

Consultation from Department of Finance and Personnel on Review of Domestic Rating

Rates Deferment Scheme for Home Owning Pensioners

Introduction

As part of an overall rate review, consideration was given to the introduction of a deferment scheme, which would allow home owning pensioners to defer payment of rates, subject to certain conditions, until the house was sold. The accumulated debts, including interest would be retrieved from the proceeds of the house sale. Earlier consultations returned mixed views on such a scheme and a survey by N.I.S.R.A. showed 61% of respondents agreeing that such a scheme would be a good idea. In November 2007 the Northern Ireland Executive agreed that a deferment scheme should be introduced but noted that the new measure could not be introduced until April 2009 to allow development of the necessary detail. This consultation paper seeks views on that detail.

Section 2

Situation Elsewhere

Other parts of the UK have investigated such schemes but have not introduced them.

Republic of Ireland does not levy rates on domestic property.

Canada, North America and New Zealand have had deferment schemes in place for some time with some differences in criteria applying. Some of the detail would be :-

- Must be permanent residents
- Property must have a minimum equity of 25%
- Current fire insurance must be in place with the state being a named beneficiary
- Maximum interest charge of 1% above bank rate
- Stated administrative charges

Question

- (a) Do you have any comments on the schemes that operate internationally?
- (b) Are there elements of the scheme that you feel should be considered for a scheme here?

Answer:

- Reduction in rates income should not affect local authority income
- The scheme should be cost neutral
- The scheme should apply to those who cannot earn an income because of disability

Section 3

Sub Section 1

Eligibility Criteria

- Pensionable age (proposed to set this at 65 for both men and women and to take account of the graded increase in entitlement age).
- Private dwelling
- Sole or main residence
- Home owner/owners
- Minimum equity levels
- Adequate insurance and maintenance

Question

- (a) Do you have views on definition of pensionable age for determining eligibility to defer rates?

Answer:

- Eligible to be paid old age pension i.e. this tracks the critical reduction in income, which should be the basis for eligibility.

- (b) Do you agree this should be set at 65?

Answer:

- As above i.e. eligible to be paid old age pension.

Jointly Owned Properties

Property jointly owned by married couple or civil partners with only one being 65 or over. It is proposed that agreement is entered into with the pensioner with all others living in the property having to formally consent. Possibility of transfer of debt to surviving spouse or civil partner if eligible. If ineligible,

rates payment recommences and debt is held until property is sold. If agreement holder dies without a surviving spouse, debt has to be paid.

Question:

- (a) Have you any comments on deferment being available where only one owner is pension age?

Answer:

- Proposal is fine.

- (b) Do you have views on the handling of a deferment agreement where there is joint ownership, following the death of the pensioner.

Answer:

- Proposal is fine.

Subsection 2

Property Valuation – Equity Levels – Title Verification – Property Insurance

Question

- (a) Do you agree that deferral should only be allowed on a persons sole or main residence?

Answer:

- Yes.

- (b) What criteria do you think should be used to determine the sole or main residence of a property?

Answer:

- Should be declared by applicant.

- (c) Comments on proposal that deferment should not be available where savings and capital exceed a certain limit

Answer:

- So long as capital excludes main residence, a limit should be set.

(d) Views on proposed equity i.e. minimum equity levels on a property plus ultimate rates debt restricted to a percentage of equity in the property.

Answer:

- Qualifying properties should have equity thresholds of 50% as suggested. There should also be a limit on the debt accrued against a property as is the case in New Zealand (80%).

(e) Processes to be employed to verify title of property

Answer:

- Verification should be as proposed, through the applicants solicitors.

(f) Processes to determine extent of charges or debts already secured on the property

Answer:

- Confirmation should be sought through the applicants solicitors of outstanding mortgages and charges applying to the property.

(g) Views on deferment being subject to adequate property insurance

Answer:

- Deferment should be subject to adequate property insurance and current values for rebuild should be assessed by L.P.S. surveyors as proposed. It should also be incumbent on the applicant to choose insurance which is inflation proofed and to notify L.P.S. of annual premium payment and change of insurer.

Subsection 3

Statutory Charge on the Property

Question:

Do you have any comments on the instruction that the deferred sum will take the form of a statutory charge against the property?

Answer:

- In the interests of debt security this is necessary.

Subsection 4

Sum Deferred and Interest Charges

Level of deferred rates

In determining whether a threshold should apply to the deferral of rates account must be taken of the administrative implications and set-up costs for deferring small sums of money versus the benefits to be obtained. It could be argued that, where low or partial rates liability is incurred, it may be disproportionately expensive to facilitate deferment.

It is proposed that :-

- A minimum capital value threshold should apply below which deferment would not be permitted.
- Rates deferment should only be permitted on full annual rates liability (following the award of rating reliefs and allowances).

No question has been asked here but if Council wish to make comment they can.

Level of Interest

Various methods of determining the level of interest payable on the deferred sum are dealt with here together with inflation proofing. On average the differential between base rate and RPI since 2000 has been 1%, which closely links base minus 1% to RPI. Any greater reduction on base rate would result in the real debt not being covered.

Question:

Have you any comments on interest levied and how is this determined?

Answer:

- As previously suggested in Section 2 replies, the scheme, if introduced, should be cost neutral and interest levied should reflect that principle.

Subsection 5

Termination and Repayment

Where a deferment agreement has been established, a number of factors may trigger its completion, possibly at the behest of the owner. Alternatively it could conclude on the death of the eligible person, sale of the property, eligibility conditions are no longer being met, or the terms of the agreement having been breached by the participant.

Question:

Have you any comment on the factors that would trigger repayment of a deferment agreement?

Answer:

- If termination is by the department there needs to be a set form of appeal.

Repayment

Irrespective of the reason for the agreement being completed or terminated consideration needs to be given to how the deferred rates and accrued interest should be repaid. Where an agreement holder dies it is envisaged that the debt including interest would become due and payable unless it is transferred to a surviving spouse or civil partner who owns and occupies the property.

Question:

On completion of a deferment agreement when should the debt be repaid?

Answer:

- As envisaged by the department

Question:

Do you agree that different repayment arrangements should operate where the department has terminated the agreement?

Answer:

- Provided there is a formal appeal mechanism against the departments decision to terminate, repayment should be in full.

Question:

What factors should determine whether a deferred sum should be paid back in full or instalments?

Answer:

- Ability to pay.
- Social impact of selling house.
- Cost to taxpayer.

Question:

Should the deferment be extended to a surviving spouse or civil partner after the death of the eligible partner?

Answer:

- Where the surviving partner would be eligible in their own right the agreement should be extended. Where they are not eligible, the debt should be held against the property and rates payment recommended. This of course is subject to the desire to have this applied to those who cannot earn an income because of disability.

Subsection 6

Deferment Awareness for Pensioners

Entering a deferment agreement will be a significant step with substantial financial consequences, which could affect family, partners and the property owner by consuming a large part of the property's equity. For example, rates deferment on a property with a capital value of £275,000 for a period of 15 years could earn a debt of £ 51,000 or £137,000 over 20 years for a property with a capital value of £400,000. A person entering into such an agreement would need to be fully aware of the consequences and would need to take financial advice to inform the decision. The questions raised here are around this issue and whether this should be an obligation on applicants.

Question:

What information should be provided to deferment applicants, both generally and in terms of financial implications?

Answer:

- Applicants should be given details of how the agreement will impact on their freedom to use the equity on their property i.e. raise loans, liquidate assets, pay for health/welfare care, bequeath to family.

Question:

Do you agree that participants need to be made aware of the financial implications of deferment?

Answer:

- Yes

Question:

Do you agree that financial advice should be provided independently?

Answer:

- On the basis that this is a legally binding agreement the advice should be independent.

Question:

Who would be best placed to provide the advice?

Answer:

- A body such as Citizens Advice Bureau with adequate training and funding from government.

Question:

Should there be a requirement to have obtained independent financial advice prior to entering into a deferment agreement?

Answer:

- Yes, this is the best way to ensure that participants are aware of all the consequences prior to signing an agreement.

Question:

If a charge is imposed for provision of independent advice, what level should this be set at?

Answer:

- If a charge is imposed it should be paid by the applicant directly. The alternative of including the cost in the deferment agreement should be offered.

Subsection 7

Interaction with rating reliefs and the rating of empty homes.

The target population for deferment agreements is financially better off pensioners. Given this, it is envisaged that participants are likely to have income and savings over the benefit relief thresholds. However, consideration needs to be given to eligible participants who are receiving assistance/benefits/relief/allowances, which would be applied to rates liability prior to deferment of any sum. Rates would not be deferred where a person is eligible for full relief. It is also proposed that rates on empty homes should not be deferred unless when the home becomes empty after an agreement due to the participant needing to be provided with care/medical treatment.

Question:

Do you have views on the rates being deferred after the award of housing benefit, rate relief or other rating allowance?

Answer:

- If there is adequate equity in the property to qualify for deferment of rates and such an agreement is entered into, there should be no further need for the participant to receive any allowance to assist with payment of rates.

Question

What are your views on the proposal that rates may not be deferred where property is empty (unoccupied & unfurnished), except where residential care/medical treatment is provided.

Answer:

- Agree

Subsection 8

Information Gathering and Offences.

A range of information is necessary to enable a proper agreement to be made. The information required would include:-

- Age of applicant and co-owners
- Proof of ownership
- Declaration of sole or main residence
- Outstanding debts or charges against the property
- Adequate annual property insurance
- Receipt of independent advice

Provision of false information would be an offence carrying a maximum fine of £1000 with the department having the power to terminate the agreement and instigate proceedings to recover the deferred sum.

Question:

Have you any comments on the range of information that will be required for a deferment agreement?

Answer:

- No

Question:

What are your views on the onus being placed on the applicant to provide necessary information?

Answer:

- As the scheme should be cost neutral the information should be provided by the applicant.

Question:

Have you any comments on the offences associated with the provision of false information and possible termination of the deferment agreement.

Answer:

- Knowingly providing false information to gain an advantage should be subject to penalty.

Question:

Should the current penalties, for giving false information be strengthened?

Answer:

- The £1000 fine doesn't seem terribly high, perhaps it should be increased.

Subsection 9

Review of Departments Decision on Deferment

As stated, this section deals with proposals to allow appeal against the departments decision in refusing an application or terminating one.

Question:

Do you have any comments on the proposed arrangements to review the departments decisions relating to a deferment application or termination of an agreement?

Answer:

- The department should not be hearing an appeal against its own decision. The appeal should be heard independently.

Section 4

Financial Impact

For ease of conveying the information contained in this section I have included actual pages from the document.

Revenue Implications

With certain qualification it is anticipated that the scheme would be broadly cost neutral and that local authority would be reimbursed by regional government to cover the shortfall in revenue. Tables 2 and 3 show estimated rate revenue loss for council area.

See pages 32-35

Impact on deferment participants

See pages 36-40

Question:

Do you have any views on the impact of a deferment scheme on revenues raised at a Northern Ireland level?

Answer:

- No

Question:

Do you agree that the burden of deferment should rest with regional rather than local government?

Answer:

- Yes

Question:

Do you have any comments on the indicative financial examples of department which use various assumptions?

Answer:

- No

Section 5

Preferred approach

See overview table on page 46

Question:

Do you have any comments on the preferred approach that has been adopted?

Answer:

- Council agrees with approach.

Section 6

Summary of Impact Assessments

See pages 47-48

Question:

Do you have any views on the socio-economic impact of the deferment scheme?

Answer:

- No.

See pages 49-51

Question:

Do you have any views on the impact of the deferment scheme on rural areas?

Answer:

- No.

Question:

Do you have any views on the impact of the deferment scheme on persons from different section 75 groups?

Answer:

- No.

Question:

Do you have any additional evidence that could be used to inform the impact assessment?

Answer:

- No.

Section 7

Next Steps

See page 52

Signed:

Maurice Watterson
Director of Building Control Services

Annex A: Questions for Consultees

Section 2: Background to a deferment scheme for pensioners

Do you have any comments on the schemes that operate internationally?

Are there elements of the scheme that you feel should be considered for a scheme here?

Answer:

- Reduction in rates income should not affect local authority income
- The scheme should be cost neutral
- The scheme should apply to those who cannot earn an income because of disability

Section 3: Specific policy issues

Subsection1: Eligible person and applicable age threshold

Do you have views on definition of pensionable age for determining eligibility to defer rates?

Answer:

- Eligible to be paid old age pension i.e. this tracks the critical reduction in income, which should be the basis for eligibility.

Do you agree this should be set at 65?

Answer:

- As above i.e. eligible to be paid old age pension.

Do you have views on the handling of a deferment agreement where there is joint ownership, following the death of the pensioner.

Answer:

- Proposal is fine.

Do you have views on the handling of a deferment agreement where there is joint ownership, following the death of the pensioner.

Answer:

- Proposal is fine.

Subsection 2: Eligible property – sole or main residence, value, equity and debt security

Do you agree that deferral should only be allowed on a persons sole or main residence?

Answer:

- Yes.

What criteria do you think should be used to determine the sole or main residence of a property?

Answer:

- Should be declared by applicant.

Comments on proposal that deferment should not be available where savings and capital exceed a certain limit

Answer:

So long as capital excludes main residence, a limit should be set.

Views on proposed equity i.e. minimum equity levels on a property plus ultimate rates debt restricted to a percentage of equity in the property.

Answer:

- Qualifying properties should have equity thresholds of 50% as suggested. There should also be a limit on the debt accrued against a property as is the case in New Zealand (80%).

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Answer:

- Verification should be as proposed, through the applicants solicitors.

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Answer:

- Confirmation should be sought through the applicants solicitors of outstanding mortgages and charges applying to the property.

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Subsection 3: Statutory charge on the property

Do you have any comments on the instruction that the deferred sum will take the form of a statutory charge against the property?

Answer:

- In the interests of debt security this is necessary.

Subsection 4: Sum deferred and interest charges

Have you any comments on interest levied and how is this determined?

Answer

- As previously suggested in Section 2 replies, the scheme, if introduced, should be cost neutral and interest levied should reflect that principle.

Subsection 5: Termination and repayment

Have you any comment on the factors that would trigger repayment of a deferment agreement?

Answer:

- If termination is by the department there needs to be a set form of appeal.

Do you agree that different repayment arrangements should operate where the department has terminated the agreement?

Answer:

- Provided there is a formal appeal mechanism against the departments decision to terminate, repayment should be in full.

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Answer:

- Yes

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Answer:

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Answer:

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What are your views on the proposal that rates may not be deferred where property is empty (unoccupied & unfurnished), except where residential care/medical treatment is provided.

Answer:

- Agree

Subsection 8: Information gathering and offences

Have you any comments on the range of information that will be required for a deferment agreement?

Answer:

- No

What are your views on the onus being placed on the applicant to provide necessary information?

Answer:

- As the scheme should be cost neutral and the information should be provided by the applicant.

Have you any comments on the offences associated with the provision of false information and possible termination of the deferment agreement.

Answer:

- Knowingly providing false information to gain an advantage should be subject to penalty.

Should the current penalties, for giving false information be strengthened?

Answer:

- The £1000 fine doesn't seem terribly high, perhaps it should be increased.

Subsection 9: review of the department's decisions on deferment

Do you have any comments on the proposed arrangements to review the departments decisions relating to a deferment application or termination of an agreement?

Answer:

- The department should not be hearing an appeal against its own decision. The appeal should be heard independently.

Section 4: Financial impact – impact on deferment participants

Do you have any views on the impact of a deferment scheme on revenues raised at a Northern Ireland level?

Answer:

- No

Do you agree that the burden of deferment should rest with regional rather than local government?

Answer:

- Yes

Do you have any comments on the indicative financial examples of department which use various assumptions?

Answer:

- No

Section 5: Preferred approach

Do you have any comments on the preferred approach that has been adopted?

Answer:

- Council agrees with approach.

Section 6: Summary of impact assessments

Do you have any views on the socio-economic impact of the deferment scheme?

Answer:

- No.

Do you have any views on the impact of the deferment scheme on rural areas?

Answer:

- No.

Do you have any views on the impact of the deferment scheme on persons from different section 75 groups?

Answer:

- No.

Do you have any additional evidence that could be used to inform the impact assessment?

Answer:

- No.