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INVESTOR IN PEOPLE

Review of Domestic Rating Consultation Report

25 September 2007

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FOREWORD

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

One of my first actions as Minister of Finance and Personnel was to announce a review of the new rating system, which was introduced in April of this year, to ensure we have a local taxation system that is more acceptable to ratepayers and does not give rise to hardship.

On 15 May 2007, during the first debate in the Assembly about the new system, I undertook to bring forward proposals to the Executive on the steps I intended to take to fulfil this commitment bearing in mind that, over the last five years, there had already been extensive research and consultation on the subject. I therefore concluded what we needed was both a short term review to deliver further support measures in time for next year's bills and also to consider if more fundamental changes are needed in the longer term.

On 12 June this year, I announced in the Assembly the publication of the terms of reference for the review and on the same day I also launched a 12 week public consultation. This consultation process was initiated within weeks of restoration, demonstrating our commitment to address the issue.

A broad mix of views was expressed during this consultation both on possible short term measures and also on the longer term issues. All the responses will be made available on the rating review website.

This report provides a summary of what the public said, through the 42 representative organisations who responded and 77 individual ratepayers who took the trouble to write in. In line with the terms of reference for the review, it divides the comments into those that relate to changes which could be made in the short-term and those which will require further consideration in the longer-term.

My Department and I, along with the Committee for Finance and Personnel, will be reflecting on what has been said and considering the evidence gathered through this process in detail. This will inform the next stage of the review which will involve the development of options for more effective, sustainable and consensual policies, which is essential for the outcomes to pass successfully through the Assembly.

This will undoubtedly be one of my top priorities in the weeks ahead and later in the year I will be presenting options for change to my Ministerial colleagues in the Northern Ireland Executive and the Assembly.

Finally, I would like to thank everyone who responded to this consultation for their valuable contribution in delivering change for the better. I am under no illusions about the difficult decisions we will now have to make but I can assure the public and other key stakeholders in this process that they will be taken having fully considered the views expressed during this consultation.

SECTION 1: INTRODUCTION

BACKGROUND

1. In April 2007, a new domestic rating system was introduced following the completion of a review initiated by the previous Northern Ireland Executive in May 2000. The review was taken forward under Direct Rule following the suspension of devolution in October 2002. It involved the assessment of a range of options for change in relation to both domestic and non-domestic rating and was informed by a series of public consultations. The outcomes included the enactment of three Orders in Council and 26 pieces of subordinate legislation giving effect to fundamental reforms of the domestic and non-domestic rating system¹.
2. 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, announced his intention to review the new domestic rating system in the light of mounting criticism of its impact on ratepayers, pensioners in particular. A summary of the key reforms and the scope of the further review are provided below.

Domestic rating reform pre April 2007

3. The main difference between the domestic rating system that existed before April 2007 and the new system relates to the basis upon which domestic properties are valued for rating purposes. The old system was based on individual rental values (NAVs), using values derived from the 1960s, whereas the new system is based on individual capital values assessed in light of sale prices up to 2005.
4. Other options had been considered during the reform process, including a banded system along the lines of Council Tax in Great Britain. However, a system based on individual capital values was chosen for a number of reasons. It was considered that such a system would be easier to understand than the alternatives and there was also evidence that it would have the most positive outcome in terms of its impact on less prosperous areas.
5. To give effect to this change, a revaluation of all domestic properties on an individual capital value basis was carried out by the Valuation and Lands Agency (now the Land and Property Services) and notifications were sent to all ratepayers over the summer of 2006 setting out their new capital value, the information it was based on and how it could be reviewed in advance of billing in April 2007. The legislation enabling the Land and Property Services to determine the capital values and provide advance publication of them was contained in the Rates (Capital Values, etc) (Northern Ireland) Order 2006².
6. Other changes to the domestic rating system that took effect in April 2007 included –
 - The introduction of a new rate relief scheme for those on low incomes, which sits above and is in addition to the existing housing benefit scheme;
 - The provision of 100% relief where properties are occupied solely by full time students and trainees, ratepayers aged less than 18 and young people leaving care;
 - The provision of transitional relief over a three year period for those most adversely affected by the move to capital values;
 - Amendments to the existing Disabled Persons Allowance scheme to simplify the process of making awards and introduce a standard 25% reduction;
 - The standardisation of rates in the social rented sector; and
 - The establishment of a new independent valuation tribunal.

¹Details of consultations and legislation enacted can be found on the Rating Policy website – <http://www.ratingreviewni.gov.uk>

²See <http://www.opsi.gov.uk/si/si2006/20062954.htm>

7. All of these changes were provided for in the Rates (Amendment) (Northern Ireland) Order 2006³. This Order also contained powers that would allow a future Northern Ireland Executive to change the new system by –
 - Introducing a maximum cap;
 - Introducing a minimum payment;
 - Introducing the rating of vacant domestic property;
 - Targeting the low income rate relief scheme at different groups; and
 - Introducing a deferment scheme for pensioners who own their homes.
8. Following representations made by local parties during the St Andrews negotiations in November 2006, two of these powers were exercised in preparation for devolution in May 2007 and took effect in April 2007 also. They resulted in the following changes being made to the new system:
 - The setting of a cap at properties valued at £500,000 (which equates with the highest Council Tax bill in England); and
 - The provision of further relief to pensioners on low incomes through the new low income rate relief scheme mentioned above.

Executive Review of Domestic Rating post April 2007

9. The Terms of Reference for the review announced by Peter Robinson (the Minister of Finance and Personnel) during the Assembly debate on 15 May 2007 were published on 11 June 2007. They state that the review will be taken forward in two strands. The first of these (Strand 1) will consider changes to the existing system, and can be divided into a further two subcategories.
 - The first subcategory ('Strand 1A') relates to changes that can be made to the new system in time for the next rating year which starts on 1 April 2008. These changes would require subordinate rather than primary legislation.
 - The second subcategory ('Strand 1B') deals with changes to the new system that require primary legislation and would therefore take longer to implement.
10. The second key strand to the review (Strand 2) is looking at the wider options for reform and considering ways of replacing or supplementing the new capital value system with alternative systems for raising revenue. These longer term options for change would require primary legislation and in some cases amendments to the Northern Ireland Act 1998.

CONSULTATION PROCESS

11. The publication of the Terms of Reference on 11 June 2007 was accompanied by the launch of a 12 week consultation process ending on 31 August 2007. Advertisements were placed in the local and regional press following the launch seeking views from all interested parties. There was also coverage of the review on local television and radio at the time of the launch.
12. Given that ratepayers were already aware of the impact of the new system on them, and the need to progress the review urgently in order to deliver change by April 2008, it was considered sufficient to make the Terms of Reference for the review publicly available rather than issue a further consultation paper. As well as placing the Terms of Reference on its website, Rating Policy Division also e-mailed 200 key stakeholder organisations to ensure that they were aware of the consultation and how to access the Terms of Reference. During the consultation period, the website was accessed on over 33,692 occasions. All of the previous consultation and policy papers leading up to the introduction of the new system in April 2007 were also made available on the Review of Rating Policy Archive website⁴.

³See <http://www.opsi.gov.uk/si/si2006/20060611.htm>

⁴See <http://www.ratingreviewni.gov.uk/archive.htm>

Who responded to the consultation

13. A total of 119 responses were received during the consultation. Of these, 28 were from organisations, 12 District Councils, 2 political parties and 77 from individual ratepayers with about a quarter of these from pensioners. A full List of those who responded is included at Annex A.

This report

14. This report aims to summarise the views expressed by those who responded to the consultation exercise. All of the responses are available on the 2007 Executive Review of Rating Reform website⁵ and have therefore not been appended to this report.
15. The remainder of the report is structured into three sections. Section 2 sets out the views expressed on Strand 1 options and Section 3 outlines the views expressed on Strand 2 options. Section 4 sets out other issues raised and Section 5 sets out the conclusions drawn from the consultation exercise and next steps.
16. This document purports to report back on the outcomes of the consultation in a neutral way. It does not therefore comment on the validity of the points made by those responding to the consultation nor defend the policies currently in place. However, where there has been a clear misunderstanding of the new system, clarification has been provided to assist the reader in evaluating the particular response.
17. Furthermore, this report does not contain any further analysis of the various options for change under Strand 1 or Strand 2 or any recommendations on the way forward. These will be published in a further paper following presentation to the Executive and the Assembly later this year.

⁵See <http://www.ratingreviewni.gov.uk/>

SECTION 2: STRAND 1 OPTIONS

INTRODUCTION

18. This section summarises the views expressed by those who responded to the consultation on the Strand 1 options i.e changes that can be made to the existing system. It is subdivided into Strand 1A options and Strand 1B options (see paragraph 9 above) and follows the order of the options presented in the Terms of Reference. Strand 1A includes changes that can be made to the existing system by April 2008 and Strand 1B includes options for change, again to the existing system, that would take longer to implement.
19. First of all, however, there were some general comments made about the existing system that need to be reflected in this section of the report. They related to the following key issues.

General Comments

Capital value

20. The new capital value system replaced the old rental values system. Capital value is related to the open market value of the property and is a figure assessed by the District Valuer (Land and Property Services). Given that most people are now owner occupiers, ratepayers can relate more easily to it. It is important to note that it acts merely to divide up the overall rating burden amongst householders in a different way. It is not a new tax.

Ability to pay

21. The phrase 'ability to pay' was referred to in many of the responses but exactly what it means is difficult to define or rather it can mean a number of things depending on the context. Most of the respondents appear to view it as directly relating tax liability with current income.

Rates differential

22. The differential between the highest and lowest bills relates to the gap between the highest and lowest bills and relates to the concern that as ratepayers are availing of similar public services then there could be an issue of value for money.

District Rate/Local services

23. The District Rate is the part of the rates bill that is struck by district councils and contributes to the funding of local services. The key concern here was the issue of paying for local services in a more direct way, instead of through a general property tax, like rates.

Regional Rate

24. The Regional rate is that part of the rates which helps fund services such as roads, hospital and schools. It is set by the Assembly and along with the District rate set by District Councils makes up the total rate liability.

Asset rich/income poor

25. 'Asset rich/Income poor' usually relates to those people who have lived in a property for some time, perhaps a family home, but are now retired with a limited income.
26. A summary of the views expressed on these key issues relating to the existing capital value system is provided below.

General Summary of Consultation Responses

27. Twenty-three ratepayers and 11 organisations commented on the capital value system itself. In total, 29 respondents, including 22 ratepayers, criticised the new system. However there was also some support for the system from a few individuals and organisations, such as the

Northern Ireland Local Government Association ('NILGA'), the Northern Ireland Public Service Alliance ('NIPSA') and Antrim Borough Council.

28. Of those opposing the current system Professor Birrell argued that rates should be seen as a hybrid tax containing an element of property wealth tax and a charge for services and felt that the services element has been largely ignored. The Fair Rates Campaign also supported the hybrid principle and argued that there needs to be a balance struck between those in expensive houses using minimal levels of services and those in smaller, less costly, houses who may be consuming greater levels of services. The Communication Workers Union are also opposed to the system, but for different reasons, as they argued that the capital value system protects the most affluent and spreads the burden of costs for rates revenue downwards.
29. In contrast NILGA supported the capital value system, with the caveat that it needs to be wedded to a robust relief scheme, as did NIPSA who welcomed the positive New Targeting Social Need ('New TSN') impact of the reform.
30. Some ratepayers, in opposition, expressed concern at rapidly rising capital values and how this will lead to exorbitant rate bills in the future. However this misunderstands the role of values in a property tax and their function as a relative distribution measure. Should the system continue and there were to be a revaluation in the future, some ratepayers will pay more, some less and some would stay, even if all values had increased in the interim. The tax rate would go down and the factor which would determine the outcome for an individual ratepayer would be whether the value of their house has gone up by more or less than the average.
31. Many commented on issues such as ability to pay and all were in favour of a rating system that took this factor into account. Some argued that it is fairer to base rates liability on means rather than property value. For example Help the Aged and Age Concern (joint response) argued that pensioners are usually on fixed incomes that do not increase with the value of their property and the Fair Rates Campaign stated that in any rating system there is a need to assess an occupiers ability to pay. In making these comments it is worth noting that many did not make any reference to the means-tested rate relief scheme that was introduced in tandem with the capital value system.
32. Other comments included reference to the differential between the highest and lowest paid bills with the Fair Rates Campaign and 7 ratepayers arguing that the highest bill should be no more than five times the lowest bill. Reference was also made by 9 respondents to the regional rate with NILGA arguing for greater transparency through a move away from the non-hypothecated system to a hypothecated one (which means it would be linked to the provision of specific services).
33. Both Armagh City & District Council and the Fair Rates Campaign argued for a reduction in the regional rate following any introduction of water charging with the Fair Rates Campaign stating if water charges are to be included in rates bills then the amount of the water charge should be clearly indicated.
34. Finally there were a few comments about the need to protect the asset rich/income poor and three commented that there should be no change to the revenue neutral policy.

STRAND 1A

35. The rest of this section deals with the views expressed on Strand 1A and Strand 1B options. The Strand 1A options are –
- Changes to the level of maximum cap
 - Introduction of a minimum payment
 - Introduction of rating for vacant domestic properties
 - Amendments to the rate relief scheme
 - Revision of the existing provision for education and training relief
 - Introduction of a deferred payment scheme for pensioners
 - Revision of the early payment discount
 - Re-profiling the existing Transitional Relief Scheme

Changes to the Level of Maximum Cap

36. The current level of the maximum cap is set at properties with a capital value of £500,000 and above⁶. The Regulations to introduce a cap at this level were made as a result of representations by local political parties during the negotiations that led to the St Andrews Agreement.
37. The level of the current maximum cap was set at £500,000 to ensure that the highest rate bills in Northern Ireland were consistent with the highest council tax bills in Great Britain (circa £3,000). Approximately 2,300 ratepayers currently benefit from this cap and it is estimated that the loss of revenue this year as a result of the cap will be around £2.5 million. In future years, it is likely that the cost will be absorbed by other ratepayers.
38. The main option for change set out in the Terms of Reference was to lower the level at which the cap is set. This would increase the number of ratepayers who would benefit from a reduction in their rates bill. It would however impact adversely on those ratepayers whose bills are not capped as they would have to pay more to help fund the reduction enjoyed by those whose bills are capped. Other options include increasing the level at which the cap is set, abolishing it altogether or having a cap for certain groups only such as pensioners.

Summary of Consultation Responses

39. Of those who responded to the consultation, 42 referred specifically to the issue of a maximum cap on capital values. 24 of these supported a cap while 18 were opposed to it. It is notable that, of those in favour, 18 were individuals and just 6 were organisations. However, of those opposed to a cap, 15 of these were organisations and 3 were from individuals.
40. Among the organisations opposed were several district councils, including Fermanagh District Council, Lisburn City Council, Belfast City Council and Strabane District Council. Other organisations not in favour of a maximum cap included Advice NI, the General Consumer Council and the Northern Ireland Anti Poverty Network. The Alliance Party, in their response, also expressed some reservation around the capping of rate bills, commenting that, 'A blanket cap is too much of a blunt instrument'.
41. 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. The Ulster Unionist Party also felt that the option of lowering the cap had merit but that the impact on low-income households needed to be carefully considered.

⁶This 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.

Introduction of Minimum Payment

42. The introduction of a minimum cap would involve the setting of a capital value limit below which the rate liability of households would not fall. While rates are purely a property tax, this would be a way of recognising that, broadly speaking, there is a basic level of local and regional government services that can be consumed by most households. It can be argued that such a measure would ensure that those in lower value properties, who can afford to pay, make an appropriate contribution towards the cost of providing those services .
43. As with the maximum cap, the minimum limit would be set by adjusting the capital values. Any property with a capital value below that limit would be rated as if its capital value is at that limit. This would result in those below the threshold experiencing a slight increase in their rate liability while those above the threshold would experience a slight reduction. Those on low incomes would continue to be supported through the housing benefit system and the rate relief scheme for those on low incomes introduced in April this year.
44. Unlike the maximum cap, a minimum payment was not introduced as part of the package of reforms that took effect in April this year. However, an enabling power that could be used by the Northern Ireland Executive to introduce such a measure was provided for in the Rates (Amendment) (Northern Ireland) Order 2006.

Summary of Consultation Responses

45. A total of 13 responses were received on the issue of a minimum payment. Twelve organisations were against its introduction and one ratepayer was in favour, suggesting that the maximum cap should be a multiple of the minimum payment.
46. Strabane District Council and Fermanagh District Council Councils were opposed to a minimum payment expressing the view that it would have a disproportionate impact on the low paid. Castlereagh Borough Council considered that the introduction of caps generally benefit the very wealthy and/or the very poor and householders in the middle categories are left to cover the shortfall. NILGA was not supportive of the minimum payment concept as they felt that such a scheme could defeat the purpose of the New TSN policies. The General Consumer Council stated that there must be an adequate system of protection for vulnerable households, funded where possible, by central taxation rather than through a cross subsidy on other householders.
47. One ratepayer stated that all householders, even those on low income, should be required to pay a minimum contribution towards rates as all households avail of the services. The same respondent also stated that it was inequitable and unjust for those paying full rates to subsidise those on benefits.

Introduction of Rating of Vacant Domestic Property

48. Currently, no rates are paid on vacant domestic properties. This is unlike the situation in Great Britain where vacant domestic properties are liable for Council Tax at 50% following an initial six month exemption period. An enabling power does exist, however, in the current rates legislation which would allow the Assembly to introduce the rating of vacant domestic property in Northern Ireland. Vacant non-domestic (usually business) property in Northern Ireland has been rated at 50% after an initial three month exemption period since April 2004.

Summary of Consultation Responses

49. Of those who responded to the consultation 27 (6 rate-payers and 21 organisations) specifically referred to the rating of vacant property with 21 in favour, including 4 ratepayers. One organisation offered qualified support. Five were opposed to the introduction of this measure and this included the remaining two ratepayers.

50. There was some concern expressed about the practice of speculative development where investors buy property to benefit from the significant capital appreciation in the property and often leave it vacant for long periods of time. Some respondents felt that the rating of vacant property would act as an incentive for such developers to either sell or rent such properties. This picks up on a key theme in the Semple Report on Housing Affordability in which the rating of vacant domestic property at 100% after a six month exemption period was recommended to encourage owners to bring properties back into use or compel their sale on the open market or to a housing association. Other respondents linked the issue to the taxing of derelict land or land value taxation. These issues are dealt with in Section 3 of this report.
51. The Ulster Unionist Party in supporting this proposal argued that the rating of vacant domestic property would be a significant policy tool in encouraging action on or sale of empty homes in both rural and urban settings. This view was echoed by Fermanagh District Council.
52. The Alliance Party commented that given the issues surrounding housing waiting lists, the rising property market and the crisis around affordable housing they supported the rating of vacant domestic properties as it would provide a financial incentive for such properties to be used.
53. NILGA also supported the introduction of vacant domestic rating and argued that such a measure would ensure an adequate supply of available and affordable housing. However, they stated that the charge should only apply after the property has been vacant for six months. This view was shared by some other respondents including the National Federation of Post Office and BT Pensioners.
54. The General Consumer Council supported the measure but pointed out that the level of any charge and the cost effectiveness of any scheme should be considered before any decision is made.
55. Others supporting the measure included Belfast City Council, Strabane District Council, Antrim Borough Council, North Down Borough Council and Larne Borough Council and also the Greater Village Regeneration Trust, the Portballintrae Residents' Association, Portstewart Vision and the Northern Ireland Action Poverty Network.
56. Of the few opposed to this measure Lisburn City Council argued that whilst they were against the rating of vacant domestic property in a general sense they did support charging developers for vacant new property. Additionally one ratepayer expressed the view that it would impact adversely on pensioners as a group as many had bought domestic properties to supplement their pension provision.

Amendments to the Rate Relief Scheme

57. The low income rate relief scheme⁷, although not a social security benefit, follows the general principles of the statutory housing benefit scheme and was introduced in April 2007. It provides assistance to ratepayers in low income households who are just beyond the social security housing benefit threshold or are in receipt of partial housing benefit because their income exceeds the amounts allowed (referred to as 'excess income'). The scheme sits above but is separate from the existing housing benefit system and targets those most in need. It focuses on ability to pay through means testing rather than membership of a group.

⁷Article 30A of the Rates (Northern Ireland) Order 1977, which was inserted by Article 14 of the Rates (Amendment) (Northern Ireland) Order 2006, provides the legislative basis for the rate relief scheme

58. Under the housing benefit scheme there is a 20% deduction (referred to as the 'taper') to the excess income which in effect becomes the amount of rates the person has to pay. Under the rate relief scheme the taper is a 40% reduction which therefore increases the potential for entitlement to rate relief.
59. One of the commitments made by the Government as part of the St Andrews Agreement was to provide additional relief to low income pensioners. As a result, the personal allowances were increased by 15% for single pensioners and by 10% where pensioners are living with a partner. This, also, came into effect in April 2007.
60. The scheme is administered by the Land and Property Services (formerly the Rate Collection Agency) for those in the owner-occupier sector and by the Northern Ireland Housing Executive for those in the rented sector, including Housing Associations.

Summary of Consultation responses

61. A number of the consultation responses referred to the issue of rate relief for pensioners. Some of these contained a request for a substantial non-means tested allowance for pensioner occupiers or a permanent or automatic discount. This is considered in more depth below.
62. One detailed response on the issue of pensioner relief was provided by Helen's Bay and District Residents Association on behalf of the Bayburn Residents Group (Helens Bay and Crawfordsburn) who proposed a number of changes to alleviate the difficulties that pensioners and those on low incomes may have with the capital value system. One of their suggestions was that the Department should simplify the system, making it affordable, and enable a reduction in means testing with relief provided for pensioners earning less than £35,000 per annum.
63. In their detailed response to the consultation exercise both Help the Aged and Age Concern (combined response) stated that they were 'satisfied with the outcome of the working group⁸, given the terms of reference, and its final decision to increase the personal allowance as a measure to enhance rate relief'. However, in their general comments the groups outlined their support for a move away from a system based on the capital value of a property (see below).
64. Other responses commenting on the issue of provision for pensioners drew out the disparity between the increase in their rate bills and the lower increase in their pension payments. One respondent stated that the breakdown in linkages between pensions and wage levels, which in his view led to more modest pension increases, made it difficult for pensioners to keep up with any larger year on year increases that may occur in rates bills.
65. Twenty responses supported increasing the savings/capital limit that is applied under the Housing Benefit/Rate rebate and rate relief schemes with the Fair Rates Campaign citing Lyons recommendation to raise the limit to £50,000.
66. Four responses (one ratepayer and 3 organisations) supported passporting onto the Rate Relief Scheme those on benefit, working tax credit, child tax credit etc. However it should be noted that some benefits already provide a passport to full housing benefit.
67. One ratepayer and one organisation stated they were against means testing.

⁸Pensioner Rates Relief Working Group convened by the Department of Finance and Personnel

Revision of the Existing Provision for Education and Training Relief

68. The rate relief scheme for those in full-time education and training was introduced⁹ as part of the Government's wider strategy for Children and Young People with the specific aim of providing an incentive for young people to enter into and remain in full time education. It was also seen as a mitigating measure to address the gaps that existed in relation to students within the Housing Benefit system and the new rate relief scheme that came into effect in April 2007.
69. The scheme provides for relief to be awarded where the property is wholly occupied by students and it too came into effect on 1 April 2007, though it was always expected that the main take up would not occur until September and October when the new academic year began.

Summary of Consultation Responses

70. Of those responding to the consultation 38 (18 ratepayers and 20 organisations) raised the issue of rate relief for full time students. Of these, 36 were opposed to it, including all the ratepayers, and two were in favour, including Fermanagh District Council and NILGA. Many of the respondents on this issue were concerned that a blanket relief was being awarded to students but not to other more 'worthy' groups such as pensioners. Others felt it was unfair that they should have to pay rates while students living in the same area, who may be causing disruption in the evening, do not have to contribute.
71. The other main concern to emerge in the consultation responses about this relief relates to the fact that in many cases it is the landlord who is liable to pay rates in respect of the properties occupied wholly by students not the students themselves. Many respondents, including the Alliance Party, the Fair Rates Campaign and NILGA, expressed the view that landlords should not benefit from this policy. In this respect, it is worth noting that the legislation provides that relief will only be provided in these cases where the landlord can verify that the benefit has been passed on to the students normally through a reduction in rent which is usually inclusive of rates. Others such as the Portballintrae Residents' Association went further by saying that there should be no relief awarded in respect of student accommodation as these properties are run as businesses and profit making enterprises. In opposing the relief, one respondent expressed the view that there were other more effective ways of helping students such as reducing tuition fees.

Introduction of Deferment Scheme for home owning pensioners

72. As part of the package of reforms introduced in April 2007, provision was made for an enabling power that would allow the Executive to introduce a deferment scheme for home owning pensioners through subordinate legislation¹⁰. The aim of such a scheme would be to give those pensioners who are not eligible for housing benefit or rate relief the option of deferring payment of all or part, of their rate bill until the sale of their property.

Summary of Consultation responses

73. Nineteen respondents referred to the issue of a deferment scheme for pensioners. Of those who responded 4 organisations and one individual ratepayer were in favour of its introduction and 12 organisations and one ratepayer were against. One organisation was undecided.

⁹See the Rate Relief (Education, Training and Leaving Care) Regulations (Northern Ireland) 2007 which were made under Article 15 of the Rates (Amendment) (Northern Ireland) Order 2006 as amended by the Rates (Northern Ireland) Order 1977

¹⁰See Article 29A of the Rates (Northern Ireland) Order 1977 as inserted by Article 10 of the Rates (Amendment) (Northern Ireland) Order 2006

74. Of those who were in favour of its introduction, Belfast City Council said that it believed a deferment scheme would not be widely used but could function as an important safety net in helping to ensure that homeowners are able to retain their homes especially those with high property tax burdens and with no eligibility to other forms of relief. The National Federation of Post Office and BT Pensioners support the principal of home owning pensioners having the option of such a scheme, however they also stated that full consultation would be required.
75. Of those who had concerns about its introduction, NILGA considered that it would add to the debt culture developing nationally. North Down Borough Council had concerns about the impact on pensioners on benefits and those with concerns about what they leave for their families. As such, it was considered a second option to a discount/rebate system. The Alliance Party had concerns that it may cause worry to some with respect to assets they planned to hand on to subsequent generations. It also preferred a general discount/relief for pensioners.
76. The General Consumer Council also expressed concern about the legal and logistical implications of a deferment scheme and recommended that a cost benefit analysis and further consultation with stakeholders should be conducted before any decisions are made.
77. Help the Aged and Age Concern (joint response) recommended that the age sector should be formally consulted on any draft proposals on the matter. They added that deferral should not be a substitute for a fair and sustainable rating policy.

Revision of the Early Payment Discount

78. Rate bills are currently sent to households at the beginning of each financial year. Ratepayers can pay their rate bill either by single payment for the full amount of rates, which should be made within one month of the date of issue, or by monthly installment over 10 months. Payment within a month of the date of issue entitles the ratepayer to a 4% discount on their bill.
79. The level of discount was last reviewed in 1983 when it was recommended to retain the discount and to increase it from 2.5% to 4%.

Summary of Consultation responses

80. Eight respondents commented on the early payment discount with two organisations for and one ratepayer and 5 organisations against. The 5 organisations against revision of the early payment discount scheme were however in favour of retaining the current discount.

Re-profiling the existing Transitional Relief Scheme

81. Transitional relief provides assistance to those most adversely affected by the move from rental to the capital values from 1 April 2007.
82. It is provided automatically over a 3 year period from 1 April 2007 to 31 March 2010 where rate bills have increased by more than 33% above what they would otherwise have been under the old NAV system. In the first year (1 April 2007 to 31 March 2008) transitional relief is awarded on the full amount over the 33% threshold. In the second year the level of relief is two thirds and in the third year it is one third. Full rates then become payable from 1 April 2010.

Summary of Consultation responses

83. A total of 10 respondents commented on the issue of transitional relief. All of these were organisations and were in favour of the relief. Five of the 10 suggested an extension or a re-profiling of the scheme.

84. The Stranmillis Residents Association considered that the scheme should be extended to take account of what they estimated to be a six fold increase in the rates in their area.
85. NIPSA accepted the need for such short term relief provided there is no regressive redistribution of the rates burden generally to facilitate relief for those well able to afford the increase.
86. Belfast City Council suggested a reprofiling of the scheme over 5 years to cover the life of the new valuation list and that it should not be extended beyond this.
87. The Citizens Advice suggested that a sliding scale would be useful for those who receive, for example, an increase of 20%. In addition they suggested an extension for 4 years with a tapered system of 100%, 75%, 50% and 25%, meaning ratepayers would only have to pay full rates in year 5.

STRAND 1B

88. The rest of this section deals with the views expressed on the Strand 1B options for changing the existing system. The Strand 1B options are –
- Graduated tax system,
 - Single Person Discount,
 - Single pensioner discount,
 - Automatic Pensioner Discount,
 - Broadening of the existing Disabled Persons Allowance provision,
 - Circuit breakers,
 - Enhanced discount for farmers,
 - Introduction of a discount for owner occupiers,
 - Rates Credits.

Graduated tax system

89. A graduated tax system establishes a standard rate up to a certain threshold of capital value, which every property pays and an alternate rate for properties whose capital values exceed the threshold. The graduated rate could be upward, as in the income tax system, where the surplus amounts over the threshold pay a higher tax rate or it could be a downward system where the surplus amounts over the threshold pay a lower tax rate.
90. Under the discrete capital value system a property's tax rate is based on its capital value multiplied by a tax rate. It could be argued that under this system, highly valued properties would tend to pay more than the cost of the services provided to them. Alternatively low valued properties may not be contributing enough towards the cost of providing services to them. Therefore, a downward graduated tax system is viewed as one way of balancing the 'ability to pay' with the 'provision of services' principle.
91. Under a system of downward graduated tax, there is a reduced tax liability on the value of property above a given threshold, while the taxpayer still pays the same rate as all other property owners on the value up to that threshold. This results in a loss of tax revenue from highest capital value properties, which is either recouped by further increasing the tax rate below the threshold, or is considered foregone.

Summary of Consultation responses

92. Four organisations commented on a graduated tax system and all were against its introduction. Help the Aged and Age Concern (joint response) is aware of work carried out in this area which suggests an increased tax burden on the lowest three quarters of properties when compared to a discrete capital value system. The Post Office and BT Pensioners Federation sees the proposal as unacceptable, stating that it will simply increase the tax burden on the least well

off unless the system is geared in a different way. Strabane District Council regards such a system as providing another inherent advantage to those who are wealthy.

Single Person Discount

93. A single adult discount scheme operates within the Council Tax system in Great Britain. This provides for a 25% discount in the bill faced by taxpayers. The discount stems from the structure of the Council Tax, which, unlike domestic rates, is a hybrid of property and personal taxation. That is, the Council Tax bill assumes there are two adult residents in the household. Where this is not the case, the discount therefore applies.
94. Domestic rates, on the other hand, are a pure property tax, with no allowance made for the number of residents in the property. No such discount therefore applies in Northern Ireland at present.
95. The introduction of a single person discount in Northern Ireland would result in a loss in revenue raised through the regional rate. This could either simply be accepted as revenue foregone or alternatively could be recovered through an increase in the regional rate. This could mean that all households, including both single and non-single households, would face higher rate bills as a result.

Summary of Consultation responses

96. Of those who responded to the consultation, 50 (29 ratepayers and 21 organisations) specifically referred to the issue of a Single Person Discount and 49, including all the ratepayers, were in favour of its introduction. One organisation was opposed to it.
97. The key themes that emerged from the ratepayers responses were that its introduction would be fairer and that it would also provide a better link to ability to pay and parity with GB. Professor Birrell in his response pointed out that the case for the single person discount in GB is based on lower use of services and not ability to pay. Help the Aged and Age Concern (joint response) commented that research emanating from New TSN put lone parents, along with pensioners, at greatest risk of poverty and also that single person households are more likely to suffer fuel poverty and therefore that relief should be targeted at these groups. The Anti-poverty network also advocated the introduction of this measure using similar arguments.
98. The Fair Rates Campaign, Lisburn City Council, Citizens Advice and Cliftonville Community Regeneration Forum, also cited parity with the rest of the UK in support of this measure. Larne Borough Council suggested that account needs to be taken of the level of services provided to each household.
99. The Alliance Party qualified their support by acknowledging that it is a fairly blunt sort of relief that may be more effective when implemented with other reliefs for single pensioners and people with disabilities for example.
100. Belfast City Council was opposed to the introduction of this measure on the basis that it is indiscriminate and not based on ability to pay. They also cited evidence of fraud levels as high as 25% in GB through failure to report changes in circumstances.

Single Pensioner Discount

101. The issue of single person discount is a general issue that has been raised throughout both previous reviews of rating and this particular consultation exercise. A number of consultation responses raised the specific issue of single person discount for pensioners stating this particular group was one which was susceptible to hardship under the new capital value rating system.
102. While no blanket provision has been made for a general single person discount, enhanced

provision had previously been made for single pensioners within the context of the provision introduced following the St Andrews Agreement negotiations. This enhanced rate relief for single pensioners on lower incomes was introduced in April 2007. The special provision for this group was secured following representations made by local political parties during the St Andrews negotiations last year and was made available within the mechanisms of the rate relief scheme on the recommendation of the Working Group set up after the negotiations. As stated above the provision increased the pensioner personal allowance under the new rate relief scheme by 15% for single pensioners.

Summary of Consultation responses

103. Of those who responded to the consultation, 11 (4 ratepayers and 7 organisations) specifically referred to the issue of a single pensioner discount. Ten of these, including all the ratepayers, supported the introduction of this measure.
104. In particular the Portballintrae Residents' Association named pensioners as one of a number of groups who should have some form of exemption from rates either through a percentage reduction or a flat rate reduction. Another example of such a request was from the Bayburn Residents Association. They sought a 10% or 20% discount for those pensioners living on their own.
105. The councils of Fermanagh District Council, Omagh District Council and Antrim Borough Council were in favour of the introduction of a single pensioner discount as was NILGA.
106. In addition to general comments requesting a straightforward discount for pensioners, many people voiced support for a general single persons discount (see paragraph 93 above) and some responses requested that increases in any rates bills for pensioners should be tied to either inflation or increases in state pension payments. Whilst neither of these options are the same as a straight discount both should be considered in relation to single pensioner discounts as they would have the effect of providing a discount to single pensioners.
107. Expressing opposition to the measure, Belfast City Council argued that it would be an indiscriminate use of resources and could benefit those not in need. They further argued that if additional resources are to be made available they should be used in the context of the low-income relief scheme and targeted to those in need.

Automatic Pensioner Discount

108. There are currently no blanket reliefs in the Northern Ireland domestic rating system based solely on the status of the ratepayer. This is because the previous review took account of the wide acceptance by those who contributed to earlier consultation exercises that blanket reliefs were not effective and would provide financial assistance to many who would not require support. It was considered that some pensioners and single householders, for example, could have substantial savings and/or income and might not need rate relief.

Summary of Consultation responses

109. Of those who responded to the consultation, 16 (7 ratepayers and 9 organisations) specifically referred to an automatic discount for pensioners. Fourteen were in favour, including all the ratepayers, and 2 were against the introduction of this measure.
110. The Ulster Unionist Party supported a non-means tested automatic discount for pensioners arguing that it gives dignity and security to those who have worked hard and saved throughout their lives.
111. Larne Borough Council also argued that this measure would offer protection to pensioners as

they are likely to reside in high value properties but have a reduced income. Other organisations supporting this measure included the Fair Rates Campaign, the Greater Village Regeneration Trust, the Portballintrae Residents' Association and the councils of Larne Borough Council and Strabane District Council.

112. Belfast City Council in opposition argued that this measure, like the single pensioner discount, would be an indiscriminate use of resources and would not take account of need. They further argued that if additional resources are to be made available they should be used in the context of the low-income relief scheme and targeted to those in need. They also commented that any such scheme may fail the equality impact assessment in that it favours a select group of ratepayers.
113. Age Concern and Help the Aged, in their joint response, also expressed their opposition to this measure stating that rate relief should be targeted at those in most need and that an automatic pensioner discount could have a negative impact on others on low incomes.

Broadening of the existing Disabled Persons Allowance provision

114. The current scheme ('the Disabled Persons Allowance scheme'¹¹) provides for the award of a rate rebate where a property has special facilities to meet the needs of persons with a disability. The scheme existed prior to April 2007 but was simplified this year to provide for a standard 25% reduction. Those in receipt of an allowance greater than 25% under the previous scheme retain that allowance for so long as their circumstances remained unchanged. The standardised scheme is similar in many respects to the one that applies under Council Tax in Great Britain.
115. The rationale for the scheme is that the capital value of a property may be increased due to adaptations or design features which are intended to meet the special needs of a person with a disability. It was therefore considered unfair that these people should have to face a higher bill as a result. It was not intended as an additional relief, as low income households including a person with a disability are covered already by the low income relief scheme. Households in which a claimant, their partner or a child has a disability already qualify for enhanced relief through this scheme.

Summary of Consultation responses

116. There were 34 responses in total which related to the Disabled Persons Allowance scheme, 16 of which were from individuals and 18 from organisations. One issue which was raised repeatedly was the belief that any allowance should be awarded on the basis of disability rather than simply because a house has been adapted to suit the needs of a resident with a disability. Several respondents commented that, for example, some, such as those who are blind or mentally impaired, might not have such adaptations and therefore would not currently qualify.
117. Moyle District Council, in their submission, went further, stating that the scheme should be a more flexible one, with higher rates of allowance depending on the degree of disability and the level of accommodation works required. Similarly, NILGA proposed that there should possibly be some sort of banding.
118. The question of who should qualify as a person with a disability was rarely addressed. Citizens Advice was one of the few to suggest that the scheme should be extended to all those who are in receipt of a disability related benefit.
119. Other respondents commented that persons with a disability, along with other vulnerable

¹¹See Article 31A of the Rates (Northern Ireland) Order 1977

groups of ratepayers, should be targeted for relief. One respondent stated that a 25% reduction should be extended to all those with a disability. The Portballintrae Residents' Association, too, felt that persons with a disability should be among those to receive a 'percentage reduction or flat rate reduction'.

120. Disability Action, in their response on this issue, stated that there was a need to promote the scheme more effectively in order to ensure that those entitled to the allowance were able to apply. The group was also concerned that the examples used in the promotional literature to show who might be eligible for the scheme might actually deter some from applying. Finally, Citizens Advice were the only respondent to query why the eligibility criteria for the scheme had been amended to no longer include those households where the needs of a person with a disability had been met through the addition of a garage or central heating.

Circuit breakers

121. Circuit breakers are a feature of a number of property tax systems in other parts of the world, notably North America. They involve the placing of a cap on the proportion of a person's income that they are expected to pay on property tax. These schemes tend to be confined to particular groups (pensioners, ex-service personnel) because of the potential for fraud.

Summary of Consultation responses

122. Of those responding to the consultation, 3 (one ratepayer and two organisations) specifically referred to circuit breakers.

123. Some asked to be provided with more information on the subject so that they could consider the subject in more detail.

124. In support of this measure Strabane District Council stated that they perceived an income gap, or circuit breaker, to be a viable consideration when collating an individual's rate bill. They stressed that this should be used as an indicator of wealth but that other factors should be taken into account such as capital values, and savings.

125. The ratepayer who responded on this issue argued that the amount of domestic rates payable not exceeding a certain percentage of net income is a very effective means of providing relief but further argued that ratepayers should not have to complete forms and declarations but rather that the relief should be triggered by pre-determined criteria laid down in legislation.

126. Additionally while not referring specifically to the option of a circuit breaker, some respondents did suggest that there should be a cap set on the proportion of a person's income which is spent on rates. These suggestions ranged from a cap at 3.5% to 8%.

Enhanced discount for farmers

127. Both the old rental value system and the new Capital Value system treated farmhouses differently from the main stock of housing. The legislation directs the district valuer (Land and Property Services) to value farmhouses in comparison with other farmhouses, which typically leads to a valuation reduction of around 20%.

128. The rationale for this policy is that farmers and farm workers, unlike others, must live beside the farm and therefore have limited mobility. The policy intention was to ensure that the speculative interest on the value of a farmhouse (such as if it is close to a coastal or urban area) is disregarded.

129. There have also been calls for additional discounts to reflect the fact that some houses,

particularly new ones built within the last 25 years, are subject to agricultural planning restrictions, which affect their open market value.

Summary of Consultation responses

130. Of those who responded to the consultation, 8 (one ratepayer, one MLA and 6 organisations) specifically referred to the issue of enhanced discount for farmers. All were in favour with NILGA arguing for its introduction citing the Capital Taxes Office view that the agricultural value of a farm house is around two-thirds its market value. They were also keen to encourage a sustainable industry which constitutes approximately 10% of the Northern Ireland economy. Fermanagh District Council, Antrim Borough Council, Strabane District Council and Larne Borough Council also expressed support for this proposal with some echoing the arguments made by NILGA.

131. Alderman Jim Shannon MLA also urged support and sought consideration for homes with agricultural clauses imposed upon them. The Ulster Farmers Union also echoed many of the points made by NILGA and re-enforced the point that as farmhouses tend to be situated in close proximity to agricultural outbuildings and yards, this detracts from the market value.

Discount for owner occupiers

132. Some jurisdictions, particularly in North America, charge a lower tax rate for owner occupiers, often referred to as a homesteading allowance. There have been calls for such a allowance to be granted due to the high cost associated with home ownership. On the same theme, some people in coastal areas (notably the North Coast) have asked for a discount for permanent residents, as a means of addressing community imbalance as a consequence of the spread of holiday homes and private student accommodation.

Summary of Consultation responses

133. In total 6 organisations responded, one in support, one qualified support and 4 opposed. NILGA would not support the proposal as they point out there is already a discount for prompt payment. That view is also supported by Larne Borough Council and Antrim Borough Council. Belfast City Council also opposes what it calls 'a crude blanket relief system' suggesting it applies to all eligible households irrespective of income or need; in equity terms, people in rented property are excluded; it results in a lower tax base and higher tax rate and finally the existence of housing benefit and the low income relief scheme render this unnecessary.

134. The Alliance Party considered it would be attractive and would target second home owners. However, given that most ratepayers are still owner occupiers, it may be difficult to implement. There would also be problems with definitions and policing. Castlerock Causeway Coast Community Consortium stated that certain households, which are owner occupiers, must get a reduction in rates and suggested widows and widowers and people over 75 as two possible groups to benefit from such a measure.

Rates Credit

135. The World Wide Fund for Nature submitted a detailed proposal for a rates credit for those who invest in specified energy saving improvements, such as insulation, which could be partially funded by the energy producers through the voluntary Energy Efficiency Levy agreement. They cited a similar scheme operated by local authorities in England and Wales under which households that install cavity wall or loft insulation can receive a reduction in their Council Tax bill of between £50 and £100.

SECTION 3: STRAND 2 OPTIONS

INTRODUCTION

136. This section summarises the views expressed by those who responded to the consultation on the Strand 2 options i.e. wider options for reform that consider ways of replacing or supplementing the new capital value system with alternative systems for raising revenue.

STRAND 2

137. The Strand 2 options suggested in the Terms of Reference include –

- Banding of capital values (a Council Tax type system),
- Local Income Tax,
- Income tax varying powers (as per Scotland),
- Local sales tax,
- Poll tax,
- Tourist tax (as recommended in the Lyons Report),
- Road charging,
- Green taxes (as recommended in the Lyons Report),
- Land value taxation,
- Derelict land taxation (as recommended in the Lyons Report).

Banding of Capital Values

138. Banding of capital value is the main feature of the Council Tax in Great Britain. The 1991 consultation paper 'A New Tax for Local Government' paved the way for its introduction in 1993, following the decision to abolish the Community Charge (or 'Poll Tax'). Although fairness was identified as an underlying principle, this was not perceived simply in terms of ability to pay but also in 'most adults making some contribution' to local services. Therefore, the Council Tax sought to retain some semblance of a service charge that was inherent in the Poll Tax. The Council Tax assumed a standard household of two adults and provided a reduction of 25% for single-person households. Furthermore, the banding system was restrained which meant that that households in the highest band paid a maximum of 3 times that paid by those in the lowest band.

139. As already mentioned in the background section of this report, as part of the previous Review of Rating Policy taken forward by Direct Rule Ministers a decision was taken that the 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 positive and easier to understand than the alternatives. This system was introduced with effect from 1 April 2007.

Summary of Consultation Responses

140. Of those who responded to the consultation, 12 (two ratepayers and 10 organisations) referred specifically to the banding of capital values. Four of these, including the two ratepayers, supported the banding of capital values and eight were opposed to it. Of those who supported it the Ulster Unionist Party, whilst recognising that the UK experience did not provide wholehearted support, was of the view that banding was worth revisiting because of public unease with the discrete capital value system. The Fair Rates Campaign argued that an eight banded model may enable an equitable distribution in Northern Ireland similar to the Council Tax system in Great Britain and Professor Derek Birrell felt that a banding system would facilitate parity with GB and remove the policy in Northern Ireland of every household paying a different amount.

141. The majority of those who responded on the issue, however, were opposed to banding, including the Alliance Party, NILGA and Fermanagh District Council. The latter stated that the use of a discrete system is a fairer approach. Belfast City Council and Lisburn City Council considered that banding would have a negative impact on equality and would be inherently regressive in nature.

Local Income Tax

142. Local income taxes are a widely-used source of local government funding in other countries and it is relatively uncommon for local government to be entirely dependent on a single local tax whether property based or otherwise. Back in 1976 the Layfield Committee concluded that should Government judge that new sources of income for local government are necessary then the only feasible major sources would be Local Income Tax.

143. The recent Lyons Inquiry in England also saw a Local Income Tax as a potentially viable alternative option, though considered that this would need careful examination, given the lead times required to properly prepare for its introduction and the considerable operational and economic consequences of proceeding with such a system.

Summary of Consultation Responses

144. Of those who responded to the consultation, 50 (25 ratepayers and 25 organisations) referred specifically to the introduction of a Local Income Tax. Thirty-five of these, including 21 ratepayers, supported the introduction of a Local Income Tax and 15, including the remaining 4 ratepayers, were opposed to it.

145. In addition to the many ratepayers who supported the introduction of a Local Income Tax the Alliance Party argued that it could be introduced to replace the regional rate but that the district rate could continue to be based on property-based system or other alternatives.

146. Other organisations supporting its introduction included the Fair Rates Campaign, the General Consumer Council, Help the Aged and Age Concern (joint response), Castlerock Causeway Coast Community Association, the National Federation of Post Office and BT Pensioners and Lisburn City Council with some qualifying their support pending further research. Most of those who supported it did so on the grounds that, in their view, taxing income was fairer than taxing property as it provided a truer reflection of an individuals ability to pay.

147. The Ulster Unionist Party were strongly opposed to the introduction of a Local Income Tax arguing that it would penalise hard working families and act as a disincentive to work and that it should not be countenanced by the Northern Ireland Executive.

148. Others opposed to its introduction included NILGA, The Land Value Taxation Campaign, Professor Birrell and Belfast City Council, Castlereagh Borough Council, North Down Borough Council, Strabane District Council and Fermanagh District Council. By way of example the main arguments put forward in opposition by Belfast City Council are that there would be administrative and avoidance difficulties with such a tax and it would not be truly accountable nor transparent.

Income Tax Varying Powers

149. The devolved Scottish Parliament has the power to increase or decrease, by a maximum of 3p, the basic rate of income tax set by the UK Parliament.

150. The Northern Ireland Executive currently does not have a similar power. As stated in the Terms of Reference for this review, under Schedule 2, paragraph 9 of the Northern Ireland Act 1998 ('the 1998 Act'), most issues of taxation are excepted matters. If, following consideration of alternative forms of taxation during this review, a decision was taken to pursue the option of tax varying powers, the UK Government would have to be lobbied to change this aspect of the 1998 Act.

Summary of Consultation Responses

151. Of those who responded to the consultation, 8 (2 ratepayers and 6 organisations referred specifically to income tax varying powers. Two of these, including one ratepayer, supported the introduction of income tax varying powers, two offered qualified support and 4 were opposed to it including the remaining ratepayer.

152. The Alliance Party supported the introduction of tax varying powers and suggested that the Assembly could either have the ability to modify or supplement income tax within certain parameters as is the case in Scotland or have full discretion over the level of income.

153. Belfast City Council and Lisburn City Council both considered that more research should be carried out before any decision is taken.

154. The Ulster Unionist Party opposed this measure because they considered that the economic challenges faced by Northern Ireland would be significantly increased if a decision was taken to further tax income.

155. Others opposing its introduction include Professor Birrell, Fermanagh District Council and the Land Valuation Taxation Campaign with some citing the reluctance, to date, of the Scottish Parliament to use these powers.

Local Sales Tax

156. A tax on transactions would involve a general sales tax that applies to 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%.

Summary of Consultation Responses

157. Of those who responded to the consultation, 15 (two ratepayers and 13 organisations) referred specifically to a local sales tax. Two of these offered qualified support for the introduction of a local sales tax and 13 were opposed to it including the two ratepayers.

158. The General Consumer Council and the Fair Rates Campaign both considered that more research should be carried out before any decision is taken.

159. Of those opposed to it, the Alliance Party considered that it would not be a practical option and would be regressive. The Ulster Unionist Party stated that it would present administrative difficulties and cited the fact that the policy is untested.

160. Others opposed to it included Fermanagh District Council, Lisburn City Council and Larne Borough Council, the Communication Workers Union, NILGA and Help the Aged and Age Concern (joint response) with the regressivity of the proposal being a key theme.

Poll Tax

161. In 1986, the Government published a Green Paper in which the recommended alternative to domestic rates was a per capita community charge or the 'Poll Tax' as it became more commonly known. It was introduced in Scotland in 1989, one year earlier than in England and Wales.
162. The central argument in the Green Paper was the need to strengthen local accountability and that one of the problems was that only a minority of electors paid rates and also that bills did not reflect the variation in households' consumption of local services.
163. As already mentioned above, the poll tax was subsequently replaced by the Council Tax in 1992.

Summary of Consultation Responses

164. Of those who responded to the consultation, 15 (5 ratepayers and 10 organisations) referred specifically to a poll tax. Three of these, all ratepayers, supported the introduction of a poll tax and 12 were opposed to it including the remaining two ratepayers.
165. The ratepayers who supported the idea of a poll tax felt that it was fairer to tax all adults rather than just householders.
166. The Ulster Unionist Party opposed its introduction here citing its failure in Great Britain and argued that it had no relation to property and was not fair or sustainable. The Alliance Party opposed it on the grounds that it did not relate to ability to pay.
167. Others opposing it included Belfast City Council, Lisburn City Council, Fermanagh District Council and Larne Borough Council, NILGA, the Post Office and BT Pensioners, Professor Birrell, Help the Aged and Age Concern (joint response) and the Land Value Taxation Campaign with key themes being its failure in Great Britain and its regressivity.

Tourist Tax

168. Accommodation charges (a charge on a hotel stay) 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. Additionally other types of tourist tax such as airport taxes and departure fees are often used in other cities and countries often with the revenue used to assist the promotion of tourism locally.

Summary of Consultation Responses

169. Of those who responded to the consultation, 10 (one ratepayer and 9 organisations) referred specifically to a tourist tax.
170. Belfast City Council offered qualified support for the introduction of a tourist tax stating that they agreed with the conclusions of the Lyons report that local authorities should be given the discretion to levy a tourist tax.
171. The other 9 respondents, including the one ratepayer, were opposed to its introduction with the Alliance Party stating that the tourist industry needs room to grow. Castlereagh Borough Council commented that the economy of Northern Ireland is becoming more dependent on tourism and that this measure would be detrimental. This comment was repeated by others opposing a tourist tax, including Lisburn City Council, Fermanagh District Council and Larne Borough Council, NILGA, Professor Birrell, the Post Office and BT Pensioners and the Land Value Taxation Campaign.

Road Charging

172. Road Charging is a combination of three slightly different but interconnected initiatives. These initiatives are Congestion Charging, Tolling and National Road Pricing.
173. Powers for local authorities to operate congestion charging in Great Britain have been available since 2000. These powers remain largely untested with the notable exception of London's congestion charge.
174. The Transport Act 2000 and the draft Local Transport Bill (currently out for consultation) are aimed at encouraging Local Authorities in Great Britain, through the Transport Innovation Fund to submit local transport plans which include an element of congestion charging. A number of authorities have submitted bids, the most notable probably being Manchester City Council which has attracted significant media attention recently. Income from such schemes can be hypothecated and used to develop other transport measures such as improving public transport.
175. 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.

Summary of Consultation Responses

176. Of those who responded to the consultation, 9 (2 ratepayers and 7 organisations) referred specifically to road charging. One of these supported the introduction of road charging and two, including one ratepayer, offered qualified support. Six, including the remaining ratepayer, were opposed to it.
177. Belfast City Council supported this proposal citing the congestion charge in London and road pricing in Durham. They stated that with the diminution of fossil fuels and the impact of global warming these taxes will become more prominent. They also stated that it was logical that local authorities should benefit from the revenue generated.
178. The Alliance Party said that they would like to see more discussion with regard to this measure but believe in the principle of the 'polluter pays' and consider that any charge would have to be seen as being fair and transparent.
179. Of those opposed to this measure, Larne Borough Council and Lisburn City Council argued that the measure would be unacceptable to the general public. The Communication Workers Union felt that it would impact disproportionately on people on lower incomes.

Green Taxes

180. Though local authorities in Great Britain have the right to charge businesses for the collection of waste, they may not at present charge for the collection and disposal of household waste. There are some exceptions however, for example, the collection of bulky items and 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 EU legislation.
181. The Department for Environment, Food and Rural Affairs is currently seeking views on giving local authorities in England discretionary powers to introduce domestic waste charging. The Northern Ireland Waste Management Strategy 2006-2020, published in March 2006, commits the Department of the Environment, by March 2009, to bring forward for public consultation detailed proposals to give Councils powers to charge for the collection of residual wastes from householders. However it should be noted that policy development in this area is at a very early stage.

182. In the recent Lyons enquiry in England it was recommended that the Government should take new powers to allow local authorities to charge for domestic waste collection in a way that reflects community preferences but is also mindful that the introduction of a charging system is not ill thought out and therefore impact on some of the poorest people.

Summary of Consultation Responses

183. Of those who responded to the consultation, 7 (one ratepayer and 6 organisations) referred specifically to green taxes. One of these supported the introduction of green taxes, two offered qualified support and 4, including the ratepayer, were opposed to it.

184. The Alliance Party supported the proposal suggesting that charges could be introduced in relation to waste management and recycling. Both NILGA and the Belfast City Council advocated further research in relation to green taxes that supported sustainable development policies with the Council referring to the possibility of waste management and plastic bag taxes.

185. Of those opposing the idea, the Communication Workers Union argued that it would impact disproportionately on those on low incomes and Lisburn City Council argued that, for example, the public reaction to microchips in household bins would indicate that public acceptance of this tax would be unlikely.

186. It should also be noted that the World Wide Fund for Nature submitted a detailed proposal in relation to rates credits for specified energy saving improvements and their proposals are set out in paragraph 135 above in Section 2 of this report.

Land Value Taxation

187. The case for 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 (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.

Summary of Consultation Responses

188. Of those who responded to the consultation, 10 (two ratepayers and 8 organisations) referred specifically to a Land Value tax. Three of these, including both ratepayers, supported the introduction of a Land Value tax, two offered qualified support and 5 were opposed to it.

189. Of those supporting this measure, the Land Value Taxation Campaign suggested that the new domestic rating system, and soon thereafter, the non-domestic rate should be replaced by a property tax based on annual site rental values only with all land subject to the charge. They would intend the tax to be multi-part with elements set initially by local authorities and then later extension by precept to the Northern Ireland Executive and to the central UK Government. They also saw some of the advantages of a Land Value tax as being free of the problems of avoidance and evasion. Lisburn City Council and the Fair Rates Campaign both felt that this issue merited further research.

190. The Alliance Party stated that they have major reservations about this proposal arguing that it contains many risks and unintended consequences. They stated that it could encourage the over-development of valuable land along the coastline, inappropriate development of the countryside and the cramming of property into city centre or town centre property.

191. Belfast City Council were also opposed to it on the basis that it would have a narrower tax base and would not be transparent given that most people would have no understanding of how the rental value of the land on which their property stands is valued. Others opposing this proposal are the Ulster Farmers Union, Fermanagh District Council and North Down Borough Council.

Derelict Land Taxation

192. Land that is not capable of beneficial occupation is not currently rated. Dereliction, therefore, is an attractive route for some owners to avoid taxation. The potential exists to close this loophole by introducing derelict land taxation.

Summary of Consultation Responses

193. Of those who responded to the consultation, 11 (two ratepayers and 9 organisations) referred specifically to derelict land taxation. Six of these, including both ratepayers, supported its introduction, 4 offered qualified support and one was opposed to it.

194. The National Federation of Post Office and BT Pensioners supported the measure on the basis that it would in their view encourage owners to put derelict land into use for the overall benefit of the community as well as raise revenue. Others supporting it included the Land Valuation Taxation Campaign, NILGA and North Down Borough Council.

195. The Alliance Party, Belfast City Council and Lisburn City Council and the Fair Rates Campaign all argued that there is merit in further research being carried out with regard to this proposal.

196. The only opposition came from Fermanagh District Council who supported the continuation of the current system and therefore rejected all alternatives including derelict land taxation.

SECTION 4: OTHER ISSUES

INTRODUCTION

197. This section deals with other issues raised by those who responded to the consultation that do not directly relate to the options presented in the Terms of Reference but nonetheless should be covered in this report as they are relevant to the review.
198. In addition, it covers comments made by respondents on the relation between rates and water which is explicitly mentioned in the Terms of Reference for the Review.

OTHER ISSUES RAISED

Water Reform Policy Issues

199. A total of 34 responses referred to the water reforms and how they impinged on the rating system. Of these, 15 were from organisations and 19 from individuals. A wide range of concerns were raised with most of the submissions voicing opposition to water charging with some in favour of changing the way in which it was to be administered.
200. Many were of the view that there should not be a separate charge for water but that it should be (and already was) included in the rates bill.
201. Castlerock Causeway Coast Community Consortium suggested it was ‘fundamentally unfair’ to have separate water charges in addition to rate bills which had recently already risen. The Northern Ireland Anti-Poverty Network is against separate water and sewerage bills, while Armagh City and District Council consider the regional rate element should be reduced to take account of water charges. The Fair Rates Campaign also said that it opposed double taxation by way of rates paying for water plus additional water charges.
202. The Communication Workers Union and the Irish Congress of Trade Unions (‘ICTU’) consider that water charges should be met through normal taxation and rates. ICTU also suggested that metering and privatisation would be unfair and that Government should be held responsible for repairing the infrastructure of the system.
203. Some took the view that the capital value assessment should not be used to determine water charges, rather it should be based on usage. Comments received supporting this view included those from Fermanagh District Council and Castlereagh Borough Council.
204. Advice NI and the General Consumer Council (‘GCC’) favoured one combined bill for both rates and water charges with the GCC suggesting that the amount included in the regional rate should be reduced accordingly.
205. NILGA stated that it was necessary to consider water and sewerage as a separate issue.

Greater accountability / Public Understanding / Format of Rates Bills

206. The Fair Rates Campaign sought greater accountability and transparency in relation to how government finances work, stating that clarity in the make up of the rates bill was extremely important. They would like rates bills to clearly show the various components, where the money raised will be spent and who makes the decisions as to how the money will be spent. This latter point was also picked up by the General Consumer Council.
207. The FRC also urged early implementation of the Review of Public Administration so that economies of scale can be realised and argued that through greater enlargement of functions and size, the economic prosperity of council areas is raised. Some organisations also commented that ‘there is limited public knowledge of the actual finance regime and a poor understanding of the cost of public services in Northern Ireland’.

Uptake of Reliefs

208. The General Consumer Council identified a serious issue around the uptake of reliefs and recommended a public information campaign to raise awareness.

Balance of Funding

209. One respondent, Professor Derek Birrell, raised the issue of 'Balance of Funding' and pointed to the differences with the rest of the UK where, typically, only 25% of a local authority's revenue is collected from locally set taxes. The position in Northern Ireland is a healthier one at an average of around 64%. Professor Birrell also questioned the assumption that any loss of revenue (presumably through the provision of more reliefs) would impact on other ratepayers.

Land and Property Services operational issues

210. Some ratepayers commented that the necessary steps should be taken to recover the £40m plus of rates arrears outstanding. One respondent suggested that the Land and Property Services needed additional powers to carry out this task more effectively. It was also mentioned that the literature issued for the public audience is not easily understood and there was a call for the introduction of a 'high-tech, mobile doorstep service dealing with benefit claims'.

211. Some organisational responses mirrored ratepayers' comments above stating that rates bills should be more informative and that the system should be more open and transparent with information on reliefs 'clearly outlined, publicised widely and targeted to those who need it most'.

Second Homes / Relief for permanent residents

212. One ratepayer advocated that 'all people with a second home and more, should be charged double rates occupied or unoccupied'.

213. The Castlerock Causeway Coast Community Consortium suggested that rates liability should be capped at 4% of income for all home-owners and therefore that second-home owners rates liability should be capped at 8%. Coleraine Borough Council suggested that 'the impact [second] homes have on communities could be reflected in the rate they pay' and NILGA and Antrim Borough Council both offered support for the rating of second homes on an equal basis with ordinary homes with no discount applying.

214. Related to this is the issue of relief for permanent residents. Portstewart Vision suggested that there should be a reduction in rates for permanent residents in areas where there are large numbers of second homes. The Portballintrae Residents' Association also suggested that a 'Homestead Exemption' could be introduced which would provide a discount for the main residence'. In this scenario the resident must be able to prove that the dwelling is the main domicile.

Revaluation

215. There were no comments from individual ratepayers on this issue. However, there was a range of views expressed by a number of organisations. Some were in favour of a revaluation every three years. Others were not in favour of regular revaluations as they feared that this 'could lead to substantial increases in rate bills'.

Planning Policy / Building Control

216. One respondent, a building / planning professional who regularly inspects dwellings to see if they meet Planning and Building Control Statutory guidelines, commented that the four year limitation period laid down by the Planning Office is recognised by owners / developers as totally ineffective and hence the Planning Office, in a sense, encourage contravention of their own guidelines.

217. As a possible solution it was further suggested that Land and Property Services should liaise with Building Control departments to ensure rating lists are updated on a more timely and accurate basis.

Appeals System

218. Comments on the appeal system included the need to simplify and streamline the process. Additionally the Rural Community Network carried out a survey in August 2007 and one of the findings was that, '43% stated they were aware and 57% said they were not aware' of the appeals process.

SECTION 5: CONCLUSIONS AND NEXT STEPS

OUTCOMES

219. During the consultation period which began on 11 June 2006 and ended on 31 August 2007, a total of 119 responses were received. Of these, two were from political parties, 12 from District Councils and 28 from organisations (including the General Consumer Council, Ulster Farmers Union and two trade unions). This compares favourably with the number of organisational responses received during previous consultations such as the main policy consultation in 2004 and the first consultation launched by the Executive in 2002. There was, however, a surprisingly low number of individual ratepayer responses (77); about a quarter of these were from pensioners.

220. The most frequently raised issues during the consultation were –

- the shortcomings of the new capital value system,
- the importance of ability to pay,
- the need for a single person discount,
- concerns about the effectiveness of student relief,
- extending the scope of the disabled persons allowance,
- the level of the cap,
- consideration be given to a minimum payment,
- calls for a local income tax.

227. Broadly speaking, both the Strand 1B and Strand 2 options would require primary legislation to be passed through the Assembly. As these are likely to involve more fundamental change to the rating system (or indeed the introduction of alternatives or supplements), any decisions made this year in relation to them will in most cases involve highlighting those that the Northern Ireland Executive considers should be examined in more detail. This is because most of them are likely to require further impact assessments and consultation before legislation can be drawn up. This puts implementation of any medium to longer term options at April 2009 at the earliest but more realistically, particularly in relation to Strand 2 options, post April 2010.
228. It should be noted, however, that this report does not intend to imply any favoured policy direction regarding the various options for change and it should not be interpreted in that way. It merely acts as a summary of the responses received during the consultation process. As already indicated, decisions will follow later this year.

ANNEX A: RESPONDENTS

Political Parties	Organisations
Alliance Party	Access to Benefits
Ulster Unionist Party	Advice NI
	Age Concern NI
Councils	Benenden Healthcare Society Ltd
Antrim Borough Council	Building Projects
Armagh City & District Council	Castlerock Causeway Coast Community Consortium
Belfast City Council	Citizens Advice
Castlereagh Borough Council	Cliftonville Community Regeneration Forum
Coleraine Borough Council	Communication Workers Campaign
Fermanagh District Council	Communication Workers Union - NI Advisory Committee Retired Members
Larne Borough Council	General Consumer Council
Lisburn City Council	Disability Action
Moyle District Council	Fair Rates Campaign
North Down Borough Council	Greater Village Regeneration Trust
Omagh District Council	Helen's Bay and District Residents Association
Strabane District Council	Land Value Taxation Campaign
Individuals	NI Committee, Irish Congress of Trade Unions
77 Individuals	National Federation of Post Office and BT Pensioners
	NI Anti Poverty Network
	Northern Ireland Local Government Association ('NILGA')
	Northern Ireland Public Service Alliance ('NIPSA')
	NUS-USI Student Union
	Portballintrae Residents' Association
	Portstewart Vision
	Rural Community Network
	Stranmillis Residents Association
	Ulster Farmers Union
	World Wide Fund for Nature

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