

Policy Impact Assessment:

Updated New TSN Impact of the Published Capital Values on Domestic Properties in Northern Ireland

Introduction

1. The aim of this paper is to update earlier analysis that was carried out into the New TSN impact of the domestic rate reform. It explores the impact on the domestic properties of applying the new capital values based rating system in Northern Ireland in terms of 2005 Northern Ireland Multiple Deprivation Measures (NIMDM).¹
2. The original New TSN impact analysis was published as part of the 2004 Domestic Policy Paper². It was conducted on a limited sales sample of properties from 1998-2002 in Northern Ireland and used a previous multiple deprivation measure provided by NISRA using Noble indicators from 2001. The findings revealed a positive New TSN impact, suggesting that the move to a capital value based system would result in a shift in the burden of rate liability towards the areas of lower deprivation.
3. This report updates the findings using the final capital valuation list produced by VLA published over the summer of 2006 – for use in the calculation of rate bills by April 2007. The rate bills for the poundage of ‘2006/07’ financial year will be used to derive the capital value rate bills and these will be compared to the rate bills under the current rental values against the NIMDM (2005) – set and updated by NISRA.

¹ Northern Ireland Multiple Deprivation Measures (2005) supplied by Northern Ireland Statistics and Research Agency (NISRA)

² See Annex 3; Reform of the Domestic Rating System in Northern Ireland: Policy Paper; July 2004.

Background

4. The Review of Rating Policy commenced under the auspices of the Northern Ireland Executive Assembly Government in 2000 to examine a number of issues around the non-domestic and domestic rate system in Northern Ireland, with the general public consultation concluding in the autumn of 2002.
5. The domestic sector has been based on an antiquated rental based system that uses rental value information dating back to the late 1960s.
6. In December 2002 the Minister for Finance and Personnel announced that the domestic sector would be transferred onto a capital valuation system, due to become operational by April 2007.
7. A key commitment of the NI Assembly is 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. New Targeting Social Need (TSN) aims to contribute to the reduction of inequalities among different sections of society.
8. The monitoring of the New TSN impact of the domestic rate reform was an integral part of the August 2004 policy paper into the change in rate valuation base. The production of the final full domestic capital value list allows the New TSN impact to be enhanced and updated with these values along with the NIMDM (2005) deprivation scores.

Measure of Multiple Deprivation

9. The NIMDM scoring method identifies small area concentrations of multiple deprivation across Northern Ireland. It develops previous measures published in 2001, with the majority of the data relating to

2003. The NIMDM (2005) is based on the small area geography of the Super Output Area (SOAs) which contain on average 1,800 people and are more evenly sized in population than the previously used electoral wards.

10. The NIMDM (2005) brings together 43 different indicators, which cover specific aspects of deprivation: Income, Employment, Health, Education, Proximity of Services, Living Environment and Crime & Disorder. These are combined to create the overall NIMDM (2005).

11. The measure is based on widely accepted methodology developed by the Social Disadvantage Research Centre at the University of Oxford, and is widely accepted in the measuring of spatial deprivation.

New TSN Impacts of Domestic Rate Reform by NIMDM(2005)

Methodology

12. The initial task was to match the multiple deprivation scores available at the SOAs with the relevant capital valuations. This was carried out using a postcode matching exercise. The Central Postcode Directorate (CPD) was produced by NISRA in April 2005 and could be used to match the SOA codes to link multiple deprivation scores.

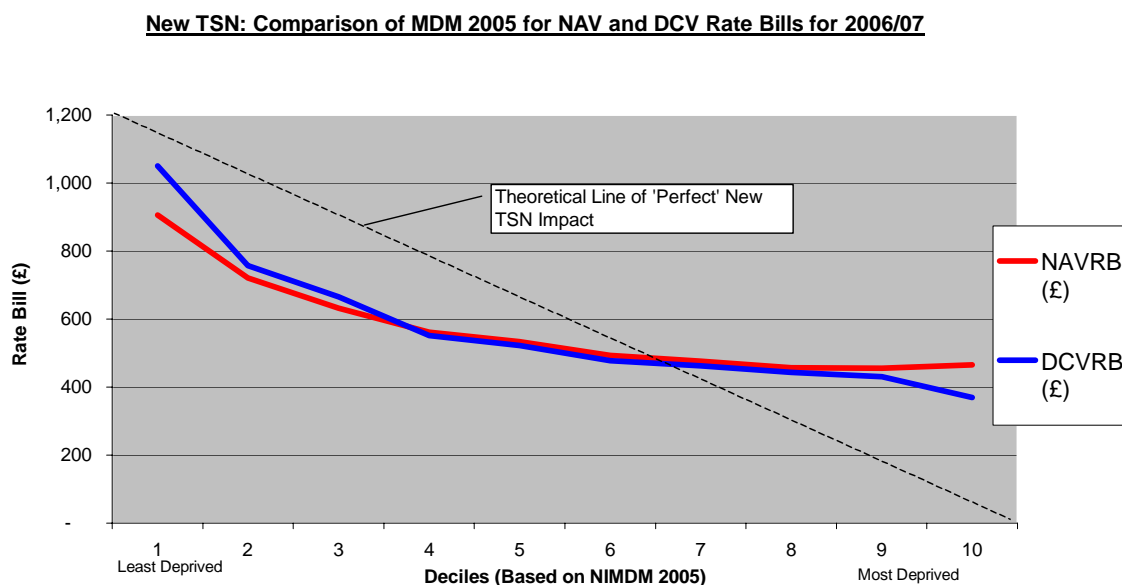
13. The matching exercise resulted in a 78% success rate in matching the c.700, 000 properties. The findings produced below are based on the successfully matched dataset created.

14. The rate liability of each property was assigned under the two methods: the current NAV (rental) based valuation base, denoted as NAVRB, and the reformed valuation base using market values to create capital valuations for all properties, denoted as DCVRB.

15. The multiple deprivation scores were grouped into deciles of deprivation for the purposes of graphing the alternate rate liabilities under the two systems. The deciles run from left to right in ascended order, that is, the least deprived nearest to the origin and the most deprived at the opposite end. These deciles were placed along the X-axis of figure 1 below. The Y-axis recorded the rate liability in pounds for the '2006/07' financial year under the two systems, at each decile of deprivation.

16. A diagonal dotted line cutting the maximum points on the scale of both axis indicates a line of 'perfect' New TSN impact – this line would denote zero rates paid by the lowest valued property and the highest maximum rate liability to the highest valued property. The line is theoretical - due to the nature of property tax being based on the opposing principles of the tax as a payment for services as well as a wealth tax based on ability to pay. In practice a contribution from all properties is required to align with the principle of 'a payment for services' – with due regard given to the counter-acting principle of 'ability to pay'.

17. The line serves as a useful illustration of the two valuation bases degree of variation from this 'perfect' New TSN impact. The summary of rate liability across the NIMDM range is shown in the table and line graph below.

Figure 1: Comparison of NIMDM for NAV and DCV Rate Bills for 2006/07

18. The table below reports the results displayed in the graph above. The deprivation deciles are ordered with the least deprived at the beginning, sorted into ascending order to the final decile reporting the most deprived decile.

Table 1 Rate Liability for Valuation Bases across Deprivation Deciles

Deciles of NIMDM (2005)*	NAVRB (£)	DCVRB (£)	RANK OF MDM (Average)
1 Least Deprived	906	1,050	810
2	720	757	599
3	631	665	389
4	562	551	232
5	534	523	133
6	493	478	84
7	476	463	48
8	457	443	26
9	456	431	3
10 Most Deprived	465	370	4

* MDM based on 43 Domain scores published in April 2005

Source: NISRA 2005; VLA CV List May 2006

19. The trends are broadly similar to the trends reported in the policy paper based on the 1998-2002 house sales³. The higher liabilities reported for the least deprived deciles up to the fourth decile indicate a positive new TSN result from the change. The smooth line in the middle deciles of deprivation indicates little difference in the rate bills at these average levels of deprivation. The positive New TSN result is then further substantiated by the final two most deprived deciles reporting a lower rate liability than the current NAV based one.

Slope Analysis

20. The slope analysis further re-enforces the positive impact on the rate liability based on deprivation scores. The slope co-efficient reports the degree of change in rate liability by a degree of change in the deprivation decile. The higher the slope co-efficient reported by the valuation base the more positive the New TSN impact. This essentially means that rate liabilities are lower in high deprivation areas and vice versa.

Table 2 Slope of the Relationship Between Tax Liability and Deprivation

Rate Valuation Base	Slope Co-Efficient (Decile 1/Decile 10)
Current Rental (NAV) NAVRB	1.9
Discrete Capital Value DCVRB	2.8

21. As the figures in the table above confirm, the reformed DCV valuation system is the more positive in relation to New TSN – represented by the higher slope co-efficient (2.8).

³ Annex 3; Reform of the Domestic Rating System in Northern Ireland: Policy Paper; July 2004.

Limitations to the Findings

22. The findings are based on pre-relief rate liabilities and are subject to review should any upper limits of liability be established⁴. The rate liabilities are also prior to any water charge applicable to the property.
23. The above caveats deserve mentioning, however, with the specific measures taken to address 'low income groups and those just above the housing benefit level'⁵ any additional impacts should be an enhancement to the positive New TSN outcome.

Summary and Recommendation

24. The updated analysis produced on the final list of all c.700, 000 domestic properties in Northern Ireland has re-enforced the previous work carried out on a sales sample during the policy reform process. The New TSN positive impact supports the rationale for switching the valuation base to a capital value assessment – confirming the more progressive rate liability impact.
25. It can therefore be concluded from the analysis conducted that the reformed rate valuation base using capital values has a **Positive New TSN Impact**.

Monitoring and Review

26. The policy will continue to be monitored and reviewed: reforming the domestic rates valuation base, using 'house market' sales and a derived capital valuation for all domestic properties on the valuation list.

⁴ An enabling power in the legislative order allows a restored NI Executive of the Assembly to establish an upper limit – creating an increased liability on the remaining households. This impact would, however, be expected to be marginal.

⁵ Sub-section 2.5; para.;105Pg 26; Rate Relief Scheme; Reform of the Domestic Rate System in Northern Ireland: A Consultation Report; March 2005.

27. The policy reform will be monitored for all New TSN and EQIA assessments in line with statutory obligations. The domestic reform impacts will be subject to review at an appropriate time to ensure the policy development is in line with statutory requirements on social and economic objectives.