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Initial Integrated Impact Assessment (IIA)

Rates Deferral Scheme for Home Owning Pensioners

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

June 2008

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Contents

	Page
Introduction	5
Background	6
Data Sources	9
Methodology & Limitations of Analysis	10
Initial New TSN Analysis	12
Initial Rural Proofing Analysis	14
Initial EQIA	15
Summary Table of Impacts	17

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 effect of introducing a scheme to allow home owning pensioners to defer payment of their rate bill until the property is sold. This document represents the initial IIA and will form part of the wider consultation around the scheme. Following completion of this consultation, the IIA will be finalised based on the views received.

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

- Equality Impact Assessment (EQIA), which assesses the effect of policies on the Section 75¹ groups within Northern Ireland;
- New Targeting Social Need (New TSN), which considers the likely impact of policies on disadvantaged areas; and,
- Rural Proofing (RP), which looks at the consequences for rural areas.

¹ These groups, as defined in Section 75 of the Northern Ireland Act (1988) include: Age, Dependents, Disability, Gender, Marital Status, Political Opinion, Religion and Sexual Orientation.

Background

In May 2007, following the restoration of devolution, the Minister of Finance and Personnel announced his intention to review the domestic rating system. The aim of the review was to identify improvements that could be made to the system in the short term, as well as to examine the potential for alternatives or supplements to the existing rates system of local taxation.

The review ended in November 2007. Among the outcomes proposed was one to introduce a scheme to allow home owning pensioners to defer payment of their rate bill until their property was sold. While such schemes do not exist under the Council Tax system, they are more common among local taxation systems within other jurisdictions, mainly in Australia and North America. Deferment schemes are viewed as offering further choice around payment of property taxes, particularly for those who have built up equity in their properties over time.

Briefly, under the proposed scheme, pensioner ratepayers with sufficient equity in their property (to be decided following the consultation) would be allowed to defer their annual rate bill until such times as the property is sold. In addition, they would be charged a reduced rate of interest on the ongoing deferred bill.

Financial Impact

This section examines the potential financial impact of introducing a deferment scheme. In considering this analysis, there are several points which should be noted. Firstly, the deferment scheme in terms of rate revenue lost is expected to be broadly revenue neutral in the longer term. That is, new entrants who join the scheme will be balanced by those leaving the scheme and repaying the deferred bill. Thus, the revenue figures shown in the table below highlight the likely losses in the initial years of the scheme. Note also that, while the figures are broken down by district council, the revenue lost is expected to be at a regional rate level only. Individual council figures are shown for illustrative purposes only.

A further point to note is that the cost of the scheme is highly dependent on the level of take up. Experience from similar schemes internationally suggests that take up tends to be quite low (a lot less than 10% in most cases). Take up in Northern Ireland is not expected to be any different. In addition, it is not known what the capital values will be of those who will choose to join the scheme.

The table below shows the cost at various take up levels to take account of this uncertainty.

Table 1: Estimated Rate Revenue Loss at Different Take-up Levels

COUNCIL	Revenue Loss assuming 10% take up	Revenue Loss assuming 5% take up	Revenue Loss assuming 2% take up
Antrim	£227,212	£113,606	£45,442
Ards	£483,963	£241,981	£96,793
Armagh	£295,721	£147,861	£59,144
Ballymena	£399,741	£199,870	£79,948
Ballymoney	£144,718	£72,359	£28,944
Banbridge	£214,477	£107,238	£42,895
Belfast	£2,044,633	£1,022,316	£408,927
Carrickfergus	£216,228	£108,114	£43,246
Castlereagh	£548,760	£274,380	£109,752
Coleraine	£419,250	£209,625	£83,850
Cookstown	£157,776	£78,888	£31,555
Craigavon	£388,367	£194,183	£77,673
Derry	£445,540	£222,770	£89,108
Down	£405,232	£202,616	£81,046
Dungannon	£224,501	£112,250	£44,900
Fermanagh	£97,524	£48,762	£19,505
Larne	£191,866	£95,933	£38,373
Limavady	£136,693	£68,346	£27,339
Lisburn	£612,853	£306,427	£122,571
Magherafelt	£165,393	£82,697	£33,079
Moyle	£118,254	£59,127	£23,651
Newry & Mourne	£460,807	£230,404	£92,161
Newtownabbey	£509,600	£254,800	£101,920
North Down	£806,943	£403,471	£161,389
Omagh	£221,072	£110,536	£44,214
Strabane	£150,445	£75,222	£30,089
Northern Ireland	£10,087,566	£5,043,783	£2,017,513

As the table shows, the revenue loss associated with the scheme is likely to be between £2m and £10m annually in terms of district and regional rates. Again, it is worth reiterating the point that this revenue loss is likely only to occur in the early years of the scheme. As the scheme progresses, it is expected to be revenue neutral in the longer term.

The cost to individual ratepayers will depend on a number of factors including the capital value of the property on which the bill is being deferred, the length of the deferred period, increases in regional and district rates over that period, as well as the interest applied.

There will be several factors for the ratepayer to take into account in terms of making a choice as to whether to participate in a deferment scheme or not. The potential increase in the market value of the property over time will be an issue, given that this will also affect the ratepayer's ability to repay the debt at the end of the period. The length of time in residence in a property is a further factor and there is some evidence to suggest that, for owner occupiers, this is higher in Northern Ireland than elsewhere in the UK. For example, the percentage of owner occupiers who own their homes outright in Northern Ireland² who have lived at the same address for 10 years or more is 84% (64% have lived there for more than 20 years). In Great Britain³, the equivalent proportion is 76%.

² Continuous Household Survey

³ General Household Survey

Data Sources

The following data sources have been used to analyse the potential impacts of the deferment scheme:

1. Data from the Valuation List supplied by Land Property Services (LPS), containing information on 704,000 domestic properties, including ward and district council location, and the capital value as at January 2005.
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.

Methodology and Limitations of Analysis

Initial New Targeting Social Need

New TSN is the way in which the Executive's wider policy objective to tackle social need and social exclusion are considered, measured and monitored. It assists policy making by targeting efforts and available resources within existing Departmental programmes towards people, groups and areas in greatest social need. The policy aims to contribute to the reduction of inequalities among different sections of society. The objective of this analysis is to determine whether or not the proposed policy will have a detrimental impact on areas considered to be in greatest social need, as measured using the Northern Ireland Multiple Deprivation Measure (NIMDM).

The methodology employed in this case was, first of all, to match individual capital values with the NIMDM score for the ward within which the property is located. Using the full list of electoral wards, with their deprivation scores, the wards were then split into deciles, with each decile containing 10% of wards. Decile one contains those properties in the bottom 10% most deprived wards, and so on. The properties were sorted into these deciles according to their deprivation score.

Given that it is impossible at this stage to know who will participate in the scheme, the approach taken was to model the impact according to the proportion of home owning pensioners within each ward. While this assumes that there will be an equal level of take up among pensioners among all wards, this was considered to be the best proxy available at this time and provides a useful indication of the likely impact of the scheme on different socio-economic groups.

Limitations of Analysis

The inability to identify those who will be eligible for the scheme or those who will join is an obvious limitation, as is the uncertainty over the level of take up. It should also be remembered that, since the analysis is carried out at ward level, this can only provide an indication of the likely level of deprivation at an individual household level.

Initial 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.

The approach used involved classifying wards according to their 'urban', 'rural' or 'mixed' status, based on NISRA's "Report of the Inter-Departmental Urban-Rural Definition Group"⁴. As with the deprivation scores, properties were defined as urban, rural or mixed according to their ward location.

The impact on rural areas was thus examined through looking at the proportion of owner-occupying pensioners within rural, urban and mixed wards. This provided an indication of the potential differential impact that may exist.

⁴ NISRA (2005)

Limitations of Analysis

The same difficulties apply as with the New TSN analysis, in terms of the uncertainty around levels of take up and eligibility.

Initial 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.

The assessment relied on analysis which had been carried out by NISRA on behalf of the Department, which involved matching property capital values with household characteristics recorded in the 2001 NI Census. Based on this analysis, the methodology involved examining the change in average rate bill for each of the Section 75 groups, before and after the policy is introduced.

Limitations of Analysis

Once again, the same constraints apply in relation to eligibility and take up. A further difficulty relates to the fact that the information used to assess the equality impact relies on information from the 2001 Census. Given the length of time that has passed since then, it is likely, of course, that the characteristics of many of the households will have changed. The NISRA analysis was also unable to match all the property capital values, although the number of cases matched (around 550,000) still provides a significant sample. It is also likely that, if individual occupants of households have changed, the characteristics of those replacing them in the property will, in many cases, be the same in terms of the Section 75 groups. Thus, the results of this analysis are still viewed as being sufficiently robust for the purposes of this assessment.

In addition, there is no information available to include rate rebates or exemptions and there was also no information on political opinion or sexual orientation.

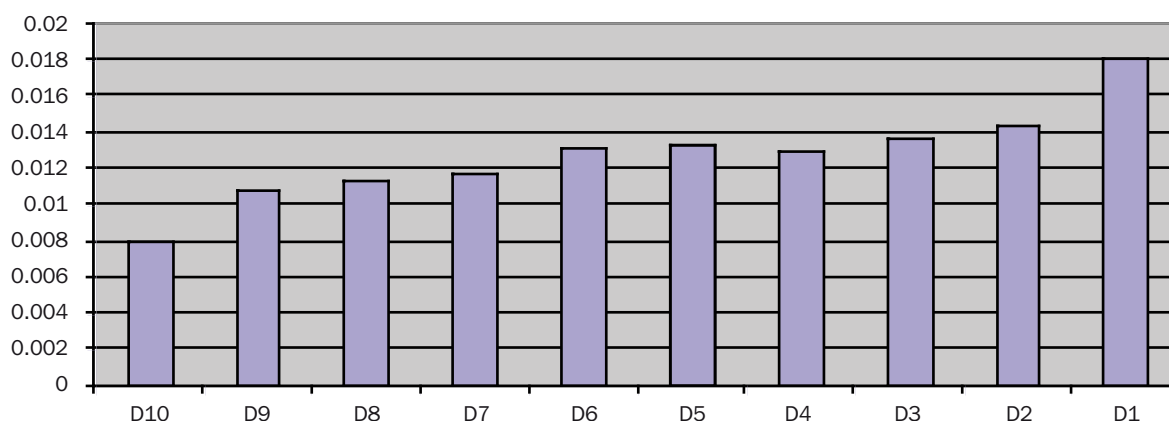
Initial New TSN Analysis

As noted above, this analysis used the NIMDM score to measure deprivation. Properties were then grouped into deciles according to the NIMDM score of the ward within which the property was located. Following this, the average proportion of home owning pensioners by ward within each decile was then determined. The results are shown in table 2 below, with the analysis repeated graphically in chart 1 (note that this analysis is based on a 10% take up):

Table 2: Estimated level of take up by NIMDM Deciles (D10 = Most Deprived)

	Ave MDM Score	Estimated level of Owner Occupier Pensioners (10%) as % of all Households
D10	50.94	0.80%
D9	33.55	1.08%
D8	28.06	1.14%
D7	23.68	1.17%
D6	20.40	1.32%
D5	17.49	1.33%
D4	14.73	1.30%
D3	11.97	1.37%
D2	8.56	1.43%
D1	4.80	1.81%

Chart 1: Estimated take up by owner occupied pensioners (10%) as percentage of all households by MDM deciles (D10 = most deprived)



This analysis does suggest that there is a broad relationship between the levels of deprivation in a ward and the proportion of home owning pensioners in that ward. This is supported by looking at the average NIMDM score of wards containing pensioner owner occupying households, compared to all wards generally. Again, this indicates that such households are in generally less deprived areas.

Table 3 New TSN average MDM score by No. of Pensioner Owner Occupier properties and all properties

	Average MDM score by household
Pensioner Owner Occupying Households	19.66
Total Number of Households	22.16

It is worth comparing the earlier analysis with the distribution of pensioners generally across deprivation deciles. In other words, if the distribution of pensioners across deciles matched the distribution of home-owning pensioners, then the differential impact might not be as significant.

Table 4 below repeats the earlier NIMDM analysis but this time shows the proportion of all pensioners by decile. As the table shows, there is less of a correlation between the proportion of pensioners in a ward and the level of deprivation in a ward. In fact, the results indicate a ‘U-shaped’ distribution, whereby the highest and least deprived wards have the highest proportion of pensioners.

Table 4 New TSN average MDM score by Proportion of Pensioners

	Ave MDM Score	Total number of pensioners as percentage of total population
D10	50.94	23.16%
D9	33.55	17.50%
D8	28.06	15.00%
D7	23.68	16.25%
D6	20.40	16.00%
D5	17.49	14.15%
D4	14.73	18.11%
D3	11.97	17.38%
D2	8.56	19.42%
D1	4.80	22.29%

Conclusion

The analysis suggests that the level of persons eligible for the scheme increases as the rate of deprivation falls. This would suggest that the scheme will not have a positive socio-economic impact. However, it needs to be remembered that the rate of take up for this scheme is likely to be low. Therefore, the scale of any impact that could occur will not be significant. In addition, as has been pointed out previously, the results of this analysis need to be qualified to account for the uncertainty around the rate of take up within different areas.

Initial Rural Proofing Analysis

The impact of the policy on rural, urban and mixed properties is examined in Table 5. The approach to the analysis was to identify the proportion of owner occupying pensioners that occurred in each ward type and to compare this with all households in Northern Ireland. As the table shows, it appears that pensioner owner occupiers are marginally more likely to reside in rural wards. However, as the table also demonstrates, pensioners in general seem to be slightly over-represented in rural locations too.

Table 5: Rural/Urban Classification of Pensioner Owner Occupier Households.

	All Northern Ireland Households	Pensioner Owner Occupier Households	All Pensioner Households
Urban	60.89%	60.18%	60.85%
Rural	27.59%	28.96%	28.49%
Mixed	11.52%	10.86%	10.66%

Conclusion

The analysis indicates that pensioner owner-occupying households are slightly more likely to live in rural wards. However, since rural wards also contain higher levels of all pensioners, the level of over-representation is not significant.

Initial EQIA

As noted earlier, the initial EQIA is based on analysis carried out by NISRA on behalf of the Department, which matched information from the 2001 Census with property capital values. The approach taken was to look at average rate bill for the different Section 75 groups before and after the implementation of the scheme.

Table 6 below shows the average 2007/08 bill faced by people cross referenced by section 75 attributes, both under the current system and if a deferment scheme was introduced, broken down by section 75 sub groups. The table also shows the variation around the mean both under the current policy and if pensioner deferment was implemented.

Clearly, the introduction of the scheme will have a differential impact between persons of a different **Age**, with the elderly benefiting from a positive impact. The average bill faced by pensioner households falls significantly after the scheme is implemented.

The results shown also reflect the demographic profile of the elderly, in that differential impacts are recorded in relation to **Disability, Dependents, Gender** and **Marital Status**. In other words, pensioner households are more likely to have persons with a disability, not to have dependents, be female and single (or widowed/divorced).

There is no significant differential impact in terms of **Community Background**. Implementation of the scheme does appear to increase the differential in bill between households in terms of **Ethnicity**, however, at the time of the Census, the numbers involved would not have been significant. Therefore, the overall impact is a marginal one.

Table 6: Average regional and district rates by section 75 variables for the current policy and if pensioner deferment was implemented

	Current Policy (£)	Current Policy as a % of average bill	Current Policy and Pensioner Deferment (£)	Current Policy and Pensioner Deferment as a % of average bill
Age				
Aged 16-59	719	102%	719	127%
Aged 60 and over	662	94%	224	40%
Dependency				
No dependents	651	93%	441	78%
With dependents	753	107%	690	122%
Disability				
No disability	750	107%	648	115%
LLTI	634	90%	448	79%
Ethnicity				
Non-white	804	115%	708	125%
White	701	100%	563	100%
Gender				
Male	753	107%	653	116%
Female	629	90%	439	78%
Marital Status				
Single	565	80%	503	89%
Married	813	116%	681	121%
Divorced	584	83%	384	68%
Community Background				
Catholic	682	97%	577	102%
Protestant	712	101%	552	98%
Other/None	758	108%	695	123%
Average	702	100%	565	100%

Conclusion

Given the intended beneficiaries of the scheme, the results of the initial EQIA are not surprising and generally reflect the demographic profile of the target population.

Summary Table of Impacts

	Impacts	Questions
Initial New TSN	Potential positive impact for those in less deprived areas	Do you have any views on the socio-economic impact of the deferment scheme
Initial Rural Proofing	Potential positive impact for rural areas	Do you have any views on the impact of the deferment scheme on rural areas?
Initial EQIA	Potential positive impact for those aged over 60, those with a disability, those with dependents, females and those who are single or widowed/divorced.	Do you have any views on the impact of the deferment scheme on persons from different Section 75 groups?
Overall		Do you have any additional evidence that could be used to inform the impact assessment?

Review of Do

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