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Report of the Comptroller and Auditor General

Land and Property Services Trust Statement – Rate Levy Accruals Account

Introduction

1. Land and Property Services (LPS), is an Agency within the Department of Finance and Personnel (DFP) and up to 31 March 2010 produced a Statement of Rate Levy and Collection which accounted for all rate assessments levied and the means to which these were collected and discharged during each financial year.

2. Up to 31 March 2010 I was required to examine the Statement of Rate Levy and Collection in accordance with the Exchequer and Audit Act (Northern Ireland) 1921. There was no requirement for an audited Statement to be laid before the Northern Ireland Assembly and therefore I was not required to give an audit opinion. In my 2010 General Report[1], I reported on this Statement and advised that a qualified opinion would have been provided if required.

3. As a result of the Public Accounts Committee (PAC) recommending[2] that LPS should prepare a modern style annual report including accruals based financial information, DFP issued a new Accounts Direction requiring LPS to prepare for the first time a Trust Statement for the financial year ended 31 March 2011 in compliance with the accounting principles and disclosure requirements of Government Financial Reporting Manual issued by HM Treasury (FReM). I performed a detailed review of the 2008-09 and 2009-10 shadow accruals accounts prepared by LPS to consider whether they provided a true and fair view, however I was not required to provide an audit opinion. I am now required to provide an audit opinion on the Trust Statement. This is the first set of financial statements to be prepared on an accruals basis rather than a cash basis.

Basis of Qualifications

4. I have qualified[3] my audit opinion on the LPS Trust Statement - Rate Levy Accruals Account 2010-11 due to:
    - Limitation in audit scope over the completeness and accuracy of the property listing upon which rates assessments are raised (see paragraphs 5 to 12 below);

[1] Financial Auditing and Reporting, General Report by the Comptroller and Auditor General for Northern Ireland - 2010

[2] Report on the Statement of Rate Levy and Collection 2006-07, Third Session 2008-2009

[3] In accordance with professional auditing practices adopted by all UK national audit agencies, a qualified opinion is appropriate when *'the auditor concludes that an unqualified opinion cannot be expressed but that the effect of any disagreement with management, or limitation on scope is not so material and pervasive as to require an adverse opinion or a disclaimer of opinion'* (International Standards on Auditing (UK and Ireland) 700, paragraph 37)

- Limitation in audit scope over the completeness and accuracy of vacancy exemptions awarded (see paragraphs 13 to 20 below).
- regularity of housing benefit expenditure administered on behalf of the Department for Social Development due to the material levels of fraud and error (see paragraphs 21 to 27 below).

Issues arising

Rates Assessments

5. By law, rates assessments are based on the published Valuation Lists. The accuracy of assessments included in the Trust Statement and the provision of up to date rate bills to ratepayers are therefore dependent on the completeness and accuracy of the Capital Values (domestic properties) or Net Annual Values(NAV) (non domestic properties) held in the Valuation Lists maintained by LPS. The Rating system in Northern Ireland operates on the basis of continual revision. New build, alterations and demolitions are notified to LPS on a daily basis by the Building Control offices in each of the 26 district councils and by ratepayers. Consequently there will always be a significant number of assessments requiring revision plus applications and appeals.

6. LPS has been unable to provide a complete, accurate and up to date property valuation listing upon which rates assessments are raised. At 31 March 2011, LPS advised that they still had to complete 24,501 domestic valuations and 3,031 non-domestic valuations. In the absence of these completed valuations for both domestic and non-domestic properties, my examination of the rate revenue was limited and I concluded that there is significant uncertainty over the completeness and accuracy of the rate revenue figure of £1,193 million and associated debtors reported in the Trust Statement. Consequently I have qualified my audit opinion on the basis that the scope of my audit was limited in this regard. LPS told me that, given the low percentage of backlog cases compared to total properties that it was difficult to accept that the case volumes in hand have a significant effect on the total rate revenue figure. As no estimate was made by the Agency of the effect on rates revenue, I cannot confirm their view and have recommended that LPS seeks to calculate an estimate in future.

7. I note that as of 31 August 2011 the number of valuations yet to be completed has increased to 25,694 for domestic and 3,358 for non-domestic properties. I also note that the time taken to process domestic valuations has increased from 58 days in July 2010 to 66 days in July 2011 for new properties and backlog properties and has also increased from 813 days to 949 days in the same period for domestic alterations. LPS has advised that the average age of 66 days for new domestic casework in hand is considered to be a normal acceptable age profile; new properties can only be valued when the property is completed or now under Rating of Empty Homes when a completion notice can be served.

8. I am concerned that the backlog of properties requiring a revaluation has further increased between March and August 2011, the increase in time taken to process domestic valuations and backlog valuations and that it now takes 2.6 years to complete domestic alterations. I asked the Agency to comment on these increases and the Agency informed me that:

- a priority task during 2010-11 was to improve the Valuation List in preparation for the new policy on the Rating of Empty Homes. In addition to normal workflow, over 10,000 vacant domestic properties which had a nil domestic capital value were visited and either removed from the list or retained with a value assessed. This essential new work meant that only 7,557 domestic alterations could be completed in 2010-11, compared with 18,111 in 2009-10 and 20,630 in 2008-09;

- A priority task in the first half of 2011-12 was then to deal with the subsequent surge of applications and appeals created by these revisions and with the large numbers of new applications from the owners of vacant domestic property seeking to have properties in poor condition removed from the Valuation List in advance of October 2011 billing. The period from January to November 2011 saw 5,301 domestic applications received, compared to 1,554 for the corresponding period in 2010. Recognising their priority, 3,335 of these applications had been dealt with by November 2011. The remaining in progress cases have an average age of 44 days; and

- Of the 25,694 domestic cases at 31 August 2011, 20,398 were domestic alterations cases, which are considered to be the lowest priority casework. Plans to reduce further the number of these cases have been affected by the introduction of the latest reforms; but for the introduction of Rating of Empty Homes, this figure could have been reduced significantly. The Agency has included reduction of this backlog in its corporate level Balanced Scorecard, and the plan is on target to reduce the number of domestic alterations outstanding to 17,000 by 31 March 2012. By the end of November 7,066 domestic alterations had already been completed since 1 April, with the net figures in hand reduced to 18,951; and

- Plans are also in place to increase valuation resources, and these will help reduce work in hand to normal levels of work in progress by March 2012. Recruitment of 12 graduate staff is in the final stages and it is expected that these will be in post during February 2012 to bring numbers up to headcount. An additional temporary resource will be engaged in 2012 to reduce the amount of work in hand.

9. The number of new non domestic properties not valued has increased from 525 cases at 31 March 2011 to 684 cases at 31 July 2011. In addition LPS is currently taking on average 153 days to value non domestic properties, which is significantly outside their target of completing this process within 90 days. LPS has informed me this is mainly due to an influx of other work arising from rating policy changes, and specifically, the introduction of rating of vacant domestic property from 1st October 2011.

10. I note that a number of material successful challenges to NAV valuations dating back several years, continue to arise. My review identified three instances where ratepayers made an application for a non-domestic revaluation in 2003-04. The subsequent reassessments of

their rates liability were only completed in late 2010 and resulted in a total refund paid to the three ratepayers of approximately £0.5 million.

11. The length of time taken to carry out reassessments (which could lead to subsequent refunds) continues to result in a number of significant clawback of funds from Councils across Northern Ireland. The financial implication for Councils is that this could result in budget cuts, delays on certain projects or increasing the district rate within their Council area.

12. I asked the Agency to comment on the length of time it is taking to process reassessments and what they are doing to improve the recurring situation in relation to the assessments backlog. The Agency told me that good progress made in recent years has slowed in the first half of 2011-12 as a consequence of the initial work associated with Rating of Empty Homes. However, the overall progress of recent years is set out in the table below.

DATE	Domestic Cases in Progress	Non Domestic Cases in Progress
31 March 2008	50,332	4,869
31 March 2009	36,379	5,287
31 March 2010	29,341	3,809
31 March 2011	24,501	3,031

Source: Land and Property Services

The Agency has noted that as priority is given to clearing backlogs it is inevitable that backdating[4] will arise in respect of some changes. As at 1st April 2010 LPS had 963 applications to the District Valuer cases (first stage of the appeals process), 25% of which were more than a year old. As at 25th Nov 2011 LPS has 661 such cases of which only 6% are more than a year old. LPS has prioritised and will continue to prioritise these, aiming to drive down the average age of such cases.]

Vacant Properties

13. For domestic properties, LPS' records at 31st March 2011 list approximately 50,000 domestic properties classified as being vacant and therefore not liable for paying rates.[5] It should be noted that until 30th September 2011, discharge from domestic rates was based on a property being vacant, that is, rates were not charged on vacant domestic properties. However, from 1st October 2011 with the implementation of the Rating of Empty Homes, vacant homes now attract full rates, with the exception of a number of prescribed exclusions. As at 4th September 2011, LPS had been unable to gather all the information

[4] Backdating refers to rates liabilities from earlier periods.

[5] Since 31 March 2011,LPS issued bills with a value of £22.9 million for properties incorrectly recorded as vacant.

necessary to establish ownership for over 21,000 of these properties and were unable to determine if these properties should have been exempt from paying rates. However, with the implementation of Rating of Empty Homes from 1st October 2011, rating assessments have now been raised against these properties and LPS continues to use a number of data sources to identify ownership details for billing purposes.

14. For non-domestic properties there are also over 16,000 non-domestic properties listed as vacant. LPS has carried out limited inspection work on establishing whether or not these properties are actually vacant and therefore entitled to vacancy reliefs applied to them.

15. In the absence of the above information necessary to establish liability for rates on domestic properties and whether non-domestic properties are vacant, my examination of vacancies was severely limited and I was unable to obtain sufficient appropriate audit evidence to support the completeness and accuracy of the vacancy relief of £75.3 million reported in the Trust Statement. Consequently I have qualified my audit opinion on the basis that the scope of my audit was limited in this regard.

16. A number of initiatives were previously undertaken by the Agency to determine the level of vacant properties. A postal exercise was undertaken in 2005 and an exercise focusing on non-domestic properties was undertaken in 2006. An inspection exercise in partnership with 25 District Councils started in late 2008 and resulted in bills with a value of £24.5 million issued for properties which had been incorrectly recorded as vacant on the system or where no bill had been issued. In August 2009, an inspection of non domestic properties commenced with 14 District Councils and resulted in bills with a value of £13.5 million being issued in respect of properties which were previously recorded as vacant. These vacancy inspection exercises have been supplemented with the use of data matching against a number of data sources to confirm vacancy, including Power NI (formerly NIE) records and external tracing services. In addition, work undertaken on the National Fraud Initiative has also provided assurances on the level of domestic vacancies (see comments at paragraph 37.)

17. In preparing for the introduction of the Rating of Empty Homes on 1 October 2011, LPS focused on gathering ownership details for all domestic vacant properties, and as a result, bills with a value of £22.9 million were issued for properties which had been incorrectly recorded as vacant on the system or where no bill had been issued.

18. Despite these initiatives, it is disappointing that there still remains a large number of properties currently listed as vacant which the Agency is unable to determine whether they are exempt from paying rates. I asked the Agency what steps it is taking to address this continuing issue and LPS told me that some resources currently employed on gathering domestic ownership details in preparation for the Rating of Empty Homes from 1st October 2011, will revert to working on non-domestic vacant property (NDVR) inspections from 1 October 2011 and a comprehensive review of procedures for undertaking non-domestic vacancy inspections is currently underway. From August 2011, the Agency is setting a review date for Non-Domestic Vacant Rating (NDVR) exclusions. This will now flag up cases

with the intention of issuing annual review letters to ratepayers in receipt of NDVR exclusions.

In addition, because of the work carried out in preparation for the implementation of the Rating of Empty Homes, the number of vacant domestic properties has been reduced from approximately 50,000 to 45,000 as a result of data cleansing – removal from the List as a result of being found to be no longer capable of beneficial occupation or now identified as occupied and billed for occupied rates. Approximately 34,500 vacant rating assessments were made by early October and bills issued to almost 27,000 of these (the remainder being subject to exclusions). Further work on refining the data is ongoing post Rating of Empty Homes billing with approximately 5,000 ratepayers challenging their bills. These cases are currently being investigated and a proportion will be successful reducing the number of vacant domestic properties still further.

19. The Central Investigation Team within LPS continues to focus on the challenging and time consuming exercise of gathering information on occupancy status and ownership details to reduce the number of domestic properties with insufficient information.

20. In last year's report[6] I noted that whilst there was a Vacancy Module within the ABBACUS computer system it has never been used. LPS has since informed me that they do not intend to use the Vacancy Module as it currently stands, and they are content that standard ABBACUS and Diver Management Information reports are sufficient tools to use in the monitoring and planning of occupancy inspections. Further changes to the IT system have also been requested which will record that a check on a property (which may include a physical inspection) has taken place, the reason for the inspection taking place and any follow up action to be taken. This may use some of the functionality from the original Vacancy Module.

Fraud and Error in Housing Benefit administered on behalf of the Department for Social Development (DSD

21. LPS administers housing benefit[7] that meets rates liabilities on behalf of the Department for Social Development (DSD). DSD's Standards Assurance Unit (SAU) regularly monitors and measures the estimated levels of fraud and error within the housing benefit system. In order to do this, statisticians from its Analytical Services Unit randomly select samples of ongoing benefit claims and SAU examine them in detail for evidence of official error, customer error or customer fraud. The results of this testing are then used to estimate the total level of fraud and error.

22. DSD points out that the estimation of fraud and error is by its nature subject to uncertainty because it is based on sample testing. Estimates do, however, represent the best

[6] Financial Auditing and Reporting, General Report by the Comptroller and Auditor General for Northern Ireland - 2010

[7] Housing Benefit is payable to people who own their homes and are in receipt of other benefits, therefore entitling them to receive this benefit.

measure of fraud and error available. In order to facilitate the timetable for the production of financial statements, SAU's testing on payment accuracy is reported on a calendar year basis, not on a financial year basis. I am satisfied that this is reasonable.

23. As part of my audit of DSD, I examined the work undertaken by SAU to assess the levels of fraud and error within the housing benefit system. My staff examined and re-performed a sample of their case work during the year and also reviewed the methodologies they applied in carrying out these exercises. I am content that results produced by the SAU are a reliable estimate of the total fraud and error in the benefit system.

24. The levels of fraud and error for housing benefit administered by LPS for the year 1 January 2010 to 31 December 2010, reported by SAU in March 2011 highlighted estimated levels of fraud of £0.8 million and error of £3.4 million as outlined in **Figure 1** below.

Figure 1: Total estimated fraud and error in housing benefit expenditure administered by LPS (Note 11[8])

	2010	**2009**
	£ million	**£ million**
HB Expenditure	38.5	34.8
Error		
Official Error (Overpayment)	1.3	0.9
Customer Error (Overpayment)	1.9	1.1
Official Error (Underpayment)	0.2	0.25
Total	3.4	2.25
% of Benefit Expenditure	**8.8%**	**6.46%**
Fraud		
Customer Fraud	0.8	0.5
Total	0.8	0.5
% of Benefit Expenditure	**2.0%**	**1.4%**

25. I am required under the Government Resources and Accounts Act (Northern Ireland) 2001 to report my opinion as to whether the financial statements give a true and fair view. I am also required to report my opinion on regularity, that is, whether in all material respects the expenditure and income have been applied to the purposes intended by the Northern Ireland Assembly and the financial transactions conform to the authorities which govern them.

26. I consider the estimated levels of fraud and error in housing benefit expenditure administered by LPS to be material and I have therefore qualified my audit opinion on the regularity of this benefit expenditure.

27. I am concerned that there has been an increase in total error from £2.25 million in 2009 to £3.4 million in 2010 and that there has also been an increase in fraud from £0.5 million to

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[8] *Note 11 to the Trust Statement includes customer error underpayments of £0.2 million which are not irregular transactions. This is consistent with the approach adopted in the DSD benefit regularity qualification for 2010-11.*

£0.8 million in the same period. I asked the Agency to comment on these increases. The Agency told me that the increase was due to gaps in Housing Benefit skill sets and experience, increased SAU sample sizes (prior to 2009 there had been no SAU sampling) and the fact that Housing Benefit for rates is not perceived as a benefit by customers who do not think that they have to report changes in the same way. LPS has worked with DSD to address the skills gaps, including the development of the LPS Fraud and Error Action Plan. LPS has also undertaken a number of initiatives to increase customer awareness such as targeted reviews, participation in the National Fraud Initiative (NFI) and a complete redesign of Housing Benefit literature.

Other significant issues arising from our audit work

Debt at 31st March 2011

28. During 2010-11 the level of receipts collected from ratepayers exceeded £1 billion for the first time ever. Receipts increased from £995 million in 2009-10 to £1,045 million (five per cent) in 2010-11. While LPS receipts collected increased by five per cent, the ratepayer debt marginally reduced from £157 million at 31 March 2010 to £156 million at 31 March 2011. £89.7 million of this debt arose from rates not paid in respect of 2010-11 assessments (£94.1 million in 2009-10). Therefore it is important to note that while overall ratepayer debt decreased slightly, the amount of prior years' debt increased from £62.9 million in 2009-10 to £65.9 million in 2010-11, representing 42 per cent of total ratepayer debt.

29. Delay in recovery of rates debt increases the risk of a significant loss of public funds, particularly where amounts in arrears approach the Statute of Limitations deadline for recovery[9]. £15.2 million of debt was written off as irrecoverable during 2010-11 compared with £10.2 million in the previous financial year, an increase of 49 per cent.

30. In one rates case examined by my staff, they identified a business which first occupied a property in May 2009, yet this was not recorded by LPS until March 2011. As at 31 March 2011, the amount of rates outstanding was £0.28 million. In another case, an increase in the NAV of a property occurred in 2003 but LPS failed to action this increase until 2011, eight years later, resulting in an additional debt to this business of £0.3 million. These examples demonstrate that late processing delays recovery of public funds and leads to an increased risk that the debt might not be recovered and also burdens small businesses at a time of economic hardship.

31. As noted in paragraph 3 above, these are the first set of accounts prepared under the accruals basis. Previously the accounts only included cash transactions. In preparing accruals based accounts, LPS must estimate the amount of ratepayer debt that probably will not be recovered, termed 'impairments' in the financial statements. Rate debtors at 31 March 2011 include a provision for impairments of £33 million, some 21% of total rate debts. This £33 million provision is in addition to debts written off of £15.2 million (see paragraph 29 above). It is notable that the impairments provision is substantially lower than the £41 million provided at 31 March 2010. The reduction reflects improvements in the

[9] Statutory of Limitations deadline is six years.

estimation basis since the prior year provision was prepared rather than a significant improvement in the overall debt position.

32. The Agency continues to implement its Debt Action Plan [10] and indications are that the amount written-off in 2011-12 will increase to around £20 million as a result of clearing backlogs, including insolvency and probate action.

33. Given the current economic environment it is likely that the amounts written off will increase further. These write-offs will ensure that LPS does not continue to devote resources to pursuing debts that would in all likelihood never be recovered and thus concentrate on recoverable debts.

34. I am pleased to note that, for the first time, the Agency has met its two key departmental targets in 2010-11. These were:

- to collect or discharge 95.5% of the net collectable rates by 31 March 2011, based on rates assessed at April 2010 – 96.4% was achieved, an improvement on 2009-10 when 94.7% was achieved ; and
- to ensure 75% of the 2009-10 closing debt is collected, discharged or secured through the court process – 77.6% was achieved, a major improvement on 2009-10 when 70.3% was achieved.

Whilst recognising that LPS met its key departmental targets, I note that the Agency reduced its key target of collecting or discharging net collectable rates by 31 March 2011 from 98% in 2009-10 to 95.5% in 2010-11.

35. Recovery of rates revenue is increasingly critical to the funding of public sector expenditure in Northern Ireland. Significant defaults or delays in collection of rates may reduce the amount available to the Northern Ireland Block and result in the postponement or cancellation of projects.

36. In the current economic climate whilst I welcome the fact that the Agency has increased the amount of revenue collected to over £1 billion and that the level of ratepayer debt has been reduced, it is important that the Agency continues to apply every possible means, including legal action, to maximise the level of rate revenue and reduce overall debt and in particular the high level of prior year debt.

National Fraud Initiative (NFI)

37. The National Fraud Initiative is an exercise to conduct data matching scans to assist in the prevention and detection of fraud. The first data matching exercise was carried out during 2008-09 and identified 22,000 matches requiring further examination. To 31st March 2011, date, non-payment (fraud and error) amounting to £3 million has been realised as part of this initiative.

[10] The Debt Action Plan focuses on the implementation of a special work programme to tackle known backlogs / problem areas with the intention of reducing the levels of ratepayer debt.

38. The Agency advised that the outstanding cases from this NFI exercise were included in a new data match between the Rates data and the Electoral Office data which was carried out in March 2011. The target date for the completion of this new data match is 31 December 2011. LPS should continue to use this new data matching tool and it is important that data matches should be prioritised and followed up promptly and rigorously. I asked LPS how it uses the results of NFI to inform its strategy for reducing the number of invalid vacant properties. LPS told me that, prior to the introduction of Rating of Empty Homes legislation, data matching was a valuable tool in the reduction of invalid vacant properties and would continue to be utilised where appropriate. The introduction of Rating of Empty Homes legislation from 1st October 2011 will make a substantial positive impact on the identification of vacant properties.

Public Accounts Committee

39. In November 2008 the Northern Ireland Assembly's Public Accounts Committee (PAC) reported[11] on the financial and operational difficulties at LPS during 2006-07. PAC made a number of important recommendations and DFP set out an action plan to address these recommendations [12].

40. I note that LPS has implemented all of the fourteen PAC recommendations. We asked LPS to provide an update on the recommendations which have been presented to DFP and LPS Audit Committees and these are now included in Appendix 1. Whilst they are no longer required to submit a quarterly report on progress against the PAC recommendations, the Assembly's Committee for Finance and Personnel has established a pattern of calling LPS to provide evidence on its progress twice each year. Updates have been presented to this Committee in October 2010 and more recently June 2011. The Agency told me that the PAC recommendations were principally implemented through the LPS Revenue & Benefits Financial Review Project. This project was closed at the end of April 2011, with all objectives delivered with the exception of archiving of financial data, which is being managed as part of the archiving of the overall LPS rating database, and 'Never Occupied' domestic properties which were implemented under the Rating of Empty Homes.

Kieran J Donnelly

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Comptroller and Auditor General
19 January 2012

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[11] Report on the Statement of Rate Levy and Collection 2006-07, Third Report Session 2008/2009.
[12] Department of Finance and Personnel Memorandum on the Third and Fourth Reports from the Public Accounts Committee Session 2008-09.

Appendix 1: Progress against the Accepted Recommendations of the PAC Report on the 2006-07 Statement of Rate Levy and Collection

No	Recommendations	LPS Comments on Implementation
1	The Committee strongly recommends that DFP ensures that all major systems problems that have led to a lack of proper audit trail are fully resolved. The Committee acknowledges that these audit trail deficiencies remain inherent within the 2007-08 accounts but expects DFP to ensure that the 2008-09 accounts are properly supported by the books and records so that the C&AG can provide the Assembly with an unqualified opinion on the accounts.	Implemented The Audit of the 2008-09 account has been completed. In his report the C&AG noted improvements on the issues recorded in the 2006-07 and 2007-08 reports, recognised that LPS was unable to address all of these issues prior to the preparation of the 2008-09 statement, but acknowledged that work continues - cleansing IT system data; - improving rate collection; - investigating remaining vacancy inspection data; and - ensuring the completeness and accuracy of the Valuation Lists The 2009-10 and 2010-11 accounts have been submitted to NIAO[13].
2	The Committee expects DFP to prepare accurate and timely accounts, initially on a cash basis. The Committee recommends that DFP puts in place arrangements for the preparation of a modern style annual report, as soon as possible that includes accruals based financial information. DFP should liaise closely with the Audit Office in devising the accounting policies and disclosures for these accounts.	Implemented Shadow accruals accounts were produced for 2008-09 and 2009-10. The 2010-11 Rates Levy Accrual Account was produced in accordance with the account direction, and has been presented to NIAO for audit.
3	The Committee recommends that all software systems should be designed to reduce the amount of manual data input and limit the extensive use of supervisory test checking that has for so long been the resource intensive practice employed in the public sector. Information should only be input once with all aspects of the system updated	Implemented Revised system validation controls went live in July 2009. Further account adjustment improvements and controls have been implemented during the

[13] 2009-10 accounts were completed and reported on by the C&AG on 25th October 2011.The 2010-11 accounts have also been completed and were qualified on (i) Limitation in audit scope over the completeness and accuracy of the property listing upon which rates assessments are raised (ii) Limitation in audit scope over the completeness and accuracy of vacancy exemptions awarded and (iii) regularity of housing benefit expenditure administered on behalf of the Department for Social Development due to the material levels of fraud and error

<table>
<tr><td></td><td>electronically. IT systems must have strong validation controls that prevent or, at the very least, substantially reduce human error. In this particular case, DFP should amend the system accordingly and robustly negotiate the cost of doing so with the contractor given the Committee's view that such system failings should have been obvious to the contractor when designing the software</td><td>2009-10 and 2010-11 financial years.

During 2009-10 work continued against a prioritised plan of data cleansing of data within the rating IT system, and a Data Quality Oversight Board was established.

Robust management of the contract with the IT supplier continues, with engagement with Central Procurement Directorate as appropriate. CPD also provided a review of the procurement elements of the Financial Review Business Case.</td></tr>
<tr><td>4</td><td>The Committee is particularly concerned that the new system contained a major system weakness in cash procedures which increased the risk of fraud. The Committee recommends that all outstanding system problems are resolved as a matter of urgency and that this Committee is provided with a timetable for their resolution. The Committee expects DFP's audit committee to closely monitor and challenge progress made and obtain sufficient evidence that there are no other significant system weaknesses.</td><td>Implemented

Key milestones of the Financial Review Project included:

• Implementation of General Ledger vacancy accounts.
• Implementation of an in-house reporting solution which addresses financial and management information requirements.
• Implementation of a series of financial data input controls. These controls have been supplemented with a series of account adjustment improvements.
• Production of shadow 2008-09 and 2009-10 and actual 2010-11 accruals accounts.
• Implementation of a new chart of accounts to facilitate accruals accounting, production of penny product information and management information requirements.
• Improved bank reconciliation process, including Credits Set Aside and cash procedures.
• Upgrade of the financial software within the rate collection IT system</td></tr>
<tr><td>5</td><td>The Committee recommends that meaningful and challenging performance targets are set for staff morale and that the implementation of the action plan is monitored by DFP's audit committee.</td><td>Implemented

Actions to address the findings of the 2008 and 2009 staff surveys were</td></tr>
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		contained within the LPS action plan in response to the PEDU review. The Staff Attitude Survey carried out in early 2011 showed improvements in staff attitude.
6	The Committee also recommends that a further survey of the Agency's staff is conducted in Autumn 2009.	Implemented As referenced in 5 above, this has been completed and action is being taken on the results.
7	The Committee recommends that DFP radically improves the quality of its customer care to its ratepayers, including its handling of phone calls and introduces strong, measurable performance criteria in this area, which should be monitored closely. The Committee wants DFP to report back on what performance targets it has put in place to measure customer service and its timeframe for achieving them. These performance measures should be reported and commented upon in the Annual Report.	Implemented LPS continues to work closely with NI Direct to ensure that call handling is of a high standard. The 2010 Turn of Year period proceeded fully to plan, with very low call abandonment rates during April (of 3%). LPS achieved its corporate target to increase its Customer Satisfaction Index score from 76% to 78% in 2009-10; the result was 78.2%. Performance against this and other customer service targets for 2009-10 was reported in the LPS Annual Report. Customer service continues to be a key focus for LPS, with corporate targets for 2011-12 including improvements in the management of correspondence, and providing a wide range of access routes to LPS services.
8	The Committee recommends that demanding targets are set for a reduction in the level of incorrectly recorded vacant properties, over each Council area, and for increasing the amount of rateable assessments for so called vacant properties.	Implemented LPS aims to ensure that all properties are correctly recorded as occupied or vacant in a timely manner, whilst recognising the challenges of this given that properties go in and out of occupation on a daily basis. Two vacancy inspection exercises were carried out in conjunction with Councils through the use of data sharing and the

		provision of targeted support by a number of councils. The two exercises together have resulted in the issue of bills totalling more than £36 million. A data sharing protocol between LPS and Belfast City Council has been signed. LPS also uses a growing range of other data sources, including utility data, and has a number of projects running looking at data sources and their relevance to LPS' work. The Occupancy Management work was incorporated into a Central Investigation Team in LPS which handles cases where it proves difficult to track down the information required for billing, drawing on a range of data sources, and using field inspections where necessary. The Team have also led on the preparation for implementation of Rating of Empty Homes from 1st October 2011. From 1st October 2011 all vacant properties attract a full rating liability, with the exception of a number of exclusions. Changes have been made to all relevant LPS IT systems to embed Pointer address data as their primary source of address information, to facilitate data matching. LPS also continues to work with other public sector data holders, to broaden the use of Pointer.
9	The Committee recommends that co-operation is needed with Councils to maximise district and regional rate revenues and recommends that the Department conducts a research study in conjunction with Councils with a view to having an agreed strategy on assessing and billing all eligible properties in a timely manner.	Implemented The LPS – Local Authority Strategic Steering Group (LPS/LA SSG) continues to meet on a regular basis. The Group provides an extremely valuable forum for engagement between LPS and Councils.

		A Memorandum of Understanding between Belfast City Council and LPS has been signed by the LPS and Council CEOs. It has been agreed by the Strategic Steering Group and plans to roll this out to other Councils will be taken forward by a SSG sub group
10	The accuracy of penny product information is essential to the effective financial planning of Council services. While the Committee recognises that forecasting is not an exact science, the Committee is of the view that DFP has not invested sufficient energy into developing systems for calculating the actual penny product and into estimating subsequent year(s) penny product. The Committee recommends that DFP places more resources into the system and develops a more robust budgetary model to estimate future Council revenue.	Implemented Quarterly APPs are provided to councils with a suite of supporting management information. The APP process has been developed to provide improved year end forecast positions, and the third quarter APP is now provided based on the 30th November position to facilitate councils with the district rate setting process. Councils continue to welcome these updates, which allow them to make adjustments as they consider necessary, and close liaison continues between LPS and many councils, particularly those forecast to be in a claw back position. LPS and Finance Officers continue to work on further refinements to the Estimated Penny Product process, attempting to factor in possible future developments and losses. The prevailing economic conditions continue to provide some uncertainty with regard to forecasting, and therefore LPS and council joint working has become critical to provide a robustness estimation process
11	The collection of arrears is a core business activity of the Agency. The collection of rate revenue is an important source of funding for central government and a vital one for Councils. The Committee recommends that sufficient resources should always be allocated to the collection of arrears and that these should be ring-fenced. Collection of arrears should never be deferred.	Implemented The collection of arrears remained a priority for LPS during 2009-10, with significant increases in court processes issued (16%) and court decrees awarded (10%) compared with 2008-09. The delivery of a debt analysis tool under the Financial Review in late January 2010 has provided the ability to analyse and investigate arrears further. An action

		plan during 2010-11 provided a focus for action on the remaining backlogs of work that accumulated during the period of rating reforms and IT replacement work. This resulted in the collection of £1.016 billion of monies for the consolidated fund, and a collection percentage of 96.4% during 2010-11.
12	The Committee recommends that DFP introduces robust measurable performance criteria for the management and collection of rate arrears. This should include a target level of overall arrears, and more detailed targets for each Council area.	Implemented Key Targets for LPS during 2009-10 were; • to collect or discharge 98% of the collectable rate assessed at April 2009, by 31st March 2010 – 94.7% was achieved; and • to secure or action through the court process 75% of 31 March 2009 debt by 31st March 2010 – 70.3% was achieved. The general economic situation remains a factor in the ability to collect monies due. Rate collection and debt recovery remained an extremely high priority for LPS in 2010-11. Key 2010-11 targets were; • to collect 95.5% of the net collectable rates assessed at April 2010, by 31st March 2011; and • to collect, discharge or secure through the court process 75% of 31st March 2010 debt by 31st March 2011. LPS exceeded both targets with a collection rate of 96.4% and prior year debt collection, discharge or securing of 77.6%.
13	The Department has referred to some of the measures it is taking to stabilise the Agency's rate collection business. The Committee recommends	Implemented

	that these should be put to the Committee in the form of a comprehensive action plan which sets out what is needed to resolve the key problem issues. In particular, the action plan must deal with the following: a. governance and the control environment; b. leadership and management skills; c. communication with stakeholders; and d. the IT systems. DFP's Audit Committee must closely monitor the progress made against this action plan.	The Rate Collection Consolidation Plan for 2009-10 was implemented, with substantial progress made on all aspects of the rate collection process, including: • Organisational structures. • A comprehensive training plan, including management training. • Improved communications with key stakeholders, including through the Strategic Steering Group with Local Authorities. • Data cleansing, purging and refreshing. • Process improvement work. • System controls and improvements. Progress against the plan was reported monthly to the LPS Management Board. This was followed with the plans and targets for 2010-11 , including: • Achieve 95% financial accuracy of benefit awards. • Reduce Stage 2 complaints by 10% • 90% of supplementary rate demands are backdated by less than 12 months. • Improve staff confidence in the rate collection IT system. • Improve staff engagement and staff attitude results as reported through staff surveys.
14	The Committee recommends that DFP introduces as soon as possible measurable performance criteria for the assessment and collection of rates. These should include: a. rates assessments, including a target for improving the completeness of the register of rateable properties and inaccuracies in the number of properties treated as vacant; b. billing; c. collection, including the cost of collection per £1 of rates; d. stakeholder satisfaction; ratepayers, District Councils and staff;	Implemented LPS' 2009-10 balanced scorecards included targets in all of these areas, including: • Completion and implementation of a vacancy strategy to ensure accuracy of the records of vacant properties (and to prepare for the implementation of Rating of Empty Homes, work which is closely linked to the control of vacancies). • In year and arrears collection targets

	e. irrecoverable rates; and f. accuracy of penny product estimates. The standard for these performance criteria should be set at a level that is comparable to the best results achieved in other collection authorities and take account of the needs of key stakeholders.	and an overall cash collection target; • Cost of collection per £ of rate collected. • Agreement of an MOU between LPS and Councils, including monitoring of progress against it. • Regular estimates and full explanation of penny product figures. The key performance indicators that have been developed under the Memorandum of Understanding between LPS and Belfast City Council will enable benchmarking of performance and processes with other collection authorities.