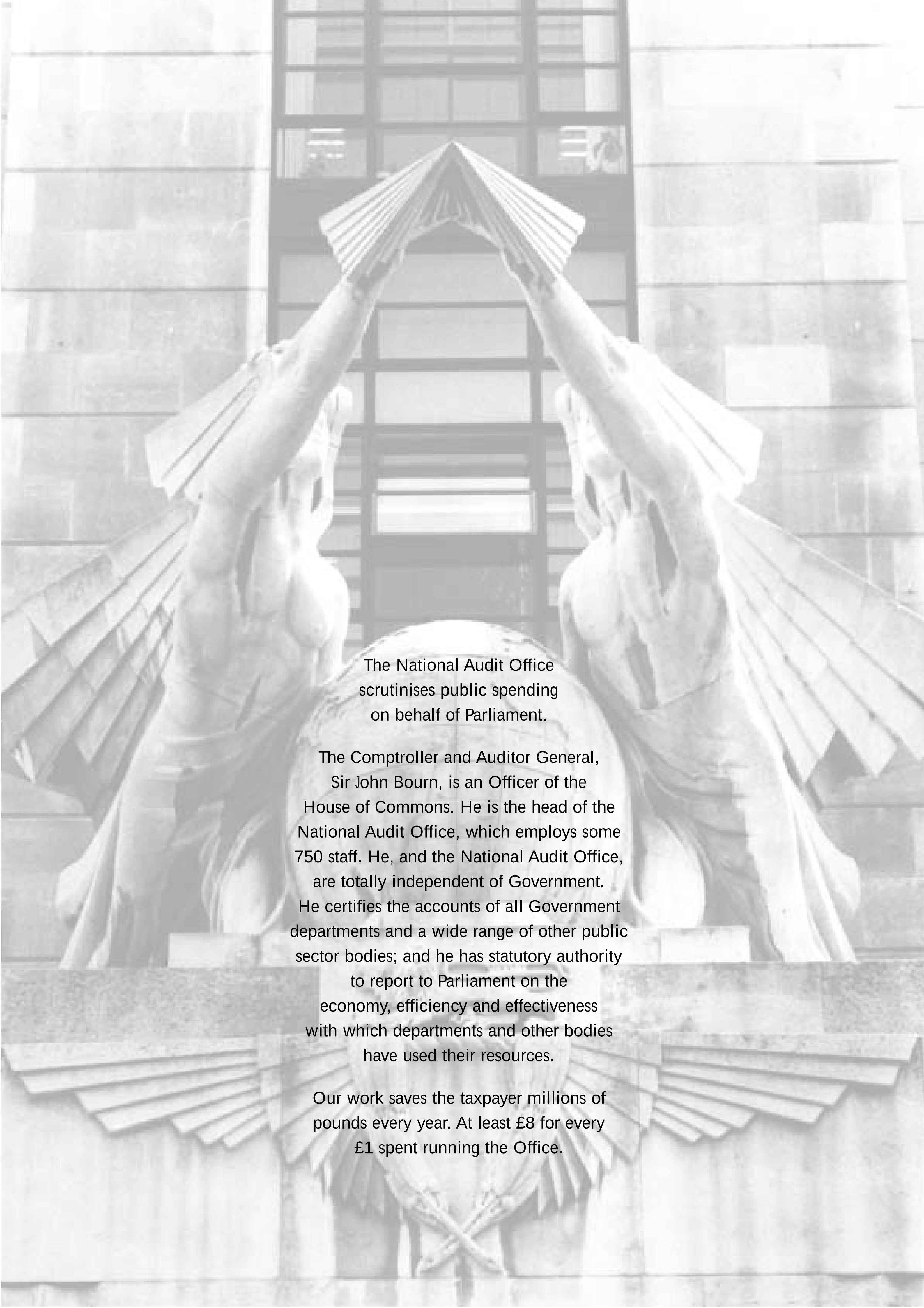
Audit of Assumptions for the 2002 Pre-Budget Report

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

HC 109 Session 2002-2003: 27 November 2002



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John Bourn **National Audit Office**
Comptroller and Auditor General 25 November 2002

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Report

Report by the Comptroller and Auditor General to the House of Commons

In this report

Statement of Responsibilities

1 Sections 156 and 157 of the Finance Act 1998 provide for me to examine and report on conventions and assumptions underlying the Treasury's fiscal projections that are submitted to me by the Treasury for examination.

2 The Chancellor of the Exchequer has asked me to examine extensions to two assumptions that I have audited previously, for the ratio of VAT receipts to consumers' expenditure[1] and for revenue from duties on tobacco[2]. For VAT, the new assumption takes account of the VAT strategy announced in the 2002 Pre-Budget Report. For revenue from tobacco duties, it is proposed now to take account of indirect effects identified to date, from measures such as extra HM Customs and Excise anti-smuggling activities and their use of X-ray scanners at ports to check the contents of containers.

3 The extended assumptions are:

- The underlying ratio of VAT receipts to consumers' expenditure will be assumed to fall by 0.05 percentage points a year. The underlying ratio adjusts for the effects of changes in rates and coverage of the tax and it will also now adjust for the revenue impact of the direct and preventive effects of the VAT strategy announced in the 2002 Pre-Budget Report, but not take account of the deterrent effects; and
- For the purposes of projecting the revenue from duties on tobacco, the forward estimates of additional revenue resulting from anti-smuggling measures will be based on the direct effect of these measures (including the deterrent effect of fiscal marks) and any existing indirect effects. Further indirect effects beyond those already observed will be excluded.

4 The Treasury has advised me that none of the other assumptions examined in previous Reports has changed, although for the end of the current forecast period, the path for trend growth has been adjusted to reflect recent population projections after 2006-07[3].

5 As before, the Treasury remains responsible for making projections of future public expenditure and revenue on the basis of the audited and other assumptions.

6 At the time of the March 2000 Budget, the Chancellor requested that I conduct a three year rolling review of the assumptions I have audited previously. This is to provide a check both that the assumptions remain reasonable and cautious, and to see whether they have indeed resulted in reasonable and cautious projections in the period since they were last audited. The remit is:

1 HC 361, Session 1997-98; HC 959, Session 1999-00.

2 HC 348, Session 1999-00.

3 The growth of the population of working age is projected to fall from 2007 on, reflected in the Government Actuary Department's 2001 based interim population projections published in November 2002. On this basis the Treasury has informed me that for the 2002 Pre-Budget Report, it is assuming that this reduces trend growth by a 1/4 percentage point in 2007-08 as foreshadowed in Chapter 3 of the Budget 2002 paper on trend growth.

- To ensure that the key audited assumptions underpinning projections of the public finances remain valid, the Comptroller and Auditor General shall examine each audited assumption three years after its most recent audit:

  (a) to review whether the assumption has resulted in reasonable and cautious projections of the elements of the public finances projections it relates to since it was first audited; and

  (b) to check that it remains a reasonable and cautious assumption to use in future projections of the public finances.

7 The rolling review for this Report covers the convention used for forecasting future oil prices. I first audited this convention for the 1997 Pre-Budget Report (HC 361, Session 1997-98) and again for the November 1999 Pre-Budget Report (HC 873, Session 1998-99), when the convention was modified.

Basis of Report

8 I have considered the available evidence gathered for this audit from relevant papers and discussions with officials as appropriate in the Treasury and HM Customs and Excise.

Report

The impact of the new VAT strategy

9 Following the allocation of resources for it in the 2002 Spending Review, the VAT strategy announced in the 2002 Pre-Budget Report is designed to increase the VAT yield through a combination of more effective collection of VAT, better compliance with VAT regulations, limiting opportunities for avoidance and reducing fraud. The strategy therefore has a direct bearing on the assumption currently adopted for the ratio of VAT to consumers' expenditure.

10 The assumption for the ratio that I examined in November 1997 was as follows:

- Given current uncertainties about the prospects for VAT receipts, explored in the recent report by the Working Group on VAT Receipts, there will be a slight fall in the underlying ratio of VAT receipts to consumers' expenditure[4].

The underlying ratio allows for changes in VAT rates and coverage.

11 HM Customs and Excise applies the assumption of a 'slight fall' so that the implied forecast ratio of VAT receipts to consumers' expenditure in the next financial year is 0.05 percentage points less than the estimated ratio for the current year. To take account of the new VAT strategy, HM Customs and Excise proposes to adopt the following extended assumption:

- The underlying ratio of VAT receipts to consumers' expenditure will be assumed to fall by 0.05 percentage points a year. The underlying ratio adjusts for the effects of changes in rates and coverage of the tax and it will also now adjust for the revenue impact of the direct and preventive effects of the VAT strategy announced in the 2002 Pre-Budget Report, but not take account of the deterrent effects.

12 Given that HM Customs and Excise does not intend at this time to change the rate at which the VAT ratio is assumed to decline, my audit for this report covers only the inclusion of the revenue effects of the VAT strategy.

4 HC 361 Session 1997-98.

13 The aim of the new VAT strategy is to improve the service that HM Customs and Excise offers to businesses, making it simpler and less costly for them to comply with the requirements of the VAT system, and to ensure that action is taken against those who continue to abuse the system.

14 The strategy will be supported by the deployment of more than 1,000 staff to the main problem areas over the next three years. It is designed to produce more than £2 billion a year in additional revenue by 2005-06 by reducing the losses resulting from Missing Trader Fraud, abusive tax avoidance, non-compliance and the failure of businesses to register for VAT.

15 HM Customs and Excise intends to implement the following measures:

- enhancing pre-registration procedures to detect and prevent more Missing Trader Fraud before it commences, increasing checks on traders in high-risk sectors to identify, slow down and stop existing frauds more quickly; and increasing activity to recover Missing Trader Fraud debts from detected fraudsters;
- deploying additional resources to tackle abusive VAT avoidance schemes through closing loopholes, bringing legislative challenges against existing schemes, identifying and challenging new schemes before they can be widely marketed and tightening up legislation which could be vulnerable to exploitation;
- a programme of education and support to help businesses who want to comply with obligations to register for VAT, and to encourage voluntary compliance among the wider VAT-registered population; and
- taking action against businesses which continue to engage in persistently non-compliant behaviour or which refuse to register for VAT. This will include making enhanced use of intelligence to identify patterns of non-compliance; increased assurance activity targeted at high risk sectors of the economy; increased use of securities and guarantees to secure timely payment from businesses with histories of serious non-compliance; deploying additional staff to teams set up to tackle the shadow economy; and running joint exercises with the Inland Revenue to target those unregistered businesses with turnover above the threshold.

16 HM Customs and Excise expects these new measures to produce additional revenue in three ways: Direct effects represent revenue received from businesses as a direct result of HM Customs and Excise activity, typically from an assessment raised. Preventive effects represent extra revenue in subsequent years as these businesses continue to be more compliant. Finally, deterrent effects represent the additional revenue from other businesses that improve their compliance as they become aware of the strategy.

Direct effects

17 Additional revenue is expected to accrue as a result of extra staff identifying and recovering additional unpaid VAT liabilities. This work will be broadly similar to that of existing VAT staff, and HM Customs and Excise has based its estimate of additional revenue on the current average additional liability identified per unit of activity or per staff year for each of the different activities within the strategy.

18 For the purposes of the fiscal projections, however, HM Customs and Excise has generally used lower estimates of the revenue yield for additional staff years, compared to levels currently achieved, because they already target those businesses most likely to be non-compliant or fraudulent. The reductions are based on data about the extent to which revenue is at risk and generally range between 10 and 30 per cent of the current level of achievement, depending on the coverage of the target business population in the different areas of the strategy. Further reductions in estimated future revenue have been made to allow for the fact that not all additional liabilities identified are paid - because of debt write-offs and litigation.

19 Another intended effect of the VAT strategy is stopping bogus traders from registering and carrying out intra-community Missing Trader Frauds. This type of fraud involves registering for VAT, buying goods VAT free from another EU Member State, selling them on at VAT inclusive prices and then disappearing without paying the VAT over to HM Customs and Excise.

20 HM Customs and Excise's estimate of the extra revenue generated from preventing Missing Trader Fraud is based on the average known value of existing frauds and the number of registrations the Department expects to prevent as a result of the new strategy. The estimates also provide for additional revenue from an increase in post-registration checks.

21 For the recovery of Missing Trader Fraudsters' assets, HM Customs and Excise has assumed that additional staff will achieve the same level of revenue impact as existing staff. This reflects an HM Customs and Excise assumption that other actions which are to be introduced as part of the new strategy will lead to Missing Trader Frauds being identified more quickly and that this will increase the chances of recovering unpaid VAT.

22 Under the new strategy, HM Customs and Excise will use existing legal powers to limit the ability of traders to avoid VAT liabilities. The effect of these measures on VAT revenue is difficult to estimate with certainty. HM Customs and Excise has based its estimates on the level of loss prevention achieved by existing staff, but has assumed a much lower level of loss prevention for additional staff.

23 The revenue yield from direct effects which HM Customs and Excise has included in the fiscal projections is shown in **Figure 1**.

1 **The direct revenue effect included in the fiscal projections**

	£ million			
	2003-04	2004-05	2005-06	Total
Assumed direct effects	330	780	1,100	2,210

Source: HM Customs and Excise

Preventive effects

24 Operational research carried out by HM Customs and Excise suggests that traders who receive an assessment for an unpaid VAT liability are initially likely to be more compliant in future years. Assessments are raised as part of anti-avoidance activity, identifying unregistered traders and assurance activity. The revenue impact is again difficult to estimate with accuracy, but HM Customs and Excise considers it to be a proportion of the trader's undeclared VAT liability in the year the assessment is raised. To allow for the likelihood that this effect wears off over time, it is assumed that the revenue impact declines to nil between one and four years after the assessment is raised - the rate of decline depending on the type of trader being targeted within the strategy.

25 The revenue yield from preventive effects which HM Customs and Excise has included in the fiscal projections is shown in **Figure 2**.

2 **The preventive revenue effect included in the fiscal projections**

	£ million			
	2003-04	**2004-05**	**2005-06**	**Total**
Assumed preventive effects	60	150	320	530

Source: HM Customs and Excise

Wider deterrent effects

26 In addition to these preventive effects, HM Customs and Excise considers that a greater number of traders will become more compliant as a result of the general existence of the VAT strategy and its associated publicity. They believe that these wider effects will add to the yield from the strategy, but acknowledge that it is difficult to predict them with any certainty. For this reason, HM Customs and Excise has not taken them into account in the projections of VAT for the purposes of the fiscal projections.

Revenue yield

27 On the basis of the methods described above, and for the purposes of making the fiscal projections, HM Customs and Excise estimates that the impact of the new VAT strategy over the three years 2003-04 to 2005-06 will be over £2.7 billion additional VAT revenue **(Figure 3)**.

3 **Estimates of total additional VAT revenue included in the fiscal projections**

	£ million			
	2003-04	**2004-05**	**2005-06**	**Total**
Total additional revenue from the VAT strategy assumed for the fiscal projections	390	930	1,420	2,740

Source: HM Customs and Excise

Conclusions on the assumptions for including effects of the new VAT strategy

28 HM Customs and Excise has introduced caution into the projections of the impact of the new VAT strategy and adopted a reasonable approach by including only revenue estimates which have less uncertainty, while recognising that accurately predicting future yields remains difficult. Allowance has been made for the possibility that there will be diminishing returns to extra HM Customs and Excise activity and that some effects may wear off over time. Wider deterrent effects and expected increases in productivity resulting from improvements in IT and risk assessment have not been taken into account.

29 HM Customs and Excise is putting in hand arrangements to monitor and evaluate the effectiveness of the measures introduced and the accuracy of the assumptions. These plans will be subject to scrutiny by the Treasury and The Prime Minister's Delivery Unit. Given the uncertainties inherent in the assumptions made it will be important that these evaluations are carried out as planned.

Projecting the revenues from tobacco duties: taking account of the indirect effects of tobacco anti-smuggling measures

30 The assumption for the forecast of tobacco duty receipts that I examined for the March 2000 Budget was as follows[5]:

- For the purposes of projecting the revenue from duties on tobacco, the estimates of additional revenue resulting from the anti-tobacco smuggling measures announced in the November 1999 Pre-Budget Report and the further measures the Government is committed to introducing, are based on the direct effect of these measures, including the deterrent effect of fiscal marks, and exclude their indirect effects.

31 I noted in my March 2000 Budget Report, that while there was no experience of any equivalent measure to draw on in estimating their impact, fiscal marks were likely to be a strong deterrent. A cautious estimate was therefore made for the purpose of making fiscal projections, but other indirect effects were excluded as being too uncertain[6]. These were the deterrent effects arising from both increased activities of HM Customs and Excise staff undertaking anti-smuggling work, and from introducing X-ray scanners at ports to check on the contents of freight containers.

32 In the light of accumulating evidence about the possible impact of tobacco anti-smuggling measures, HM Customs and Excise proposes to take account of these indirect effects in the projections of tobacco revenue as follows:

- For the purpose of projecting the revenue from duties on tobacco, the forward estimates of additional revenue resulting from anti-smuggling measures will be based on the direct effect of these measures (including the deterrent effect of fiscal marks) and any existing indirect effects. Further indirect effects beyond those already observed will be excluded.

33 At the time of the introduction of the tobacco anti-smuggling measures announced in November 1999, HM Customs and Excise estimated that the measures would reduce the predicted future growth in market share taken by smuggling. Their targets for the market share taken by illicit cigarettes were 21 per cent in 2000-01 and 22 per cent in 2001-02. But for forecasting the revenue receipts for the 2000 Budget, they assumed a more cautious profile of 22 and 24 per cent respectively. In subsequent forecasts, the forecast market share of smuggled cigarettes was assumed to rise to 31 per cent by 2005-06, **Figure 4**.

4 **Market share of smuggled cigarettes assumed in the 2000 Budget and subsequent forecasts**

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Assumed percentage Market share	22	24	25	27	29	31

Sources: HM Treasury and HM Customs and Excise

34 The forecast for the 2000 Budget included the direct effects of the anti-smuggling measures and the deterrent effects of the fiscal marks. It excluded other deterrent effects such as from the X-ray scanners which were difficult to predict accurately in advance but which were expected to produce extra revenue of £120 million in 2000-01 and £295 million in 2001-02.

5 *HC 348, Session 1999-2000.*
6 *HC 348, Session 1999-2000, paragraphs 16 and 17.*

35 For 2000-01 and 2001-02, HM Customs and Excise estimates that the outturn market share of smuggled cigarettes was 21 per cent, lower than forecast. In 2001-02, the estimated outturn market share was 3 percentage points below the 2000 Budget forecast level, and HM Customs and Excise assesses the revenue effects of this difference as £320 million.

36 HM Customs and Excise believes that the direct effects of the tobacco anti-smuggling measures have been lower than expected, primarily on the basis that seizures have been lower than forecast. Since the share of smuggled cigarettes is estimated to have fallen nevertheless, HM Customs and Excise attributes the decrease to the indirect effects, and in particular to the indirect effects excluded from the original forecast in the 2000 Budget.

37 Although estimates are not yet available for the smuggled cigarette market share for 2002-03, HM Customs and Excise expects tobacco receipts in 2002-03 to be around £0.4 billion higher than forecast in the 2002 Budget. They believe this is because the outturn smuggled cigarette market share is likely to be much lower than the 25 per cent assumed for the 2002 Budget forecast.

38 Continued application of the market shares for smuggled cigarettes in Figure 4 would imply an increase in the smuggled cigarette market share rising from the estimated outturn of 21 per cent in 2001-02, to 27 per cent in 2003-04. HM Customs and Excise believes that such a rapid rate of increase in smuggling would be implausible in the light of recent experience on outturn market share and greater than expected tobacco revenue.

39 HM Customs and Excise therefore proposes to take account of estimated indirect effects to date, but will exclude the future expected increase in the impact of the indirect effects. It is proposed to reduce the market share of smuggled cigarettes assumed in making the fiscal projections by 3 percentage points, consistent with the difference between the estimated 2001-02 outturn market share and the assumed level for 2001-02 included in the 2000 Budget. The effect of doing this would be to increase forecast tobacco revenue by almost £1 billion over the next three years taken together. **Figure 5** provides details of the proposed changes.

5 **Revised assumptions for market share and effect on tobacco revenue forecast**

	2003-04	**2004-05**	**2005-06**
Market share taken by smuggled cigarettes assumed in 2000 Budget and subsequent forecasts (per cent)	27	29	31
Market share taken by smuggled cigarettes under the revised assumption (per cent)	24	26	28
Effect on forecast revenue (£m)	320	330	340

Sources: HM Treasury and HM Customs and Excise

40 I note that there are a number of uncertainties surrounding the revised assumption, including:

- uncertainties over the HM Customs and Excise estimates of the actual share of the market taken by smuggled cigarettes. The estimates depend on various assumptions about the consumption of cigarettes in the UK, the prevalence of smoking and the amount of legal cross border shopping, all of which have a range of uncertainty;

- the extent to which the estimated reduction in the smuggled cigarette market share is attributable to the deterrent effects of greater HM Customs and Excise activity and X-ray scanners, as opposed to the impact of other elements within the tobacco anti-smuggling measures; and
- the possible impact of recent changes to the arrangements applying to cross-Channel shopping announced in October 2002, the full effects of which are not yet known. The new measures include an increase in the indicative levels for the amount of tobacco that can be brought into the UK from other EU Member States for travellers' own use. They also shift the burden of proof from the traveller to HM Customs and Excise that goods are not being brought in for travellers' own use. HM Customs and Excise estimates, however, that these changes will not affect the deterrent effects achieved to date and will result in only a small reduction in revenues, which is incorporated into the fiscal projections. This reflects their plans to maintain checks at current levels and make more prosecutions of large scale and regular smugglers.

Conclusion on taking account of the indirect effects of tobacco anti-smuggling measures

41 Although there are uncertainties including over the exact market share taken by illicit tobacco, the evidence is that it is not as high as projected in the 2000 Budget and subsequent forecasts, and that tobacco revenues have been higher than expected. It is reasonable to attribute this in part at least to the effects of the tobacco anti-smuggling measures, though possibly not entirely to the indirect effects excluded to date from estimates of the future market share of smuggled cigarettes. The revised assumption is cautious in that it reflects only estimated reductions in smuggling to date and does not anticipate additional future growth in indirect effects.

The convention for future oil prices

42 The oil price convention is formulated in terms of the price of Brent crude oil in real terms, where the deflator used is an index of world manufactures prices. The Treasury requires forecasts of future oil prices on this basis mainly for estimating revenues from the oil industry. These currently amount to around one per cent of all tax revenues. The Treasury estimates that a five per cent increase in the oil price would, other things being equal, increase revenues by about £220 million in the first year and by £270 million in the next.

43 When I first examined the oil price convention in my audit of assumptions for the November 1997 Pre-Budget Report, the assumption adopted was that oil prices would be close to their current levels in nominal dollar terms over the coming year, and remain flat in real terms thereafter. In the 1999 Pre-Budget Report, the Chancellor modified the convention as follows:

- The oil price will be based on the average of independent forecasts for one year ahead. If the average of independent forecasts shows a fall in the oil price, that price in real terms will be used for the remainder of the five year forecast period. If the average of independent forecasts for one year ahead shows a rise, then the previous convention that oil prices would be close to their current levels in nominal dollar terms over the coming year, and remain flat in real terms thereafter, will be adopted[7].

7 Treasury has taken 'close to current levels' to mean constant in nominal US dollar terms.

44 This approach is in principle more cautious than the earlier one in terms of the impact on the fiscal projections, as it takes account of falling oil tax revenues when oil prices are thought likely to fall, but ignores any increase in oil tax revenues when oil prices are expected to rise.

45 The Treasury has applied the convention over the rolling review period using independent forecasts for oil prices one year ahead, made no more than three months before the Pre-Budget Report or Budget in question, and as detailed in the Treasury publication *Forecasts for the UK Economy*. Forecasting oil prices is difficult, including in the short run, because unforeseeable movements in supply and demand can give rise to significant changes in the spot price. Some of the independent forecasters use econometric modelling techniques, but most rely heavily on judgement.

46 The independent forecasts are subject to a high degree of error. For example, the average absolute forecast error in the independent forecasts from 1999 to 2001 was $4.08 a barrel, (compared to the Organisation of Petroleum Exporting Countries, OPEC, target oil price range of $24-$30 per barrel). More than half of the independent forecasts used by the Treasury had an absolute forecast error of between $4.60 and $5.60 a barrel.

47 **Figure 6 overleaf** shows the profile of previous Treasury assumptions for oil prices against actual prices for the rolling review period. Between 1998 and 2000, Brent crude oil prices rose sharply, from lows of under $15 a barrel to around $25-$30 a barrel for much of 2000. This reflected a number of factors, including cuts in supply by OPEC in 1998, and a stronger than expected recovery in demand following the Asian crisis. This depleted stocks, which made prices more volatile. Prices then fell back to within OPEC's target price range, where they remained for most of 2001. After the events of 11th September 2001, global demand weakened, and this led to a reduction of prices in the final quarter of 2001. Prices rose slowly throughout the first half of 2002 as tensions in the Middle East increased and further OPEC quota reductions coincided with some recovery in global oil demand.

48 Figure 6 shows that the oil price convention used by the Treasury has to date generally produced forecast oil prices lower than actual prices. This reflects the fact that external forecasters did not foresee many of the events leading to increased oil prices up to mid 2000.

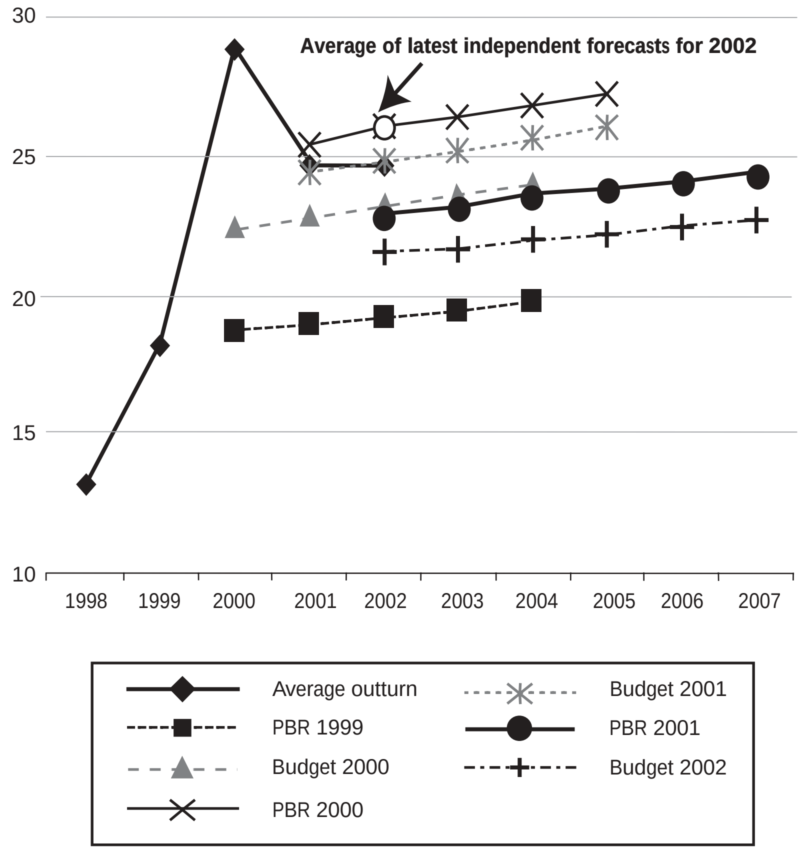
49 The one main exception is the forecast oil prices for the 2000 Pre-Budget Report, which have been slightly higher than actual oil prices to date.

50 On the basis of these comparisons, the convention would, other things being equal, have resulted in under-estimates of oil tax revenues during the three year rolling review period as a whole, and has therefore proved generally cautious.

51 The assumption in the 2002 Budget was that oil prices would be $21.5 a barrel, which is lower than the November average of independent forecasts for 2002, $25.6 a barrel. It is therefore to date a cautious one year ahead forecast as regards forecast oil revenues.

52 Beyond this, considerable uncertainty attaches to the independent forecasts of future oil prices. My previous report on the oil price convention (HC 873, Session 1998-99) discussed alternative approaches to forecasting oil prices, such as using information from the oil futures market and extrapolation of past trends. Both of these approaches had and continue to have significant deficiencies. While there are clearly substantial potential errors involved in using the convention as adopted, it is not easy to see a superior alternative method.

6 **Comparison of Budget and Pre-Budget one year ahead oil price assumptions and outturn oil prices over the rolling review period since November 1999, US dollars per barrel**



NOTES

1. Oil prices are for Brent crude, nominal US dollars per barrel.
2. Average outturn is defined as the calendar year average of daily outturn prices.
3. The assumed path of oil prices for a given Pre-Budget Report and the following Budget start at the same point because of the way that 'one year ahead' is defined at different points in the calendar year - reflecting the availability of independent estimates for future oil prices. At Budget time in March/April 'One year ahead' assumed oil prices are based on the average independent forecast for the current calendar year, while at Pre-Budget time, (November), the average of independent forecasts for the following year is used.
4. The assumed oil prices rise over time because they are inflated in line with an index of world manufactures prices.
5. No oil price forecast is shown for 1998 because the Treasury was using a different oil price convention at that time (paragraph 43). The first forecast price using the current convention is from the Pre-Budget Report in November 1999, and begins 'one year ahead' in 2000 (see note 3 above).

Source: HM Treasury

Conclusion on the future oil price convention

53 The convention remains a reasonable and generally cautious basis for establishing the level of oil tax revenues incorporated in the fiscal projections, and there is no clearly better method available for use in the future. In addition, the convention has proved to be cautious over the rolling review period to date. There are of course still large uncertainties associated with the projected oil tax revenues.

Overall conclusions

54 The proposed revision to the VAT assumption to take account of the VAT strategy announced in the 2002 Pre-Budget makes reasonable allowance for uncertainties about the size of its impact and the fact that its effect may decline over time. Its impact is not easy to estimate and timely evaluation work to establish this is therefore important.

55 It is hard to assess definitively the proposal to take account of indirect deterrent effects on tobacco duty revenue arising from greater HM Customs and Excise tobacco anti-smuggling activity and the use of X-ray scanners to detect illicit cargoes. There are a number of uncertainties in estimating the revenue effects and in attributing them to any particular tobacco anti-smuggling measure. But some increase in the level of assumed tobacco revenues would be reasonable and cautious to take account of the wider indirect impact of the tobacco anti-smuggling measures, in the light of a reduction in the estimated market share for smuggled cigarettes and rising tobacco revenues.

56 The convention for projecting oil prices was overall a generally cautious one during the previous three years of the rolling review period and the approach remains a reasonable one to employ in the absence of any clearly superior method. Large uncertainties over the assumed future oil price inevitably remain.

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