Department of
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INVESTOR IN PEOPLE

Review of Domestic Rating

Reduction of Maximum Capital Value

Public Consultation Document

April 2008

changing for the better

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Section 1: Introduction

Background

In April 2007, the new domestic rating system was introduced following the completion of a review initiated by the previous Northern Ireland Executive in May 2000 and taken forward under direct rule. The main changes to the rating system included a move from the use of historic rental values to capital value as the basis of valuation and the introduction of a low income rate relief scheme. Before the reforms took effect in April 2007, the prospects of restoration of devolved power become increasingly likely. In preparation for devolution, and as a result of the St. Andrews negotiations in November 2006[1], Direct Rule Ministers agreed to a ceiling on individual rate bills.

The system which was eventually introduced in April 2007 established a maximum capital value known as the cap. This cap was set at £500,000, meaning that any property with a capital value of more than £500,000 is treated for rating purposes as if the value is £500,000.

The cap was set at £500,000 to ensure that the highest rate bills in Northern Ireland would equate with the highest Council Tax bills in Great Britain (around £3,000). While this move would only benefit a small number of ratepayers (around 2,300) the aim was to help allay some of the fears around the excessive impact of the new system on those in higher value properties. It is estimated that the loss of revenue this year (2007/2008) as a result of the cap is around £2.5 million. The Minister has also recently announced that during the CSR period, there will be no increase in the domestic regional rate. It will not therefore be possible to recover the lost regional rate revenue arising from the maximum cap during this time. In future years, it is likely, however, that the cost will have to be absorbed by other ratepayers.

The Executive Review of the new Domestic Rating System

During the first debate on rating matters in the new Assembly following the restoration of devolution in May 2007, the Minister of Finance and Personnel, the Rt Hon Peter D Robinson MP MLA, announced the intention to review the new domestic rating system, due to mounting criticism of its impact on ratepayers, pensioners in particular.

This review was undertaken during the latter half of last year and was informed by a public consultation. One of a number of options considered during the review was a change in the level of the maximum capital value.

Changes to the Level of Maximum Capital Value

The main option presented was to lower the level at which the maximum capital value (‘cap’) is set. This would increase the number of ratepayers who would benefit from a reduction in their rates bill. It would however impact adversely on those ratepayers whose bills are not capped as they would have to pay more to help fund the reduction enjoyed by those whose bills are capped[2] . Other options included increasing the level at which the cap is set, having a cap for certain groups only, such as pensioners; or abolishing it altogether.

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[1] This is provided for in the Rates (Maximum Capital Value) Regulations (Northern Ireland) 2007 (S.R. 2007 No. 184) which were made under Article 18 of the Rates (Northern Ireland) Order 1977 as amended by the Rates (Amendment) (Northern Ireland) Order 2006.

[2] Although, since the cap is set on the capital value and not the bill, even those who benefit from a cap will have to contribute some of the lost revenue, if this is recovered through increasing the regional rate.

There were 42 responses during the consultation on the issue of a maximum cap – 24 in favour of retaining it, 18 opposed to it. Among the organisations opposed were several district councils, Advice NI, the General Consumer Council and the Northern Ireland Anti Poverty Network.

Among those in favour of a maximum cap, the most popular option was for a reduction in the level at which the cap is set to £300,000. This was the preferred choice of the Fair Rates Campaign. One respondent suggested lowering it to £250,000. In addition, the Bayburn Residents Group proposed a reduced cap set at £400,000 for pensioners only and the removal of the general cap for others.

Outcomes of Executive Review

The Minister announced the outcomes of the Executive review to the Assembly on 27th November 2007. Among the proposals was one to lower the maximum capital value from £500,000 to £400,000 from April 2009, subject to further consultation on the matter.

Such a reduction could potentially benefit just over 5,000 households and would cost in the region of additional £2.3m per annum in lost revenue, bringing the total loss to £4.7m p.a. It would, though, 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 the Minister considered to be a fairer comparator than the absolute highest Council Tax bill. The typical maximum bill with a £400,000 maximum capital value would be around £2,800, although this would vary between council areas.

In making this announcement, the Minister indicated that final confirmation of the level to which the cap would be reduced would be made following a further consultation on the issue. This paper initiates that consultation process.

The Minister also indicated that this would enable a full impact assessment to be carried out around the proposal and allow for developments on the issue of water charging to be considered. In terms of looking at total household bills, it is important to ensure that the two policies are not developed in isolation.

Consultation on Executive Proposal to Reduce Maximum Cap

The purpose of this paper is to seek views from ratepayers and stakeholders on the proposal of the Executive to reduce the maximum cap from £500,000 to £400,000.

Section 1 sets out the background to the maximum cap, and the context of the proposal to reduce it to £400,000. Section 2 covers the financial impact of the proposal, both for regional and district revenue. Section 3 provides a summary of findings from the New TSN, Rural Proofing and Equality Impact Assessment exercises. The detailed results of this analysis are included in the initial Integrated Impact Assessment (IIA), which is only available on the Rating Review website www.ratingreviewni.gov.uk. If you have any queries or wish to obtain a copy of these documents, you should contact Rating Policy Division in one of the ways set out below.

We would welcome your views and comments on the proposals contained within this policy paper, as well as the issues raised in the Initial IIA.

The consultation period on the policy paper will last until 27th June 2008. Any comments should be submitted in one of the following ways. Your written responses should be sent to:

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

Or you may wish to fax your comments to:

Fax: 028 9185 8008

As an alternative, we would encourage you to e-mail responses to:

ratingpolicy.cfg@dfpni.gov.uk

Should you require any further information about this consultation exercise you should contact:

028 9127 7606

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

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Section 2: Financial Impact

Financial Impact of Imposing a Maximum Cap

The effect of imposing a maximum cap is to reduce the size of the tax base, as any excess capital value of property above £500,000 is disregarded. A cap of £400,000 would reduce the tax base further, so that less revenue would be raised at a given tax rate. This reduction would cost in the region of an additional £2.3m per annum in lost revenue, bringing the total loss to an estimated £4.7m p.a.

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

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

For the purposes of **illustration**, in Table 2, the regional rate for 2007/2008 has been recalculated to compensate for the reduced tax base and avoid the potential shortfall in revenue arising from a cap (average district rate remains unchanged).

This is for illustrative purposes only. As mentioned earlier, the domestic regional rate is to be frozen in 2008/2009 and 2009/2010 at the 2007/2008 poundage of 0.3608p. From 2010/2011, the cost of the cap can be absorbed by other ratepayers in a higher regional rate. For the next two years however, there will be a shortfall in revenue, which will be greater in 2009/2010 if the new cap of £400,000 comes into effect.

Table 2: impact on Revenue Bill from No Cap, £500,000 Maximum Cap and £4000,000 Maximum Cap - for 2007/2008

Maximum Cap Level	New Regional Rate	New Average Rate Bill
No Max. Cap	0.3608 pence	£704
£500k Max. Cap	0.3640 pence	£707
£400k Max. Cap	0.3668 pence	£711

As Table 2 shows, based on an average capital value of £112,000, the impact of this rate increase on the average rate bill would have been minimal.

Do you have any views on the financial impact of the proposed reduction in maximum capital value?

Impact on District Councils

The reduction in the maximum capital value £500,000 to £400,000 will impact on both district and regional rate revenue, as any revenue loss will be shared between both the district councils and the Executive.

The impact on district rate revenue will depend on the number of properties in each council area which are above the maximum limit. For the majority of councils the impact will be marginal. However, for those council areas in which the great majority of these properties are concentrated, Belfast and North Down, the impact will be more significant. In Belfast, around 1,000 properties are above the £500,000 threshold; this figure would double to over 2,000 if the cap were lowered to £400,000. In North Down, it would double from approximately 600 to 1200.

In Belfast, the district rate revenue loss associated with a £500,000 capital value cap in 2007/08 is estimated to be £496,000. Reducing the cap to £400,000 would lead to a further £428,000 reduction, using the same poundage. So the total loss in district rate revenue for Belfast of a £400,000 cap this year would have been £924,000. This, though, represents only around 2.6% of revenue. For North Down, the revenue loss resulting from a £500,000 cap is estimated to be in the region of £290,000. Reducing the cap to £400,000 leads to a further reduction of just over £200,000, a total loss of £490,000 (a 4.19% loss in domestic rate revenue for the North Down district). More detail on the impact on all councils is provided in Table 3.

Table 3: Financial Implications of the Reduction in the Cap by District Council

District Council	Numbers benefiting from: £500k Cap	£400k Cap	Revenue Loss from £500k Cap	Total Revenue Loss from £400k Cap	Additional Revenue Loss of Imposing £400k Cap (Compared to £500k Cap)
Antrim	13	39	£6,109	£13,168	£7,058
Ards	107	304	£54,636	£105,312	£50,676
Armagh	14	48	£3,793	£12,363	£8,570
Ballymena	12	46	£4,756	£13,292	£8,536
Ballymoney	9	16	£3,515	£7,017	£3,502
Banbridge	15	42	£8,919	£17,027	£8,108
Belfast	1120	2314	£496,291	£924,496	£428,205
Carrickfergus	17	41	£9,600	£17,916	£8,316
Castlereagh	37	145	£7,447	£23,911	£16,465
Coleraine	39	117	£11,252	£30,536	£19,284
Cookstown	6	18	£2,517	£5,548	£3,031

Table 3: (cont'd)

Craigavon	17	43	£10,779	£20,811	£10,032
Derry	40	99	£22,478	£47,643	£24,985
Down	37	72	£24,349	£39,734	£15,385
Dungannon	22	71	£8,805	£19,028	£10,223
Fermanagh	23	50	£9,804	£17,252	£7,447
Larne	2	7	£2,492	£3,802	£1,311
Limavady	3	6	£4,752	£6,353	£1,601
Lisburn	111	358	£38,138	£89,169	£51,031
Magherafelt	8	16	£3,852	£6,365	£2,513
Moyle	11	28	£5,598	£12,088	£6,490
Newry	53	144	£26,480	£52,866	£26,386
Newtownabbey	15	47	£3,852	£12,506	£8,655
North Down	605	1202	£290,351	£494,074	£203,722
Omagh	8	18	£2,011	£5,805	£3,794
Strabane	2	4	£2.423	£3,451	£1,028
Total	2346	5295	**£1,064,999**	**£2,001,353**	**£936,354**

The impact on these councils' planned expenditure is that either the lower cap would result in there being less expenditure available for local services or else the district rate would have to be higher than it otherwise would have been to raise the same amount of money.

The option exists to compensate district councils for losses they incur due to the reduction in cap, in the form of a transitional relief scheme. The precise form of such a scheme would have to be established. However, it would mean that the loss in district rate revenue arising from a reduction in the maximum cap would be phased in over a period of time.

Alternatively, it may be considered that the impact on councils, in most cases, is not significant enough to warrant the introduction of a separate transitional relief scheme. In addition, it may be felt that the natural growth in the valuation lists which tends to occur over time will protect councils from the adverse effects of the reduction in the cap.

Do you have any views on the impact of the reduction in maximum capital value between district councils?

Do you think the Department should compensate the district councils for their loss in revenue by providing a transitional relief scheme?

If so, do you have any views on how such a scheme should operate?

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Section 3: Summary of Impact Assessments

New TSN

New TSN (Targeting Social Needs) is a wider Government policy which aims to tackle disadvantage through targeting resources towards those areas, groups and individuals that are in greatest need. As part of the assessment of this proposal, an examination has been carried out of the impact it would have in terms of disadvantage.

The approach taken makes use of a widely used measure of Deprivation, the Northern Ireland Multiple Deprivation Measure (NIMDM). This provides an indication of the level of deprivation that exists within a particular ward.

Under this approach, each ward was ranked according to the level of deprivation it exhibited based on the NIMDM (grouping them into deciles – ten groups, each with 10% of the total number of wards - from most to the least deprived). The impact of the maximum cap on areas of varying deprivation was then examined. The results of this analysis are set out in more detail in the IIA (available on the Rating Review website (http://www.ratingreviewni.gov.uk) or on request). However, the following provides a summary:

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

Table 4: Rural/Urban Classification of all NI Properties and the percentage in each area benefiting from the Cap

	Percent of Properties Gaining from £400k Cap	Average Rates Bill (Max Cap = £500k)	Average Rates Bill (Max Cap = £400k)
D10 (Most deprived)	0.03%	£470	£470
D9	0.03%	£514	£514
D8	0.06%	£567	£567
D7	0.21%	£633	£632
D6	0.28%	£680	£679
D5	0.43%	£693	£691
D4	0.19%	£702	£702
D3	0.32%	£747	£746
D2	0.68%	£836	£833
D1 (Least deprived)	3.40%	£1,014	£999

Comparing the rate bills under both levels of caps, it can be seen that the least deprived decile will benefit from the biggest reduction in their bill (£15) if a £400 000 cap were introduced. Deciles 2 to 7 only see a reduction of around £1 - £2. The most deprived deciles (D8, D9, D10) do not experience a sizeable reduction. In fact, if the regional rate was to be increased to recover the lost revenue, ratepayers in these deciles are likely to face an increase, as the tax burden is redistributed on to lower value properties.

A further dimension to the New TSN analysis involved examining the socio-economic profile of those households that would benefit from a reduction in the maximum cap, compared to the profile of the Northern Ireland population as a whole. This uses analysis carried out by NISRA based on the 2001 Census.

This analysis places households into 5 categories:

- Managerial/Professional
- Intermediate/Small Employer
- Routine Occupations
- Unemployed/Student
- Not classified/coded

Unsurprisingly, the results of the analysis suggest that those in the ‘Managerial/Professional’ category are significantly over-represented among those benefiting from the cap, representing nearly 70%, compared to 23% of the overall NI population; those in ‘routine occupations’ are significantly under-represented, accounting for only 3% of those benefiting from a cap, compared to representing 33% of the whole population.

Do you have any views on the socio-economic impact of the proposal to reduce the maximum capital value from £500,000 to £400,000?

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

Rural Proofing

A Rural Proofing exercise will assess whether there is likely to be a differential impact between urban and rural areas arising out of reducing the maximum cap. Again, the Integrated Impact Assessment provides more detail, with the results being summarised in Table 5.

The impact of a reduction in the maximum cap on Rural, Urban and Mixed properties is given in Table 5. NISRA have provided an Urban/Rural/Mixed Classification based on all the wards of Northern Ireland. This has been cross referenced with the Northern Ireland Housing Stock to produce the breakdown in Table 5.

Table 5: Rural/Urban Classification of all NI Properties and the percentage in each area benefiting from the Cap

	Northern Ireland	% Benefiting from £400k Cap	% Benefiting from £500k Cap
Urban	60%	64%	64%
Rural	29%	16%	13%
Mixed (contains both urban and rural areas)	11%	20%	23%
	100%	100%	100%

Urban Properties are over-represented among those benefiting from both a £500,000 maximum cap and a £400,000 maximum cap (representing 64% of properties for both compared to representing 60% of properties in Northern Ireland as a whole). Rural properties, however, are under represented, with the percentage of those benefiting under either cap located in rural wards being around half that of the overall Northern Ireland figure of 29%. Clearly, however, those properties in Mixed urban/rural wards are most over-represented in terms of those who will benefit from a cap.

Urban properties benefit more than rural properties from the imposition of the £500,000 cap. Any cap will have less of a beneficial impact on rural areas.

Do you have any views on the relative impact of the reduction in maximum capital value on urban and rural areas?

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

Equality Impact Assessment (EQIA)

Any policy developed by the Department of Finance and Personnel 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; and between persons with dependents and persons without.

The aim of an Equality Impact Assessment (EQIA) is to determine whether any of the nine groups defined above are significantly affected, either positively or negatively, by a change in government policy: does the policy under consideration create differential impacts between groups within each Section 75 category? Is this impact adverse or beneficial?

Through an analysis carried out by NISRA based on the 2001 Northern Ireland Census, the Department has been able to carry out an assessment of the Equality Impact of the proposed reform. The details of this analysis are set out in Annex A, with the results again summarised below:

Results – Impact on Average Rates Bills by Section 75 group

The approach taken in the analysis is to look at the change in the average rate bill for each of the different sub-groups following the reduction in the maximum cap. The outcome for almost all sub-groups is the same – a reduction in the maximum cap reduces the average rate bill by a small amount. For example, in terms of the Community Background category, those in the 'Catholic' sub-group will experience a fall in the average rate bill from £682 to £679; in the 'Protestant' sub-group, the bill falls from £712 to £709; while for those in the 'Other/None' category, the fall is from £758 to £752.

The sub-group of are those who are 'Single' in terms of Marital Status do not experience a sizeable fall in the average bill. The same pattern occurs for district and regional bills as for regional rate bills only.

The EQIA also looks at what would happen to average bills within each sub-group assuming revenue neutrality; in other words, where the lost revenue was recovered through increasing the poundage applied to capital values used to calculate rate bills. While this does result in the average rate bills increasing compared to the average bills without revenue neutrality, again the differences are not significant.

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

With the exception of marital status, the sub-group differences in average domestic rates before and after the lowered cap become smaller after correcting for cross-effects. This is true for both regional rates and regional/district rates combined.

Do you have any views on the relative impact of the reduction in maximum capital value on different Section 75 groups?

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

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

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Section 4: Next Steps

When completed, the results of the consultation which be shared with both the Minister and with the Committee for Finance and Personnel. A report setting out the main issues raised during the consultation will be made available on the Rating Review website. Following consideration of these issues, it is intended to take forward the necessary subordinate legislation to enable the preferred outcome to be implemented in time for rate bills issuing in April 2009.

Should a decision be made to introduce a transitional relief scheme for councils in relation to the district rate revenue loss, the legislative implications of doing so will also have to be considered and brought forward for implementation at the earliest possible date.