

2007 EXECUTIVE REVIEW OF DOMESTIC RATING REFORM

TERMS OF REFERENCE

BACKGROUND

1. A new domestic rating system came into operation on 1 April 2007 following a review of rating policy commissioned in 2000 by the then Executive and taken forward by Direct Rule Ministers after the suspension of the Assembly in October 2002.
2. On the 15 May 2007, during the first debate about the new system since the Assembly was restored on 8 May 2007, the Minister of Finance and Personnel, Peter Robinson MP, MLA (who is responsible for rating policy) said:

"I am committed to reviewing the arrangements for domestic rates in Northern Ireland. I intend, in the next few weeks, to bring a paper before the Executive setting out the steps that I propose to take. I agree with the Chairperson of the Finance and Personnel Committee that it is important that rating reform be viewed in the context of how the Executive intend to address the funding of water in Northern Ireland.

In the past five years in Northern Ireland, extensive research and consultation has been conducted on the rating issue. In Great Britain, Sir Michael Lyons has recently conducted a lengthy review of local government finance. What is needed now in Northern Ireland is not a lengthy analysis but a short-term review that can deliver changes by next April and consider what further long-term steps should be taken".

AIM

3. The aim of this further review of rating policy is twofold:
 - (i) to identify ways of improving the new system that can be implemented in April 2008; and
 - (ii) to examine alternatives to the new system as a means of identifying options for longer term change.

4. As the Minister said during the Assembly debate on 15 May 2007:

'As well as mapping out the long-term options for raising revenue in the Province, it is essential that short-term measures be considered in any review. As I said, I intend to carry out an early review of the domestic rating system. As part of that review, the effectiveness of the new relief packages, which are already on offer, will be examined. There are better ways of delivering relief to those who are most deserving, and we need to examine the options for doing so'..... Whatever the possibilities for change in the longer term, we must be able to make changes that can be in place for next April.'

5. In carrying out this further review, the overall objective will be to assist the Executive to put in place arrangements which ensure that:

- there is an equitable distribution of the rate burden on households in Northern Ireland and effective reliefs are provided so that those who are less able to pay are protected
- the system is sustainable and provides an appropriate means of financing regional and local government;
- the system should be transparent and readily understood, both in its methodology and in how the proceeds are used, thereby improving local accountability.

- the system is accepted by the majority of people in Northern Ireland.

POLICY

6. Details of the changes to the domestic rating system introduced in April 2007 are outlined in Annex B. They emanated from a policy paper published in July 2004 'Reform of the Domestic Rating System in NI' by Direct Rule Ministers and were announced in March 2005 in a report published following a 16 week consultation period. Subsequent changes were also announced in March 2007 following the St Andrews Agreement. These related to the maximum payment or cap and enhanced relief for pensioners.
7. A range of enabling powers also came into effect on 1 April 2007 that would allow the Assembly via subordinate legislation to change the scope of the new system by:
 - introducing a scheme to allow home owning pensioners to defer payment of their rates;
 - introducing the rating of vacant domestic property;
 - targeting the low income relief scheme in a different way (in much the same way that the enhanced relief for pensioners has done);
 - changing the cap on rates; and
 - introducing a minimum payment.
8. Although this is something that can be done relatively easily, it would not be possible to introduce any of these changes during the current financial year.
9. As the Minister stated in the Assembly on 15 May 2007, this further review of rating must also be considered in the context of how the

Executive plans to address the funding of water and sewerage services in Northern Ireland. Although it was separated out in 2002 from the review of rating policy commissioned by the previous Executive, this issue has been perceived throughout by the public to be interlinked with the reform of the domestic rating system. Water reform has been a highly contentious issue in its own right and, as a result of intensive lobbying, plans to introduce water charging in April 2007 were postponed by Direct Ministers just prior to the restoration of the Assembly in May 2007.

LEGISLATIVE

10. Rating is entirely a devolved matter and is principally governed by the Rates (Northern Ireland) Order 1977 as amended. The changes introduced in April 2007 were contained in the Rates (Amendment) (Northern Ireland) Order 2006. An Order made in March 2006 (The Rates (Capital Values, etc) (Northern Ireland) Order 2006) provided for the new capital values to be determined and published in advance of the new system coming into operation so that ratepayers could find out more about them and query them if necessary before rates bills issued.

11. The wider legislative context is also important for the purposes of this further review. Under Schedule 2, paragraph 9 of the Northern Ireland Act 1998 ('the 1998 Act'), most issues of taxation are excepted matters. The reference in the 1998 Act applies to taxes or duties of substantially the same character as a UK wide tax. This meant that the review commissioned in 2000 by the previous Executive restricted itself to consideration of property based taxes. This further review is not so constrained and the Minister made it clear to the Assembly during the first debate that if an alternative system emerges that requires the consent of Parliament then the Government will be lobbied to change this aspect of the 1998 Act. Broad consideration can therefore be given in this further review to other alternative forms of taxation such as a local income tax.

KEY CONSIDERATIONS

12. There are a number of overarching principles of effective taxation that any review of local taxation must take into consideration. These principles are set out in Annex A and will guide the development of options during this further review.
13. Other considerations that must guide the review process in a Northern Ireland context include:
 - (i) the impact on revenue levels to support public expenditure;
 - (ii) the relationship between the rates and how we pay for water
 - (iii) implications for the funding of local government/district council services both now and following any restructuring under the Review of Public Administration;
 - (iv) the impact on housing benefit income;
 - (v) the ease of administration and cost of implementation; and
 - (vi) statutory obligations.
14. A further important consideration is the balance that has to be struck when deciding whether to extend existing reliefs and exemptions or introduce new reliefs or exemptions bearing in mind that this would either reduce the amount of revenue generated by the rating system to spend on public services in Northern Ireland, or impose a greater burden on other ratepayers.
15. Looking further field, this further review should also consider the considerable research and analysis that has been carried out in England as part of the Lyons Review into local government funding there. Northern Ireland is not bound by the findings of that review but there are issues that are common to both jurisdictions that are worth examining.

SCOPE OF REVIEW

16. In line with the aim set out in paragraphs 3 to 5, the review will initially be divided into two parallel strands. The first strand will examine **the options for change in April 2008** which could include the following measures relating to both the tax base and reliefs:

17. Tax base options

- Lower cap
- Minimum payment
- Rating of empty homes

18. Tax reliefs

- retargeting of the new lower income relief scheme (one option would be to raise the savings threshold)
- revise the scheme providing for those engaged in full time education and training
- introduce a deferment scheme for home owning pensioners
- re-profile the transitional relief scheme
- revise the early payment discount

19. The following is a list of measures which could be re-examined in the context of reforming and improving the existing system. Other ways may emerge as the review progresses. All of these listed measures would require new primary legislation. Therefore, it would be most unlikely that they could be put in place for April 2008, given the requirements of the process :

- The introduction of graduated tax rates at different levels of value (eg first £150k at £7per '000, £150k to £300k at £6, £300k upwards at £5)
- single person discount

- single pensioner discount
- automatic pensioner discount
- broadening the Disabled Persons Allowance Scheme
- introduce circuit breakers for particular groups (so that there is an income cap)
- provide discount for owner occupiers
- enhanced discount for farmers

20. In putting forward options to the Executive the following matters will be addressed:

- (1) Where possible use existing data to identify the potential number of applicants and revenue implications.
- (2) Engage with Land and Property Services (incorporating VLA and RCA) and other agencies (eg NIHE, SSA) to assess and advise on implementation issues..
- (3) Identify the legislative changes required (all the measures described in paras 16 and 17 are considered to be within the scope of the existing primary legislation).

21. The second strand of the review will examine possible **longer term options** for more fundamental change, all of which would require new primary legislation and in some cases (eg income tax and sales tax) a change to the 1998 Act.

22. Such options may include but not be confined to:

- Banding of house 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)
23. These options will be examined in outline, drawing as much as possible from existing research, with a view to quickly identifying any that offer the prospect of a realistic and broadly acceptable alternative (or in some cases as a supplement) to the rating system. It is not intended to mount a major public consultation process on such a wide range of options.
24. As noted above, a distinction will need to be drawn between those long term changes that can be made through primary legislation passed by the Northern Ireland Assembly and changes that would require amendment of primary legislation at Westminster. While the latter options can be identified, it would be important to determine the likelihood and timescales for any such changes at national level.
25. Furthermore, such changes could affect the fiscal relationship between NI and the rest of the UK to reflect changes (upwards or downwards) to local revenue levels.

KEY STAGES AND TIMETABLE

26. The review will be taken forward in a series of key stages initially encompassing both of the strands referred to in paragraph 3. The initial stages and associated completion dates are set out in Table 1 below.

TABLE 1

| STAGE | ACTIVITY | TARGET DATE FOR COMPLETION |
|---|--|-----------------------------------|
| Stage 1 – Terms of Reference | <ul style="list-style-type: none">• Draft, agree and publish Terms of Reference | Mid June 2007 |
| Stage 2 – Research and Scoping | <ul style="list-style-type: none">• Conduct factual analysis and research• Identify main issues• Confirm scope of review | Mid/End July 2007 |
| Stage 3 – Options | <ul style="list-style-type: none">• Development of models and appraisal of options including financial, legislative, equality and human rights implications as appropriate• Identify cross-cutting issues and interdependencies e.g. Housing Benefit, District Councils• Develop and present recommendations for strands 1 and 2.• Brief consultation | Mid September 2007 |
| *Stage 4A - Strand 1 Implementation (legislation) | <ul style="list-style-type: none">• Draft and introduce legislation required to give effect to proposed changes | End of March 2008 |
| *Stage 4B - Strand 2 | <ul style="list-style-type: none">• Develop and agree a timetable to take forward strand 2 | October 2007 |

* To run concurrently

ENGAGEMENT WITH KEY STAKEHOLDERS

27. There will be a need throughout the review process to engage with key stakeholders. The exact nature and timing of these engagements will evolve as the review progresses. Therefore, the broad outline provided below covers the core elements of the strategy and will be subject to development and further refinement at each key stage.
28. There will be a public consultation running from mid-June 2007 until the end of August 2007. To ensure that changes can be made in time for

next year's bills (and allowing time for new subordinate legislation to be passed), the consultation cannot extend beyond this period.

EXECUTIVE LIAISON

29. As each strand of the two strands to this review are completed, the outcomes or findings will be presented to the Executive and decisions sought as appropriate. Updates will also be provided when requested.
30. In view of the wider context in which rating reform must be considered, there will also be a need to consult regularly with Ministerial colleagues responsible for issues such as water reform, the Review of Public Administration, local government, social security benefits etc.

ASSEMBLY LIAISON

31. The Committee for Finance and Personnel will also be consulted throughout and consideration will be given to the need to consult with other Assembly Committees.
32. In addition, the Terms of Reference will be placed in the Assembly Library and the outcomes of Stage 3 will be the subject of a Ministerial Statement to the Assembly.

CONTACTS:

For further information on these Terms of Reference, please contact

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Rating Policy Division ,
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MODEL CRITERIA FOR LOCAL TAXATION SYSTEMS

- **Adequate revenue yield:** The various types of local tax are merely different mechanisms for sharing, usually among local residents, a proportion of the cost of providing local services. However, if yields are to be sufficient to ensure real political autonomy and meet future demands placed upon it, the tax base needs to be sufficiently robust, broad based, up to date and discriminating to both command widespread support and be credible.
- **Equity of distribution:** Those in the same circumstances within the same district/jurisdiction should be equally taxed. Those receiving benefit from public expenditure should contribute through taxation according to their ability to pay.
- **Minimum interference in markets:** Taxes can influence how taxpayers behave. Ideally, according to market theory, taxes should be neutral i.e. they should not distort how taxpayers behave. When taxes are neutral, market-pricing mechanisms produce the most efficient allocation of resources. Furthermore, the incidence of any tax is important in terms of ability to pass on the liability to others through rents and additional charges.
- **Stability and certainty:** The local taxation base needs to be predictable in order to underpin the provision of public services. Furthermore, from an individual taxpayer/ratepayer's perspective, this is an important factor in budgeting. Stability and certainty are key considerations both in the choice of system and maintaining it as a sustainable source of revenue.

- **Should support/not interfere with policy objectives:** The tax structure should not threaten overall fiscal targets and its impact on benefit and rebate expenditure should be taken into account.
- **Non-arbitrary administration:** This relates to the objectivity and consistency of assessment of liability.
- **Transparent and easily understood by taxpayer:** The local tax should seek to encourage and strengthen local democracy requiring it to be easily understood and responsive to the demands of taxpayers. Taxpayers need to be able to understand their assessments and associated bills.
- **Low administration and compliance costs:** This relates to ease of administration by government and the cost to the taxpayer in complying with the system.
- **Difficult to evade:** This is important because it refers to the efficiency of a tax and evasion inevitably leads to an increasing burden on honest taxpayers.

DOMESTIC RATE REFORM

Key reforms

1. The key reforms in the domestic sector that took effect on 1 April 2007

include:

- the introduction of a discrete (rather than banded) capital value system;
- the introduction of a new low income rate relief scheme, which will sit above and be additional to the existing housing benefit system;
- 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.

2. A range of enabling powers also came into effect on 1 April 2007 that would allow the Assembly to change the scope of the new system by subordinate legislation through:

- introducing a scheme to allow home owning pensioners to defer payment of their rates;
 - introducing the rating of vacant domestic property;
 - targeting the low income relief scheme in a different way (in much the same way that the enhanced relief for pensioners has done);
 - changing the cap on rates; and
 - introducing a minimum payment.
3. However, if the Executive were to decide to make use of any of these powers, further consultation would be required and the cost and operational implications would have to be considered. In addition, it would not be possible to introduce any of these changes in the current financial year.
4. In addition, following the St Andrews Agreement, two further measures were introduced in April this year:
- a cap set 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, costing in the region of £4m, through the new rate relief scheme mentioned above.