



Social Policy Briefing #1

October 2004

adviceⁿⁱ response to consultation document

REFORM OF THE DOMESTIC RATING SYSTEM IN NORTHERN IRELAND POLICY PAPER

adviceⁿⁱ is an umbrella group that exists to provide leadership, representation and support to its members to facilitate the delivery of high quality, sustainable advice services. adviceⁿⁱ members work within their local communities or "communities of interest" to provide information, advice, advocacy and representation. They work with some of the most socially excluded people in Northern Ireland and their work is informed by a community development model focused on overcoming social exclusion. Further information can be found at www.adviceni.net.

Background

The consultation paper on 'Review of Rating Policy' was issued for public consultation by Dr Sean Farren, Minister Of Finance and Personnel on 27 May 2002¹. The document provided information on the existing rating system and discussed various options for change. The primary purpose of the consultation was to invite views from as many

¹ <http://www.nics.gov.uk/ratingpolicy/pdfs/rrpdoc.pdf>

interested parties as possible to inform future policy by seeking ideas, testing acceptability of a range of proposals that could affect the majority of households and all businesses in Northern Ireland.

One interesting quote from that document is as follows:

“For a tax to be acceptable to the local electorate it must achieve a balance between economic efficiency (those who benefit from services, pay) and fairness or equity (those who pay, can pay).”

This led to the production of a Public Consultation Report² in December 2002 and Government’s announcement of its intention to introduce a new domestic rating system based on capital values.

Making this announcement, the Parliamentary Under-Secretary of State with responsibility for Finance, Ian Pearson, MP, said:

“The question of a relief scheme for those of modest means, but beyond the reach of the benefits system, dominated much of the discussion at the public consultation seminars. The absence of such a scheme was seen as a key flaw in the current arrangements and one that should be addressed in the context of changes to the domestic rating system.”

Further work was then commissioned on the various capital value based systems³ and more detailed proposals were published on 21 July this year⁴. These proposals are currently the subject of a 16-week consultation exercise, which is due to end on 12th November 2004.

The target date for the proposed reforms to take effect is 1 April 2007.

² <http://www.nics.gov.uk/ratingpolicy/pdfs/pbconrpt.pdf>

³ University Of Ulster Report <http://www.nics.gov.uk/ratingpolicy/pdfs/reform-of-the-domestic-rating-system-annex-1-university-of-ulster-report-abridged.pdf>

⁴ <http://www.nics.gov.uk/ratingpolicy/pdfs/policypaper-30-jul04.pdf>

Summary of the Government's Preferred Approach to Reforming the Domestic Rating System

- The basis of the new system will be an individual assessment of the capital value of every residential property in Northern Ireland using sales evidence from the housing market. It is aimed to publish a new Valuation List based on this approach in April 2006. The new system will take effect from April 2007;
- The provision of an enabling power that would allow a maximum and/or minimum payment to be set when the exact impact of reform is known, if deemed necessary by a future Executive;
- Regular revaluations will be carried out, initially every five years, in order to ensure that the system is up-to-date and reflects changes in the property market;
- Transitional arrangements will be introduced to assist those who may experience large increases in their rate bill under the new system. Details will be published after the revaluation on a discrete capital value basis is completed and in advance of the first bills under the new system issuing in April 2007;
- A rate relief scheme will be introduced to assist those on low incomes who are just above the housing benefit threshold but may experience real difficulty in paying their rate bill under the new system. This will be distinct from transitional arrangements. A future Executive would have the option of varying the scope and cost of the scheme (possibly within a pre-determined limit) on an annual basis to ensure that local needs and priorities are targeted;
- People with a disability and whose property has been modified as a result will be eligible for a standard 25% reduction in their rate bill;
- The provision of an enabling power that would allow a deferment scheme for owner-occupiers of pension age to be introduced, if deemed necessary by a future Executive.

- Owners of vacant domestic properties will not be liable to rates for the time being. However, provision will be made for an enabling power that would allow a future Executive to introduce the rating of vacant domestic property, if circumstances were to change. A decision to exercise this power would be informed by the outcomes of detailed impact assessments.
- A new appeal process will be established, incorporating an initial informal review stage, a formal review by the Commissioner of Valuation and an appeal to a new independent valuation tribunal.

Rates Relief⁵

To quote the rates relief section of the current consultation document:

“Supporting those ‘beyond the reach of the benefits system’ was identified by successive Ministers of Finance in the Northern Ireland Executive as a major shortcoming of the current system and one that should be addressed as part of the reform of the domestic rating system.

At present, the housing benefit system provides the best way of alleviating difficulties for those who cannot afford to pay their rate bill. However, there are those whose current financial circumstances are such that they are not entitled to state benefits but may be facing real difficulty paying their rate bill. A range of effective rate reliefs is an important element in making the new system fairer. These will be a key channel through which the impact of the rate system can be adjusted and modified to take account of individual circumstances.”

Key elements of the proposed relief scheme include:

- More generous allowances which would enable the applicable amounts or premiums to be increased, so reducing the deficit between income and need;

⁵[http://www.nics.gov.uk/ratingpolicy/pdfs/Reform_of_the_Domestic_Rating_System_ANNEX_9_Institute_of_Revenues,_Rating,_and_Valuation_\(IRRV\)_Report.pdf](http://www.nics.gov.uk/ratingpolicy/pdfs/Reform_of_the_Domestic_Rating_System_ANNEX_9_Institute_of_Revenues,_Rating,_and_Valuation_(IRRV)_Report.pdf)

- More generous taper for those whose income exceeds the applicable amounts,
- More generous capital cut-off threshold;
- More generous disregard regarding amount of notional income from capital.

adviceⁿⁱ perspective

The assertion in many of the consultation documents and Press Releases is that the suggested reforms to the domestic rating system in Northern Ireland will produce a “fairer system”. Perhaps the big question should be “will the suggested reforms produce a fair system?”

There is a real concern that this is a tax on people: a tax on people based on the value of their home and not on their income or ability to pay. Therein lies a fundamental flaw in the proposals. There will be a means tested relief scheme in place, but in a way this scheme only kicks in after the damage has been done, in other words the charge against the property is set and then the homeowner has to seek assistance or relief from this charge.

The problem with firstly setting the rates bill against the property and then relying on a means tested relief scheme to protect those unable to pay, is that (as with any means tested system) there will be problems associated with:

- **accessibility** (people may become self excluded by not applying);
- **complexity** (complicated criteria to ensure relief is targeted); &
- **stigma** (people may feel demeaned by having to apply for relief);

One of the consultees has already highlighted that:

“20% of the potential revenue is already forgone due to reliefs and exemptions ... the creation of additional reliefs may call into question the efficiency of the rates system.”

If it is accepted that a significant proportion of the income from rates is channeled into a rates relief scheme, perhaps a more straightforward method is to base any system, at least in part, on income at the initial assessment stage. This would have the advantage of

providing at least some social protection without the pitfalls of applying for relief through a means tested scheme.

This suggestion is not without precedent. In GB, former cabinet minister Stephen Byers - who is involved in drawing up Labour's manifesto for the next general election - has indicated that the government is considering plans for council tax payers to have their income taken into account when billed by their local authorities in the future. The Press has reported that Mr Byers said that the property-based council tax will probably be retained, but with a built-in formula to consider people's income levels as part of the billing process (ie - to determine council tax liability, in advance of any assessment of entitlement to Council Tax Benefit).

adviceⁿⁱ believes that there is merit in seriously examining the GB situation with a view to taking a similar approach in Northern Ireland. This is particularly the case should Government move to a position where they feel that a tax based solely on property values is perhaps less than fair.

The issue of ability to pay is very significant, principally because of the fact that rates bills will be directly linked to the value of the property. Property values have been increasing 15% - 20% year on year recently – whereas if one considers the latest NJC payscales framework, the latest local government pay round has resulted in a cost of living increase equivalent to 2.75% for 2004/2005 (effective from 1 April 2004). For 2005/2006 the increase is 2.95% (effective 1 April 2005) and for 2006/2007 is set to be 2.95%. There is a real concern that for those people at the upper end of the taper or beyond the relief scheme, hardship could be caused by the reformed rates system. There must be some analysis done on the impact of any relief scheme under the reformed rates system – because if the relief scheme is unable to keep pace with the increase in rates bills, in real terms the value of any relief scheme will reduce year on year.

adviceⁿⁱ is also concerned about the deferment provisions contained within the proposals, albeit that the deferment proposals are not 'live' at the commencement of the proposed

relief scheme. Firstly we would be concerned about the impact of the deferment proposals on the fabric of local communities, as family homes may have to be sold to recover deferred rates charges. Secondly we would be concerned that deferment may be used to cover the cracks of an inadequate rates relief scheme. The question has to be asked 'why would there be a need for a deferment scheme if there was an effective relief scheme in place?'. Thirdly, we would be concerned that if this proposal was adopted, decision makers would be over-keen to go for the 'equity charge' option, rather than use it as an option of last resort. We would certainly wish to see safeguards built in that the home owner had been given every chance to pay without recourse to deferment.

On a more general level, there are other issues related to the proposals which warrant further consideration:

- The possible impact on the private rented sector, where rents may be pushed up by landlords who face higher rates bills;
- It is interesting that in the past there have been government incentives to encourage home ownership, for example MIRAS interest relief on mortgages and quite good support through the benefits system. Now we see the end of MIRAS and reduced support for those on benefits with mortgages. Homeowners would be forgiven for thinking that government has seen the house price boom and see a system based on the value of property as a way of taxing this house price boom;
- Exceptional circumstances that a relief scheme should cater for to include: (i) Family breakdown: how will single parent / single male households cope; (ii) Households where there is ill health and disability; (iii) provisions where people go into hospital / care / prison;
- We would be concerned that this scheme together with Water Charges will significantly impact on people and either keep people in poverty or push some into poverty;

adviceⁿⁱ welcomes the opportunity to be involved in this consultation and looks forward to seeing the fine detail of the reformed domestic rating system, together with the detailed proposals regarding the relief scheme.

Contact information on this consultation response:

Bob Stronge (Director)

Fiona Magee (Membership Support Worker)

Kevin Higgins (Membership Support Worker)

adviceⁿⁱ

1 Rushfield Avenue

Belfast

BT7 3FP

Tel: 028 9064 5919

Fax: 028 9049 2313

Email: bob@adviceni.net

fiona@adviceni.net

kevin@adviceni.net

Website: www.adviceni.net