Research and Library Services

Northern Ireland Assembly

Research Paper 86/09 **Sept 2009**

THE ESTIMATED PENNY PRODUCT, THE ACTUAL PENNY PRODUCT AND THE STRIKING OF THE DISTRICT RATE IN NORTHERN IRELAND

A paper that examines the system for forecasting rates revenue in Northern Ireland and presents some options for change.

INTRODUCTION

The calculation of the Estimated Penny Product (EPP) – upon which councils may base their financial planning and strike the district rate – has been criticised for inaccuracy. The result of inaccuracies is either that councils are underpaid and receive a 'windfall' when the Actual Penny Product (APP) is determined, or they are overpaid and amounts are 'clawed back' by central government.

This paper considers the changes to the calculation of the EPP undertaken by Land and Property Services (an agency of the Department of Finance and Personnel) together with representatives of councils and other stakeholders.

Revenue forecasting is the subject of a large body of academic work, particularly in relation to the technicalities of econometric methods. It has not been possible, however, to identify an off-the-shelf model from other jurisdictions that could neatly be applied to Northern Ireland. Instead, following a summary of the present process, a number of options are presented for the Committee's consideration. Although these will not individually resolve all the difficulties, they are presented to inform consideration of the process and highlight some possibilities for change.

THE PENNY PRODUCT PROCESS

Land and Property Services (LPS) provided a comprehensive briefing on the process which is attached for reference at Appendix A.

In summary, the process is that LPS uses available data from the valuation lists, factors in various components (such as cost of collection and vacancy levels) and estimates the income each district council could raise through one penny on the district rate. Councils use the EPP as a basis for their budgeting – at what level to strike the rate to raise enough money to fund their planned spending on services and projects.

The Department of Finance and Personnel (DFP) then uses the forecast to pay monthly instalments of revenue to each council. At the end of the rating year LPS then calculates the *actual* amount that has been raised in each council area and there is a process of finalisation: if the APP is **higher** than the EPP, the council gets an **additional payment**; if the APP is **lower** than the EPP, the difference is **'clawed back'** by DFP.

The consequence of this is that councils either have more or less money available than they expected. Depending on the accuracy of the EPP, councils either get a windfall or unexpected reduction. This occurs **after** the end of the rating year through a balancing payment.

CRITICISMS OF THE PROCESS

The most obvious criticism of this process is that it relies on estimates until the point that the APP can be worked out. It is inevitable that there will be some degree of variation between the EPP and the APP. In turn, this means a level of uncertainty will remain around the councils' financial planning.

Another issue is that councils do not feel they are in control of the process, more that they are clients of a system that does not well serve their interests.[1]

Two further criticisms centre on the payments councils make to DFP. DFP deducts amounts from the councils' monthly instalments for the cost of collecting the rates and for the administration of rate reliefs. Rate reliefs (such as the Lone Pensioner Allowance) are based upon policies that are determined by central government, not councils, so there is an argument that it is unfair for local government to bear the cost of their administration.

In relation to cost of collection, councils must generally pay for increases over which they have no control. This was a particularly significant issue in the 2008/9 year when the costs increased dramatically due to problems with LPS' new collection IT system. In January, the Finance Minister announced that these additional costs would not be passed on to councils.[2]

A secondary issue relates to the way that the cost of collection is assessed. Currently the costs are distributed among councils on the basis of the **value of properties**. Some councils, however, have argued for a change to the basis of the **number of properties**[3] not their value; it is unclear what impact such a change might have on the equity of the system.

EXTERNAL ASSESSMENT OF LPS METHODOLGY

The Institute of Revenues, Rating and Valuation (IRRV) conducted a review of LPS' revenue-estimation procedures in March 2009. The report is attached, for information, at Appendix B. It concludes that LPS' model is "properly structured and fit for purpose". But it also cautions that "the model is only as good as the data fed into it and the forecasts made in relation to that data. It is absolutely essential that the information given [to LPS] is accurate and appropriate."

Indeed the IRRV report raises two specific data issues: the difficulty of estimating irrecoverable sums, and; the quality of the information held on vacancies. Over

[1] See, for example, Northern Ireland Local Government Association press release (24 November 2008): http://www.nilga.org/news_detail.asp?id=272&area=2&pid=1&aName=public

[2] See Northern Ireland Local Government Association press release (19 January 2009) http://www.nilga.org.uk/news_detail.asp?id=283&area=2&aName=Public and DFP release (19 January 2009) http://www.northernireland.gov.uk/news/news-dfp/news-dfp-january-2009/content-newpanews-190109-dodds-unveils-rates.htm

[3] Personal communication

the last couple of years, LPS has begun to work more closely with councils and is trying to improve both the data and the accuracy and the timeliness of the forecasts.

The overall tone of IRRV report is one that recognises that there is work to be done to improve, but that LPS is travelling the right direction. The question, therefore, is whether the EPP can ever be routinely and reliably **accurate enough** to inspire councils' confidence, or if an alternative means of forecasting revenue would be preferable.

OPTIONS FOR THE FUTURE

In the following section, I discuss some options for reforming the system along with some possible arguments for and against.

1. Increase data quality for Estimated Penny Product

As noted above, the IRRV report into the EPP process highlighted some issues with the data used as the basis of the calculations. But it also concluded that, overall, the system was fit to deliver the intended service. From that starting point, it is worth noting some steps that LPS has already taken to improve the quality of its data.

Specifically, the report highlights two data concerns in relation to losses on collection:

> → Figures relating to irrecoverable sums are always difficult to estimate. Not only are we in uncertain economic times but there is the added problem of the large amount of debt both domestic and non domestic. The question that needs to be asked is – how much is truly recoverable? The debt needs to be analysed in terms of its age and status in order to properly estimate the collectable yield.
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> → The amount lost due to vacancies. Here the question is simple, are the figures a true measure of vacant property or is there an administrative issue to be faced in terms of the quality of information held in the database.

Over the last couple of years, LPS has begun working more closely with councils in calculating the EPP. LPS officials meet with council officers in-year both to explain the process and exchange information. A Penny Product Working Group has been established with terms of reference that allow collaborative working between central and local government in the following areas:

1. Methodology for reliably estimating Penny Products, the assumptions/ policies used, the roles of the various parties, and the results thereof.

2. Methodology for calculating Actual Penny Products and the results thereof.

3. The cost of collection of the district and regional rates and its distribution across local authorities.

4. Possible adjustments to penny product calculations and cost of collection and the administrative outworkings of these.

5. The impacts of general revaluations, reorganisations and accounting changes on these issues (including the effects of RPA and the move of the Statement of Rate Levy & Collection to an accruals basis).

6. The effectiveness of the regulations governing these issues.

7. Methods to improve performance in all of these areas.

8. The communication of these issues to all Councils and other stakeholders.[4]

LPS is currently in the process of formalising further engagement with one of Northern Ireland's councils (Belfast City Council) through a Memorandum of Understanding (MOU).[5]

The MOU is designed to: provide a framework for LPS and the Council to work in a spirit of collaboration; maximise the proportion of collectible rates collected, and; assist in the economic development of the Council area.

Beneath these aims are a number of objectives related to the calculation to the EPP, the timeliness of information-sharing and the transparency and robustness of the process.

Underpinning these broad objectives and principles are a number of actions that both parties are committed to delivering. The actions are focussed on addressing issues that are of relevance to both parties.

The Committee may wish to explore the effectiveness of the arrangements in the MOU. Widening this approach to take in all councils may be of benefit in improving the system on a Northern Ireland-wide basis.

The measures may go some distance to improving the data held by LPS. It is worth noting at this stage that the IRRV highlighted issues relating to **losses on collection**. This is important because councils are paid on the basis of 100% collection: **it is the Consolidated Fund[6] not councils** that carries the risk of debt write-offs. Obviously this is an issue for the system as a whole; from a council perspective, however, it doesn't make any difference whether LPS collects the rates or not.

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[4] Terms of reference supplied to Assembly Research by LPS

[5] LPS provided Assembly Research with a copy of the MOU which at the time of writing had been approved by the LPS Board and Belfast City Council but not formally signed off.

[6] The Consolidated Fund is effectively Northern Ireland's current account through which all receipts and expenditures are passed.

Officials at LPS noted that DFP wants to change the way that the rates accounts are prepared – shifting to accrual accounting which is used in government departments. Under accrual accounting rules, bad debt provision will need to be accounted for. The officials thought it was unlikely that the councils would be willing to take these provisions for bad debts onto their books and so they will probably be carried at the regional level. This may be an issue that the Committee wishes to explore further in the future.

2. Introduce new forecasting techniques

Christopher G. Reddick identifies three types of technique as part of a study into revenue forecasting by local governments in the US:

i. judgemental or expert forecasting

This technique relies upon individuals who know their systems extremely well, as well as where to obtain additional information. Such individuals – using a mix of data and judgement – are able to "derive an accurate 'guess' of what revenues will be during the following year."[7]

This system has the advantage of being relatively simplistic and inexpensive. But it has limitations: accuracy may be less than rigorous quantitative methods and it is difficult to prove why a particular estimate was right or wrong; the lack of an explicit model limits the technique for estimating the effect of external factors; the technique relies on retained expertise – if the expert leaves, so does the model, and; the projection can be influenced by the most powerful member of the group, leading to forecast bias.

ii. extrapolative or trend forecasting

This is a quantitative approach that uses historical values to predict future values. In other words, past tendencies of revenue provide an estimate for the future. This method is not particularly data-intensive or costly. But it does not deal with causes: "regardless of what may occur in the local economy, extrapolative forecasting will project only increases or decreases throughout the projection period."[8] It does not allow for changes in circumstances in-year.

iii. deterministic and econometric forecasting

These techniques are the most sophisticated of the three. They allow for other variables to be input to the model (for example changes in interest rates) to assess the possible impact of various changes. They are more data-intensive so

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[7] Reddick, C.G. 2004 'Assessing Local Government Revenue Forecasting Techniques' International Journal of Public Administration 27 (Nos 8 and 9):599
[8] Reddick, C.G. 2004 'Assessing Local Government Revenue Forecasting Techniques' International Journal of Public Administration 27 (Nos 8 and 9):600

can be expensive. They can allow for forecasts to be nuanced and alternative scenarios developed.

The system employed by LPS appears to be mainly extrapolative. The spreadsheets used in calculating the EPP take the previous year's APP, project it forward and then adjust for changes in the property lists and other factors. There is no systematic attempt to apply econometric or causal modelling.

Reddick concludes that "use of econometric modelling might help in reducing uncertainty about elastic revenue sources".[9] However, property taxes are generally considered to be inelastic[10]. This means that payment is not very responsive to changes in the level of the tax. For example, it would take a large increase in the district rate to encourage people to sell their property. Also the amount of revenue generated does not vary much with the state of the economy – unlike, for example, stamp duty or sales tax receipts, which will fall when demand is lower.

A result is that there may not be much to be gained by attempting to apply complex modelling to the EPP calculations.

Another consideration, according to Reddick, is that "there is a trade-off between the effort and cost of assembling a forecast and the amount and accuracy of the information obtained."[11] In other words, the more effort is put into put into refining the EPP calculations, the more it is likely to cost. Additional costs would certainly be associated with the procurement of econometric modelling software, though it's surely true that there are also costs attached to the additional resource commitments involved in data-sharing.

There is, however, an important flexibility in the system that may be of particular interest to the Committee. LPS provides each council with a formatted spreadsheet showing how the EPP has been calculated. It would be possible for finance officers to alter the values to model the effects of particular circumstances in their districts. For example, a council could see what effect the closure of a specific factory or supermarket would have on its EPP.

This, in theory, could allow councils to respond to any information they have about their local rateable base by modelling the effect it could have on their EPP and APP calculations. Indeed, it is quite possible that councils would have access to much better information of this kind than could be available to a central agency.

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[9] Reddick, C.G. 2004 'Assessing Local Government Revenue Forecasting Techniques' International Journal of Public Administration 27 (Nos 8 and 9):603

[10] Blom B 'Revenue analysis and forecasting' (2001) The Government Finance Officers Association, Chicago

[11] Reddick, C.G. 2004 'Assessing Local Government Revenue Forecasting Techniques' International Journal of Public Administration 27 (Nos 8 and 9):602

For as long as the responsibility for maintaining valuation lists and rates collection rests with LPS, the agency will inevitably have a part to play in the forecasting of rates revenue. However there is **no statutory obligation** on LPS to calculate the EPP and share it with councils. There may be benefits in councils taking more control of and responsibility for the process of estimating revenue.

3. Remove 'finalisation' of the APP with the EPP

This third option would remove the process of settlement between the EPP and the APP. A point in time would be chosen – say 1 October – and the domestic and non-domestic property lists would effectively be 'closed' at that time for the following financial year.

Rather than providing councils with an EPP, LPS would simply inform them what they would be paid per penny in the pound. Councils could strike their rate on that basis.

This system would have the advantage of giving councils certainty over the budgetary period. Without a settlement, there would be no danger of 'clawback' nor would there be an unexpected injection of funds once the APP is calculated.

Councils would still need to be paid a monthly instalment by LPS so that they had cashflow sufficient to pay salaries and meet other expenditure commitments. It appears likely therefore that LPS would still need to perform some kind of revenue forecast on which to base these payments. By removing the settlement of EPP and APP with councils, the risk of over- or under-estimation of actual revenue collection would transfer to DFP.

A result of this transfer would be that the Consolidated Fund would therefore have to carry the risk of an over-estimate resulting in a shortfall of revenue. In turn, this would mean the Executive as a whole could see changes in the finance available to fund other programmes: it does not have the power to borrow to make up for any unanticipated shortfall.

A question that then arises is how DFP would view that risk. One possibility is that estimates would be held – arguably artificially – low in order to ensure that this risk is minimised. In this instance, councils would not benefit from a higher-than-estimated level of revenue being generated: any additional revenue would be absorbed centrally.

If this were the case, councils might feel the need to increase district rates without necessarily seeing the benefits of those higher rates. There may also be a legitimate charge that the district rate was being used to 'prop-up' the regional rate. In other words, the Executive would be able to manipulate the transfer payments to councils by estimating low, keeping any additional above-estimate revenue, and therefore keeping any increases to the regional rate down. The net burden on the individual ratepayer might be the same, but the system might be less transparent than it is now.

It is worth exploring briefly the issue of transparency in revenue forecasting. Garofalo and Rangarajan emphasise its importance. They argue that it helps ensure the accountability of the forecasters to their clients (in this case the district councils) and to the public. They identify two types of transparency:

i. ‘general transparency’, whereby the forecasting agency publishes explanations of how revenue estimates are prepared. This would include publishing source data and general assumptions.

ii. ‘specific transparency’, whereby the forecasting agency publishes explanations of particular estimates, releasing and describing the spreadsheets used and calculations performed.

At present, LPS publishes the domestic and non-domestic valuation lists on its website together with comprehensive information about how the valuations are reached. But information on the forecasting process is much harder to find. It is shared with council officers - through bilateral meetings and mechanisms such as the Penny Product Working Group.

It may be appealing for reasons of accountability to encourage publication this information more accessibly. Garofalo and Rangarajan note:

> *If the basis of revenue forecasts is not publicly available, then claims of political manipulation are easy to make, and consistency and quality control are difficult to achieve.*[12]

But they also go on to caution:

> *Arguments against complete […] transparency appear to be equally compelling…Field, for example, suggests that experience with tax-related matters under the Freedom of Information Act [in the US] often leads tax agencies to stop producing documents that courts have ordered to be disclosed.*[13]

As is often the case with the accessibility of information, there appears to be a balance to be struck. This balance is between encouraging the central government agency to make more information freely available, and from

[12] Gaolfalo and Rangarajan 2008 ‘Transparency in Government Revenue Forecasting’ pp 551-566 in Sun J and Lynch T (eds) Government Budget Forecasting: Theory and Practice Florida: Auerbach Publications page 556
[13] Page 556

providing a disincentive to that same agency from producing documents for fear of their disclosure. It is worth noting that amongst responses to the review of rating consultation in 2002 increasing transparency and ease of understanding of the system was identified as a theme.[14]

4. Decentralise rates collection and/or revenue forecasting.

This option would involve quite a radical degree of change to the structure of local government finance in Northern Ireland. There has already been significant change to rating in recent years which may limit the appeal of this option. As there has been considerable work in reviewing Northern Ireland's rating system as a whole, it is not necessary to repeat that work in this paper.[15] However, a number of points are briefly made.

Decentralisation would make councils responsible for collecting rates in their areas, probably with the responsibility for maintaining the rating lists retained centrally - similar to the current arrangements in England. Local government reorganisation under the Review of Public Administration is only about 18 months away; it is questionable whether anyone in central or local government would wish for further changes to be introduced at this stage, even if it were legislatively feasible.

It's perhaps worth noting that the Public Accounts Committee's report into the problems with the calculation of the penny product in 2006/7 contained a large number of recommendations for DFP.[16] Many of these related to governance and to change and project management. Given that LPS has so recently experienced such a level of change, it may be questioned if there is good reason to impose further change upon the agency.

A less radical option might be to introduce a statutory duty on councils to provide their own revenue forecasts as part of their budgeting processes. This is the case in New Zealand, for example, where local authorities are required to produced detailed plans and forecasts for a ten-year period. More longer-term planning in council budgeting could have the effect of reducing the 'wait and hope effect' that seems to be a result of the current process, whereby some councils might be tempted to plan on the basis of receiving a positive settlement if historically that has been the pattern.

Clearly there would be resource implications for councils of such an approach. Also it could be said to be reopening decisions that have already been made on transferring functions under RPA. But it would certainly have the effect of

[14] See paragraph 7 of this initial consultation report:
http://www.ratingreviewni.gov.uk/2002_first_findings_report.pdf
[15] For further information go to www.ratingreviewni.gov.uk
[16] The report is available at
http://www.niassembly.gov.uk/public/2007mandate/reports/2008/report130809R.htm#9

removing the difficulties of the present system. Whether that would make rates collection and revenue forecasting more efficient overall is too big a question to answer in this short paper.

5. Regionalise non-domestic rates

In England, non-domestic rates are collected in a central account held by the Department of Communities and Local Government. The 'poundage rate' is also set centrally. The revenue generated is then redistributed to local authorities as part of the local government finance settlement. The redistribution is done on a complex formula-based system, which begins with calculation of the relative needs formulas – which include information on population, social structure and other characteristics of each authority.[17]

The formula-based system is subject to a certain amount of criticism.[18] It is complex and opaque. But because of the additional functions that local government performs in England, the system is probably much more complex than an equivalent system of redistribution of non-domestic rates would need to be in Northern Ireland.

This option does not appear to have been considered either in the 2002 or the more recent ratings reviews.

The big advantage of regionalising the non-domestic rate is that it would probably reduce volatility. This is at least partially because the loss of income from a single large non-domestic ratepayer has a differentially significant effect when compared to a single domestic ratepayer. In the 2008/9 rating year rates due on domestic properties equalled £491m, whereas for non-domestic properties they equalled £507m – slightly more than half of the total.[19] But the proportion lost when a single supermarket goes out of business would far outweigh any individual domestic ratepayer's liability.

So, regionalisation could smooth out the gaps between EPP and APP that result from larger ratepayers becoming insolvent or other losses.

There are, however, a number of arguments against this option. It would not be popular with those councils that currently have large non-domestic ratings bases. Also, developing a formula for redistribution could be a contentious process: seeking agreement on what constitutes 'need' would be difficult. Alternatively, other more straightforward measures such as population or number of households may not actually reflect the cost of providing services.

[17] For a comprehensive and relatively straightforward guide to the settlement process, see: http://www.local.communities.gov.uk/finance/0910/simpguids.pdf
[18] See, for example, the Local Government Association's webpages on reform of local government finance http://www.lga.gov.uk/lga/core/page.do?pageId=18489
[19] Source: Land and Property Services

In addition, the objections to further change at a time when there is already considerable change from RPA underway that are noted above could well also apply to this option.

Appendix A

Explanation of the Penny Product process – a note for the Finance and Personnel Committee, November 2008

The process:

- In the latter part of each calendar year, LPS uses the total of valuations appearing in the non-domestic and domestic valuation lists, together with the most up-to-date collection trends, a range of factors including vacancy levels, allowances and write offs, and the cost of collection to provide an estimated penny product (EPP) to each district council, that is: what one penny on the district rate would produce in terms of income for the rating year starting the following April. In previous years, this has been completed as a single iteration; in 2008, it has been completed in three iterations, allowing discussion with each council prior to finalisation of the estimate (the final estimate will be calculated in early December 2008)

- The councils then use these forecasts to inform their budgeting process and to strike a district rate.

- DFP uses the forecasts to pay over rate revenue monthly to each council.

- During each rating year, LPS provides periodic updates of the estimates, to alert councils to deviations of actual trends (additions to the valuation lists, debt written off etc) from the predictions

- At the end of the rating year, LPS determines what each council has actually raised from a penny of rates. This calculation is known as the Actual Penny Product (APP) and is set out in the Rates Regulations (NI) 2007. This uses Gross Rate Income figures, cost of collection and so on current at that time – that is, 18 months after the estimated penny product has been completed.

- The product of each district's rates is compared with what it has been paid during the year (on the basis of the estimate). The difference is paid to, or clawed back from, the council concerned in a balancing payment made in summer following the end of the rating year.

- LPS has no statutory obligation to provide an EPP but has adopted the practice of the former Rate Collection Agency to calculate an EPP and make it available to the Department and the councils.

Variations between EPP and APP

- Variations between the EPP, which is made 18 months in advance of the end position, and the APP are to be expected given growth or in some cases reductions in the valuation list affecting the tax base.

- To seek to improve the accuracy of the estimate LPS, in consultation with the Department and councils, includes value significant developments that are not in the valuation list but are anticipated during the period of the estimate.

- The variance between the EPP for 2007/2008, which was finalised in December 2006 and the APP for 2007/2008 (calculated in mid-2008), amounted to within +/-2% for 17 Councils. The extreme variance in two cases was just over +/- 6%.

- The main reasons for the variance between the estimated and the actual income were:

  - the net change to the tax base in each district council area as the valuation list is maintained, e.g. properties being demolished and properties being added or altered. If the list grows, the amount of revenue actually raised increases; if the list shrinks, the amount raised reduces.

  - the introduction of the domestic cap on rate liability reduced rate income levels particularly in Belfast and North Down. This measure was agreed after the EPP was calculated and the district councils had set their district rates;

  - significant increases in the losses on collection from non-domestic vacant rating resulting from the backdating of exemption in some cases from April 2004 as backlogs are cleared;

  - LPS' very limited capacity to periodically check that vacant domestic properties are not occupied and therefore liable for rates has potentially allowed the amount of rates not collected from such properties to rise; and

  - the additional resources deployed to implement rating reform e.g. rate relief and to prepare for new measures from the Executive's review of rating has added to the cost of collection and this is recouped in part from councils.

Improving the process:

- Over recent years councils have expressed concern about the fluctuation of and scale of variations between the estimate and actual position and the impact this has on their financial planning and management.

- Therefore during 2007/2008 LPS established a representative working group comprising council finance officers and Local Government Policy Division (DOE) to discuss and identify how to improve the accuracy and timeliness of the Penny Product estimates and analysis about in-year changes to the forecast position.

- This group meets regularly and LPS now works more closely with council officers on, for example, remodelling individual EPP forecasts to take account of developments and to provide updated forecasts and detailed analysis about variations and what action we can take. (This approach was not in place in late 2006 when the 2007/2008 EPP was completed.)

- Councils have traditionally received the outcome of their APP in October following the rating year. Councils have made strong representations that for reporting purposes and to allow them more time to consider and decide how to deal with the outcome that they should be advised of the outturn much earlier. LPS has agreed to this and issued an initial assessment of the outturn for the 2007/2008 year at the beginning of July.

- LPS has, working jointly with Councils, also taken forward an inspection of all properties recorded by LPS as vacant, to confirm whether this is indeed the situation. Where a property is found to be occupied, steps are taken to bill the person responsible for paying the rates.

Land & Property Services
25 November 2008

Appendix B

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INSTITUTE OF REVENUES
RATING & VALUATION

A REVIEW OF THE PENNY RATE PRODUCT PROCEDURES

IN

LAND AND PROPERTY SERVICES IN NORTHERN IRELAND

A SHORT INFORMAL PAPER FROM THE
INSTITUTE OF REVENUES RATING AND VALUATION

MARCH 2009

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Land & Property Services
25 November 2008

that the accuracy of the information that leads to those assumptions is rigorously challenged internally. Whilst the cost of collection ought to be based on reliable data the same cannot be said of the losses on collection. As an example of our concern can I mention two specific losses in collection.

→ Figures relating to irrecoverable sums are always difficult to estimate. Not only are we in uncertain economic times but there is the added problem of the large amount of debt both domestic and non domestic. The question that needs to be asked is – how much is truly recoverable? The debt needs to be analysed in terms of its age and status in order to properly estimate the collectable yield.

→ The amount lost due to vacancies. Here the question is simple, are the figures a true measure of vacant property or is there an administrative issue to be faced in terms of the quality of information held in the database.

Whilst the 26 District Councils are encouraged to scrutinise and challenge the key elements of the estimate and of course they are free to use the estimates, or not, as they choose the question that must be asked is – do they have the knowledge to drill down into the detailed elements of the calculation of the EPP? The Agency provides additional information and advice to support this process, particularly in relation to value, including significant developments that are not in the Valuation List – but what of the detailed information on the key losses?

BASIS OF THE EPP

The following components form the basis of the EPP. The key in the compilation of the EPP is the accuracy of the value of the components for the year of the estimate. Even the most refined model which is updated regularly will fail if the accuracy of the inputs is doubtful The following are the inputs as I understand them, together with a comment on the source and accuracy.

→ **Rateable Values in the Valuation Lists at 30 November prior to the subject year –** this is an absolute figure from a source document. Any potential upward or downward revisions to the Valuation Lists which may be known at that time are discussed with Council Officials and agreed adjustments are made to that source document.

→ **Reductions in Rateable Values arising from normal assessment adjustments together with extraordinary events such as case law and value changes in the MOD Sector** – this is a variable factor subject to human error which must be subjected to rigorous scrutiny.

→ **Increases in Rateable Values due to new and improved hereditaments together with extraordinary events such as value developments due to case law and other extraordinary events** – this is a variable factor subject to human error which must be subjected to rigorous scrutiny.

→ **Irrecoverables apportioned between Councils –** this is based on actual data but subjected to a human estimate based on trends and must be subjected to rigorous scrutiny

→ **Vacancy discharges at the end of the month of November prior to the subject year.** These discharges may reduce as a result of any action to identify occupation – this is a variable figure and should be subjected to rigorous scrutiny.

→ **The Non Domestic Vacant Rating 3 Month exclusion, 50% relief and exemptions.** These are based on the most up to date position from the system at the end of the month of November prior to the subject year. There is a significant variable factor in this element concerning the identification of the liable person – this must be subjected to rigorous scrutiny.

→ **Landlord allowances awarded as at the end of the month of November prior to the subject year and an additional percentage to cover supplementary bills that may be issued in the remaining part of the year** – this is a variable area and needs to be subjected to rigorous scrutiny.

- → **The year on year growth or fall in LPS running costs –** this figure contributes to the cost of collection.
- → **Any cap imposed by political decision.**

THE APP

Historically the APP outturn was calculated and notified to Councils in October. However following representations from Councils to be advised of the outturn at a much earlier date LPS agreed that earlier reporting would be undertaken beginning with the 2007-2008 year. On 9 July 2008 a provisional outturn figure was provided to each Council and finalisation letters issued in September 2008. This is an important development in the relationship with the local authorities; interestingly there was no difference between the provisional and the final figures. Whilst these figures can be undermined by external factors, this an example of a simple change that can make an enormous difference to local authorities

For the 2008-2009 year a revised in-year EPP was introduced. This showed changes that had occurred since the original Estimate. The revised Estimate was based on the latest available information, including Rateable Values and Cost of Collection. Whilst this is a further step in the relationship with the local authorities it does not reduce the need to deliver accurate estimates prior to the commencement of the subject year. In January 2009 this was replaced with an in-year APP projected outturn. Whilst this will be of huge benefit to local authorities and assist them in decision making it again does not negate the need to produce accurate initial estimates.

CONCLUSION

The approach to the delivery of the EPP and APP has improved dramatically in the last twelve months. The liaison with the local authorities is becoming more data driven and should therefore lead to more resilient estimates.

The model is properly structured and fit for purpose, however the model is only as good as the data fed into it and the forecasts made in relation to that data. It is absolutely essential that the information given to the Operational Finance Team is accurate and appropriate. The Institute would welcome the opportunity to carry out further work in this area.