



Department of
**Finance and
Personnel**

www.dfpni.gov.uk



INVESTOR IN PEOPLE

Outcome of NI Executive's 2007 Review of Domestic Rating System

December 2007

CONTENTS

Ministerial Foreword.....	4
Summary of Outcomes.....	6
Section 1 Introduction.....	8
Section 2 Outcomes.....	10
Section 3 Options not recommended.....	16
Section 4 Legislative Implications	26
Section 5 Next Steps	28

Annex A: Omnibus Survey

Annex B: Full analysis of Strand 1 and Strand 2 Options

Annex C: Ulster University report on Land Valuation Taxation

Annex D: Ulster University report on the Rating of Vacant Property

These annexes are available on the Rating Policy Division website at www.ratingreviewni.gov.uk. They are not included in this printed version but a hard copy can be provided on request.

LIST OF ABBREVIATIONS

Assembly	Northern Ireland Assembly
Committee	Finance and Personnel Committee
Department	Department of Finance and Personnel
DOE	Department of the Environment
DPA	Disabled Persons Allowance
DSD	Department for Social Development
Executive	Northern Ireland Executive
GB	Great Britain
LPS	Land and Property Services Agency
NAV	Net Annual Value
UK	United Kingdom

MINISTERIAL FOREWORD

BY Rt. HON PETER D ROBINSON MP MLA
Minister of Finance and Personnel

On Tuesday, 27 November 2007, I announced the outcomes of the review of the new domestic rating system introduced in April this year under direct rule. This paper sets out the background to the review and explains what changes will be made as a result both next year and beyond.

Back in May when I commissioned this review, I set a challenging timetable for its completion – six months in fact. I am pleased that we have been able to achieve this although, as anticipated, it has not been an easy task. However, in that short time, we have covered a lot of ground and generated much debate.

In particular, we learned a lot from the 12 week consultation that ended on 31 August 2007 and I would like to take this opportunity to thank the 119 individuals and organisations that took time to respond. The Committee for Finance and Personnel also made an extremely valuable contribution to the process as can be seen in the final outcomes which align with many of the Committee's recommendations.

Difficult choices did, however, have to be made and the reality is that rating reform does not operate in isolation. Every new relief or concession has a cost, either to other ratepayers or to the public purse. Radical change also has its downfalls, with different sets of winners and losers an inevitable consequence.

Therefore, while I would be the first to recognise the limitations of any property taxation system, a balanced approach is essential. This is what I believe we have achieved through the package of measures outlined in this paper.

The focus of the changes to be made next year is to tackle the difficulties faced by pensioners on low incomes under the new system; a key theme to emerge from the consultation. The introduction of a single pensioner discount of 20% for those aged 70 and over who live alone and the increase in the savings limit applied under the rate relief scheme will, I believe, have an immediate and positive impact. Tackling the take-up of reliefs generally will also be a major priority and will be taken forward urgently by my Department in conjunction with the community and voluntary sector.

Beyond next year, I am also proposing a wide range of measures, including a reduction in the maximum cap value from £500,000 to £400,000, the introduction of a deferment scheme for home owning pensioners, the rating of vacant domestic property, rebates to encourage energy efficiency measures in homes, further consultation and evaluation of the student relief scheme and possible alternatives and further work towards introducing a derelict land tax.

These changes will I believe make a real and beneficial difference to many ratepayers and inject the necessary checks and balances into the rating system to make it as fair as it can be. Taken together with my decision to freeze the domestic regional rate for the next three years which I announced a few weeks ago as part of the Budget proposals, many households will benefit from much needed relief as a direct result.

However, much work remains to be done to implement these measures. This will be our focus in coming months, starting with a further short consultation on the single pensioner discount for those aged 70 and over prior to introducing the necessary subordinate legislation.

I look forward to engaging with interested groups on this and the other proposals as we move

towards implementation. I have every confidence that, working together with all the key stakeholders, we will deliver this reform package and in doing so repay the faith that people demonstrated in local decision making when devolution was restored.

SUMMARY OF OUTCOMES

The Executive has agreed that:

- the savings limit for pensioners applied under the existing lower income rate relief scheme should be increased from £16,000 to £50,000 from April 2008;
- a single pensioner discount of 20% for those aged 70 and over who are living alone should be introduced in April 2008 subject to further consultation;
- a study should be commissioned led by the voluntary/community sector to recommend actions that could be taken to support awareness and take up strategies next year;
- investigations into enhanced data sharing arrangements between Government agencies to improve take up of rate reliefs should be carried out including the possibility of new primary legislation introduced to support this subject to the completion of the necessary privacy impact assessments;
- the maximum capital value should be reduced in April 2009 from £500,000 to £400,000 subject to the completion of impact assessments and in light of developments regarding water charging;
- deferment scheme for home owning pensioners should be introduced in April 2009;
- the rating of vacant domestic property should be introduced at the earliest possible opportunity with the most likely date being April 2009;
- rate rebates should be provided to existing homes that make energy efficiency improvements and to new homes which are zero carbon rated with a view to implementation in April 2009 if possible;
- the effectiveness of student relief and possible alternatives should be evaluated and the subject of further consultation as soon as possible following the end of this rating year, with a view to abolishing it;
- the current research into derelict land taxation, being undertaken by the University of Ulster, should be concluded and the outcomes taken forward in liaison with DSD with a view to implementation in the near future; and
- where appropriate, further impact assessments and consultation in relation to the recommendations set out above should be carried out prior to the drawing up of the necessary legislation.

SECTION 1: INTRODUCTION

1. The purpose of this paper is to set out the outcomes of the Executive Review of Domestic Rating. It is divided into five sections. This section provides information on the background to the review, its scope and the process undertaken. Section 2 outlines the outcomes as decided by the Executive. Section 3 explains the options that the Executive has decided not to pursue. Section 4 sets out the legislative implications of the outcomes of the review and Section 5 covers what will happen next.

Background

2. The Executive Review of Domestic Rating was commissioned by the Minister of Finance and Personnel, Peter D Robinson, MP, MLA on 15 May 2007 during the first Assembly debate on rating issues following the restoration of devolution. The review was prompted by public and political opposition to the new capital value based system introduced in April this year to replace the old NAV based system which used rental values dating back to the 1960s to calculate rates bills. The new capital value system was the outcome of an earlier review commissioned by the previous Northern Ireland Executive in 2000 and was taken forward under direct rule following the suspension of devolution in 2002.

Scope

3. In terms of its scope, the review was divided into two parallel strands in line with the Terms of Reference which were published on 11 June 2007. This reflected the Minister's intention to undertake an accelerated but wide-ranging review. Strand 1 involved a thorough examination of the options for change that could be delivered within the scope of the existing primary legislation in time for next year's rates bills and also looked at ways in which that legislation could be changed to further improve the system in the medium term. Strand 2 concentrated on identifying longer term options for raising revenue through local taxation, either as alternatives or supplements to the domestic rating system.
4. The relationship between rates and the funding of water and sewerage services was also included as an issue in the Terms of Reference for this review. However, the publication of the report by the Independent Water Review Panel on 12 October 2007 and the Executive's subsequent decisions on water charging have effectively overtaken this. No additional proposals are therefore presented in this paper on this issue. Work is however underway to examine the feasibility of the Panel's recommendation that a single bill should be issued to households with water and rates separately identified. The outcomes of this work will be presented to the Assembly in due course.

Process

5. To inform the review, a 12 week consultation exercise was launched on 11 June 2007. It ended on 31 August 2007 and a consultation report was published on 25 September 2007. A total of 119 responses were received during the consultation. Of these, 28 were from organisations, 12 from District Councils, 2 from political parties and 77 from individual ratepayers with about a quarter of these from pensioners.
6. Analysis carried out during the earlier review was also reviewed and updated. In addition, the Department examined a considerable body of research on local taxation that had been carried out recently in relation to the Lyons Inquiry in England and the Burt Report in Scotland. The Semple Review into Affordable Housing in Northern Ireland also informed this phase of the review.

7. New analysis was also undertaken by the Department and the Northern Ireland Statistics and Research Agency statisticians from both Census Branch and DSD were commissioned to carry out additional research using census data and the Family Resources Survey into the impact of the various options, including socio economic and section 75 analysis. In addition, the University of Ulster was commissioned to carry out research into the rating of empty homes and land value taxation including the rating of development land.
8. Last but not least, the review was also informed by the Committee report published on 7 November 2007 which set out its views on all the options being considered during the review.
9. The detailed analysis and research referred to above is provided in the annexes to this paper and can be accessed on the Rating Policy Division website at www.ratingreviewni.gov.uk. They are not included in this printed version.

SECTION 2: OUTCOMES

10. This section of the paper outlines the changes that will be made to the domestic rating system in Northern Ireland next year and beyond as a result of the review as agreed by the Executive. The package of measures, described below, was announced by the Minister in a statement to the Assembly on Tuesday, 27 November 2007. They are intended to complement one another by providing protection for those most affected by the new system introduced under direct rule and those most in need (namely our pensioners), while also attending to wider policy objectives.

Increase Savings Limit for Pensioners from £16,000 to £50,000

11. The current savings limit applied under both housing benefit and the rate relief scheme introduced in April 2007 is £16,000. This means that where a ratepayer has savings amounting to £16,000 or more, he/she is ineligible for housing benefit or rate relief. This has been identified as one of the main obstacles to higher take up levels, particularly among pensioners, with many people simply assuming that they will not meet this particular criterion.

12. The Executive has therefore decided to raise the limit to £50,000 for pensioners only in respect of the rate relief scheme from April next year. This revised limit is in line with the 'first step' recommendations in the Lyon's Inquiry into Local Government Funding in England. It also reflects the considerable support for such a change during the consultation which was echoed by the Committee in its report.

13. As explained in Annex B, while it is difficult to be exact about the cost of this measure, it is estimated that it is likely to be modest. However, if as hoped, it encourages people to apply for the relief and improves take up generally, ultimately it may result in more awards being made under the scheme.

Introduce single pensioner discount for those aged 70 and over living alone

14. Blanket discounts are currently not a feature of the Northern Ireland rating system. For example, there is no provision for a single person discount like that which applies in GB under the Council Tax system. This issue was raised during the consultation with many who responded in favour of the introduction of a similar discount in Northern Ireland.

15. However, the Executive's view is that the provision of such a widespread discount would be difficult to justify in terms of cost, need and vulnerability to widespread fraud. Looking at the issue of cost alone, it is estimated that the introduction of a single person discount in Northern Ireland would result in a loss of almost £30m a year in terms of revenue forgone or to be recovered from other ratepayers. There is simply no evidence to support this level of blanket assistance. This issue is discussed in more detail in Section 3.

16. It was noted however that many of those advocating the introduction of such a discount during the consultation were pensioners. It is also clear from the analysis presented in Annex B that single pensioners are much more likely to be in poverty than pensioner couples, particularly those in the higher age ranges. In light of this and given the low take up of existing reliefs among pensioners, the Executive has decided to introduce a new discount for pensioners aged 70 and over who live alone. This can be done through subordinate legislation and therefore will be in place by April next year, subject to further consultation.

17. It is worth noting that the Committee supported the introduction of such a discount for those aged over 75. However, the Executive has decided that the age threshold should be 70 on the basis that it would have a much greater impact particularly in terms of assisting with the major issue of take up which is dealt with later in this section.
18. The evidence presented in Annex B also shows that people who have just retired from employment are in a better position to pay their rates bill and to avail of housing benefit or rate relief. This is why the threshold has not been set lower, for example at 65. The Minister has however given a commitment to keep this under review.
19. In terms of the amount of discount, the Executive has decided that this should be set at 20% given the other measures targeted at pensioners as a result of the review. This will be applied after the award of other reliefs including transitional relief so that the target group will clearly see the benefit of a 20% reduction in their bill. If applied in this way, the net cost of the discount is likely to be around £2 - £3m in lost revenue.

Take-up improvement issues

20. A major issue to emerge from the research and analysis carried out during the review, and also highlighted in the Committee report, is the low level take up of reliefs. This is not an issue that is unique to Northern Ireland, as the Lyons Report referred to earlier shows, but it is clear that urgent action is required here. Of particular concern is that in the owner occupier sector take up of the new rate relief scheme is estimated to be 42% of those eligible. As mentioned earlier, pensioners in particular are one of the main groups not taking up this relief.
21. Increasing take up of reliefs has an important impact on ability to pay. This is illustrated clearly in the table below which is a summary of analysis carried out using the Family Resources Survey. It shows the percentage of income paid out on rates by different households before and after rate reliefs have been awarded. For example, the proportion of pensioners paying 10% or more of their income on rates before reliefs is 49%. However, in the situation where there is full take up of reliefs, this proportion falls to zero.

Table 1: Proportion of Income Paid on Rates Before and After Reliefs

Proportion of Income Spent on Rates (before reliefs)	% of Households	% of Pensioners
0%-5%	62	42
5%-10%	6	9
10%+	32	49

Proportion of Income Spent on Rates (after reliefs)	% of Households	% of Pensioners
0%	30	48
0%-5%	65	48
5%-10%	4	4
10%+	1	0

22. A review of good practice elsewhere in terms of benefit take up has highlighted a number of broad actions that could be taken in order to improve take up of rate relief in Northern Ireland. The Committee has recommended that these should be pursued vigorously. They include:
- raising awareness targeted at the most problematic sectors (pensioners, owner occupiers);
 - simplifying the application process;
 - involving community and voluntary sector partners in addressing take up problems (e.g. Citizens' Advice, Age Concern); and
 - improved data sharing within Government to allow for more automatic awarding of reliefs.
23. In light of this, the Executive has decided to commission an urgent study led by the voluntary/community sector, to bring forward actions that could be taken to support Government awareness and take up strategies next year. The possibility of new legislation giving increased data sharing powers to relevant agencies will also be examined as a matter of urgency. This will include the completion of a privacy impact assessment to protect the interests of the public and ensure the safeguarding of data.

Deferment Scheme

24. As part of the reforms introduced in April this year under Direct Rule, provision was made that would enable a deferment scheme for pensioners to be introduced in Northern Ireland through subordinate legislation. Such a scheme would essentially involve rolling up rate payments at a concessionary rate of interest until the sale of the house or on death and securing the debt by creating a charge on the property. Schemes of this type are not uncommon in other jurisdictions and although take up is usually very low because of inheritance considerations, they can nevertheless suit some better off pensioners who are beyond the income limits of the lower income relief scheme.
25. The Executive has decided that a deferment scheme for pensioners should be introduced in April 2009. This will allow time for the detail of how the scheme will operate to be developed and the necessary systems to be put in place to successfully implement it. In terms of cost, it is estimated that while there may be an initial revenue loss in the first few years, the scheme will eventually become revenue neutral as ratepayers join and leave the scheme.

Reduction in the Maximum Capital Value

26. When introducing the new capital value system in April this year it was also decided, following the agreement reached at St Andrews, to place an upper limit on the system at properties with a capital value of £500,000 or more. This 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. The maximum capital value was set at this level so as to ensure that the highest domestic rates bills in Northern Ireland would be similar to the highest that existed in GB at that time under the Council Tax system. It was clear that this move, while admittedly only benefiting a small number of ratepayers, helped to allay some of the fears around the excessive impact of the new system.
27. The Executive has decided however that the level at which the maximum capital value has been set should be lowered to £400,000, subject to the completion of the necessary impact assessment and associated consultation. As the table below shows, this change 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 is 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 of course vary between council areas.

Table 2: Impact of a Reduction in the Maximum Cap from £500,000 to £400,000

Cap Level	Total Revenue shortfall	No. of properties benefiting	Typical Maximum bill	Average saving
£500k	£2.7m	2400	£3,500	£1,100
£400k	£5.0m	5300	£2,800	£950

28. To allow for an impact assessment and consultation to be carried out, it is intended that the proposed reduction in the level of the maximum capital value will take effect from April 2009. This timetable should also allow for developments on the issue of water charging to be factored into final decisions on this issue. Much work remains to be done on this but, given the decision to introduce water charges in April 2009 and to examine further the feasibility of joint water and rates billing as recommended by the Independent Water Review Panel, it will be important to ensure that the two policies are not developed in isolation, particularly if there is to be a cap on water charges as well.

Rating of Vacant Domestic Property

29. Currently vacant non-domestic property is rated in Northern Ireland. However, during the previous review of the rating system under direct rule it was decided not to introduce such a measure in the domestic sector due to concerns about the impact it may have on low value and low quality properties generally prevalent in rural areas. It was also felt that it would be an inefficient measure given that the cost of implementing it would be disproportionate to the forecasted yield at that time. However in recognition of the fact that circumstances may change, it was decided to introduce an enabling power that would allow the rating of vacant homes to be introduced by a future Executive through subordinate legislation.
30. Circumstances have changed since then. One of the major reasons for this has been the growth in speculative investment locally and the impact this has had on the availability of affordable housing in Northern Ireland. The Semple Report contained a number of recommendations aimed at tackling this issue one of which was the introduction of the rating of vacant homes.
31. This measure was also popular among those who responded to the consultation and was recommended by the Committee in its report. In recognition of this and its potential to support wider policy objectives, including the increased supply of affordable housing onto the market, the Executive has decided that the rating of vacant homes should be introduced as soon as possible.
32. Research is underway on this issue which will inform the final shape of the policy including any exemptions that may need to be applied and the level of liability although the preference at this stage is for this to be set at 100%. Further impact assessments and consultation will also be required. In addition, when the policy has been finalised, LPS, an agency, within the Department, responsible for the collection of rates, will require time to put the necessary systems in place to implement it. All this means that it is likely that the earliest date of introduction will be April 2009.

33. As well as assisting wider policy objectives, it is clear that this measure also has the potential to raise additional revenue, which some estimates put in the region of £15m to £20m per year. This assumes however that LPS is fully equipped and resourced to administer the measure.

Rate Relief for those in full time education and training

34. One of the new reliefs introduced in April this year under Direct Rule was the rate relief scheme for those in full-time education and training. This scheme attracted much criticism during the consultation process in that many of the respondents perceived that the benefit of the relief was going towards landlords. A number of respondents also noted that they did not consider students to be a priority group in need of blanket relief.

35. The effectiveness of the policy has also been drawn into question by the low number of applications, around 500, that have been received this year. In addition the Committee raised doubts about whether the relief would reach the intended beneficiaries and suggested that alternative options should be considered if this proved to be the case.

36. The Executive has therefore decided to carry out a further evaluation of this policy and to consult on the outcomes following the end of the current rating year with a view to revoking the scheme. As well as looking at possible alternatives, this work will also involve the consideration of savings provisions to protect those who have already been awarded the relief.

Rate Rebates for Household Energy Efficiency Improvements

37. A key theme to emerge from the consultation was that local taxation should be used as an incentive to act in a more environmentally sustainable way. This clearly aligns with the Executive's wider commitment to promote sustainable development.

38. One proposal that has the potential to fulfil that aim was put forward during the consultation by the World Wide Fund for Nature. This proposal would involve the award of a rate rebate to households that installed energy efficiency measures in their homes such as loft and cavity wall insulation. Such a scheme already operates in England under the Council Tax system and is part funded by the energy generators there.

39. The Executive has decided to take forward this proposal and also the option of granting an initial rate exemption in respect of new homes which are zero carbon rated with a view to implementation in April 2009. This latter proposal mirrors a measure which was announced in the recent UK Budget to grant relief from stamp duty land tax on such homes.

40. There are however some issues of definition, funding and alignment with other initiatives still to be worked through in relation to these measures. There may for example be scope to access some funding for the rebate through the voluntary Energy Efficiency Levy which is supported by Northern Ireland Electricity (NIE) but this has to be examined further. There are other existing schemes run by NIE and DSD which also need to be taken into account before finalising these policies. In addition, further impact assessments and consultation will be required prior to the introduction of the necessary primary legislation.

Derelict Land Tax

41. Under Strand 2 of the review, one of the options considered as an alternative or supplement to the current rating system was the taxing of derelict or vacant land. Land that is not capable of beneficial occupation is not currently taxed through business rates. Dereliction, therefore, is an attractive route for some owners to avoid taxation. The potential therefore exists to close this loophole by introducing derelict land taxation.

42. This measure would complement the proposal to introduce the rating of vacant homes and

therefore also assist with wider policy objectives including the supply of affordable housing and economic growth. It also proved popular during the consultation exercise and the Committee recommended that it should be given serious consideration.

43. The issue was also addressed in the Lyons report referred to earlier. In that report it was acknowledged that defining, identifying and valuing land is a significant task and would be a significant change from the normal principles of business rates which is a tax on occupation and the consumption of property rather than on ownership. The report also concludes that the revenues from this tax are unlikely to be substantial but that its primary purpose would be to provide proper incentives for re-use.
44. Nevertheless, the report recommends that the Government in GB should develop proposals for the taxation of derelict property and brownfield land and then consult on the proposals with stakeholders.
45. In taking this forward there are a number of important considerations such as the definition of such land, the costs of valuing and administering the tax, avoiding development pressure on green spaces and other public amenities by exempting such land, how to avoid creating an imposition on developers that materially affects the viability of urban development and whether there are legal circumstances or cases of reserved strategic capacity where a disincentive to hold back land from development should not apply.
46. The University of Ulster is currently carrying out research into the feasibility of a derelict land tax in Northern Ireland. This includes a pilot study in the Greater Belfast area. The Executive has decided that this research should be concluded and the outcomes taken forward in liaison with the DSD with a view to implementing such a tax in the near future. Therefore much work remains to be done on this proposal which is at an early stage, including further consultation, before final decisions can be taken.
47. Finally, it is also worth noting that, depending on the shape of the final policy, the introduction of a derelict land tax may simply be an extension of the existing non-domestic rating system or it may constitute a new local tax in which case it may require changes to the Northern Ireland Act 1998. This would require primary legislation to be passed at Westminster.

SECTION 3: OPTIONS NOT RECOMMENDED

48. This section sets out the options considered during the review that the Executive has decided not to pursue. These were drawn from the Terms of Reference for the review published in June and cover both Strand 1 (changes to the new domestic rating system) and Strand 2 (possible alternatives or supplements) issues. Banding and local income tax is dealt with first.

Banding

49. As part of the previous review of the domestic rating system taken forward under direct rule, a decision was taken that the then outdated rental based system should be replaced with a capital value system in respect of domestic properties. The Government commissioned further work to inform which type of capital value based system should be introduced. This work was undertaken by the University of Ulster, and together with a range of impact assessments carried out by the Department, showed that, taking account of Northern Ireland's circumstances, a discrete capital value system rather than a banded system (as used to determine council tax liability) would be more progressive, more New TSN (targeting social need) positive and easier to understand than the alternatives. As previously mentioned, this system was introduced in April 2007.

50. While the system of individual capital values has the merit of being easier to understand than banding, it is recognised that there are advantages to the council tax system. For example it is restrained in that those in the highest band pay no more than three times what those in the lowest band pay which recognises that it is more of a charge for services than rates. A version of this system could be designed for Northern Ireland. However the Executive recognised that such a fundamental change so soon after the major reforms introduced in April this year would not only cause more confusion and upheaval but also simply create a new set of winners and losers.

51. In addition, the Executive took into account the lack of support expressed for banding during the consultation exercise in deciding not to take this option forward. The Minister has however agreed to update the analysis referred to above, which was carried out by the University of Ulster, and as requested provide this to the Committee.

Local Income Tax

52. The introduction of a Local Income Tax was favoured by many ratepayers who responded to the consultation, although the majority of organisations who responded on the issue were not in favour of its introduction. The Executive recognises that such a tax has its attractions in that it offers the prospect of aligning liability more closely with ability to pay. Public perception is therefore understandable and mirrors that in England where during the Lyons Review, the overwhelming majority of those surveyed thought they would be a lot better off if subject to a Local Income Tax rather than the existing council tax.

53. However, the reality in Northern Ireland is that it would add about 7p in the pound to income tax payers here if the same amount of money was to be raised as through domestic rates. It is also considered to be a tax on work and therefore not in keeping with this Executive's priority of economic growth. Finally, there are serious concerns about the ability and willingness of Her Majesty's Revenue and Customs to help support the introduction and administration of such a system.

54. However, it is worth noting that the Scottish Government has recently decided to abolish

council tax and replace it with a local income tax. This decision is to be the subject of a public consultation in coming months. In light of this, the Executive has decided that rather than commission further work of our own into a local income tax, it would be worthwhile to maintain a watching brief on developments in Scotland for the time being. Therefore the door has not been completely closed on this option at this stage.

Minimum Capital Value

55. While the domestic rating system is considered to be purely a property tax, some would argue that the introduction of a minimum capital value would recognise the fact that there is a minimum limit to the level of local and regional government services that can be consumed by a household. As with the maximum capital value, the minimum capital value would be set in terms of capital values. That is, once the limit is chosen, any property with a capital value below that limit would be rated as if its capital value were at that limit.
56. Generally this measure was not favoured nor did it give rise to much comment during the consultation exercise. The Committee did not even shortlist it as an option worth considering and ultimately recommended in its report that it should not be introduced.
57. As the analysis in Annex B shows, a minimum capital value would impact most on ratepayers currently entitled to housing benefit and / or rate relief who would, on a general level, be considered among the more vulnerable in our society. Further impact assessments would also be required and the impact on Northern Ireland's housing benefit bill fully assessed.
58. In light of this, the Executive has decided not to pursue this option at this stage.

Early Payment Discount

59. Under the current arrangements for the payment of rates, a discount of 4% is available to those that pay in full within one month of the issue of their bill. Otherwise, payment can be made in monthly instalments over 10 months.
60. The level of discount was last reviewed in 1983, at which time the rate was increased from 2.5% to 4%. LPS figures show that, in 2006/07, around 19% of all domestic ratepayers took advantage of this discount. The total value of the discount in 2006/07 was approximately £3.87m.
61. Very few respondents commented on this issue during the consultation. However, in the past some have argued that the discount should be re-targeted at direct debit customers. The Committee also suggested in its report that this option should be explored further but stated that in addition the early payment discount should be retained as well.
62. Re-targeting would require new primary legislation and could have the unintended effect of alienating some pensioners who may not have a preference for payment through direct debit (analysis of those that claim the discount indicates that it is a more popular measure, in relative terms, with pensioners than with other groups). This is an important factor given the proposals to assist pensioners outlined in Section 2 above. The Executive has therefore decided that this option should not be pursued further at this stage and that the existing discount should be retained for the time being.

Re-profile the existing Transitional Relief Scheme

63. The move from rental to capital values in April 2007 resulted in many ratepayers facing significant increases in their rate bills. In response, direct rule Ministers decided to provide transitional relief over a period of 3 years to those ratepayers that were most affected. This relief was awarded automatically to those households whose bill increased by 33% or more than it would otherwise have been this year if rated under the old NAV system.
64. One of the options considered during the review was to extend this scheme beyond the planned three years. This is both legislatively and operationally possible by April 2008. However, in addition to the impact on lost revenue (around £17m over 4 years), extending the scheme to 5 years for example would mean that none of the 100,000 or so eligible ratepayers would ever face a full rate bill prior to 2012, which was the date proposed by direct rule ministers for the next revaluation, though this is now a matter for the Assembly to approve at a later date.
65. In light of this, the Executive has decided not to re-profile the existing scheme. This decision aligns with the Committee thinking on the issue given that it recommended that the Department should establish whether there is sufficient evidence of need which would justify the significant administrative burden and revenue loss associated with an extension of the transitional relief scheme beyond the present 3-year period.

Graduated Tax System

66. A graduated tax system would involve the application of a standard rate up to a certain threshold of capital value, which every ratepayer would pay. Those in properties whose capital value exceeds the threshold would then pay an alternative rate. A graduated tax system could either be upwards, in which case those above a selected capital value threshold (or thresholds) would pay a higher tax rate, or it could be a downward system, with a lower rate applied to higher levels.
67. One argument in favour of the latter would be that it would recognise that there are limits to the consumption of government services from those in the highest valued properties. However, the analysis in Annex B would appear to indicate that it would be a highly regressive measure. The 'wash-back' effect of a downward graduation would be much greater than that resulting from a maximum cap, for example. As Table 3 below also shows, all but those in the highest capital value properties would see their bills increasing following the introduction of a downward graduation. Furthermore, the level at which the graduation occurs would have to be recalibrated at every new revaluation. In addition, the current range of reliefs would need to be reviewed to determine what would best suit the new system. A change to a graduated taxation system would therefore be likely to take several years to implement.

Table 3: Impact of a Graduated Taxation System
Single Person Discount

Capital Value quartile	% Change in average rate bills	
	Downward Graduation for Top 25%	Downward Graduation for Top 50%
Q1 (those with the lowest capital values)	5.69	10.43
Q2	5.76	10.57
Q3	5.77	5.06
Q4 (those with the highest capital values)	-5.52	-9.11

For all these reasons, the Executive has decided not to pursue this option.

68. A single adult discount exists under the council tax system in GB. This provides for a 25% discount in the bill for eligible taxpayers. Support for a similar discount in Northern Ireland is a regular feature of consultation exercises on rating issues. This was repeated in the most recent consultation. Despite its popular support the Executive has decided not to introduce it here, an outcome supported by the Committee.
69. The analysis in Annex B suggests that a single person discount would not only be a blunt instrument but also an expensive one. Applied on the same basis as the discount in GB, it would cost in the region of £28m per annum. Recovering this would add around £40 to the average bill of other ratepayers, including low income households.
70. Furthermore, experience in GB suggests that it is open to abuse and fraud with as many as a third of households in some local authorities claiming the discount. Problems with administering and policing the discount would therefore be likely to emerge if it were introduced in Northern Ireland.

Disabled Persons Allowance

71. The purpose of the DPA scheme is to ensure that those who have modified their property because a person with a disability resides there are not penalised by any increase in value associated with the modifications. This scheme was first introduced in 1978 and the changes introduced in April 2007 simplified the scheme to ensure that the discount is awarded much more quickly.
72. It is considered that the rationale for the scheme remains valid under the capital value system and that the standard discount awarded since April this year (25%) is adequate (it is higher than the 20% awarded in Great Britain). Furthermore, the Executive's view is that the case for broadening this rebate to all persons with a disability, regardless of any adaptation to the property, has not been made, particularly in light of the fact that other elements of the rating system cater for those with a disability such as the rate relief scheme where enhanced support is available. In light of this and the impact that providing a blanket relief to all those with a disability would have, the Executive has decided not to pursue this as an option and to retain the existing system as it currently stands.
73. However, the view of the Committee that the Department should take steps to raise awareness and understanding of the nature of this scheme has been accepted by the Executive and will be taken forward in the work proposed regarding improving take up generally.

Circuit Breakers

74. Circuit breakers are found in some parts of North America where there is a limit placed on the percentage of income that defined groups (pensioners, ex-service personnel etc) are required to pay under a property tax. While a circuit breaker system may be conceptually attractive, there are several factors that in the Executive's view effectively rule it out as a realistic option for consideration in the Northern Ireland context.
75. For example, the research outlined in Annex B shows that where circuit breakers exist, there tends not to be the safety net of other reliefs available for the poorest households, such as those which currently exist here through the UK funded housing benefit system and therefore introducing circuit breakers here would cause major complications in working alongside housing benefit. It would also be administratively complex, given the need to gather detailed

information on the income of all rate-paying households and vulnerable to fraud for the same reason.

76. Furthermore, as discussed earlier, preliminary analysis using the Family Resources Survey reveals that full uptake of existing reliefs has a dramatic effect in terms of limiting the proportion of income spent on rates, highlighting all the more the need to make improvements in this area.
77. For these reasons, the Executive has decided not to take forward the introduction of circuit breakers at this stage. This outcome also aligns with the recommendations of the Committee for Finance and Personnel.

Enhanced Discount for Farmers

78. Under the current system, properties that are held with agricultural land and are occupied by a person whose primary occupation is farming are valued on the basis that they will always be so used and occupied. The purpose of this measure is to ensure that any enhanced value associated with a farmhouse such as being close to a major tourist or urban area, is disregarded. The justification for the policy is the fact that, due to their occupation, farmers tend to live on the land and have limited mobility because of this. The effect of the rule is that the capital value of farmhouses in Northern Ireland is typically reduced by 20% for rating purposes.
79. There were some calls during the consultation for an additional allowance to be made to reflect individual user restrictions placed on certain agricultural dwellings on the basis that they inhibit their true market value. In considering this issue, the Executive noted that such a policy would tend to favour newer houses over the traditional farmhouse and concluded that the existing allowance as described above remained valid and was sufficient to deal with the special circumstances pertaining to farmhouses.

Discount for Owner-occupiers

80. Discounts for owner occupiers are a popular feature of many property taxation systems operating in the United States, where it is known as a 'homestead allowance'. The level of discount varies, as does eligibility, with some administrations restricting the allowance to the elderly and those with a disability. In many states, the allowance represents a standard reduction in the actual valuation, rather than a percentage decrease in liability.
81. It has been estimated, using the census match, that there are approximately 510,000 properties in Northern Ireland which are owner-occupied. The average capital value of these properties is £127,000 and a 10% discount, for example, in the capital value of these properties would result in a revenue loss of somewhere in the region of £40m per annum. This would add around £60 to the average bill, if the lost revenue was to be recovered from other ratepayers. If a discount was restricted to pensioner homeowners, for example, this would only benefit around 132,000 households and the total cost, had it been introduced this year, would have been £9.8m in lost revenue.
82. Based on this analysis, it is considered that the introduction of such a scheme in Northern Ireland would involve a significant annual cost associated with such a move. It is also clear that it would be a highly regressive measure and therefore it is not recommended by the Executive.

Rating of Second Homes

83. Second homes are charged the same rates as sole or main residences, unlike the position under council tax, where they receive a discount, usually around 10%. There were some calls during the consultation to introduce a levy on second homes (or grant a discount to permanent residents) to help ease housing affordability and secure more community balance in tourist areas.
84. However, as the rating system in Northern Ireland is based on occupation, such a scheme would be difficult to define. It would also be easy to evade and impossible to vet at reasonable cost. There is also evidence that such a measure, even if it could be effectively administered, would not affect the investment behaviour of those seeking second homes.
85. The Executive has therefore decided not to recommend any change in relation to this issue. However, it is intended that further costing will be provided to the Committee in light of its recommendations on the issue.

Poll Tax

86. In 1986, the Government published a Green Paper which paved the way for the introduction of the community charge or the poll tax as it was more commonly known. The central argument in the Green Paper was the need to strengthen local accountability and given that only a minority of electors paid rates those bills did not reflect the variation in households' consumption of local services. The recommended alternative to domestic rates was a per capita community charge (poll tax) which was introduced in Scotland in 1989, one year earlier than in England and Wales. It was not introduced here in Northern Ireland.
87. This measure did not receive any popular support during the public consultation and the Committee also recommended that it should be ruled out. In light of this and given its unpopularity and ultimate failure in GB, the Executive has decided that there is no justification for pursuing the option any further in the Northern Ireland context.

Sales Tax

88. A tax on transactions can be applied as a general sales tax on most or all goods and transactions as VAT presently does. Internationally, sales taxes are used but generally in combination with other taxes. For example, in federal countries such as Australia, Austria, Canada, Germany and the United States they tend to form a significant share of tax revenues for state government but considerably less for local government. Amongst unitary countries, they make a small contribution to local tax revenues in France, Italy, Japan, Korea and New Zealand but substantially more in Spain and especially the Netherlands at around 40%.
89. In considering the merits of introducing a local sales tax in Northern Ireland, the Executive gave consideration to the fact that the Republic of Ireland does not currently impose such a tax. Its introduction here could therefore encourage cross-border shopping which could have a significant detrimental impact on businesses in Northern Ireland, particularly those in the border areas and also on the Northern Ireland economy as a whole.
90. Furthermore, this measure did not receive any popular support during the public consultation and the Committee recommended that it should be ruled out. For these reasons, the Executive has also decided that it should not be given further consideration.

Green Taxes

91. Although district councils have the right to charge businesses for the collection of waste, they may not presently charge for the collection and disposal of household waste. There are some exceptions however, for example the collection of bulky items. They also have powers to fine residents if they contaminate recycling or do not comply with compulsory re-cycling schemes. Waste policy in the future will have to meet the challenge of reducing the volume of biodegradable municipal waste sent to landfill in line with European Union legislation.
92. The Northern Ireland Landfill Allowance Scheme is one of the key measures aimed at reducing the amount of biodegradable municipal waste going to landfill and was introduced on 1 April 2005 (similar schemes were introduced in the rest of the UK). The Scheme places progressive reductions in the amount of biodegradable waste – such as paper, food and garden waste – that councils can landfill.
93. Landfill allowances have been allocated to each district council in Northern Ireland for each year up to 2019/20 at a level that will enable Northern Ireland to meet its targets, as a contribution to the UK targets, under the Landfill Directive. Each allowance permits one tonne of biodegradable municipal waste to be land-filled and the allowances allocated to each council reduce over time to force compliance with the Landfill Directive targets. The DOE's Environment and Heritage Service monitors the Scheme.
94. Another way in which Northern Ireland might contribute to environmental improvement is to consider seeking to introduce a tax or levy in Northern Ireland on the use of plastic bags which would correspond to that successfully deployed in the Republic of Ireland. This measure has resulted in plastic bag use being reduced by approximately 90%, and has proved to be a useful income stream with €75m raised since its introduction in 2002 and €18.8m raised in 2006 alone.
95. In addition to the above, the Executive also took into account the obligations placed on DOE in the Northern Ireland Waste Management Strategy 2006-2020, published in March 2006, to bring forward for public consultation by March 2009 detailed proposals to give councils powers to charge for the collection of residual wastes from householders, although it was noted that policy development in this area is at a very early stage.
96. It was also noted that at present the DOE is considering ways to tackle a number of local environmental problems such as litter, including plastic bag litter. Findings show that in the Republic of Ireland the levy on plastic bags has changed consumer behaviour. However, it is interesting to note that after detailed consideration, Scotland decided against such a tax. Alternatives to plastic bags often entail their own environmental problems and all of the issues need to be considered before deciding on the most appropriate way forward for Northern Ireland.
97. In light of this, the Executive has decided that this is a significant area for policy development for the relevant Government department, in this case DOE, and that it should therefore be taken forward outside of the rating system.

Road Charging

98. Road charging is a combination of three slightly different but related initiatives. These initiatives are congestion charging, tolling and national road pricing.
99. Powers to operate congestion charging in London were granted by the Greater London

Authority Act 1999 and the Transport Act 2000 extends these powers to outside London with the proviso that any charging would support the Local Transport Plan. These powers remain largely untested with the notable exception of London's congestion charge. The Transport Act 2000 and draft Local Transport Bill do not apply to Northern Ireland and so in order to take forward congestion charging, additional powers would be required.

100. In its 2015 Belfast Metropolitan Area (BMA) Plan, the Department for Regional Development (DRD) indicated that there were no plans to introduce congestion charging within the BMA but that this was an evolving issue that would be reviewed further within the Plan period, drawing upon experience from other parts of the UK.
101. A Road Tolling Consultancy Commission has also looked at the feasibility of introducing tolling on the 5 key transport corridors in Northern Ireland. The results of their study will be factored into Roads Service thinking as further development takes place on the Strategic Road Network.
102. In light of all of this, the Executive has decided that this is a significant area for policy development for the relevant Government department, in this case DRD, and that it should therefore be taken forward outside of the rating system in response to traffic management needs rather than revenue requirements.

Tourist Tax

103. Accommodation charges have been deployed in a number of places around the world. For example, in France, a charge is levied on all overnight stays and the charge is largely left to be determined locally. In addition, other types of tourist tax such as airport taxes and departure fees are often used in other cities and countries to assist the promotion of tourism locally.
104. Under the North/South Ministerial Council, there are six North/South Implementation Bodies that implement policies agreed by Ministers in the North/South Ministerial Council. The bodies and Tourism Ireland Limited (i.e. the Northern Ireland Tourist Board and Bord Failte) are funded by grants made from the relevant government departments, North and South. Current policy is for Tourism Ireland Ltd to jointly promote tourism on the island of Ireland as a means of mutually maximising the economic benefits of tourist activity.
105. The Executive considered the issue of introducing tourist taxes and noted the input provided by the Department of Enterprise, Trade and Investment.
106. It was recognised that tourism in Northern Ireland is competing not only in an all Ireland or indeed British Isles context, but in a global context and that anything which makes the industry less competitive will have a negative impact on future growth. Whilst the Northern Ireland tourism sector is showing significant growth, it should be noted that this growth is from a very low base which has been suppressed by years of conflict. Therefore a tourist tax could have a detrimental effect.
107. Tourist taxes were also considered by the Committee and rejected.
108. In light of the above, the Executive noted that our tourist industry would not appear to be mature or established enough to consider such an option. The Executive also recognised this is a significant area for policy development for the relevant Government department, in this case the Department of Trade and Investment, and that it should therefore be taken forward outside of the rating system.

Land Value Taxation

109. Taxing land as an alternative to taxing buildings is a well established concept that is promoted by such organisations as the Henry George Foundation. At its core such a system would involve an annual charge on a property based on its land value (ideally based on the concept of highest and best use including its development potential) rather than based solely on the rental or capital value of the buildings in their existing use. Advantages claimed for the system include its potential for encouraging urban renewal, reducing dereliction and redistributing wealth.
110. While conceptually sound, research undertaken to date with the help of the Ulster University indicates that land value taxation is not widely used in economically developed countries and significantly, as countries develop they tend to move away from taxing land at market value to taxing buildings. Also, apart from agricultural land, under this system almost all land would be valued to its highest and best use, which requires certainty around town and country planning. The lack of current development plans in Northern Ireland is therefore a major impediment. It is also the case that in virtually all jurisdictions that have a land value tax, agricultural land is taxed, albeit usually capped at existing use value. Finally, whilst there was a recognition expressed in the consultation that such a tax can play a positive role in urban regeneration and renewal there was concern about the impact it could have on the character and heritage of our towns and cities because it acts as a stimulus to redevelopment .
111. For these reasons, the Executive noted that there are sufficient doubts about the suitability of a land value taxation system as an alternative to the rating system here to suggest that the matter should not be pursued. One aspect that is worth pursuing however is the taxing of derelict land. This issue is dealt with in Section 2 of this paper.

SECTION 4: LEGISLATIVE IMPLICATIONS

112. This section explains the legislative implications for the proposals outlined in Section 2. In overall terms, there is a substantial legislative programme (both primary and subordinate) arising from this review.
113. The increase in the savings limit for pensioners applied under the lower income rate relief scheme from £16,000 to £50,000 will require an amendment to be made to the existing rate relief regulations by April 2008. This will be achieved through subordinate legislation subject to the negative resolution of the Assembly. The single pensioner discount for those aged 70 and over living alone will also require subordinate legislation to be passed by the Assembly again subject to the negative resolution procedure. Both sets of regulations will have to be made early next year to enable these measures to be effective in April 2008 as intended. It is also intended to consult on the issue of a single pensioner discount to inform the drafting of the regulations.
114. Subordinate legislation will be required to introduce the deferment scheme for home-owning pensioners, the rating of vacant property and the reduction in the maximum capital value and this will be subject to the affirmative in draft procedure of the Assembly. Subordinate legislation will also be required to abolish the student relief and this will be subject to negative resolution of the Assembly. Prior to this, however, further impact assessments and consultations will be carried out on these issues and on the proposals mentioned below that require new primary legislation.
115. The proposed energy efficiency/zero carbon rebates will require an amendment to be made to the Rates (Northern Ireland) Order 1977 (as amended) which is the existing primary legislation governing rating in Northern Ireland. As mentioned in section 2, the introduction of a derelict land tax may require an amendment to be made to the Northern Ireland Act 1998 and therefore would require primary legislation to be taken through Westminster prior to proceeding at a local level. This would depend however on the final shape of the policy – it may for example simply be an extension of the existing non-domestic system in which case it could be taken forward through a Bill in the Assembly.
116. Finally, the recommended investigations into enhanced data sharing between Government agencies to improve the take up of reliefs may identify a need for further primary legislation. This would however be subject to the completion of a privacy impact assessment to ensure the interests of the public are protected and that the relevant data would be adequately safeguarded.

SECTION 5: NEXT STEPS

117. The package of measures set out in Section 2 will be taken forward immediately. This section provides a broad outline of what will happen next.
118. The first step will be the publication of a consultation paper on the single pensioner discount for those aged 70 and over living alone to inform the drafting of the necessary subordinate legislation. It is intended that this will take place shortly. Work will also begin immediately on the preparation of the subordinate legislation required to give effect to the increase in the savings limit applied under the rate relief scheme from £16,000 to £50,000 to ensure that extra help for pensioners can be made available in time for next year's rates bills which will issue in April 2008.
119. The voluntary sector led study into take up solutions and the investigation of the potential for data sharing will also be given priority and will involve liaison with the DSD early on in the process.
120. In addition, the Department will begin work on the pre-legislative tasks, such as the integrated impact assessments and consultation, required in respect of the more medium to longer term improvements to the rating system, including the rating of empty homes, the deferment scheme for pensioners, the lowering of the maximum capital value, and the new energy efficiency/zero rated carbon rebates. The proposed further evaluation and consultation on the rate relief for those in full time education and training and possible alternatives will follow as soon as possible after the end of the current rating year.
121. Finally, considerable research and discussion with other Departments will be required on the issue of a derelict land tax. This may take longer to complete and will be informed by the work currently being carried out by the University of Ulster.

Review of Do

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

Further copies can be obtained by
Telephone: (028) 9127 7606
E-mail: ratingpolicy.cfg@dfpni.gov.uk
Website: www.ratingreviewni.gov.uk/