

Reduction in Article 21 Allowance:
Initial Integrated Impact Assessment

RATING POLICY DIVISION

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Introduction and Background

The aim of this initial Integrated Impact Assessment (IIA) is to provide a summary of the results of the various analyses that the Department has undertaken in order to understand the impact of a proposed reduction in the level of allowance available to landlords under Article 21 of the Rates Order. The IIA forms part of a wider consultation into this measure.

This IIA shows the results of the initial impact assessments, using evidence that is currently available to the Department. Following the completion of the consultation, the IIA will be finalised, using any further evidence that has been identified as a result of the consultation.

Data Sources

The following data sources have been used:

- i) Data from the Valuation List supplied by Land Property Services (LPS).
- ii) Addresses of landlords that are currently subject to Article 21 agreement, as supplied by LPS.
- iii) Census 2001 information, from the Northern Ireland Research and Statistics Agency (NISRA).
- iv) The regional and district rate poundages for 2010/2011.
- v) The Northern Ireland Multiple Deprivation Measure (NIMDM), at ward level.

Limitations of Analysis

- A problem with using ward level analysis is that pockets of deprivation in relatively affluent wards are unidentified.
- Information on the characteristics of individual landlords is not available. The analysis is therefore based on the characteristics of the ward within which each landlord's address lies.
- No reliable evidence is currently available for the Section 75 categories of sexual orientation or political opinion. This is a gap in the data for the EQIA analysis. However as part of the consultation process any evidence of differential impacts on people in these groups is welcome.
- It was not possible to match all landlord addresses with the respective ward. The analysis is therefore based on an incomplete sample of wards.
- It should be noted that the analysis carried out (EQIA, rural areas, deprived areas) relates only to private sector landlords, as it is based on the addresses of (and the impact on) the landlords. The social rented sector is therefore not included in the analysis.

Financial Impact

Under the rating system in Northern Ireland, liability for payment of rates generally rests with the occupier. However, where a property is not owner-occupied (rented, in other words), the owner can agree to assume liability for payment of the rates bill. In order to compensate the owner (landlord) in these cases, they receive an allowance, which means that the overall bill is reduced.

This arrangement is also beneficial for LPS as it reduces collection difficulties and helps to guarantee that revenue being collected from a transitory sector. Under Article 21, the landlord receives a 15% allowance against the rate bill.

Lowering the Article 21 allowance will reduce the savings available to landlords who choose to pay the rate bill on the properties they own. There will then be a corresponding increase in the level of rate revenue available to central and local government to spend on services.

Table 1 below sets out the estimated financial impact of the proposed reduction in the Article 21 allowance. The figures are based on reducing the level of allowance for private sector landlords from 15% to 12.5%, for both domestic and non domestic properties.

Private Rented Sector

As table 1 illustrates, the proposed reduction from 15% to 12.5% is estimated to reduce the level of allowance going to private sector landlords by just over £311,000, based on 2010/11 rate poundages. Almost all of this allowance (around 90%) relates to domestic properties.

Table 1: Financial Impact on Private Rented Sector of Reduction

No. of Properties	No. of Ratepayers	Collectable Rates	Current Value of Allowance	Value of Allowance (at 12.5%)	Reduction
17923	5732	£11,992,199	£1,866,241	£1,555,201	£311,104

The impact on individual landlords will depend on the capital value of their properties and the number of properties held. The average capital value of properties held by private sector landlords is £92,540. Based on this, the average loss in revenue resulting from the reduction in allowance would be under £16 per property. The reasonably modest nature of this financial impact is therefore important to bear in mind when considering the other impacts examined in this paper.

As shown in table 1, there are almost 18,000 properties, distributed across 5,700 ratepayers. Table 2 below shows the distribution of properties across landlords. As the table illustrates, the majority (3,798 or 66%) own just a single property, with very few owning more than 10 properties. The average financial impact on each landlord is therefore expected to be much less than £100 per year for the vast majority of cases.

Table 2: Number of Properties per Private Sector Landlord

No. of Properties	Percentage of Landlords
1	66.3%
2	10.4%
3	5.4%
4	3.7%
5	2.6%
5-9	5.6%
10-19	3.8%
20-99	2.0%
100+	0.1%

Social Rented Sector

The Article 21 allowance is also awarded to landlords in the social rented sector (i.e. the Northern Ireland Housing Executive and the housing associations). The policy also proposes reducing the level of allowance for these landlords, although to 10% rather than 12.5%. The impact in this sector would be to reduce the total value of the allowance by £2.6m per annum. Table 3 below provides the details:

Table 3: Financial Impact on Social Rented Sector of Reduction

	No. of Properties	Collectable Rates	Current Value of Allowance	Value of Allowance (at 10%)	Reduction
NIHE	96187	£37,339,534	£5,692,380	£3,794,920	£1,897,460
HA's	26340	£12,229,571	£2,157,265	£1,438,177	£719,088

The average additional cost per property is estimated at £20 for the NIHE and £23 for housing associations.

- **Do you have any views on the financial impact of the measure on landlords?**
- **Do you have any additional evidence that could be used to illustrate this impact?**

Equality Impact Assessment

In accordance with the statutory duties contained in Section 75 of the Northern Ireland Act (1998), the Department of Finance and Personnel has given an undertaking to carry out an Equality Impact Assessment on each policy where screening has indicated that there may be significant equality implications. In other words, policy must have due regard to the need to promote equality of opportunity between nine categories of persons, namely:

- Between persons of different religious belief, political opinion, racial group, age, marital status or sexual orientation;
- Between men and women generally;
- Between persons with a disability and persons without;
- Between persons with dependents and persons without.

The aim of an EQIA is to determine whether any of the nine groups defined above are significantly affected, either positively or negatively, by a change in government policy. There is a statutory requirement to put initial EQIA's out to consultation. It is important that additional evidence is brought forward through the public consultation process to assist decision-making. Further analysis will take place following feedback from consultation.

Approach to Analysis

In the absence of personal data on individual landlords, any impact on a Section 75 group is inferred from the representation of that Section 75 group in areas where landlords live, according to the dataset of landlords' addresses supplied by LPS.

The approach taken in the analysis was to identify the ward within which each private sector landlord's address was located. The next step was then to calculate the total number of times each ward arose and then to establish what proportion of all properties in the ward that this number represented. That is, a higher proportion of properties in a ward meant that the impact on that ward was greater. Finally, wards were then ranked according to this

proportion and separated into deciles. For the purposes of the equality impact assessment, the average Section 75 characteristics of each decile was then determined. Thus, if the representation of a Section 75 group is higher in wards where there are high numbers of landlords (i.e.: deciles 1, 2 and 3), then that group is considered more likely to experience a greater impact, compared to other section 75 groups, from any changes in policy affecting landlords.

Results:

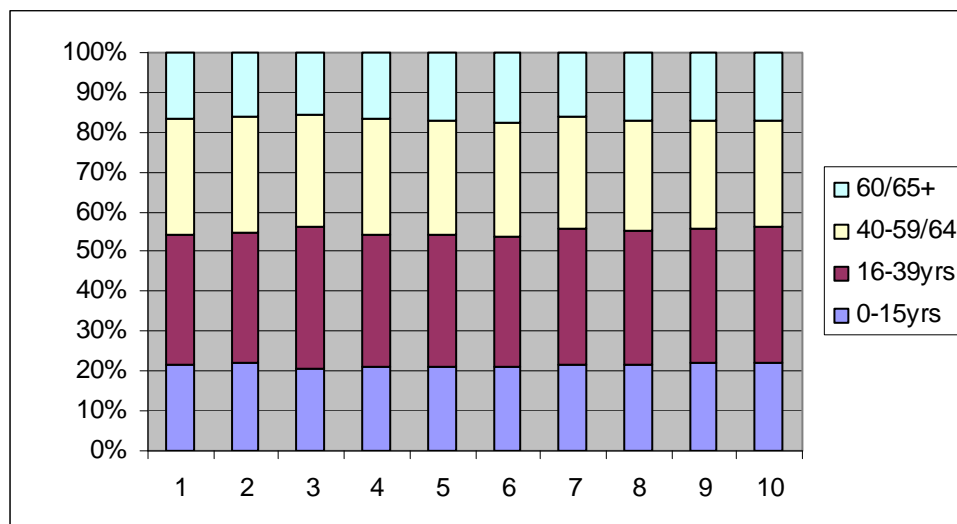
The tables and charts which follow summarise the results of this analysis in relation to several Section 75 groups – Age, Gender, Marital Status, Religion, Dependents Status and Race.

Age

Table 3: Age Distribution Across Deciles

Decile	0-15yrs	16-39yrs	40-59/64	60/65+
1	21.5%	32.6%	29.1%	16.7%
2	22.2%	32.6%	29.0%	16.2%
3	20.8%	35.7%	28.0%	15.5%
4	20.9%	33.4%	29.2%	16.5%
5	21.2%	32.8%	28.7%	17.3%
6	20.9%	32.6%	28.9%	17.5%
7	21.4%	34.3%	28.1%	16.1%
8	21.6%	33.5%	28.0%	16.9%
9	22.1%	33.6%	27.3%	17.0%
10	22.0%	34.3%	26.7%	17.0%

Chart 1: Age Distribution Across Deciles



Summary:

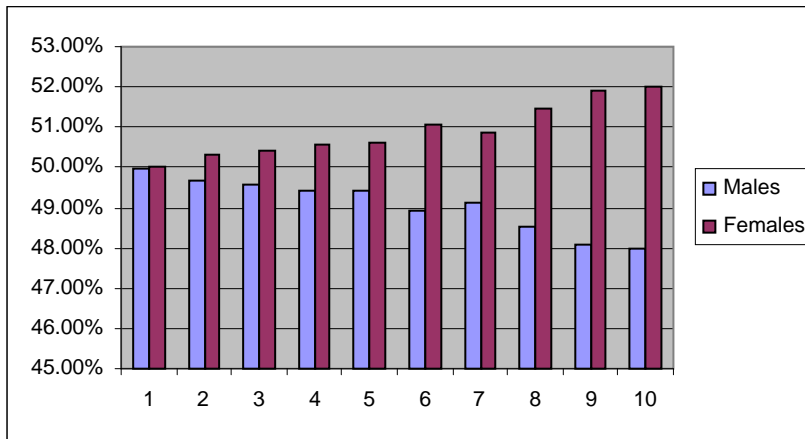
There is little variation in the age structure between deciles, suggesting no one age group will be impacted more than another. (The 0-15 year group, representing around 20% of population in each decile, is unlikely to be affected, given the possibility of there being any, landlords in that group).

Gender

Table 4: Gender Distribution Across Deciles

Decile	Males	Females
1	50.0%	50.0%
2	49.7%	50.3%
3	49.6%	50.4%
4	49.4%	50.6%
5	49.4%	50.6%
6	48.9%	51.1%
7	49.1%	50.9%
8	48.5%	51.5%
9	48.1%	51.9%
10	48.0%	52.0%

Chart 2: Gender Distribution Across Deciles



Summary:

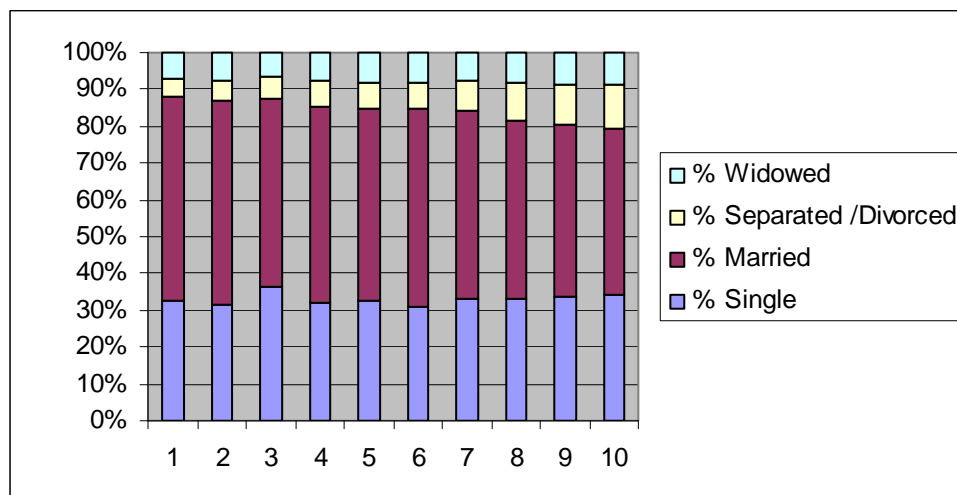
The results indicates that Females have a below average representation (50%) in those deciles with the greatest impact (decile 1, 2), steadily increasing to an above average representation (52%) in those deciles with the least impact. For males, the opposite is true – they are over-represented in the deciles that are most impacted (50% in decile 1), and under-represented in those least impacted (48% in decile 10).

Marital Status

Table 5: Marital Status Distribution Across Deciles

Decile	% Single	% Married	% Separated /Divorced	% Widowed
1	32.7%	55.5%	4.7%	7.1%
2	31.7%	55.2%	5.7%	7.3%
3	36.4%	51.0%	6.0%	6.6%
4	32.3%	53.2%	6.8%	7.7%
5	32.4%	52.3%	7.2%	8.1%
6	30.9%	53.7%	7.4%	8.0%
7	33.4%	50.7%	8.2%	7.7%
8	33.1%	48.4%	10.4%	8.2%
9	33.9%	46.7%	10.7%	8.6%
10	34.1%	45.5%	11.8%	8.6%

Chart 3: Marital Status Distribution Across Deciles



Summary:

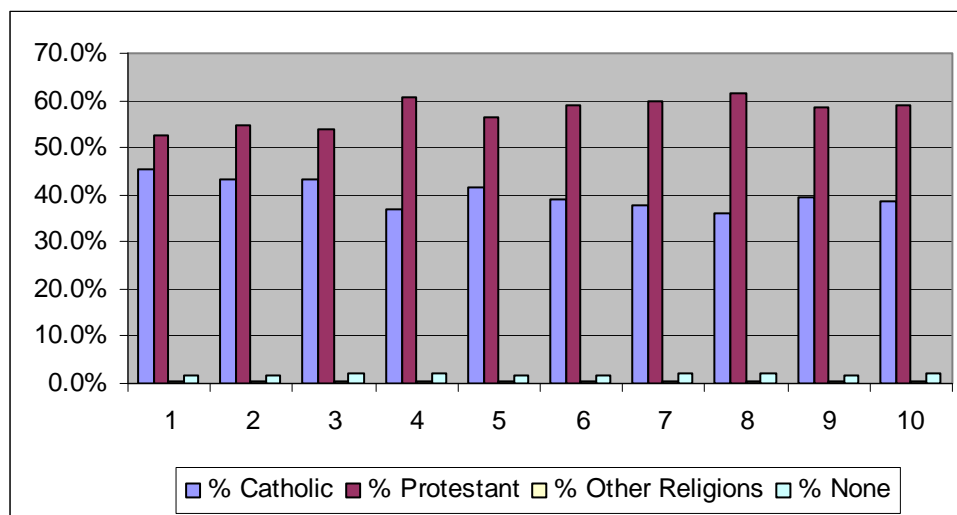
There is little variation between deciles with regards to the proportion that are single or widowed. However, across the deciles from most impacted (decile 1) to least impacted (decile 10), there is a decrease in the proportion who are married, and an increase in the proportion who are separated/divorced. For the married group, representation is above average in decile 1 and below average in decile 10. For the separated/divorced group, the opposite is true – it is under-represented in decile 1 and over-represented in decile 10. This suggests those who are married will face a greater differential impact from the proposed changes to Article 21.

Religion

Table 6: Religious Status Distribution Across Deciles

Decile	% Catholic	% Protestant	% Other Religions	% None
1	45.3%	52.8%	0.5%	1.5%
2	43.3%	54.7%	0.4%	1.6%
3	43.4%	53.8%	0.6%	2.2%
4	36.8%	60.6%	0.6%	2.1%
5	41.7%	56.4%	0.3%	1.7%
6	38.9%	59.0%	0.4%	1.7%
7	37.7%	59.9%	0.4%	2.0%
8	35.9%	61.6%	0.3%	2.1%
9	39.3%	58.6%	0.4%	1.7%
10	38.5%	59.1%	0.3%	2.0%

Chart 4: Religious Status Distribution Across Deciles



Summary:

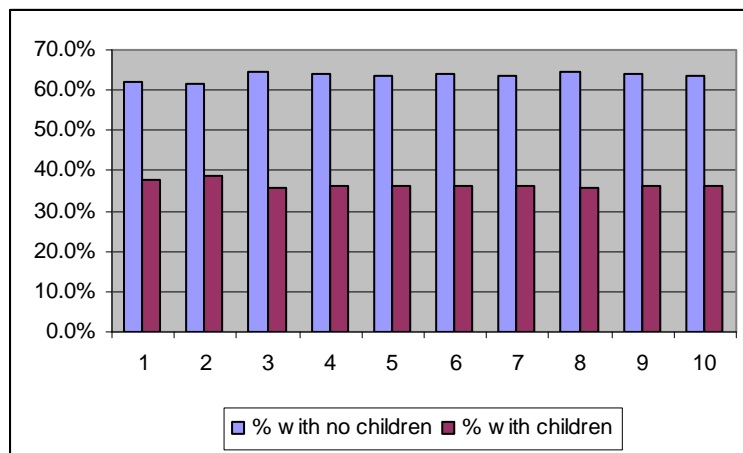
Across the deciles from most to least impacted (decile 1 through to decile 10), there is a decrease in the proportion of persons from a Catholic background (from 45% to 38%), and an increase in the proportion of Protestants (from 53% to 59%). This compares to a representation of Catholics among the entire population of 39.9% and 57.8% for persons from a Protestant background.

Dependents Status

Table 7: Dependents Status Distribution Across Deciles

Decile	% with no children	% with children
1	62.0%	38.0%
2	61.5%	38.5%
3	64.4%	35.6%
4	63.9%	36.1%
5	63.5%	36.5%
6	63.9%	36.1%
7	63.7%	36.3%
8	64.4%	35.6%
9	63.9%	36.1%
10	63.7%	36.3%

Chart 5: Dependents Status Distribution Across Deciles



Summary:

For those with and without dependents, there is little variation in structure between deciles, suggesting no one group will be impacted more than the other.

Race

Table 8: Racial Status Distribution Across Deciles

Decile	% White	% Irish Traveller	% Other Ethnic Group
1	99.2%	0.1%	0.7%
2	99.3%	0.1%	0.6%
3	98.7%	0.1%	1.2%
4	98.9%	0.1%	1.0%
5	99.3%	0.1%	0.6%
6	99.3%	0.0%	0.7%
7	99.2%	0.1%	0.7%
8	99.1%	0.1%	0.8%
9	99.2%	0.1%	0.7%
10	99.4%	0.1%	0.5%

Summary:

There is little variation in the racial structure of the ten deciles, suggesting no one group will be impacted more than the other.

Overall Summary:

The results of this analysis would suggest that the proposed policy change will not have a significant differential impact across most Section 75 groups. It does indicate that, as the proportion of landlords affected in a given ward increases, so does the percentage of persons from that ward who are from a Catholic background, are married and are male. However, the fact that the financial impact of the change in allowance is a marginal one would suggest that the scale of any differential impact that does occur is not likely to be significant. The result is likely to be related to the finding that rural areas are impacted more by the policy.

- **Do you have any views on the estimated impact on Section 75 groups?**
- **Do you have any additional evidence that could be used to inform the final impact assessment?**

Rural Proofing

Rural Proofing has been recognised as a key element in policy development and evaluation. The rural proofing exercise allows policies to be assessed for their impact on rural areas. The Government has made a commitment to ensure that the rural dimension is routinely and objectively considered as part of the making and implementation of policy.

Approach to Analysis

The approach taken to examining the rural impact was similar to that for the equality impact assessment. That is, the wards were ranked in terms of the proportion of properties in a ward that were landlord addresses. The wards were then separated into deciles, with decile 1 containing those wards with the highest proportion of private sector landlords and decile 10 the lowest. The next step was simply to identify how many wards in each decile were either 'urban', 'rural' or 'mixed', according to the assignment determined by NISRA. All wards in Northern Ireland have been assigned by NISRA as urban, rural or mixed.

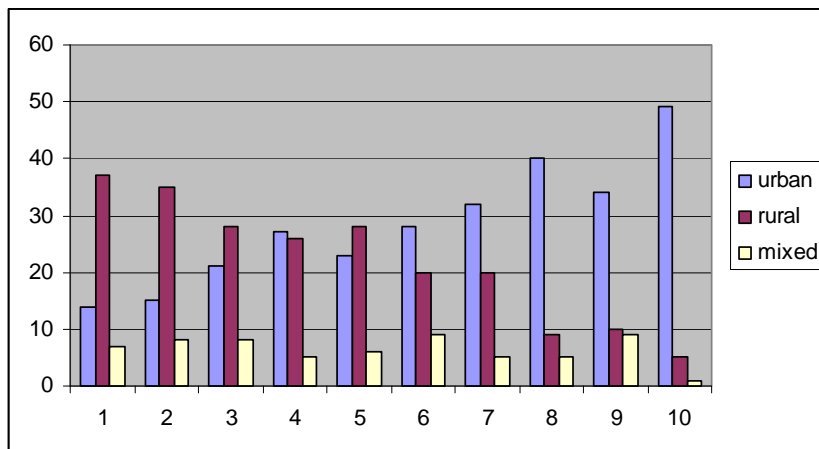
Results:

The table and chart below summarise the results:

Table 9: Urban/Rural Distribution Across Deciles

Decile	urban	rural	mixed
1	14	37	7
2	15	35	8
3	21	28	8
4	27	26	5
5	23	28	6
6	28	20	9
7	32	20	5
8	40	9	5
9	34	10	9
10	49	5	1

Chart 6: Urban/Rural Distribution Across Deciles



Summary:

Rural wards are highly represented in decile 1, accounting for 37 wards, compared to only 14 that are urban. This figure declines until decile 10, where only 5 wards are rural. Urban wards are under-represented in decile 1, but generally increase in numbers until decile 10, where 49 wards are urban.

This indicates that many of the wards with the highest proportion of landlords are rural, more so than in other deciles, which are predominantly urban in character, yet where there are proportionately fewer landlords.

The analysis carried out also suggested that the change in policy will have a greater impact on persons from rural areas. However, given the minimal financial effect of the proposed change in policy, the scale of any differential impact is not thought to be significant.

- **Do you have any views on the estimated impact on rural areas?**
- **Do you have any additional evidence that could be used to inform the final impact assessment?**

Impact on Deprived Areas

Government is committed to tackling social need and social exclusion by targeting efforts and available resources within existing Departmental programmes towards people, groups and areas in greatest social need.

It is possible to consider the impact that the proposed change in policy would have on disadvantaged areas, by examining the incidence of eligible properties within the different wards, as measured using the Northern Ireland Multiple Deprivation Measure (NIMDM).

Approach to Analysis

As with the other analyses, the Wards were ranked according to the proportion of landlords to domestic properties in each ward. The wards were then grouped into deciles, with decile 1 being the ten percent of wards with the highest proportion of landlords, and decile 10 being the ten percent with the lowest proportion. Decile 1 is likely to experience the greatest impact from any changes to Article 21, decile 10 will experience the least impact. The next step was then to calculate the average NIMDM score across all wards that appeared within each decile, to establish if there was any pattern as we moved between deciles.

Results

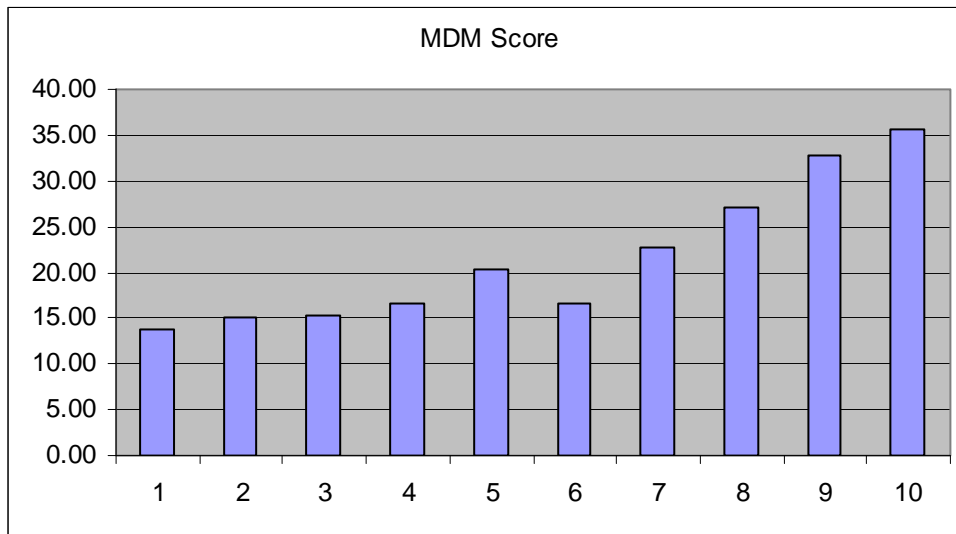
The table and chart below summarise the results:

Table 10: Average NIMDM Score by Decile

Decile	NIMDM Score*
1	13.75
2	15.01
3	15.20
4	16.60
5	20.33
6	16.54
7	22.71
8	27.07
9	32.73
10	35.52

* NI Multiple Deprivation Measure – increases as deprivation increases.

Chart 7: Average NIMDM Score by Decile



Summary:

The average Multiple Deprivation Measure (MDM) score of the wards in each decile was calculated. Average MDM score in decile 1 is 13.75, and this increases through the deciles, to 35.52 in decile 10.

This suggests that the impact of any changes to Article 21 will be greatest in those areas where deprivation is low.

- **Do you have any views on the estimated impact on deprived areas?**
- **Do you have any additional evidence that could be used to inform the final impact assessment?**

Regulatory Impact Assessment

Objective

The aim of this assessment is to assess the potential impact on businesses and the community/voluntary sector of a reduction in the level of allowance available under Article 21 agreements.

Underlying Considerations

The proposed change to the level of allowance under Article 21 will, in the vast majority of cases, apply to domestic properties. There are some non domestic properties which pertain to Article 21 agreements. However, these represent a very small proportion of the overall number of cases (probably around 5% by value or 0.5% by number). A regulatory impact assessment is normally not undertaken in relation to changes in domestic rating policy. However, in this case it has been decided that one should be undertaken. This is not only because there are a small number of non-domestic properties affected but also because the allowance could be being claimed by businesses (or the community/voluntary sector) who act as commercial landlords and who own domestic properties.

Rationale for Intervention

Under the rating system in Northern Ireland, liability for payment of rates normally rests with the occupier. However, in certain circumstances, where a property is not owner-occupied, the owner can agree to pay the rate bill. In other words, if the property is rented out, the landlord rather than the tenant pays the rates. In order to compensate landlords in these cases, they receive an allowance. This type of agreement is beneficial for LPS as it reduces collection difficulties means that they are guaranteed revenue being collected from what is sometimes a transitory sector of the market, thereby reducing overall collection costs. Under Article 21, the landlord receives a 15%

allowance against the rate bill. This is also to compensate them for the fact that they pay rates whether the property is occupied or not.

As a result of the introduction of the rating of empty homes, however, the Department has decided to reduce the level of allowance, to reflect the fact that compensation will no longer be provided for vacancies.

Risks

Part of the task of an RIA is to identify the risks that could arise as a result of the proposed change in policy. Some potential risks are listed below, although there is no indication at this stage how likely each is to occur or what the scale of impact would be if the outcome did arise:

- The impact of the reduction in allowance could reduce the profitability of those landlords who operate on a commercial basis, affecting the viability of the business.
- Another potential effect of the change is that it could reduce the number of landlords, thus affecting the supply of private rented accommodation available or the number of suppliers.
- As the allowance also applies to social rented sector landlords, the change could also lead to a reduction in the supply of social rented sector accommodation.
- Landlords may decide to opt out of Article 21 status, thereby placing the onus for collection on to Land and Property Services, resulting in increased collection costs and a loss in the efficiency gains that the Article achieves.

Equity and Fairness

The initial Integrated Impact Assessment details the impacts on Section 75 groups, disadvantaged areas and rural areas of implementing a small business rate relief scheme.

The Equality Impact Analysis suggests that the change in policy could have a differential impact between persons from a different religious background; between males and females; and between those who are married and those who are not. However, given the minimal financial effect if the proposed change in policy, the scale of any differential impact is not thought to be significant.

The rural proofing analysis indicates that the change will have a greater impact on persons from rural areas, although the overall impact is not considered to be significant as the financial effect of the proposed change in policy is estimated to be minimal.

Small Business Impact test

As discussed earlier, it is difficult to know how many of those landlords within Article 21 are operating on a commercial basis. There will undoubtedly be some but it is impossible to tell from the information held by LPS whether a ratepayer is a (small) business or not.

Information is available on the number of properties owned by each landlord. We can perhaps use this to make some inference about the likelihood that the individual landlord is operating commercially. For example, of the 5935 ratepayer accounts known to be subject to Article 21 agreements, some 3933 of these (that is, 66%) own just a single property. Similarly, there are 5,111 accounts where the landlord has less than 5 properties on their books. This represents around 86% of the total number of landlords. There are just 124 landlords (2%) with 20 or more properties. Clearly, the greater number of

properties that an individual landlord is managing, the more likely that they are a commercial enterprise.

What this information does not tell us, though is the likelihood that a landlord, if operating commercially, could be considered to be a small business. The standard definition for a small business is one that employs less than 50 people. It is extremely unlikely that any landlord (other than the NIHE or some of the Housing Associations) would breach this limit. In fact, it could be assumed that the overwhelming majority will have less than 10 employees, which is the definition of a 'micro' business.

The aim of a small firm impact test is to consider whether the change in policy will have a differential impact on small firms compared to other, larger units. Clearly, in this case, where all businesses in this sector are considered to be small businesses, then there is no differential impact to consider. In any event, a differential impact would be unlikely given that the change under consideration will be the same proportion for all types of firm. That is, it will mean a percentage reduction in the level of allowance awarded for all.

It is important to consider too what the actual financial impact will be on landlords. For example, if a landlord owns and pays the rates on a property which has a liability of £750, the reduction in allowance from 15% to 12.5% would represent a loss of £18.75 per year. Thus, the actual impact on the smallest operators will be minimal. Even for someone who manages 20 properties, the loss in allowance, based on the same example, would be just £375 a year.

A final consideration is the impact the reduction in allowance will have in the market for non domestic properties. The allowance can apply to non domestic as well as domestic properties, although only a very small proportion of those properties within Article 21 agreements are currently non domestic. That is, within the private rented sector, only around 700 of the almost 18,000 properties (i.e. less than 4%) are non domestic.

One potential impact of lowering the allowance is that it could potentially increase the rents that landlords of non-domestic charge to tenants. Again, though, the effect of the change in allowance would be to reduce the saving for private sector landlords by around £45 per year. This is unlikely to have a significant impact on the rent that would be charged to tenants. The impact on the wider business community is therefore considered to be negligible.

Competition Assessment

The issue to consider here is whether the change in policy will make the market for rented accommodation less competitive. There is the potential that this could occur if it limited the number of range of suppliers or by reducing the ability of suppliers to compete. However, given the marginal financial impact on individual suppliers of the reduced allowance, it would appear that the impact on competition is likely to be negligible. It also needs to be remembered that there will be many landlords who will supply rented accommodation and who sit outside the Article 21 framework and so will be unaffected by the reduction in allowance.

Monitoring and Review

The Department intends to monitor the impact of the change on businesses and the community/voluntary sector. This will help to inform an evaluation of the impact of the policy change, which will be carried out at a later date. A key measurable will be the number of landlords that remain within Article 21, as well as the average number of properties held by each landlord.

- **Do you have any views on the outcome of the Regulatory Impact Assessment?**
- **Do you have any additional evidence that could be used to inform the final impact assessment?**

Consultation

This initial IIA is made available on the Rating Policy website www.ratingreviewni.gov.uk and hard copies can be made available by contacting Rating Policy Division at the following address. If necessary, a summary report can be provided in other languages or formats on request.

The findings of this initial Integrated Impact Assessment are subject to public consultation. The consultation period will end on the 28th October 2010. All comments, views and further evidence should be submitted in one of the following ways.

Your written responses should be sent to:

Department of Finance and Personnel
Rating Policy Division
Room D12 Rathgael House
Balloo Road
BANGOR
BT19 7NA

Or you may wish to fax your comments to 028 9185 8008. As an alternative, we would encourage you to e-mail responses to: ratingpolicy.cfg@dfpni.gov.uk

Should you have any queries, or require any further information about this consultation exercise please contact Rating Policy Division on 028 9127 7606 or in one of the ways set out above.

It is also intended that consultation submissions will be placed on the Rating Review website. Your response, and all other responses to the consultation, may be disclosed on request. The Department can only refuse to disclose information in exceptional circumstances.