Accounts Committee recommendations. At the stage at which it was drawn up, it was a best estimate of what we might do and the order in which we might do it. We are very keen that it is a living document rather than an historical one and that it gets revised as we go along. Things have emerged as we have gone along and things that seemed, on the face of it, to be fairly straightforward turned out to be more complicated than we expected. We are amending deadlines and changing things in light of that, including the resources. We have had to shift resources in the organisation to deal with issues on the rates side. We have also had staff shortages. There are issues of accommodation; we have to find resources for additional accommodation or for the IT systems. We are trying to keep it as a live document and we are amending it as it goes along. We are not simply looking at it as John's initial assessment, whatever number of months ago that was —

Mr Wilkinson:

Eighteen months.

Mr Peover:

It is not set in stone. We are changing it as we go along and trying to make sure that we keep up the progress. We are elaborating, developing, changing and refining the actions as they are investigated and as we get some more insight into what is necessary to deliver the overall improvements in the service.

Mr Wilkinson:

Stephen has just touched on the issue of accommodation, which was another action that was rescheduled. We put together a fairly extensive and comprehensive business case on accommodation. Again, there is a linkage in that regard in respect of restructuring the organisation to put the rating service into one big building. That is another strand that has affected the development and progress of the service delivery model.

Ms Purvis:

You mentioned the management information system. You said that the pilot study is complete and that an MIS demonstrator is in place. What is a demonstrator?

Mr Wilkinson:

We have carried out a pilot exercise to see whether this could be done. That is about drilling down into the IT systems of the legacy bodies to see whether we can extract data, draw it together into a separate point and make it live for, for example, directors and senior managers across the organisation. Therefore, we have mocked-up a system that has been successful. I have seen examples from the team developing it, whereby you can have an update of your progress against targets on your BlackBerry at 7.30 am. That is the demonstrator that we are using. I am very excited about it. When it is resolved, it will be fantastic for improving and driving performance. We will be able to switch resources to where they are needed rather than being somewhat reactive, as we are at the moment because we do not have real-time data. It is something that we are building. We ran a model to test it, and it works. We are now going through the procurement exercise to put it all together.

Ms Purvis:

Can I ask Iain about the collection of rates? The target for the collection of net collectible rates for this year is 2·5% less than the target for last year. Why is there a reduction, particularly in light of the focus that has been placed on reducing the level of rates arrears?

Mr Peover:

I will come in first on that, to give the departmental perspective. I am keen that we have targets that give staff some sense of achievement. We have been running a target of 98% for some time and have been significantly below it every year, but we have been improving every year. My view on targets is that they should be at least potentially achievable. There is no point of having a target of 98% if we are operating at 94% and know that we are not going to get to 98% this year.

I would rather, as we have done this year, have a target of 95·5%, which is one-and-a-bit points above where we were last year.

I would like to be able to say to the staff at the end of the year that everything we have done has contributed to achieving this year's target, and that next year's target will be higher again. We are still heading for the 98% target, but I see no point in having an annual target that we always miss. We had that in other areas of activity. I am trying to give the staff a target that is stretching and challenging but is achievable so that, at the end of the year, we can say that we either achieved it or came very close to it. That is more important to me than having a target that is aspirational and is not going to be achieved.

Iain, do you want to say where we stand on targets?

Mr Iain Greenway (Department of Finance and Personnel):
I can certainly reinforce the importance of the motivation of staff. The Rate Collection Agency, as it was before the merger into LPS and before the profound rating reforms, just nudged over the 98% target once or twice; it was always a very stretching target in a stable, more economically comfortable time. For GB collection authorities, 98% would be a demanding target in a stable rating policy environment, so to have a target of 98% in the economic situation that we are in and with the ongoing impact of profound rating reforms would simply have been unachievable.

Our performance against the target of 95·5% is on target. We are comfortably ahead of target in our profile position. A large number of public bodies have paid their rates in a very timely manner this year; much more so than ever before. We believe that there are two strands to that: the significant work that we did to clean up the data in those accounts last year and the overall public sector pressures to pay invoices in a timely manner. We are around 3·5% ahead of our profile position at the moment, but if one takes out the public bodies, we are in a good position but not one that we can be complacent in.

Ms Purvis:
So, you are ahead in collections this year. Do you think that the earlier payments have skewed the profile?

Mr Greenway:

The in-year, month-to-month profile is skewed. It will start to unwind now, because last year many public bodies paid in this calendar quarter, between the end of September and Christmas. Indeed, we are gently dropping back towards the profile that we had set, which was largely based on last year's profile.

Ms Purvis:

Do you think that you will exceed your target of £980 million this year?

Mr Greenway:

I believe that we are on course to achieve the 95·5% target for the in-year collection of bills issued this year and the target to collect £980 million.

Mr O'Loan:

Thank you very much for this morning's presentation, which was very much as I expected. It shows what a powerful mapping tool we have and just how important it is in the governmental process. You also have a potentially lucrative source of information in the public arena. It is very important that that is used well in a business sense and that it provides the proper service to government.

The ongoing DARD project to reclaim the ground that it lost was exposed through EU Commission intervention. The question that I ask myself is: how did that Department get into that mess? Why did it not consult the mapping experts at a far earlier stage? It would have seemed obvious to do that. As that emerged only through external intervention, one wonders whether other sectors of government are identifying Land and Property Services as the body that they need to consult. You may want to respond to that before I move on to my next point.

Mr Peover:

I will pick up that point first and then go back to the one that you made about the lucrative nature of the material that we have.

On the latter point, you are entirely right. John and his staff are doing their best to sell the benefits of that information to all Departments. They have asked all Departments to come along to departmental boards, where they will talk to them and show them a presentation on the powerful nature of the available information. Iain, John and I, along with others, are on a geographic information council that aims to proselytise the strength, power, detail and depth of the available information across a whole range of agencies. We are doing quite a lot in an advertising sense to try to sell that resource to others and make them aware of what is available. A lot of agencies are using the material, but more could. Your second point is very important, and we are seized of its importance.

I will make a comment on your first point that is not directly relevant but is something that I want to mention to you nonetheless. At UK-wide level, an ongoing strand of government activity is about making public sector information available to those who might use it free of charge. That is being done on the basis that we have huge amounts of non-personal information — I am not talking about people's names and addresses and so on — that is relevant to commercial organisations. Those organisations could find innovative ways of bringing information together, making new packages out of it and then selling those on. The idea is that if the information is made available free of charge, people will play with it, tinker with it, adjust it and may find a way of using it and selling it on to third parties or the public.

The government are keen to facilitate that on the grounds that it will encourage economic development. Although I appreciate that argument, people such as John and me, who rely quite heavily on the income that we get from selling our information to third-party organisations, are a bit concerned about what the impact may be on our services. At the moment, the taxpayer pays for it and we sell it on. Therefore, there is an income that is offset against the taxpayers' money, which supports our organisation. If the information is passed on free of charge rather than sold, there will be a net cost to the public purse and the taxpayer. It is early days, but that is worth watching. We would certainly want to bring that back to the Committee if it emerges as a real proposal.

Mr O'Loan:

Yes; there needs to be a very clear discussion about the options in that regard.

I will move on to the other point about the collection of rates and arrears and debt. I will come to the Institute of Revenues Rating and Valuation (IRRV) report in a moment. Dawn asked about the current state of collection. You say that it is quite good. It is difficult for us to get a handle on the arrears issue because it keeps moving; every year you have a new swathe of receipts and collections to make. Do you feel that the arrears issue is under control? What does the long-term trend in arrears tell you?

Mr Peover:

The long-term trend has been upwards and that is the cause of our concern. John, Iain and I talk about it on a regular basis. A key priority for LPS this year is to begin the difficult process of tackling that accumulated debt. By comparison with past years, we are doing reasonably well; it has come down from £157 million to £131million —

Mr Greenway:

It has come down to £110 million.

Mr Peover:

Even better. The debt figure is made up of a number of components. We are still in the current year, so we do not know how things will pan out towards the end of the year. The key priority for LPS this year is to tackle debt and to be seen to do so. It is a key reputational issue. It said that in the update to the PEDU report. In my interactions with John, in respect of our line management relationship, that is what I have said to him. It is key to the reputation of the organisation. If LPS is not seen to tackle debt efficiently, it is impossible for LPS to have a good public reputation, even though it does lots of other important things. Dealing with arrears is a key indicator of the standing of LPS with the Committee, the Assembly, stakeholders, the public and the media. It is crucial that the issue is tackled. John has done a lot of work in getting together with colleagues to shift resources around within LPS to enable us to tackle the debt issue effectively. John and Iain may want to say something about it.

Mr Wilkinson:

To add to that, I can provide some detail. Going back to 2005 and 2006, before the 2007 reforms, the rating system was fairly stable. Debt was around £40 million or £50 million. In 2007 everything was turned upside down, with a period of profound reforms. There was also a well-publicised replacement of an obsolescent IT system that proved very difficult and did not go according to plan. We then had to deal with funding issues in LPS. To answer the question, it is only since the Public Accounts Committee hearing in September 2008 that we moved the basis of our accounting from cash to accruals. As a result of that, we have an interrogation tool that we can use across the system. That came live in February, when we finished the conversion process. It gives us a very accurate picture of the various categories of debt and shows where the debt is. The tool is called DI-Diver and is very useful.

As soon as we got that tool up and running, we decided that we needed an external view of the whole situation, so we called in the IRRV to have a look at where we were and what we were doing. We also wanted to see if the IRRV could use its great experience from around the world to give us the benefit of its advice and guidance. That is what we did. I will hand over to Iain who will take up the story and tell you about what we have been doing about the debt lately.

Mr Greenway:
As John says, the rating reforms profoundly affected collection performance. We were down at 89·1% collection in 2007-08. That inevitably built up a legacy of debt, which reached £157 million on 31 March last year, which is unacceptable.

This year we have set about using the interrogation tool that John mentioned to tackle in a structured way the complex cases that remain. To give you a feel for those, our largest single prior-year debt at the moment turns on a complex point of law about whether or not the property is an industrial premises. If it is, no debt is outstanding; if it is not, more than £500,000 is outstanding.

Each case is complex and a number of them are some years old because of the IT problems and so on, which makes them more complex. We are making steady progress in working through those cases. However, we are still looking at what we need to do to become more effective. Certain strands in the IRRV report are about the need for LPS to be a little more imaginative in some of its processes. For example, should we be using different strands to deal with bills, final demands, court summonses, court decrees and enforcement? We have talked to a number of private sector tracing organisations about finding those who are known as "gone away" and have done some pilot work with them on a pro bono basis.

One of the interesting findings from the data was that for several score of the 2,000 "gone away" return-to-sender letters, all the data points to the person still being in the house but simply returning the rate bill to sender. We will now take those cases forward. We have been talking to private sector debt collectors about the additional skills that they have to deal with the people who simply refuse to pay, while being very careful, at all times, to separate the "cannot pays" from the "will not pays". The IRRV report sharpened our focus in a number of areas and supported our understanding of the situation and the actions that we needed to take.

Mr O'Loan:

This year's target of 95·5% means that there will be £50 million of debt at the end of the year, and, as a result, LPS's arrears figure will immediately jump up. That is a major issue that needs to be addressed.

I know that we are pushed for time, so I will reduce my three questions on the IRRV report to two. The report states:

> "Although there are a number of action plans in place, there is no overall written strategy in relation to collection … [and] no established written strategy for the enforcement of debt."

That is remarkable commentary, given the discussion that we have just had.

Mr Wilkinson:

Some of the earlier parts of the report draw out the fact that the organisations went through a difficult period. That goes back to my earlier point about not having a tool that we could use to interrogate various areas of debt, because of the way in which the accounts were set up. As regards some of the other actions and backlogs, there was an element of firefighting going on with resource use and the way in which we were addressing issues. We had action plans and strategies in place. However, the report points out that now that we are getting to the point where we have cleared a lot of the backlogs, we are starting to get into a more stable position.

As a management board, we have moved more staff and resource in that area of the business, and that has an impact elsewhere. Therefore, some of the actions in the LPS action plan were not progressed on time because we had to switch resource into dealing with rate debt. We had to firefight and try to tackle those issues. However, we are moving out of that period now, and the report has suggested that now is the point at which we should pull together a more combined approach. That is the situation that we are in.

Mr O'Loan:

Finally, the IRRV report and PEDU have referred to legislative issues regarding collection and enforcement. Does that mean that LPS needs stronger laws and legal powers? Will you elaborate on that?

Mr Wilkinson:

Again, we are looking at a suite of actions to improve the situation. Some of the actions are down to the way that things have been done in the past, and some of them are down to strengthening our relationships with the enforcement of judgments office. As Iain just pointed out, we are also reviewing the variety of approaches that we have at our means. For example, we are looking at whether it would help to get some private sector debt collectors involved in enforcement. We have made contact with the enforcement of judgements office, and we are looking to address some of those issues.

Mr Hamilton:

The IRRV report has a review of the arrears and breaks it into different sections. The most intriguing section is that regarding public bodies. Bear in mind that the report is dated May 2010, so the situation may have got better or worse. The report says that at the time of the field work on consultancy, there was some £13 million in arrears against public bodies. We could probably talk for a long time about how dreadful it is that because of that rising arrears bill, you are suffering reputational damage that is part caused by other areas of the public sector. I do not expect it now, but would it be possible for the Committee to get a breakdown of which bodies accounted for that £13 million of debt? There is something seriously wrong. In some cases, there may be valid reasons for that. However, if there is not and the bill simply has not been paid, that will contribute to your high arrears figures and make the organisation look bad, in missing its key target for the year. Is it possible to get some analysis of who owes that money?

Mr Greenway:

I can certainly give the Committee assurance. Those figures are from the early part of March 2010. By the end of March, the figure was £4 million, and, this year, public bodies account for roughly £140 million of rates in round figures. This year, the bulk of that is paid, and the bulk of what is unpaid is being paid in instalments. Any ratepayer has the right to pay in instalments across the year.

I mentioned in passing that our challenges last year included the extensive cleaning up of the rating data. Many public bodies have extensive premises. NI Water is the largest single list: it has more than 500 premises, because each sewage treatment works is a separate entry in the valuation list. Significant technical issues had to be resolved between valuers and engineers about whether items were sewage treatment works or pumping stations. Pumping stations are not rateable whereas sewage treatment works are. Therefore, there was genuine engagement between public body ratepayers and LPS, particularly the valuers, to resolve liability. If one sits as an accounting officer in a public body, one should not sign off an invoice that one is unable to stand over. We have a tension between rating law, which says that a valuation list is correct until legally proved otherwise, and the management of public money, which says thou shalt not sign off an invoice without being able to stand over it. There were instances in that £13 million that fell to that. Therefore, it may be a little unfair on those bodies to bring a list forward, given that the issues have now been resolved.

Mr Wilkinson:

The issue has now moved on, and, for me, it is another success story. Iain had to put quite a number of staff on that area of work. The handover from the old IT system to the new IT system led to a lot of cleansing of accounts, data-matching, and so on, and the various public bodies involved just wanted to be sure that they were paying the right amount of rates. We had a team that worked for 18 months or a couple of years to sort all that information out and assure people that their rate accounts were correct. That work is done, and I am pretty sure that we are moving on from that. There will still be issues and queries, but we have moved on from that. It is another success story.

Mr Hamilton:

I appreciate that. You get a bald figure, and it does not have the same significance as when it first appears. However, it still might be useful, out of interest, to get some breakdown of that and an explanation as to why various organisations and public bodies have done that.

Ms Purvis:

Northern Ireland Water.

Mr Hamilton:

I have heard that. *[Laughter.]*

Mr Greenway:

Northern Ireland Water is our largest single ratepayer. Its rate bill is in the order of £14 million a year.

The Chairperson:

Iain, when you responded to Declan, you mentioned the DI-Diver tool and said that it looks at particular areas of debt. The report states that some debt was considered non-economic to collect. You mentioned the difference between people who cannot pay and people who habitually do not pay. We have talked previously about taking action against people, but how economic is it to take to court people who, for genuine reasons, cannot pay their rates? The whole judicial system is quite costly. Is there some part of that process that differentiates between the people who cannot pay and the people who habitually do not pay? Sometimes it does not make economic sense to pursue cases because the cost is just then put on to another public body.

Mr Greenway:

Previously at the Committee, we have discussed the issue of people who cannot pay and people who will not pay and how we do our best to separate those, but, until someone contacts us, it is often difficult to ascertain the category into which a person falls. I have said at the Committee before that I do not want to take anyone to court. That clogs up the courts, takes us time and effort and causes members of the public grief and stress. Where payment is not forthcoming, there is a cost-effectiveness issue, but there is also an equity issue of the funding of the services through rates, not only from district councils but from the Executive. One of the Committee members, Stephen Farry, made those points on Radio Ulster yesterday morning.

We recently revised our write-off guidelines, and one of the elements is a consideration of whether it is economic to collect. That is more of a consideration when we are struggling to trace a ratepayer, and there are costs with using a tracing service and so on. We are mindful of the legal costs, but there is a duty on all of us as citizens to pay.

We recognise that there may be a need for extensions to bring people through difficult periods. Around £19·5 million of rates are in formal extended payment arrangements currently, and, of course, there is much more in informal arrangements where people pay whatever they can whenever they can. Such informal arrangements are enough to prevent us from taking recovery proceedings without making a formalised arrangement to take, for example, £50 on the last day of each month. We are actively working with people to the extent that we can, but, currently, our mandate is still to collect the rates that are due.

Mr Peover:

We get quite a lot of correspondence to the Minister on those sorts of issues. In particular, small businesses are regularly in contact with the Minister about the rate debts that they have incurred and the difficulty that they have in servicing those debts in the current economic climate. We try to be sympathetic, and we will explore all options before we go down the route of taking cases to court.

Mr Wilkinson:

It is a very difficult position.

The Chairperson:

I appreciate that, but I wonder whether you could have looked at that issue. I know that you said that people have contacted you and that you have put a plan in place for them, but could it have been more strategic? For instance, there may be someone who has not paid for 10 years, but if someone has not paid for three or four years, that might tell you that that is because of the economic climate. I will not labour the point, but I wanted to raise that again. Some sort of process needs to be developed to differentiate between people who cannot pay and people who can pay but habitually do not. In my view, they are different.

Mr Greenway:

That is one of the key strands in this overarching strategy, as we emerge from the firefighting. Everyone will get a bill and a final demand 40 days later, but there are then a number of routes to take. One of those is legal process, which I believe should be more for the consistently recalcitrant, but there are other routes that we should be looking at more. However, in a period of backlog and rising debt, we have had to take a fairly four-square approach.

Mr McLaughlin:

You pretty well covered my points. I have one question that is supplementary to the earlier discussion. The IRRV report talks about collection, enforcement and management. Is identifying recalcitrant payers an end-of-year process for you, or is it in-year, especially with non-domestic clients?

Mr Greenway:

It is an ongoing process. Court action will normally be taken in order of value of debts. Therefore, non-domestic clients will tend to come earlier in the annual cycle than domestic clients simply because of the value of the accounts.

Mr McLaughlin:

Does your management of the debt problem give you options in relation to non-domestic clients? It would be more difficult to apply to domestic clients who pay incrementally through the year. I do not know the pattern or the statistics, but you may have that information. If you do not have that information, I would be content for you to respond in writing. When you review the benchmarks that trigger enforcement proceedings, does that happen as an end-of-year process or do your systems allow you to identify when a problem is beginning to develop and a client has started to miss monthly or quarterly instalments?

Mr Greenway:

When a domestic or non-domestic ratepayer is set up as an instalment payer and they miss an instalment, it triggers a missed instalment letter. Hopefully, that will trigger contact with the ratepayer at that point. We do not wait until the end of the year to find that things have fallen short.

On the domestic side, smaller debts of less than £100 will be picked up at the end of the year in missed instalment processes. However, we try to help ratepayers to keep on top of their responsibilities, on the basis that if they do not and the issue simply drags on, it is likely that we will end up writing-off more money in bankruptcy at some point further down the line when we could have dealt with it earlier, or we could have found a way where it did not have to lead to bankruptcy. Therefore, we try to work with people.

Our starting point on payment arrangements is that clients should at least pay this year's rates this year, as well as some of what is owed from prior years. That is our starting point, and, over a reasonable number of years, they can bring that debt down to zero. Recently, an MLA contacted us about a leisure centre that owed more than £50,000 in rates, which talked about paying back £100 a month. That did not conform with our guidance, and it would simply have left the centre building up more debt. Furthermore, if it genuinely could not afford to pay its rates, it was unlikely to be viable as a business. Therefore, putting my hard head on, I was going to end up writing more money off. Also, neighbouring gyms that pay their rates were not having a fair, competitive field to play on. Therefore, all of those factors came in. We explained that to the MLA, who was understanding, and he went back to his constituent and said that more money needed to be forthcoming.

Dr Farry:

I apologise for being late and missing the presentation. If any of the issues that I raise have been covered already, please cut me off. Following on from Simon's point about public sector liability, to what extent are non-devolved public bodies a factor in that regard, particularly the Ministry of Defence (MOD)? I am sure that John will recall the difficulties that we had with security services, even with letting yourselves in to value properties.

Mr Wilkinson:

Not me personally. *[Laughter.]*

Dr Farry:

My second question arises out of 'The Stephen Nolan Show'. He raised the issue of doing domestic and non-domestic revaluations. Originally, it was planned to have a non-domestic revaluation this year, but that was put off due to the instability of the market. As property prices rise and fall, the key issue is the relative ranking of properties rather than the absolute values. On the other hand, there is the possibility that some properties, depending on the part of Northern Ireland that they are in, will vary. We need to get a sense of how big an issue that is. Will you clarify your plans to have a domestic or a non-domestic revaluation? I imagine that your answer will be that, because of the instability of the market, any revaluation would be counterproductive, given the resources that it would require.

My final question is probably one for Stephen Peover to answer. Over the lifetime of the current Budget, there has been a bid in every monitoring round for additional resources for LPS. That probably indicates that there was a fundamental problem with the baseline to begin with. Obviously, we are going into a much more difficult financial situation in which everyone will have to cut their cloth a lot more tightly. That said, there can be a trade-off between the resourcing of LPS and the amount of money that will be brought in. Are you satisfied that we will get the balance right in future Budgets? Cutting resources to LPS may be a false economy; there will be a natural point at which we will get the maximum efficiency in collection.

Mr Greenway:

There are significant landholdings rates due from non-devolved public bodies; the rates from the MOD are definitely the largest. The MOD account is reasonably stable. There are residual valuation issues with some of the premises, particularly those that are partially vacated or awaiting vesting into the hands of the devolved Administration. Therefore, there is continuing engagement with the MOD as a ratepayer over certain issues concerning exemptions from non-domestic vacant rating and the public body exclusion around premises awaiting vesting, for instance. There are no significant outstanding issues on those accounts that are not in active discussion.

Mr Wilkinson:

We had plans to do a non-domestic revaluation. The revaluation was initially postponed for a year and was then cancelled. That was largely to do with the state of play in the market and the ability to deliver an accurate valuation list, which would be a sound base for the collection of tax for the funding of district councils. It was for those reasons that we postponed and then cancelled the non-domestic revaluation.

Going back to the points that you made about 'The Stephen Nolan Show', revaluations are, overall, a revenue-neutral exercise. The amount that someone pays in rates is based on the valuation of the property multiplied by the rate poundage. So, if we double all of the values, the multiplier is halved, and the amount is the same.

The 2007 revaluation in Northern Ireland was based on January 2005 values. Over that period, the market rose considerably — I have not seen market conditions like them in my 36 years as a chartered surveyor — and then started to fall. Values are probably still sitting slightly higher than they were in January 2005. Therefore, unless there are great shifts in relativity, the overall absolute position is not greatly different to what it was. As a chartered surveyor and a rating surveyor, I would say that revaluations are good for the tax base, but you have to look at public spending and so on.

Dr Farry:

That is what I expected you to say.

Mr Greenway:

We should add that that is the same as what the Committee member said on 'The Stephen Nolan Show', so you ought to join our valuation area. *[Laughter.]*

Dr Farry:

John said it so much better though.

Mr Peover:

On your question for me, Mr Farry, the short answer is no, I am not comfortable with the funding of LPS. Land and Property Services is a large part of DFP, with over 1,000 staff, which is a third of the Department's staff. So, it is a big element of our budget. As John said, a lot of its funding comes through income, and that is fine. As long as that continues, that helps us. However, some of the organisation is just funded out of the departmental expenditure limit.

When I came to DFP just over a year ago, it was apparent that John's organisation had been staggering from monitoring round to monitoring round hoping that money would be made available to cover the cost of the staff that he had in post. It was not even to do anything more; it was just to balance the books at the end of the year.

We have been lucky in a sense in that money did tend to come, but it tended to come at the last minute, so it was a bit of a cliffhanger. This year we have a useful device with the promise of additional money. There is a quid pro quo for that, because John has to deliver against it, but that at least provides a reasonably stable funding base for the organisation.

Although I am in charge of DFP, I do not know exactly what we will be like next year. We will get some indication next Wednesday when we get the Chancellor's statement. After that, the Executive will have to decide how they want to approach the Budget locally. Traditionally, DFP Ministers have not felt able to be terribly sympathetic to their own Department. We are an inward-looking Department; we do not deliver hospitals, schools or roads, and there is a priority to try to maximise the services that are delivering directly to the public.

The argument that we have for LPS is the one that you mentioned: we bring money in; we help that process. That is quite a powerful argument, but at the end of the day we will have to convince our own Minister, and then the Executive, that we need a stable and appropriate funding base. On the other side, LPS must operate as efficiently as it can, because we cannot afford to feather-bed an inefficient organisation.

John has been doing a lot of work to try to rejig our resources internally, to focus resources on debt and to pick up all the issues that are coming out of the action plans from PEDU and the Public Accounts Committee within existing resources. We have been doing our best to support him, to give him a reasonably stable financial base.

However, we are looking towards a very uncertain future. We will do our best. We have done a lot of scenario planning in the Department about what the outcome may be for us and how we can try to manage the Budget for the years ahead. However, we do not yet know exactly what our situation will be. We will do our best, and we recognise the importance of LPS.

Dr Farry:
That reinforces the point that the Committee made on a number of occasions, that the distinction between front line services and back office can at times be very simplistic, and there is a danger of *[Inaudible]* up here.

Mr Peover:
Thank you; it is very helpful to have you say that.

Mr Frew:
I agree with Mr Farry on the issue of how front line services are defined. If you take away the back office support, that puts more pressure on the front line, so it can be difficult to distinguish between the back office and front line services.

My questions are about phantom debt. There has been a bad press about LPS and everything that it does. How much has phantom debt contributed to the total values that are being bandied about, and how do you recover from the morale-sapping effect that that has on your people?

My second question is about debt that it is not economical to collect. Is that purely because of the cost of the legal process, or can efficiencies be made, through your staff and the organisation’s structure, to bring that economic bar down so that you can collect more rates?

An additional £5 million came from the June monitoring round, so £10·6 million of additional current expenditure was made available. Can you give us a breakdown of how that money was spent? Is there a direct link between the £5 million and the £10·6 million, or was that just to balance the books and keep things afloat?

Mr Greenway:

Perhaps I could clarify from the Committee member: what specific aspect of debt are you talking about as phantom debt?

Mr Frew:

You talk about not having enough up-to-date knowledge of what buildings are occupied and what businesses are in them. How does that skew your debt figures? Also, how do you build up intelligence on that, in order to remove that skewing of the figures?

Mr Greenway:

I suppose, simplistically, we are always struggling to keep up. Properties go in and out of occupation on a daily basis, and properties can become no longer capable of beneficial occupation, which is the test of whether they should be rated. Therefore, we use a range of sources. We work closely with the local authorities, because there is a combined financial and system interest, and we work with utility organisations. In the past few weeks, we have set up a central investigation team to manage all the data gathering that we need to do, with local authorities being one of the central sources of that information, because they are in touch with people about waste disposal, environmental health and many other things.

At the moment, we are probably issuing occupied rates bills to a number of vacant premises, as the ratepayer has not informed us of that change. Coming back to Declan's earlier point, there is no legal requirement for ratepayers to tell us of a change. We rely on that being done voluntarily, or, when we have a ratepayer occupier, we continue to bill them until they tell us of a change. Therefore, we are relying on getting the first person to inform us of a change and then keeping the chain afloat.

The likelihood is that, at the moment, there are a number of areas in which we are overstating the debt. However, in accounting terms, until we can correct the assessment in the bill, the debt figure is the debt figure. To an accountant, bills raised less money collected equals residual debt. Therefore, as we work through all the debt, we have to go back and ascertain whether bills have been raised correctly or whether a credit or, indeed, an additional debit is due. At the moment, there is probably an overstating in the £157 million figure. However, that is no more than a general feeling.

When looking at the cases that are not economic to collect, it is important to distinguish between current rate accounts and closed rate accounts. We very rarely write-off debt for a current rate account. However, we would do, if, for instance, a company goes into insolvency. The economic argument for writing-off a current rate account does not enter into it, because of the equity issue, which perhaps picks up on what the Chairperson said earlier.

The economic argument comes into play more with a closed rate account. If a rate account is closed and if the ratepayer has left the premises — they may well have left the jurisdiction — at that point, we would start to consider the economics of continuing to collect. Our write-off guidelines say that we have to go through the process of trying to ascertain a ratepayer's whereabouts. If that does not work, and if the debt is less than £200, we write it off. If the debt is more than £200, the guidelines give additional sources, which may include private sector tracing agents or trying to determine a person's previous employer. Mathematically, that £200 figure is based on the cost of a court process plus a decree plus the likely enforcement of judgements office fee, which comes, on average, to around £180. However, for us, there is an important distinction between an active rate account and a closed rate account.

Mr Frew:
It is very important to know that that is equitable. That makes good business sense, if people are competing along a stretch of road and one person is bad with their payments and the other is not.

I have another question, Chairperson, if you would indulge me. Can the Department do any background checks on a business or person to find out whether LPS is being treated as an easy touch, in that people pay their wholesalers, creditors, utility bills and staff, but leave their rates until last?

Mr Greenway:
I have become used to being last in line when it comes to people paying money. I do not have a service to switch off, labour to withdraw or goods not to supply. I do not even have a power supply to switch off. Therefore, we have to understand that, whether it is for a business or

household, ratepayers look at rates not as an easy touch — I certainly do not want to be seen as an easy touch — but as something that will not, in the short term, affect their ability to live or trade. We are, of course, always trying to understand where we may be building up debt that will eventually go bad, due to a company going bankrupt or seeking a company voluntary agreement. In days gone by, we could realistically expect 10p, 15p or 20p in the pound from companies that became bankrupt or went into liquidation. These days, we rarely see anything. The non-priority debtors are lucky to see anything. We are trying to keep a sense of that, but we know that we are likely to be at the back of the queue.

Mr Frew:

What about my final point?

Mr Wilkinson:

As the permanent secretary said, the £5 million has been an historical issue. You will have read in the IRRV report that the rate collection process is big and complex and it has lots of interrelated strands. At the beginning of the year, when I set off to the Land and Property Services, the business plan commitments, which I agreed with the permanent secretary, were based on the £5 million coming during the course of the year. That is unlike previous years, when we were running right through to February without knowing whether the money would be made available. I am a little more comfortable having it in the middle of the year. However, I still have to deliver.

I have not put the £5 million into a particular part of the business; we have used the £5 million to resource across the business. We talked about the 2005-06 period, for example, when the amount of debt was low. Historically, the Rate Collection Agency had 20 staff working on recovery. We are now approaching 150 staff in that area of the business.

Iain mentioned the central investigation team, and you referred to occupancy management and the phantom accounts. It takes a lot of time and effort to look into that, particularly in difficult economic circumstances. We have had to make additional resources in a number of the different teams, such as the landlords team. Therefore, a lot of the money has gone directly into the recovery and collection process.

I have also used it in other bits of the business. You made a point about efficiencies. At the beginning of this rate year, the communications and marketing team worked on the publicity, communications, rate booklets and rate bills. Putting resources into that was a big success, because we have been able to measure all of the contacts that we have had and better repayments have resulted from it. Furthermore, people have got their prompt payment discount; they have got it in on date, and we are not having to deal with lots of complaints on that. In fact, that work has been recognised, and the communication campaign and booklets are up for a fairly high-profile public sector award. We might win that; I do not know yet.

Mr Peover:

Looking at it from the other side, in negative terms, if we had not had that money, John would probably have had to shed 150 staff. We have cushioned them against that saving, but only on the basis that he has to deliver more back than goes in. We are pretty confident that that will happen. That is the scale of the problem that we are talking about: £5 million is at least 150 staff, it could be more. To pick up on Mr Farry's point, to have taken those staff out of LPS would have been an own goal. We are grateful to the Executive for agreeing to the £5 million. In response, we have to deliver the money back.

The Chairperson:

Thank you for attending this morning's Committee meeting. Are you content for us to write to you with any other issues that might arise?

Mr Peover:

Yes.

Mr Wilkinson:

I thank the Committee for coming here this morning. I know that your walkabout and chats with staff will have been well received.