RATING REFORM

The Review of Rating Policy was commissioned by the Executive in 2000. Rating Policy Division (RPD), the Rate Collection Agency (RCA), and the Valuation & Lands Agency (VLA) are working together to complete the implementation of key reforms. These aim to make the rating system fairer and ensure that it will deliver the levels of revenue necessary to support regional and district public service provision across Northern Ireland.

From April 2007, domestic rates will be based on the capital value of houses, which will be published by VLA from June this year - well in advance of the new domestic rating system coming into effect. This will allow ratepayers time to obtain further information on the capital value of their home, or seek a review of it, before they become liable to pay rates on this basis. The capital values will also be used to calculate domestic water charges from April 2007.

A number of other domestic reforms will be introduced from April 2007, including a new rate relief scheme for those on low incomes; transitional relief for those most adversely affected by the move to the new system; and a new valuation tribunal. Further details will be published in the coming months, and draft legislation to give effect to them will be published for consultation by the end of June. See Annex 6a for more information on the changes to the domestic rating system.

Consultation was also undertaken on a range of non-domestic issues, and led to a number of significant changes, including:

- the rating of unoccupied non-domestic property with effect from April 2004;

- the gradual phasing out of industrial derating between April 2005 and April 2011;

- a new hardship relief scheme with effect from 31 December 2005, for businesses experiencing temporary crisis;

- a number of charitable exemptions and reliefs with effect from April 2006; and

- a range of reliefs to assist rural businesses, planned for introduction from April 2007.

More detailed information on the consultations, policy decisions, legislation and press releases is available via the RPD website: http://www.nics.gov.uk/ratingpolicy/

Annex 6a – Reform of the Domestic Rating System in Northern Ireland

Annex 6b – Illustration on Impact of Revaluation on the Council Areas

Reform of the Domestic Rating System in Northern Ireland

Local Government functions and funding

The current local government system in Northern Ireland has been in operation since 1 October 1973. It consists of a single tier of 26 district councils, serving populations ranging from 16,300 to 271,600. The total number of staff employed by district councils is approximately 9,300.

Councillors are elected for a 4-year term of office, under proportional representation. The next local council elections are due in 2009.

A major review of local government has recently concluded and from April 09 there will be seven new councils to replace the 26, with enhanced powers over such areas as planning, regeneration and roads. This review is worthy of a series of articles in its own right and I will simply describe the status quo.

Councils' functions can be divided into 3 groups: direct, representative and consultative.

Direct functions give councils responsibility for the provision and management of recreational, social, community and cultural facilities; environmental health; refuse collection and disposal; waste management; street cleansing; the provision and management of tourist development facilities; the promotion of economic development; consumer protection; the enforcement of building regulations; litter prevention; management of cemeteries and crematoria; miscellaneous licensing registration provisions; and dog control.

Representative functions permit councils to nominate representatives to sit as members of various statutory bodies established to administer regional services such as education and library services, health and social services, drainage services and fire protection.

Consultative functions allow councils to represent the views of their population on the way in which regional services are operated throughout each district such as planning, roads, water and conservation.

Approximately 65 per cent of a district council's income requirement is met by the district rates, both domestic and non domestic. Collection of the district rates is undertaken by the Rate Collection Agency (Department of Finance & Personnel). Other sources of income are the General Exchequer Grant (12 per cent), specific grants, fees and charges (23 per cent).

Rates bills consist of two distinct elements, the Regional Rate and the District Rate. The Regional Rate is decided by central government (contributing to regional services such as health, education, personal social services and roads and planning), which during Direct Rule, is brought through Westminster.

District rates are struck independently of the regional rate, and determined by the respective local councils and are calculated to provide funding for local council services. There is no central capping of increases.

Background to Rating Reform

Despite this healthy balance of funding position, there are serious problems with the current domestic rating system. The Northern Ireland Executive initiated the Review of Rating Policy in 2000. The main reason for undertaking the Review was to secure a rating system that distributed the local tax burden in a fairer way. Key considerations in looking at reform options included the need to ensure that all Executive policies and procedures contributed towards targeting social need (New TSN) objectives. As a result 'ability to pay' was considered to have a greater importance in deciding the optimum means of distributing the rate burden than 'benefit received'.

Views were canvassed on alternatives to local property based taxes during the public consultation exercise in 2002. However, very few considered that rates should be abandoned. In addition, the Review was constrained by the legislative authority of the devolved administration (the Northern Ireland Act 1998). As things stand, there can be no duplication of national taxation, which effectively ruled out a local sales or income tax.

The rating system in Northern Ireland has remained largely unchanged since it was introduced 150 years ago and has not been reviewed at a broad level since then. The community charge was not introduced in Northern Ireland in the previous period of direct rule and hence Northern Ireland did not go through the changes that led to the present system in Great Britain. This means our starting point is fundamentally different from that in the rest of the UK.

The domestic sector was last revalued in 1976 based on late 1960's rental evidence. Consequently, the current Valuation List in relation to the domestic sector is out of date and it is not surprising therefore that there are serious anomalies. In short, there is no correlation between NAVs and the level of relative prosperity or deprivation in any particular area.

Furthermore, as Layfield recognised 30 years ago, with the growth in owner occupation and social housing, there is no longer sufficient rental evidence to construct a new domestic valuation list based on rental values that would be objective or non-arbitrary.

Following the consultation exercise in 2002, it was announced that domestic rate bills should be based on capital values. The options for capital values are confined to variations of a banded system or an individual assessment approach.

Banding or individual assessment

Analysis has confirmed that importing a council tax banded type system to Northern Ireland (even one with a greater tax range than the council tax model) is likely to be a regressive step and would have significant negative social and economic effects. The introduction of council tax was an acceptable solution in the rest of the United Kingdom simply because it emerged from the poll tax/community charge experience.

The other form of capital value system is an individual assessment approach. Research and independent analysis conducted by the University of Ulster has shown that the adoption of individual capital values would provide a system that is both fairer and more progressive than either the current system or the alternative banded approach. This is the Government's preferred solution.

Nevertheless, changing to an individual capital value system will cause significant turbulence as the rating burden is redistributed for the first time in almost 30 years and on a different basis. On a purely redistributive basis, 61% of households would be winners, 39% losers.

Reliefs

Given the limited assistance that is available under the current system and with there being only an indirect relationship between capital value and ability to pay, well targeted relief is an essential ingredient in the reform package. In the rest of the UK, there are around 40 different council tax reliefs. In Northern Ireland, no significant domestic rate reliefs are provided beyond the housing benefit system. This has afforded Northern Ireland a unique opportunity to introduce relief related to ability to pay rather than status.

The main proposal is to introduce a rate relief scheme for those on low incomes, who are just beyond the reach of the housing benefit system. It will sit above, but be separate from, the existing housing benefit system and will be funded from the tax base, with other ratepayers contributing a little more.

The focus is upon ability to pay and ensuring that assistance is directed towards those most in need, rather than providing for blanket reliefs which can be indiscriminate and benefit those who are able to pay as well as those who cannot. Responses to the previous consultation were also generally in favour of this approach. In order to ensure that the relief scheme is both accountable and transparent, a restored devolved Executive could decide upon its level and remit. In order to protect other ratepayers, who would pay a little bit extra to finance this scheme, a cap would limit the overall cost of this scheme as a proportion of local revenue.

While not strictly a relief, consideration has also been given to the introduction of a deferment scheme, allowing full or partial deferment of a rate bill for those of pension age. While it is not intended to introduce such a scheme at present, a legislative enabling power will give a restored Executive the option to introduce this at a later stage.

At present, people with a disability and whose property has been modified as a result are entitled to Disabled Person's Allowance (DPA), with a range of reductions awarded. Under the new system, the proposal is to simplify this process and introduce a standard 25% reduction.

Transitional Arrangements

Transitional arrangements are to be provided over 3 years for those likely to experience significant shifts in their rates liability <u>as a result of reform</u>. The exact nature of these arrangements is currently being considered by Ministers.

Appeals

It is proposed to make the rating appeal system much more accessible to the public and to introduce an independent tribunal stage, in keeping with open government, e-government and wider reforms within the judicial system.

Rating of Vacant Domestic Properties

The rating of vacant domestic property is not being taken forward at present, however, the Government is providing an enabling power in legislation to allow a future Executive to introduce it

Implications for District Councils

The changes proposed for the domestic rating system will have material implications for district councils. A revaluation on a capital value basis will create significant shifts in the relative wealth of the 26 District Council areas, as measured by the new capital values compared to the previous rental values. However this effect will be considerably dampened once the new 7 Councils are established (see Annex 6b).

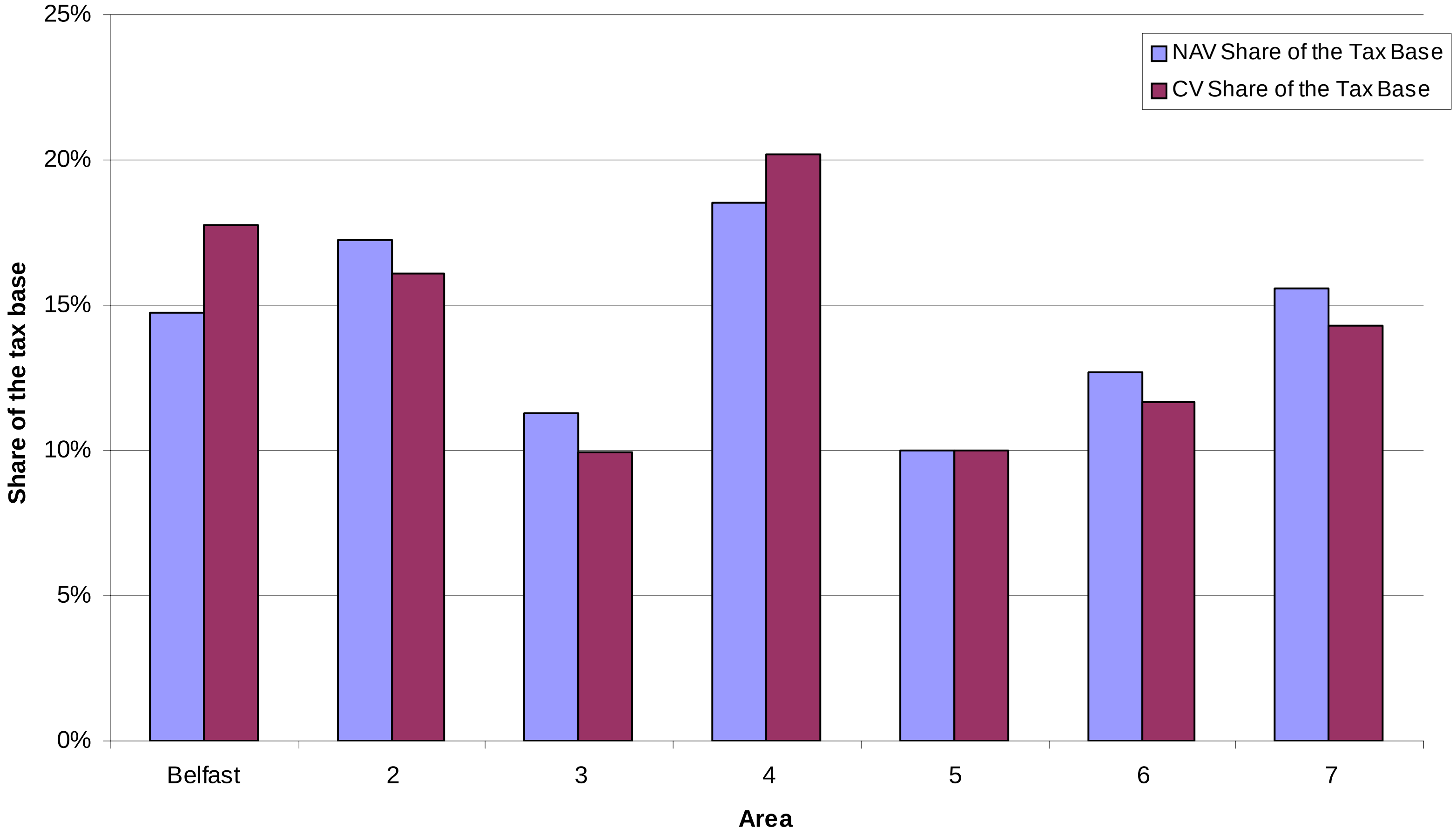
Local flexibility

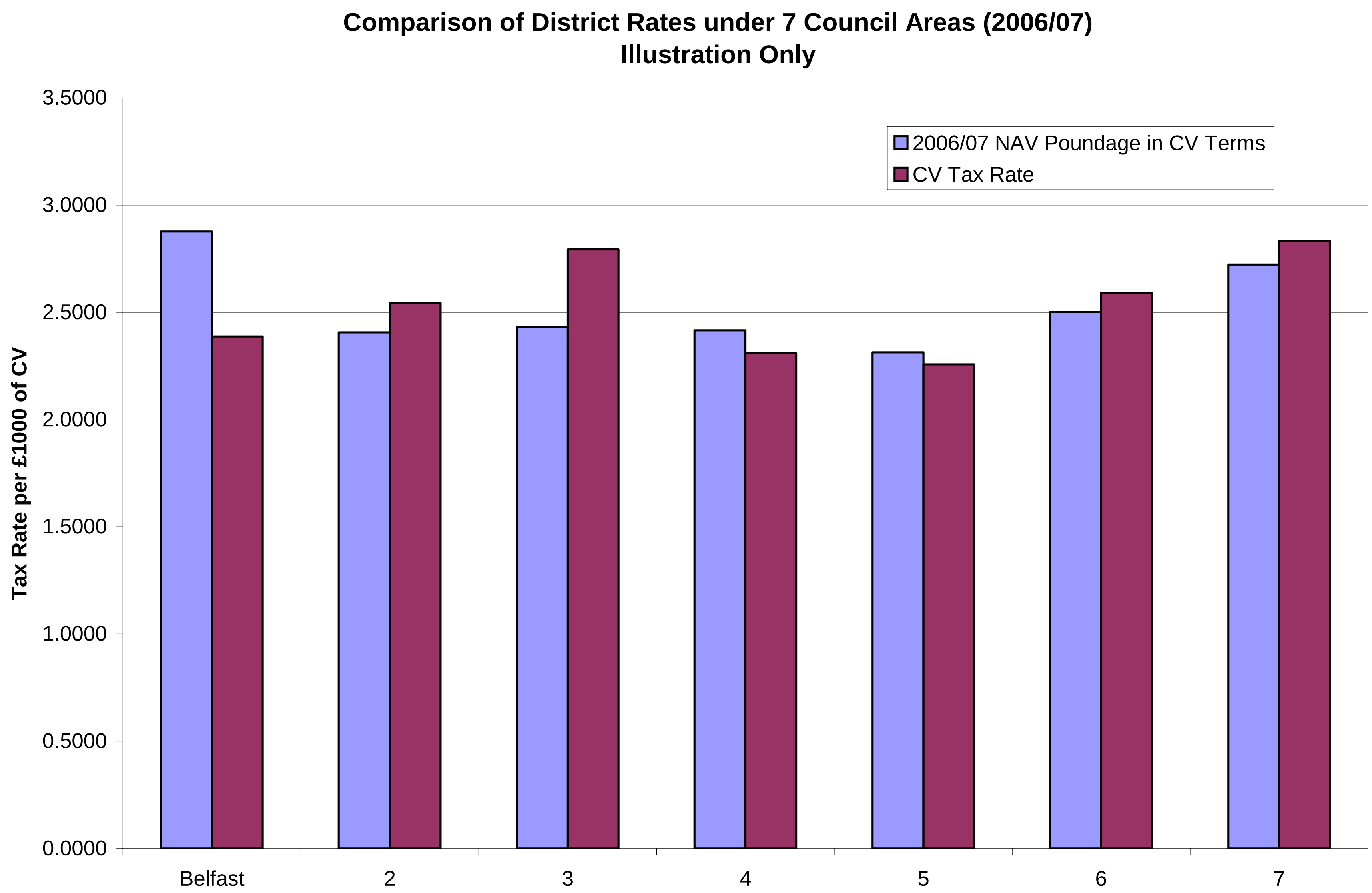
The Government has taken forward a reform process begun by the NI Executive and will be introducing these reforms from April 07, when rate bills on the new capital value system will be issued for the first time. Given their significance, the Government's plans contain a number of 'legislative levers' that will allow a future Assembly to amend the shape of the new system. These levers relate to:

- the targeting of the rates relief scheme;
- whether a deferment scheme should be introduced for people of pension age;
- the frequency of revaluations; and
- whether vacant domestic rating should be introduced.

The Government intends that these reforms will provide a sustainable way of raising local revenues for the 21st century and that the new system will be better understood, fairer and more acceptable to the Northern Ireland public than the existing one.

Comparison of NAV and CV share of the tax base under 7 Council Areas (2006/07 figures)
Illustration Only





Comparison of District Rates under 7 Council Areas (2006/07)
Illustration Only
Tax Rate per £1000 of CV
3.5000
3.0000
2.5000
2.0000
1.5000
1.0000
0.5000
0.0000
2006/07 NAV Poundage in CV Terms
CV Tax Rate
Belfast
2
3
4
5
6
7

Belfast

2 = Newtownabbey, Carrickfergus, Antrim and Lisburn
3 = Derry, Limavady. Magherafelt and Strabane
4 = Down, North Down, Ards and Castlereagh
5 = Fermanagh, Dungannon, Cookstown and Omagh
6 = Ballymena, Ballymoney, Larne, Moyle and Coleraine
7 = Armagh, Banbridge, Craigavon, Newry and Mourne