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Review of Domestic Rating

Initial Integrated Impact Assessment (IIA)
Reduction in the Maximum Capital Value from
£500,000 to £400,000

Impact Assessments: New Targeting Social Need
(New TSN). Rural Proofing and Equality Impact
Assessment (EQIA)

April 2008

changing for the better

Contents

Introduction

The Integrated Impact Assessment (IIA) is a policy tool designed to inform the policy-making process, by determining the potential impact of a policy change. This IIA will be used to assess the impact of reducing the maximum cap on capital values from £500,000 to £400,000 and will form part of the consultation around this measure.

The impact assessments that will be carried out are as follows:

- New Targeting Social Need (New TSN), which considers the likely impact of policies on disadvantaged areas;
- Rural Proofing (RP), which looks at the consequences for rural areas; and,
- Equality Impact Assessment (EQIA), which assesses the effect of policies on the Section 75 groups within Northern Ireland.

Background

In April 2007, the new domestic rating system was introduced following the completion of a review initiated by the previous Northern Ireland Executive in May 2000. Alongside the other major changes taking place in the rating system, a maximum cap on capital values was introduced. This cap, set at £500,000, means that any property with a capital value of £500,000 or more is treated for rating purposes as if the value is £500,000.

Originally, such a cap was provided for in The Rates (Amendment) (Northern Ireland) Order 2006 only as a power that would be available to any future Northern Ireland Executive to introduce further changes to the new system. However, in preparation for devolution, and as a result of the St. Andrews negotiations in November 2006, the cap was introduced in April 2007.

The cap was set at £500,000 to ensure that the highest rate bills in Northern Ireland would equate with the highest Council Tax bills in Great Britain (around £3,000). While this move would only benefit a small number of ratepayers (around 2,300) the aim was to help allay some of the fears around the excessive impact of the new system.

The Executive Review of the new Domestic Rating System

In May 2007, following the restoration of devolution, the Minister of Finance and Personnel, the Rt Hon Peter D Robinson, announced his intention to review the new domestic rating system, due to mounting criticism of its impact on ratepayers. One of the policies to be reviewed was the maximum cap. During the consultation period, from June to the end of August 2007, 42 responses were received on the issue of the maximum cap – 24 in favour of retaining it, 18 opposed to it.

The main option for change that emerged was to lower the level at which the cap is set. This would increase the number of ratepayers who would benefit from a reduction in their rates bill. It would however impact adversely on those ratepayers whose bills are not capped as they would have to pay more to help fund the reduction enjoyed by those whose bills are capped. Other options included increasing the level at which the cap is set, having a cap for certain groups only, such as pensioners; or abolishing it altogether.

The outcome from this consultation was the decision by the Executive to lower the maximum capital value from £500,000 to £400,000 from April 2009. This would be subject to the completion of impact assessments and associated consultation.

This reduction from £500,000 to £400,000 could potentially benefit just over 5,000 households and would cost in the region of additional £2.3m per annum in lost revenue. It would also bring the highest bills under the rating system in Northern Ireland into line with the average bills within the highest band under the Council Tax system, which may be considered to be a fairer comparator than the absolute highest Council Tax bill. The typical maximum bill with a £400,000 maximum capital value would be around £2,800, although this would vary between council areas.

Financial Impact

The effect of imposing a maximum cap is to erode the size of the tax base, as any excess capital value of property above £500,000 is in effect ignored. A cap of £400,000 would reduce the tax base further, so that less revenue could be gained at a given tax rate.

Table 1: Impact on Revenue from No Cap, £500,000 Maximum Cap and £4000,000 Maximum Cap - for 2007/2008

Maximum Cap Level	Revenue Raised	Revenue Lost
No Max. Cap	£489.8m	-
£500k Max. Cap	£487.3m	£2.5m
£400k Max. Cap	£485.1m	£4.7m

With a £500,000 cap, this shortfall is expected to be in the region of £2.5 million for 2007/2008. Were a £400,000 cap to have been in place for 2007/2008, this shortfall would have been in the region of £4.7 million - £2.2 million more than the £500,000 cap.

Based on an average capital value of £112,000, the impact on the average rate bill of £704 without the cap would have been to increase it to £707 with a £500,000 cap and £711 with a £400,000 cap. In practice, the domestic regional rate is to be frozen in 2008/2009 and 2009/2010 at the 2007/2008 poundage of 0.3608p. Only from 2010/2011 can the cost of the cap can be absorbed by other ratepayers in a higher regional rate (and therefore higher rate bills). Until then, there will be a shortfall in revenue.

Data Sources

The following data sources have been used to analyse the potential impacts of the maximum cap:

1. Valuation List data supplied by the Land Property Services (LPS). The list used in this analysis contains information on 704,000 domestic properties, including ward and district council location, and capital value as at January 2008.

2. Census 2001 information, from the Northern Ireland Research and Statistics Agency (NISRA).

3. The domestic regional rate poundage for 2007/2008, from Department of Finance and Personnel, Rating Policy Division.

4. The domestic district rate poundage, for each district council, for 2007/2008, from Department of the Environment, Local Government Division.

5. The Northern Ireland Multiple Deprivation Measure (NIMDM), at ward level. Each ward is scored according to its level of deprivation – the higher the score, the higher the level of deprivation.

Initial New Targeting Social Need

New TSN is a Government policy designed to tackle 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 aims to contribute to the reduction of inequalities among different sections of society.

It is possible to consider the impact that reducing the maximum cap will have in terms of deprivation. The objective of this analysis is to determine whether or not the potential change to the maximum cap will have a detrimental impact on areas considered to be in greatest social need, as measured using the NIMDM.

Methodology

The LPS data of domestic properties was matched to the ward deprivation data, using the Central Postcode Directorate to match properties to wards via their postcode. In this way, multiple deprivation scores were matched to each property according to its ward.

Using the full list of 582 wards, with their deprivation scores, the wards were split into deciles, or ten groups, with decile one being the 10% of wards which are least deprived and decile ten being the 10% most deprived wards. The properties were sorted into these deciles according to their deprivation score. The number of properties in each decile with a capital value above £400,000 gives an indication of how much each decile will be impacted by the cap. The higher the number of such properties (both absolute, and as a percentage of the total number of properties in the decile) the greater the beneficial impact of the cap.

The wards with the highest level of deprivation (in decile 10) had the lowest number of properties with a capital value higher than £400,000 (24 – only 0.03% of the housing stock in that decile). They are therefore least likely to benefit from a maximum cap. The least deprived wards will benefit most, as they have the highest number of properties valued above £400,000 (3105 – 3.4% of the housing stock in that decile).

Table A1: Number of Winners and Average Rates Bills by Decile (Where D10 is the Most Deprived)

	No of Properties in each Decile	Winners under £400k Cap		Average Rates Bill (Max Cap = £500k)	Average Rates Bill (Max Cap = £400k)
		Number	Percentage		
D10 (Most deprived)	92,361	24	0.03%	£470	£470
D9	63,729	14	0.03%	£514	£514
D8	62,082	41	0.06%	£567	£567
D7	66,614	148	0.21%	£633	£632
D6	66,629	185	0.28%	£680	£679
D5	62,852	494	0.43%	£693	£691
D4	67,078	165	0.19%	£702	£702
D3	70,833	253	0.32%	£747	£746
D2	74,204	569	0.68%	£836	£833
D1 (Least deprived)	78,081	3,105	3.40%	£1,014	£999

Comparing the rate bills under both levels of caps, it can be seen that the least deprived decile (D1) will benefit from the biggest reduction in their bill (£15). Deciles 2 to 7 only see a reduction of around £1 - £2. The most deprived deciles (D8, D9, D10) do not experience a sizeable reduction. They are, in fact, more likely to face an increase, if the revenue lost through the lower cap is reclaimed by increasing the poundage that applies to the capital value of all properties.

Conclusion

The imposition of a maximum cap of £400,000 will have a more positive impact on properties in less deprived locations. The scale of the differential impact is not considered to be significant.

Limitations of Analysis – New TSN

The New TSN analysis is based on the NIMDM scores at ward level. However there may be pockets of deprivation within wards, which cannot be taken into account.

Socio-Economic Classification

NISRA were able to provide additional analysis of the Socio-Economic categories of those households that would benefit from the various caps, through adding capital value information to properties for the 2001 Census.

Table A2: Breakdown of Socio-Economic Classification of those Households benefiting from £500k Cap, £400k Cap and 'All Properties'

Socio-Economic Classification	CV>= £500k	CV>= £400k	All Properties
Managerial/Professional	68.1%	65.8%	22.8%
Intermediate/Small Employer	21.7%	22.9%	28.5%
Routine Occupations	3.0%	3.2%	32.5%
Unemployed/Student	1.2%	1.1%	6.2%
Not Classified/Coded	5.9%	6.9%	9.9%
% of NI Housing Stock	0.3%	0.7%	100.0%

Table A2 shows the socio-economic breakdown of households benefiting from the £500k and £400k caps in comparison to the overall Northern Ireland socio-economic breakdown.

The difference in the breakdown of socio-economic categories under both levels of cap is marginal. However, in comparison to the breakdown of Northern Ireland as a whole, it is obvious that those in the 'Managerial/Professional' category are significantly over-represented among those benefiting from the cap, representing nearly 70%, compared to 23% of NI households; those in 'routine occupations' are significantly under-represented, accounting for only 3% of those benefiting from a cap, compared to representing 33% of all households.

The remaining categories are marginally under-represented among those benefiting from the cap, in comparison to all NI households.

Is there any further evidence of how the proposal will impact on disadvantaged areas?

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 at design, development and review stages 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.

Methodology

The Northern Ireland Statistics and Research Agency (NISRA) have defined each ward as urban, rural or mixed. As with the deprivation scores, properties were defined as urban, rural or mixed according to their ward location.

Impact was measured in terms of how over- or under-represented urban or rural properties were among the winners under a £400,000 or £500,000 cap, compared to the Northern Ireland population as a whole. Over-representation of rural properties among the winners (i.e. those who benefit from a cap) would suggest the maximum cap has a positive rural impact.

Limitations of Analysis

Properties in mixed wards may be located either in rural parts of that ward or urban parts. This cannot be taken into account, and so the property is assigned as ‘mixed’, rather than urban or rural. Up to 23% of properties therefore cannot accurately be designated as urban or rural.

Rural areas in mixed wards are, by definition, close to urban areas, which suggests that they are ‘accessible rural’, that is, have access to a wider range of services, as opposed to ‘remote rural’ areas. Problems of rurality are unlikely to be as severe for properties in accessible rural areas, compared to remote rural properties.

Results

The impact of a reduction in the maximum cap on Rural, Urban and Mixed properties is examined in Table A3. NISRA have provided an Urban/Rural/Mixed Classification based on all the wards of Northern Ireland. This has been cross referenced with the Northern Ireland Housing Stock to produce the breakdown in Table A3.

Urban Properties are over-represented among winners under both a £500,000 maximum cap and a £400,000 maximum cap (representing 64% of properties for both compared to representing 60% of properties in Northern Ireland as a whole).

Table A3: Rural/Urban Classification of all NI Properties and Winners under the Caps

	Northern Ireland	400 Cap Winners	500 Cap Winners
Urban	60%	64%	64%
Rural	29%	16%	13%
Mixed (Contains both urban and rural areas)	11%	20%	23%

Rural properties are under-represented among winners, with the percentage of winners under either cap located in rural wards being around half that of the overall Northern Ireland figure of 29%. Those in Mixed urban/rural wards, though, do appear to benefit more than proportionately from a reduction in the cap.

Conclusion

Urban areas benefit more than rural areas from the imposition of the £500,000 cap. Any cap will have less of a beneficial impact on rural areas. Reducing the maximum cap to £400,000 would be to the benefit of urban and mixed areas more so than rural areas.

Is there any further evidence of the impact of the proposal on rural areas?

Equality Impact Assessment (EQIA)

In accordance with the statutory duties contained in Section 75 of the Northern Ireland Act (1988), 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: does the policy under consideration create differential impacts between groups within each Section 75 category? Is this impact adverse or beneficial?

NISRA have been involved with completing the EQIA analysis for the various domestic rating reforms, as they have fuller access to census data at an individual property level (DFP do not have access due to issues of confidentiality). NISRA are therefore able to complete a more detailed and accurate assessment of the impact of a maximum cap on the different Section 75 groups.

There is a statutory requirement to put initial EQIAs 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 this consultation.

Limitations of Analysis

There are several limitations with respect to the analysis, as reported by NISRA. These include the following:

- Properties built since the 2001 Census are not included
- Different classification of property types between the Census and VLA data
- Changes in characteristics of occupants of properties since the 2001 Census.
- Distribution of capital values are skewed towards higher values.
- Lack of data on political opinion and sexual orientation in 2001 Census.

Findings from Study Undertaken by NISRA

In 2007, the Northern Ireland Statistics and Research Agency (NISRA) undertook research on the impact of new domestic local taxation policy for the Rating Policy Division within DFP . They used an almost complete dataset of individual property and household information in Northern Ireland. The focus of that research was on the comparison of the previous NAV-based system with the new capital value (CV) system, which came into operation in April 2007.

On 27 November 2007, DFP published further proposed changes to the domestic rating system, to come into effect from April 2008. NISRA undertook further Section 75 impact analyses on the proposal to reduce the cap on capital value to £400,000, to assess its impact on Section 75 groups in comparison to the current policy (the cap of £500,000).

Table A4: Results - Average Rates Bills by Section 75 Variable

		Regional Rates, Current Policy £	Regional Rates, £400k Cap £	Regional and District Rates, Current Policy £	Regional and District Rates, £400k Cap £
Age	Aged 16-59	416	414	719	716
	Aged 60 and over	384	382	662	659
Dependency	No dependents	377	376	651	648
	With dependents	435	432	753	749
Disability	No disability	434	432	750	746
	LLTI	365	364	634	632
Ethnicity	Non-white	468	464	804	797
	White	405	403	701	697
Gender	Male	435	432	753	748
	Female	364	363	629	627
Marital Status	Single	328	328	565	565
	Married	469	466	813	808
	Divorced/Widowed	338	337	584	583
Community Background	Catholic	390	388	682	679
	Protestant	415	413	712	709
	Other/None	445	441	758	752
	Average	**406**	**404**	**702**	**698**

For all Section 75 groups except one, the average rate bill falls under the £400k cap compared to the £500k cap, (the exception is the 'single' subgroup of marital status, which remains the same). The differences in rate bills in the £500k and £400k cap situations do not appear, though, to be substantial. The same pattern occurs for district and regional bills as for regional rate bills only. All these Section 75 groups therefore benefit from the reduced cap.

In terms of differences between subgroups within a Section 75 category (for example, of those aged between 16-59, and aged 60+ in the age category), the reduction in maximum cap has a marginal impact within each category.

Revenue Neutral Principle

The table above presents results without applying the revenue neutral principle. This principle is now applied to ensure that the revenue raised from domestic rating is kept constant. The regional domestic poundage rates are fixed up until 2010/11, whilst individual district councils can set their own poundage for district rates. However, in order to become revenue neutral, the current regional poundage of £3.608 per £1,000 capital value would need to be increased to £3.626 under the £400k cap. For the district/regional combined rate bill, the revenue neutral principle is applied so that each district council raises the same revenue with the £500k or £400k cap.

Table A5: Average Rate Bill (Regional and District/Regional Combined) by Section 75 variable; for the Current Cap and under the £400k Cap (Revenue neutral)

		Regional Rates, Current Policy £	Regional Rates, £400k Cap £	Regional and District Rates, Current Policy £	Regional and District Rates, £400k Cap £-
Age	Aged 16-59	416	415	719	719
	Aged 60 and over	384	384	662	662
Dependency	No dependents	377	377	651	651
	With dependents	435	434	753	753
Disability	No disability	434	434	750	749
	LLTI	365	366	634	635
Ethnicity	Non-white	468	466	804	801
	White	405	405	701	701
Gender	Male	435	434	753	752
	Female	364	365	629	630
Marital Status	Single	328	329	565	568
	Married	469	468	813	811
	Divorced/Widowed	338	339	584	586
Community	Catholic	390	390	682	682
Background	Protestant	415	415	712	712
	Other/None	445	444	758	756
	Average	**406**	**406**	**702**	**702**

Table A5 shows the average regional and district rate bill after adjusting the poundage rates to become revenue neutral at the regional level and within each LGD. The table shows that for the majority of Section 75 subgroups, the change in average rate bill is again marginal.

Correction for Cross-Effects – Results for Regional Rates

The differences in average rate bills between groups within a Section 75 category before and after the policy changes can be in part explained by differences in other characteristics (cross-effects). A statistical model was developed to try and explain differences in observed domestic rates bills between Section 75 sub-groups through structural differences between the groups. In addition to the Section 75 categories, variables on Social-Economic Class (NSSEC) and tenure were added to explain further differences.

Figure A1 on the following page shows the impact of taking account of these cross-effects. To illustrate, this model looks at the difference in average regional rate bills between sub-groups within each category, at the current £500,000 cap level. The figure shows what these differences would be before and after these cross-effects are taken into account. Several outcomes are noticeable:

In the Age category, the comparative situation reverses when the cross-effects are taken into account. That is, before, the average regional rate bill of those aged 16-59 is around £30 higher than those aged 60 or over. After, those aged 16-59 actually have a lower average bill compared to those aged 60 or over, by around £10;

In the Gender category, before the cross-effects are included in the model, the average regional rate bill of males is significantly higher (around £70) than females. After taking account of these effects, the average bill for males is actually marginally lower than that of females;

In the Community Background category, the difference in average bills between Protestant and Catholic households reduces from over £20 to virtually zero;

The Marital Status category is the only one in which the difference between sub-groups increases following the inclusion of the cross-effects. That is, those who are married face an average bill which is around £140 higher than those who are single. This increases to more than £160 after the remodelling.

Figure A1: Difference in Regional Rates Bills by Section 75 categories, observed averages and corrected differences using model

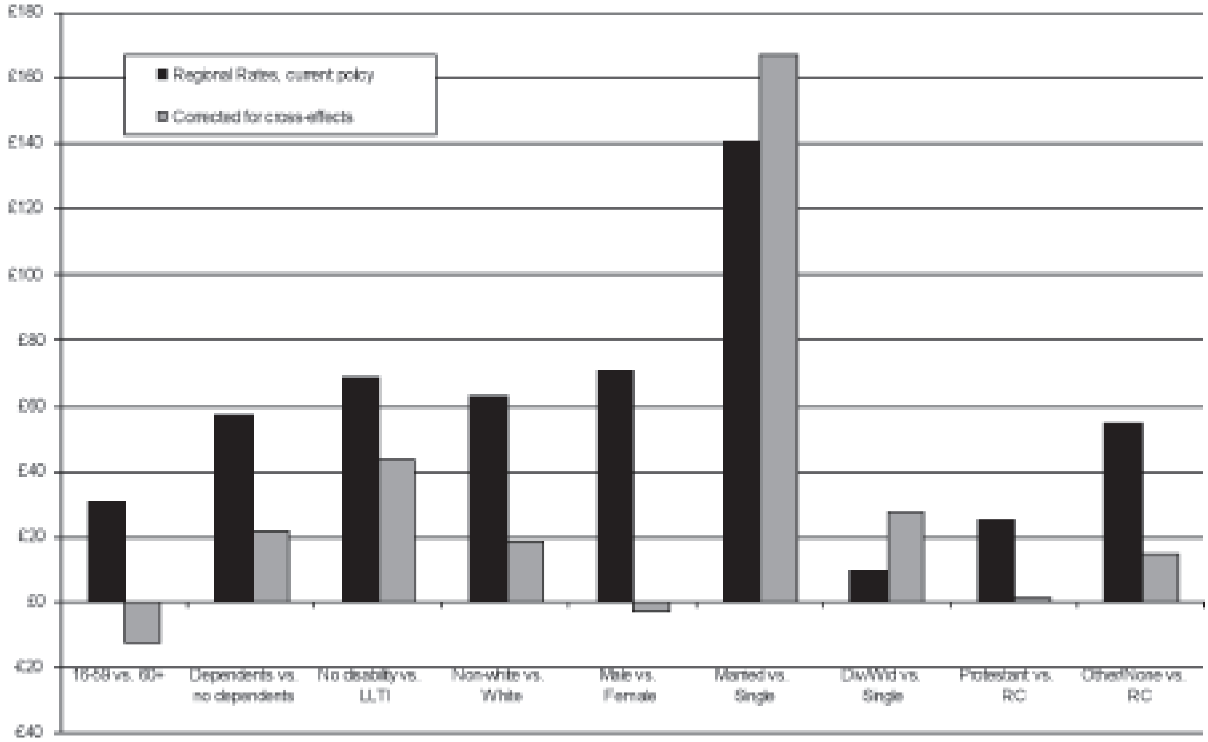
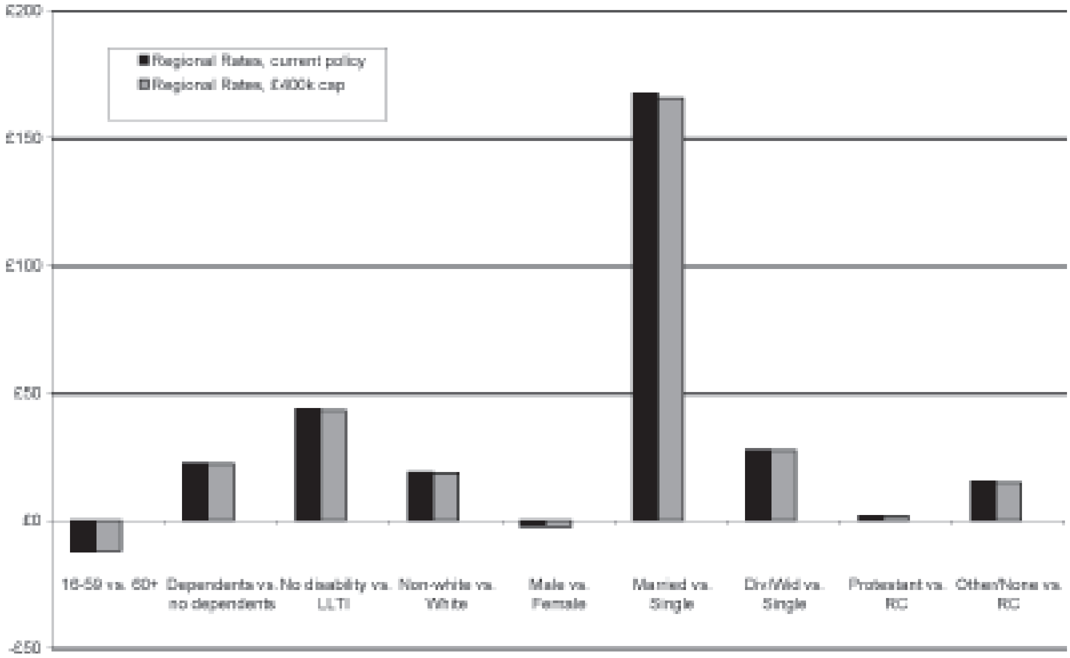


Figure A2: Difference in Regional Rates Bills due to impact of maximum cap; by Section 75 category, with differences corrected for cross-effects



When the assumption of revenue neutrality is applied, the findings are similar. That is, for both regional only and district/regional combined rate bills, the change in sub-group differences after a reduction in the cap is only very slight, for all groups.

Is there any further evidence of differential impacts on Section 75 groups arising from a £400k max cap?

What, if any, mitigating measures should be introduced for Section 75 groups regarding any potential negative impact from the cap?

Summary Table

	Impacts	Questions
Initial new TSN	The imposition of a maximum cap of £400,000 will be to the detriment of more deprived areas.	Is there any further evidence of how the proposal will impact on disadvantaged areas?
Initial Rural Proofing	Urban areas benefit more than rural areas from the imposition of the £400,000 cap. Any cap will have less of a beneficial impact on rural areas. Reducing the maximum cap to £400,000 would begin to redress the balance.	Is there any further evidence of the impact of the proposal on rural areas?
Mixed (Contains both urban and rural areas)	the reduction in the maximum cap has a minimal effect on the differential impact between and within Section 75 groups.	Is there any further evidence of differential impacts on Section 75 groups arising from a £400k max cap? What,if any, mitigating measures should be introduced for Section 75 groups regarding any potential negative impact from the cap?