

Committee for Finance and Personnel

Report on the Committee's Reponse to the 2007 Executive Review of the Domestic Rating System

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Membership and Powers

Powers

The Committee for Finance and Personnel is a Statutory Departmental Committee established in accordance with paragraphs 8 and 9 of the Belfast Agreement, Section 29 of the NI Act 1998 and under Assembly Standing Order 46. The Committee has a scrutiny, policy development and consultation role with respect to the Department of Finance and Personnel and has a role in the initiation of legislation.

The Committee has the power to;

- consider and advise on Departmental budgets and annual plans in the context of the overall budget allocation;
- approve relevant secondary legislation and take the Committee Stage of primary legislation;
- call for persons and papers;
- initiate inquiries and reports; and
- consider and advise on matters brought to the Committee by the Minister of Finance and Personnel.

Membership

The Committee has eleven members, including a Chairperson and Deputy Chairperson, with a quorum of five members.

The membership of the Committee since its establishment on 9 May 2007 has been as follows:

Mr Mitchel McLaughlin (Chairperson)

Mr Mervyn Storey (Deputy Chairperson)

Mr Roy Beggs

Dr Stephen Farry

Mr Simon Hamilton

Mr Fra McCann

Ms Jennifer McCann

Mr Adrian McQuillan

Mr Declan O'Loan

Ms Dawn Purvis

Mr Peter Weir

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List of Abbreviations used in the Report

AME	Annually Managed Expenditure
BMA	Belfast Metropolitan Area
CAB	Citizens Advice Bureau
CAS	Citizens Advice Scotland
CFP	Committee for Finance and Personnel
CSR	Comprehensive Spending Review
CTB	Council Tax Benefit
CV	Capital Value
DEL	Department of Employment and Learning
DETI	Department of Enterprise, Trade and Investment
DFP	Department of Finance and Personnel
DLA	Disability Living Allowance
DOE	Department of the Environment
DPA	Disabled Persons Allowance
DRD	Department for Regional Development
DSD	Department for Social Development
DWP	p.209
EJO	Enforcement of Judgement Order
EQIA	Equality Impact Assessment
ERINI	Economic Research Institute of Northern Ireland
EU	European Union
FSB	Federation of Small Businesses
FT	Full – Time
GB	Great Britain

GCCNI	General Consumer Council Northern Ireland
GPS	Global Positioning Systems
HB	Housing Benefit
HMRC	Her Majesty's Revenue and Customs
HMSO	Her Majesty's Stationery Office
IFS	Institute of Fiscal Studies
IRRV	Institute of Revenues, Rating and Valuation
ISNI	Investment Strategy for Northern Ireland
IT	Information Technology
IVA	Individual Voluntary Arrangement
LIT	Local Income Tax
LPS	Land and Property Services
LVT	Land Value Taxation
MLA	Member of Legislative Assembly
MP	Member of Parliament
NAV	Nett Annual Value
NI	Northern Ireland
NIE	Northern Ireland Electricity
NIFRC	Northern Ireland Fair Rates Campaign
NIHE	Northern Ireland Housing Executive
NIMDM	Northern Ireland Multiple Deprivation Measure
NISRA	Northern Ireland Statistics Research Agency
NPI	New Policy Institute
OAP	Old Age Pensioner
OECD	Organisation for Economic Cooperation and Development
OFMDFM	Office of First and Deputy First Minister
PC	Pension Credit
RCA	Rates Collection Agency
RCN	Rural Community Network
ROI	Republic of Ireland
RPA	Review of Public Administration
RPI	Retail Price Index
RR	Rate Rebate
SNP	Scottish National Party
SSA	Social Security Agency
SSSI	Sites of Special Scientific Interest
TA	Territorial Authorities
TLA	Territorial Local Authorities
TSN	Targeting Social Need
UK	United Kingdom

USA	United States of America
UU	University of Ulster
UUJ	University of Ulster – Jordanstown
VAT	Value Added Tax
VLA	Valuation and Lands Agency
WWF	World Wide Fund for Nature

Executive Summary

Domestic rates are a key component of local funding in Northern Ireland, both at a regional level, to contribute towards the funding of all public services, including health, education and water, and at a district level, to fund local government services, such as waste collection and leisure services. The combined annual income from domestic rates currently stands at approximately £450m and the regional component, in particular, has increased significantly in recent years. A new domestic rating system was introduced by the Direct Rule administration in April 2007 following a review process initiated in 2000. The impact of the reforms on ratepayers, particularly pensioners, attracted mounting criticism and, following the restoration of devolution in May 2007, the Minister of Finance and Personnel, during the first debate on rating in the new Assembly, announced that there would be an Executive Review of the Domestic Rating System.

It was in this context that the Committee for Finance and Personnel identified domestic rating as a priority issue for its work programme. The Committee gained the Department's agreement both to consult with it on the terms of reference for the Review, which provided the basis for a public consultation during July and August, and to provide the Committee with an opportunity to assess the outcome of the consultation before submitting the Committee response to the Review. This report sets out the Committee's response and, in so doing, follows the structure of the Review terms of reference.

The terms of reference was wide ranging and separated the policy options for consideration into the following three categories:

- (i) Strand 1A options (changes that can be made to the existing system by April 2008 via subordinate legislation) – eight options were identified under this category;
- (ii) Strand 1B options (options for change in the context of the existing system which would take longer to implement – i.e. require primary legislation) – nine options were identified under this category; and
- (iii) Strand 2 options (wider options for reform that consider ways of replacing or supplementing the new capital value system with alternative ways of raising revenue) – ten options were identified under this category.

Given the tight timetable for the review of the Strand 1A options, the Committee agreed that, in gathering evidence to inform the Committee response, the aim would be to supplement rather than duplicate the submissions received during the Department's consultation.

In addition to receiving further evidence from the Department, including cost-benefit analysis on a range of the options, the Committee took oral and written evidence from Citizens Advice; the economist, John Simpson; the Economic Research Institute of Northern Ireland, the Institute of Revenues, Rating and Valuation and the University of Ulster. Additional written submissions were received from the Consumer Council, the Rural Community Network, the Federation of Small

Businesses and the Northern Ireland Fair Rates Campaign. The Committee also commissioned several research papers from Assembly Research & Library Service. The evidence and information gathered has been invaluable in informing the Committee's considerations and will provide useful reference material for any further examination of the options.

On the basis of the evidence received, the Committee has recommended a number of options for the Department and the Executive to pursue, whilst ruling out others. In reaching its conclusions and recommendations the Committee has taken account of the various guiding principles which have been identified in the evidence, including 'ability to pay' and the 'benefit principle', whilst also being cognisant of the practical issues associated with each option, including affordability and feasibility. In addition to addressing each of the reform options, the Committee has made recommendations on other issues, including the uptake of reliefs and transparency and communication in relation to rates bills. The Committee looks forward to further engagement with the Department and other stakeholders on the options which require further examination, including the Strand 2 issues, such as green taxes/credits and local income tax, which should be reviewed in the longer term to assess their merits as alternatives or supplements to the existing property-based system of local taxation.

Key Conclusions and Recommendations

1. Whilst recognising that there was no clear consensus in the evidence as to the merits of changing the level of the maximum cap of £500k, the Committee recommends that the Department considers the option further in the context of decisions on the wider rate reforms and the overall affordability and fairness of the reforms. (Paragraph 12)
2. Having considered the available evidence, the Committee recommends that a minimum payment/capital value is not introduced, as it is not required given the capacity of the present domestic rating system to determine payment liability, taking account of capital value and entitlement to rate relief and housing benefit. (Paragraph 16)
3. The Committee recommends that rating of vacant domestic properties should be introduced as soon as possible, as this would help to address the present shortage in housing supply whilst also raising revenue. The Committee also believes that the Department should consider both phasing the implementation, starting with the properties with higher value, as a means of expediting the policy, and providing initial exemption and concessionary periods to allow for ownership changes. (Paragraph 22)
4. The Committee recommends that any amendments to the rate relief scheme need to be encapsulated in a simple, straightforward process to ensure that the advantages of potential savings in rates bills are not lost in an increased administrative burden, leading to a further deterioration in the take-up rate due to the degree of complexity. (Paragraph 28)
5. The Committee recommends that the Department considers amendments to the rates relief scheme on the basis of sound cost-benefit analysis of the options. In particular, the Committee considers that the case is well made for an increase in the upper threshold for savings above £16k, which would help to boost the uptake of relief. The Committee also believes that careful judgement will be required as to the level to which the upper threshold for savings should be raised, as this will have a bearing on other NI ratepayers if the increase is not funded by the UK Government as part of a wider reform of housing benefit. On the issue of funding uplift, the Committee calls on the Department to ensure that, by introducing this locally, NI would not subsequently lose out if the UK Government follows suit. (Paragraph 30)
6. The Committee has concerns over whether the existing education and training relief genuinely targets students or whether landlords are the real beneficiaries. The Committee, therefore, calls

on the Department to establish the extent to which there is evidence to prove that the scheme has resulted in reduced rents for students. In the event that this cannot be established, the Committee would recommend that the existing provision is replaced by more targeted support for students. (Paragraph 34)

7. The Committee recommends the introduction of a deferred payment scheme for pensioners and considers that, even if only a small number of pensioners were to benefit, the choice of deferment should be available and that it should be provided on the basis of an advantageous interest rate and with an annual review facility. (Paragraph 39)

8. The Committee recommends that the early payment discount should be retained and that the Department should consider the case for extending the scheme to those who pay by direct debit. (Paragraph 43)

9. The Committee considers that the Department should establish whether there is sufficient evidence of need which would justify the significant administrative burden and revenue loss associated with an extension of the transitional relief scheme beyond the present 3-year period. (Paragraph 48)

10. The Committee recognises that there is no clear consensus in the evidence on the merits of a graduated tax system and recommends that this option should not be taken forward as part of the current review as this would result in the domestic rating system being more complex and less transparent. (Paragraph 54)

11. Having considered the available evidence, the Committee recommends that a single person discount is not taken forward as part of the Review, given that this form of relief would be a blunt instrument, which would fail to target those most in need, and would be subject to potentially high levels of fraud as well as being costly in terms of revenue loss. (Paragraph 60)

12. The Committee recommends that a single pensioner discount should be introduced, subject to the outcome of further analysis by the Department of the affordability and feasibility. (Paragraph 64)

13. The Committee supports the case for an automatic discount for pensioners over the age of 75. In addition, the Committee recommends further analysis by the Department of the affordability, in terms of revenue loss and the potential impact on other taxpayers, of introducing an automatic pensioner discount. The Committee considers that this reform should be introduced if the further analysis indicates that it would be affordable. (Paragraph 68)

14. The Committee considers that there is a need to promote understanding and awareness of the existing Disabled Persons Allowance, both in terms of its rationale and the eligibility. The Committee recommends that the Department undertakes further analysis to establish the impact of the existing Disabled Persons Allowance before giving further consideration to the merits of the various options for broadening the provision. (Paragraph 74)

15. Whilst, on the face of it, circuit breakers have the attraction of apparent fairness and transparency, the Committee, having considered the available evidence and research, recommends that this option should not be pursued, given the likely difficulties in administering and policing such a system and also in view of the extensive relief scheme already in place in NI. (Paragraph 78)

16. Whilst there was no clear consensus in the evidence as to the merits of an enhanced discount to farmers, the Committee, nonetheless, recommends that the Department considers the option further in the context of its decisions on the other reforms. (Paragraph 82)

17. The Committee considers that the option of introducing discount for owner occupiers should instead be framed in terms of applying an additional rate on second homes. Having considered the available evidence, the Committee believes that a fuller assessment of the potential administrative impediments to introducing a rating on second homes, together with the associated costs and benefits, will be required before this option can be considered further. (Paragraph 87)

18. The Committee considers that the option of rates credits for environmental measures, including energy efficiency improvements in the home, is deserving of careful consideration and calls on the Department to engage further with stakeholders, including the Committee, to establish the potential of this option. (Paragraph 92)

19. The Committee recommends that the option of banding capital values is not ruled out until the Department establishes whether the conclusions of the University of Ulster research in 2003, which found against banding, would be different, based on present property values. (Paragraph 99)

20. Having considered the available evidence, the Committee recommends that the option of a local income tax should not be considered further at this stage, but that the option should be reviewed in the longer term and in light of any future experience of a local income tax operating in Scotland. (Paragraph 107) (For amendments moved to the Report and not agreed and for details of divisions see the Minutes of Proceedings of 24 October 2007 in Appendix 2)

21. Having considered the available evidence, the Committee recommends that the option of income tax varying powers should not be considered further at this stage. (Paragraph 111) (For amendments moved to the Report and not agreed and for details of divisions see the Minutes of Proceedings of 24 October 2007 in Appendix 2)

22. Given its limited feasibility and the potential impracticalities and administrative difficulties, the Committee agreed that a local sales tax should not be pursued as an option for raising revenue in NI. (Paragraph 115)

23. The Committee recommends that the option of a poll tax is ruled out, not least because of the failure of the policy in GB and the fact that it does not relate to ability to pay. (Paragraph 119)

24. Having considered the available evidence, the Committee recommends that the option of a tourist tax should not be taken forward at this time as this could adversely affect NI's tourism industry at a critical stage in its development. The Committee also considers that if a local tourist tax was to be introduced in the longer term, following consultation with stakeholders, there would be merit in the resultant revenue being ringfenced for further enhancement of the tourist product. (Paragraph 126)

25. Whilst recognising that there was no clear consensus in the evidence as to the merits of road charging, the Committee recommends that the Department considers the option further, particularly in terms of its potential economic impact, costs and benefits, feasibility, effectiveness in reducing road congestion and in the context of decisions on the other rating reforms. (Paragraph 133)

26. The Committee concludes that the option of green taxes/credits warrants careful consideration and looks forward to engaging with the Department and with other stakeholders to examine the range of possible approaches in this area and the associated merits. (Paragraph 139)

27. The Committee considers that the research and analysis of land value taxation is at too early a stage to make even an initial assessment of the potential merits of this option as a replacement or supplement to the property-based system of local taxation. (Paragraph 148)

28. The Committee recommends that derelict land taxation should be introduced in respect of land zoned for development, on the basis that this will help prevent land being left derelict to avoid taxation, whilst raising revenue and also supporting other policy aims, including economic development and the supply of affordable housing. (Paragraph 152)

29. The Committee recommends that the Regional Rate and District Rate element of rates bills should be clearly differentiated on household rates bills, including specification of the precise sum that is being allocated to each. (Paragraph 153)

30. The Committee calls on the Department to ensure effective communication with ratepayers to promote public confidence and understanding of how the revenue from rates helps fund public services, both centrally and locally. (Paragraph 154)

31. The Committee considers that the Department should take immediate steps to assuage public concern that any subsequent increase in capital value will lead to a similar increase in an individual rates bill and to offer reassurance that the consequences of revaluation will be revenue neutral. (Paragraph 155)

32. On the basis of the evidence received, the Committee concludes that there is a widespread problem with low uptake of rate reliefs (which also affects the level of rate rebate) and believes that this is a missed opportunity both in respect of relieving hardship and in terms of benefits revenue forgone to NI. The Committee, therefore, considers that the Department should pursue vigorously the measures identified for improving take-up of reliefs, which include the simplification of the application process and working more closely with other government agencies to identify those eligible for reliefs and with voluntary organisations to raise awareness amongst difficult to reach groups. (Paragraph 161)

33. The Committee recommends that the Department explores the potential for improved data sharing between relevant agencies, and in particular the possibility of the Land and Property Services agency having access to the Social Security Agency's database, which holds details of benefit entitlement, to make the application process faster and more efficient. (Paragraph 163)

Introduction

Background

1. Prior to summer recess, the Committee for Finance and Personnel considered the terms of reference for the Review of Domestic Rating Reform (Appendix 1). A consultation process was then carried out by the Department of Finance and Personnel (DFP) over the summer and departmental officials briefed the Committee on the report of this consultation process on 26 September 2007.^[1] The Committee was required to respond to the Minister by the end of October, to allow the process to be taken forward and any necessary legislative change to be implemented for April 2008. Given the tight timetable, the Committee agreed that its evidence gathering should aim to supplement rather than duplicate the evidence received by the Department in written submissions to the consultation.

The Committee took oral evidence from the following:

- Citizens Advice;

- John Simpson, Economist;
- Institute of Revenues, Rating and Valuation (IRRV);
- Economic Research Institute of Northern Ireland (ERINI).

2. The Committee also received further written evidence from the Consumer Council, the Rural Community Network and the Federation of Small Businesses and has included consideration of this information in this response. Members were also updated regularly by DFP officials responsible for the review and were briefed by researchers from the University of Ulster (UU) on the ongoing research, which DFP has commissioned into the potential for a land tax and on the rating of vacant domestic properties.

3. DFP also provided summary analysis of the policy options, including information on costs, benefits, and impacts, which has been especially helpful in informing the Committee's deliberations. The Department requested that this information be restricted to the Committee and that it should be discussed only in closed session, given that Executive decisions on the options were pending^[2]. Whilst the Committee agreed to this request it decided that an Official Report be made of all the evidence taken by the Committee in open session and included in this Report at Appendix 3. It is hoped that this evidence will also inform the Department's further consideration of the policy options.

Guiding Principles

4. The Committee notes that stakeholders have advocated various guiding principles for the Review, some of which were contained in the Review terms of reference. These include:

- ability to pay (i.e. relationship between tax liability and income and/or savings);
- benefit principle – that there should be a correlation between what people are asked to pay and the value of services they get in return;
- whether domestic rates should be directly linked to services consumed (hypothecated), should be purely a property wealth tax, OR a mixture of both;
- the relative merits of progressive versus regressive tax;
- transparent and easily understood;
- effective (i.e. yields revenue to meet local needs);
- broadly acceptable, stable and easy to administer;
- revenue neutral (i.e. overall any reductions/increases should be offset by other changes to maintain the revenue base, especially given future plans to fund water through rates);
- other implications of tax choice (e.g. tax not only raises revenue, it creates incentives and competition between regions).

5. Having considered the consultation report and taken further evidence, the Committee recognises that varying degrees of priority are attached to these principles by consultees and that some of the principles may prove difficult to reconcile. In particular, the revenue neutral principle may be breached if local needs increase and the system is still to be effective. The pressure to generate additional revenue or make additional efficiency savings is especially evident in the context of the recent Comprehensive Spending Review (CSR) announcement and the recommendations from the independent review of water reform. The Committee is also keenly aware of the tension between 'ability to pay' and the 'benefit principle' in taxation. During oral evidence, it was also pointed out to the Committee that governments generally are not in

favour of hypothecation of taxes as this reduces the scope for discretionary decision making to meet demands on revenue.

The Committee's Approach

6. The Committee considered DFP's consultation report and extracted the key arguments from consultees, both for and against the short and long-term options being considered in the Review. This was supplemented with information from Assembly Research papers, on the long-term options for reform and on potential international comparators, and from the written submissions and oral evidence from the witnesses detailed above. The Official Reports of the oral evidence are at Appendix 3. The written submissions received by the Committee are at Appendix 4 and the follow up information from DFP and research papers are at appendices 5 and 6 respectively. This evidence is summarised below under each of the options contained in strands 1A, 1B and 2 of the Review terms of reference.

7. The Department's analysis of the strand 1A and 1B options (including the costs of lost revenue, potential revenue gains and numbers likely to be affected by each option) form a separate annex to this report (Annex A). Further analysis of the strand 2 options was also provided by DFP and is included at Annex B.

8. The aforementioned information and analysis provided a basis for the Committee's deliberations and enabled it to offer qualified support for some options, to recommend some options for further consideration and to rule out some others. The Committee recognises that further analysis of several options is underway or planned by DFP, especially relating to the longer-term options in strand 2. Whilst this information will be available to the Committee in due course, the Committee has not been in a position to fully consider all the options at this time. The Committee cannot therefore offer unqualified support for some options or fully rule out others. However it has identified the policy options which have particular merit and those which warrant further research and consideration.

Consideration of the Options

Strand 1A Options (changes that can be made to the existing system by April 2008 via subordinate legislation).

(a) Changes to the Level of Maximum Cap

9. The Committee identified the following views on this option from the Department's report on the consultation and from the evidence provided to the Committee:

Arguments For (Cap/Reduction)	Arguments Against (Cap/Reduction)
Set to ensure highest bills in NI consistent with highest council tax bill in GB (approx £3k).	Only approx. 2,300 ratepayers benefit but the revenue loss in 2007/08 was £2.5m approx. In future years likely that this will be absorbed by other ratepayers.
Current cap level enforces a rough and ready parity with GB – this does not account for income differentials.	Lowering the cap would increase the number of ratepayers who benefit but means that lower income households cross subsidise higher income households.
The 'benefit principle' in taxation argues for a relationship between what people are asked	Vast majority of properties benefiting are in a small number of council areas.

Arguments For (Cap/Reduction)	Arguments Against (Cap/Reduction)
to pay and the value of services they get in return.	
Removal of caps argued on 'ability to pay' principle but the correlation between house value and income is by no means absolute.	Blanket cap a blunt instrument.

10. The Committee noted that, in its response to the consultation, the Fair Rates Campaign favoured a cap at around £300k capital value. However, in his evidence to the Committee, John Simpson argued that a reduction would increase reallocation more than proportionately and that the present cap of £500k should be maintained as it is less than three times the overall average capital value and only affects 0.5% of households. On the issue of removing the cap, the Committee was advised by ERINI that this would mean that those who currently benefit would pay approximately £1000 per year more (though this masks the fact that some would pay very much more and some less). In its evidence, DFP explained that it is unsure at present as to whether changing the maximum cap would be subject to a full equality impact assessment; but if this is required it is unlikely that this option could be implemented by April 2008.

11. In considering this option, the Committee has also taken account of DFP's summary analysis of the associated costs, benefits, and impacts. (see Annex A)

12. Whilst recognising that there was no clear consensus in the evidence as to the merits of changing the level of the maximum cap of £500k, the Committee recommends that the Department considers the option further in the context of decisions on the wider rate reforms and the overall affordability and fairness of the reforms.

(b) Introduction of a Minimum Payment

13. The Committee identified the following views on this option from the Department's report on the consultation and from the evidence provided to the Committee:

Arguments For	Arguments Against
Recognises that there is a basic level of local and regional government services that are consumed by households.	Those below the capital value threshold would experience a slight increase in rates, whilst those above would experience a slight reduction.
Would ensure those in lower value properties, who can afford to pay, make an appropriate contribution to the cost of providing those services.	Disproportionate impact on lower paid.
Those on low incomes would continue to be supported by the housing benefit system and the rate relief scheme introduced in April 2007.	Could run counter to new TSN policies.
Setting a minimum payment would significantly increase the cost of housing benefit – could be a funding gain for NI from annually managed expenditure (normally needs Treasury approval).	Caps benefit the very wealthy and/or the very poor with those in the middle left to cover shortfall.
	Would add to the cost of local rate relief scheme.

Arguments For	Arguments Against
	Potential need for new IT systems may delay introduction.

14. In addition to the above arguments the Committee noted the advice from the IRRV that there is presently no need to introduce a minimum payment rule. Under the existing system the payment liability is driven by the person's ability to pay as determined by the value of their house, the local rate relief scheme and the housing benefit scheme.

15. In considering this option, the Committee has also taken account of DFP's summary analysis of the associated costs, benefits, and impacts. (see Annex A)

16. Having considered the available evidence, the Committee recommends that a minimum payment/capital value is not introduced as it is not required given the capacity of the present domestic rating system to determine payment liability, taking account of capital value and entitlement to rate relief and housing benefit.

(c) Introduction of Rating for Vacant Domestic Properties

17. The Committee identified the following views on this option from the Department's report on the consultation and from the evidence provided to the Committee:

Arguments For	Arguments Against
Would act against speculative development with investors leaving properties vacant for long periods. Capital gains tax reforms proposed by the Chancellor seem likely to encourage such behaviour further.	Impact adversely on pensioners as many have bought domestic properties to supplement their pension provision.
Significant policy tool in encouraging action on, or sale of, empty homes and would ensure an adequate supply of available, affordable housing. Also consistent both with Semple Report on Housing Affordability, which recommended 100% rating on vacant domestic property in NI after 6 months exemption, and with GB policy where vacant domestic properties liable to 50% council tax after 6 months exemption.	Potential gross revenue may be considerably reduced by costs and time involved in implementing/administering. Would involve identifying the owner of every vacant property in NI which could take up to 2 years.
Local services are still available to the vacant property.	
Consistent with the decision to rate vacant non-domestic property.	
If occupied property rateable as a valuable asset then principle should be extended to vacant property.	

18. In its evidence to the Committee, DFP officials explained that current policy is based on the established principle that a property is rated throughout the year if there is an 'intention to return', though no rates are paid on properties which are deemed to be vacant. The Committee noted strong support expressed for the rating of vacant property during the consultation and in the evidence provided to the Committee. John Simpson recommended that vacant domestic property (including property in need of repair) should be rated, with a transitory rate free period of six months (to allow for ownership changes) and a further six months at half rate.

19. From the DFP/UU evidence the Committee notes that there are impediments to the implementation of this option, in that Land and Property Services (LPS) would need to obtain details of every vacant house in NI and charge accordingly as the current taxation system is occupier based. The Committee was advised that this could not be done prior to April 2009 and that further research is planned on this option, including the second phase of UU research to identify the causes of identified vacancies. DFP has committed to bringing more information to the Committee on proposed implementation but, given the issues to be resolved, the Committee questions whether it is realistic to include this as a Strand 1A option, whereby the necessary changes need to be in place by April 2008.

20. The IRRV recommended to the Committee that this option should be implemented as soon as possible but also emphasised the considerable practical issues involved for LPS in identifying vacant homes, checking their status and commencing a billing and checking process. LPS has already undergone enormous change and the IRRV recommended a lead in time of at least a year to allow LPS to prepare for the administration of the policy. The Committee discussed the possibility of phasing in the rating of vacant properties, initially on higher value properties and then subsequently lowering the threshold. This would have the advantage of allowing policy implementation to begin as soon as possible. DFP has confirmed to the Committee that the enabling powers in the primary legislation do not inhibit such an approach.

21. In considering this option, the Committee has also taken account of DFP's summary analysis of the associated costs, benefits, and impacts. (see Annex A)

22. The Committee recommends that rating of vacant domestic properties should be introduced as soon as possible, as this would help to address the present shortage in housing supply, whilst also raising revenue. The Committee also believes that the Department should consider both phasing the implementation, starting with the properties with higher value, as a means of expediting the policy, and providing initial exemption and concessionary periods to allow for ownership changes.

(d) Amendments to the Rate Relief Scheme

23. The Committee identified the following views on this option from the Department's report on the consultation and from the evidence provided to the Committee:

Arguments For (Amendments)	Arguments Against
Assist ratepayers in low income households just beyond the social security housing benefit threshold or receiving partial housing benefit as their income exceeds amounts allowed.	Rates relief scheme paid from NI block. Increased reliefs will be revenue foregone or lead to increased bills for others.
Focus on ability to pay rather than membership of a group.	Taking housing benefit and the local rate relief scheme together, NI already has a more generous level of support than is available in GB.
System needs to be simplified, with less means testing and the possibility of automatic entitlement, especially for pensioners.	Further amendments should not contravene the 'parity principle', that the burden on UK taxpayers should not be added to by local schemes that are more generous than those available in GB.

Arguments For (Amendments)	Arguments Against
Current system does not alleviate the disparity between rates and pension rises.	
The savings/capital limit applied under housing benefit/rate rebate and rate relief schemes could be increased as recommended in the Lyons report. Could boost take-up.	
Benefit recipients not passported onto Rates Relief scheme, although some benefits already provided a passport to full housing benefit.	
Amendments to the existing scheme could be delivered by April 2008.	

24. In the evidence provided to the Committee it was explained that the rates relief scheme sits above the housing benefit system and therefore provides relief over and above that available through housing benefit. It was also pointed out that choices were made to enhance certain elements for 2007/08 and the flexibility of the scheme means that these can be revised to target particular groups, without becoming indiscriminate. The Fair Rates Campaign has lobbied for the savings limit under the rate relief scheme to be increased to £50k for pensioners (as recommended in the recent Lyons report) and the Department has confirmed to the Committee that this will be given serious consideration (although there is no movement in Whitehall at present), along with the possibility of enhanced relief for people with a disability and carers.

25. In its evidence, the IRRV pointed out that the current capital limit (£16k) has been in place for at least 20 years, assumes a 20% return on capital, and significantly affects take-up in NI, where levels of savings are high. Whilst IRRV recommended that the capital rule/derived income rule should be lifted, it argued that this should be done, and funded, by central government. The IRRV also sounded a note of caution regarding the effect on other taxpayers from a dramatic rise in the level of take-up. The Committee was also advised by IRRV that indiscriminate discounts on rates bills affect the calculation of benefits, with a resultant reduction in the Annually Managed Expenditure (AME) funds accruing to NI. On a separate point, ERINI emphasised the risks of further reliefs contravening the 'parity principle', which dictates that the burden on UK taxpayers should not be added to by local schemes that are more generous than those available elsewhere.

26. The Committee noted that approximately 20% - 25% of rates issues raised with Citizens Advice are about the new relief scheme. The Consumer Council has argued that assistance should be targeted at those on, or near, the vulnerable threshold but that more work is needed to help the 'average consumer' above the benefits threshold, but facing significant hardship due to rates increases and planned water charges. The Committee agrees with the Council's view that it is vital that changes do not create a new category of vulnerable consumers who fall into the poverty trap.

27. The Committee also noted the Consumer Council's argument that relief should be provided by way of social policy and not a cross-subsidy on other householders, so that the majority do not bear the burden of a large minority. This view was borne out by the Council's October 2004 research where 79% agreed that Government should pay the costs of providing relief for vulnerable customers. The Committee recognises however that, in the context of the recent CSR announcement and other budgetary pressures facing the Executive, it will be difficult to find the resources to fund additional reliefs to avoid these being a cross-subsidy on other householders.

28. The Committee recommends that any amendments to the rate relief scheme need to be encapsulated in a simple, straightforward process to ensure that the advantages of potential savings in rates bills are not lost in an increased administrative burden, leading to a further deterioration in the take-up rate due to the degree of complexity.

The Committee also agrees that the scheme could be re-branded, in that the current title of low income rate relief scheme may have a psychological effect on take-up. In its evidence, IRRV highlighted the poor take-up amongst owner-occupiers and emphasised the need for improved data sharing. The Committee concurs with this and has considered the issue in more detail later in this report.

29. In considering this option, the Committee has also taken account of DFP's summary analysis of the associated costs, benefits, and impacts. (see Annex A)

30. The Committee recommends that the Department considers amendments to the rates relief scheme on the basis of sound cost-benefit analysis of the options. In particular, the Committee considers that the case is well made for an increase in the upper threshold for savings above £16k, which would help to boost the uptake of relief. The Committee also believes that careful judgement will be required as to the level to which the upper threshold for savings should be raised, as this will have a bearing on other NI ratepayers if the increase is not funded by the UK Government as part of a wider reform of housing benefit. On the issue of funding uplift, the Committee calls on the Department to ensure that, by introducing this locally, NI would not subsequently lose out if the UK Government follows suit.

(e) Revision of Existing Provision for Education and Training Relief

31. The Committee identified the following views on this option from the Department's report on the consultation and from the evidence provided to the Committee:

Arguments For (revision)	Arguments Against (revision)
Unfair to provide blanket relief for students but not to other more 'needy' groups such as pensioners. Students earn considerably more over their working lives than others in society.	Mitigates against the gaps that existed in relation to students in the housing benefit system and the rate relief scheme, introduced in April 2007.
More effective ways of helping students such as reducing tuition fees.	
Concerns that the landlord, who pays the rates, may benefit from this policy. Also, potential for fraud as no incentive for landlord to inform authorities if residence later occupied by employed persons.	
A crude form of support with high potential for deadweight and distortion.	
Hard to administer given student mobility.	
Could be targeted differently (e.g. households where a student lives with parents).	

32. In his evidence to the Committee, John Simpson considered this to be unpopular with other ratepayers partly due to the questionable merits of the policy and partly because it is administered through landlords. Whilst highlighting that there was no evidence to date on the impact of the relief (i.e. whether students or landlords benefited), he also pointed out that, if student tenants became liable for domestic rates, collection costs would be high due to changing tenancies and the default rate might also be high. The Committee, therefore, recognises that the continuation of this relief, and the passive role of landlords in administering it, may be justified on the grounds of cost effectiveness rather than social policy. The IRRV recommended research to determine whether rents for students have reduced as a result of this scheme, but believed that there were better ways to target students for assistance.

33. In considering this option, the Committee has also taken account of DFP's summary analysis of the associated costs, benefits, and impacts. (see Annex A)

34. The Committee has concerns over whether the existing education and training relief genuinely targets students or whether landlords are the real beneficiaries. The Committee, therefore, calls on the Department to establish the extent to which there is evidence to prove that the scheme has resulted in reduced rents for students. In the event that this cannot be established, the Committee would recommend that the existing provision is replaced by more targeted support for students.

(f) Introduction of Deferred Payment Scheme for Pensioners

35. The Committee identified the following views on this option from the Department's report on the consultation and from the evidence provided to the Committee:

Arguments For	Arguments Against
Safety net to help to ensure that home owners are able to retain their homes, especially those with high property tax burdens and with no eligibility for other forms of relief.	High take-up could cause cash flow problems/revenue shortages and other ratepayers may be expected to cover deficit.
Many jurisdictions in USA recently adopted property tax deferral programmes.	Would cause concerns amongst pensioners about what they are leaving for their families and about going back into debt for a home paid for over a working lifetime.
Could be attractive to those with a low or fixed income occupying a high value property.	Concerns around the legal and logistical implications.
Would provide pensioners with additional choice.	May not need government involvement as a secured loan could be taken with a bank in a private transaction with capital and interest paid on the sale of the home.
	Adds both to the growing number of 'death' taxes placed on consumers in this age range and to debt culture generally.
	May be seen as a substitute for a fair and sustainable rating policy.

Arguments For	Arguments Against
	Implications for the property market if this acts as a deterrent to sell (if liability is realised on the sale of property) as supply could be restricted causing price increases. This was the impact of 'Proposition 13' in California.
	Would impact on existing demands on property equity (e.g. long-term care costs) and balancing these factors will require careful analysis.
	Experience in USA is that specific reliefs or limits are preferred to deferrals (i.e. gifts preferred to loans).

36. DFP officials confirmed that this option is on the statute book but had not been introduced to date. In his evidence to the Committee, John Simpson described this as a safety device for reassurance rather than an attraction for potential users and concluded that the scheme should not be introduced. IRRV, on the other hand, supported its introduction and raised the possibility of involvement from the private financial sector, especially if the scheme proved so popular as to cause initial cash flow problems. Following up on this issue, DFP informed the Committee that the intention of the legislation was that the scheme would be Government-run and that third party involvement was considered but ruled out for a number of reasons, including the fact that financial services are a reserved matter under the Northern Ireland Act 1998. Any proposal to involve a third party would therefore require new primary legislation.

37. The Committee recognises that if interest is levied on the deferred amount it may prove unpopular and be perceived as regressive as this would add to the actual (long-term) burden on pensioners. The Committee also considers that, given the potential impacts, the consistency of this scheme with policy on addressing housing shortages may be questionable. That said, whilst acknowledging the potential social resistance within a family at seeing an inheritance progressively eroded, the IRRV pointed out that this could be controlled by using an advantageous interest rate and allowing pensioner households to annually review the decision to defer.

38. In considering this option, the Committee has also taken account of DFP's summary analysis of the associated costs, benefits, and impacts. (see Annex A)

39. The Committee recommends the introduction of a deferred payment scheme for pensioners and considers that, even if only a small number of pensioners were to benefit, the choice of deferment should be available and that it should be provided on the basis of an advantageous interest rate and with an annual review facility.

(g) Revision of the Early Payment Discount

40. The Committee identified the following views on this option from the Department's report on the consultation and from the evidence provided to the Committee:

Arguments For	Arguments Against
There is a cost factor and an alternative would be to impose a penalty for paying by instalment (e.g. as can apply with private sector motor insurance policies).	Providing an incentive for consumers to pay in advance for services encourages household budgeting and reduces debt.

Arguments For	Arguments Against
	Scheme tends to be more popular with pensioners.
	Previous attempts in the 1980s to abolish it were met with considerable opposition.
	Has worked well for a number of years with approximately 20% take-up.

41. In its evidence to the DFP consultation, the Consumer Council argued that a discount for full early payment must remain, regardless of the payment method and that the discount must fairly reflect the savings made when the consumer pays by the preferred method. It advocates extending the early payment discount to those who pay by direct debit, given the associated reduced administration costs and the non-requirement for debt collection. The Committee considers that some cost in the scheme is inevitable (i.e. discount provided cannot be fully recovered by interest earned on early payment) but that a reduction in discount will have an obvious effect on take-up.

42. In considering this option, the Committee has also taken account of DFP's summary analysis of the associated costs, benefits, and impacts. (see Annex A)

43. The Committee recommends that the early payment discount should be retained and that the Department should consider the case for extending the scheme to those who pay by direct debit.

(h) Reprofilling the Existing Transitional Relief Scheme

44. The Committee identified the following views on this option from the Department's report on the consultation and from the evidence provided to the Committee:

Arguments For	Arguments Against
The relief over a 3-year period for households whose rates bills have increased by more than 33% may need to be extended to 5 years to cover the life of the new valuation list.	Resultant loss in revenue paid for by passing the burden for a period to other ratepayers or foregoing revenue and trimming public services.
Some areas more adversely affected by revaluation than others (e.g. Stranmillis Residents Association reported a 5-fold increase in house values). Transitional Relief could be revised to account for such variances.	Change in midstream would add to administrative burden on LPS who would need additional resources to implement change.
There is no sliding scale and an increase of even 20% can be substantial for some people.	If there is a revaluation in 2012, reprofilling could mean that eligible ratepayers would not pay their full bill.
Would reduce the cost of housing benefit and rate relief.	Would be a matching reduction in AME to the reduction in housing benefit costs.

45. In its evidence to the Committee, Citizens Advice argued that the transitional relief should be more generous as those with large increases in their bills are struggling, even given the transitional relief currently available. John Simpson took the view that the need for reprofilling was a matter for Ministerial judgement as to whether the speed of adjustment is causing any

undue hardship where bills have increased most. He also argued that, given the delay in water charges, the case for extended relief could be considered as weak but, should water charges be introduced in April 2008, an extended relief period could be argued as a small offset to the combined impact.

46. In its evidence, ERINI considered a relief period of not more than 5 years as ample time for household budgets to adjust. IRRV took the view that any change to the transitional period must be kept within the life of the exiting valuation period.

47. In considering this option, the Committee has also taken account of DFP's summary analysis of the associated costs, benefits, and impacts. (see Annex A)

48. The Committee considers that the Department should establish whether there is sufficient evidence of need which would justify the significant administrative burden and revenue loss associated with an extension of the transitional relief scheme beyond the present 3-year period.

Strand 1B Options (options for change in the context of the existing system which would take longer to implement – i.e. require primary legislation)

(a) Graduated Tax System

49. The Committee identified the following views on this option from the Department's report on the consultation and from the evidence provided to the Committee:

Arguments For	Arguments Against
Downward graduated tax system viewed as one way of balancing 'ability to pay' with the provision of services or 'benefit principle'.	Downward graduated tax system results in a loss of tax revenue from highest capital value properties which is foregone or recouped by further increasing the tax rate below the threshold.
Upward graduated tax system would align with 'ability to pay' principle.	Age Concern is aware of research suggesting that this system increases the tax burden on the lowest three quarters of properties.
Graduated tax system would address arguments for banding of capital values.	Other consultees stated that it will simply increase the tax burden on the less well off.

50. The Committee notes that this option would mean either that the charge per unit of capital value would:

- be marginally lower for more expensive properties (avoiding large, allegedly excessive charges); or
- would start at a lower level and rise as the property became more valuable (making the charges more progressive and easing the cost on less expensive property).

51. John Simpson pointed out to the Committee that these alternatives met entirely different objectives and that there would be vocal winners and losers depending on which graduated system was applied. He suggested that the second option might be considered if the rates system is judged to contain socially inequitable outcomes. IRRV commended this policy and agreed that there would be winners and losers from its introduction. It also recommended further investigation of models produced by the University of Ulster.

52. In its evidence to the Committee, DFP advised that, whilst its introduction would make the current system more complex and would need recalibrated following each property revaluation, a graduated tax system was an alternative to banding and was possibly the best mechanism for making the current system more progressive.

53. In considering this option, the Committee has also taken account of DFP's summary analysis of the associated costs, benefits, and impacts. (see Annex A)

54. The Committee recognises that there is no clear consensus in the evidence on the merits of a graduated tax system and recommends that this option should not be taken forward as part of the current review as this would result in the domestic rating system being more complex and less transparent.

(b) Single Person Discount

55. The Committee identified the following views on this option from the Department's report on the consultation and from the evidence provided to the Committee:

Arguments For	Arguments Against
Fairer and would provide a better link to ability to pay and parity with GB (though also argued that the case for the single person discount in GB is based on lower use of services and not ability to pay).	Loss of revenue, which would result in other householders facing higher rate bills.
Lone parents and pensioners at greatest risk of poverty.	Indiscriminate and not based on ability to pay.
Single person households also more likely to suffer fuel poverty.	Blanket discount to single people will have an element of deadweight. A more targeted solution is needed.
	Fraud levels as high as 25% in relation to the Council Tax single person discount in GB, due to failure to report change of circumstances.
	Unless means tested, will provide discount to potentially high net worth/ high earning individuals living alone.
	Would lead to a reduction in NI's AME funded housing benefit budget.
	Account needs to be taken of the level of services provided to each household.
	Bills for single adult households may be lower anyway.

56. The Committee noted that, whilst this is a feature of council tax in GB, it was a contentious issue in the consultation report and in the evidence to the Committee. In its evidence, Citizens Advice argued that the absence of a single person discount was the biggest problem with the changes introduced in April 2007 as many such people are not eligible for any means tested benefit and will struggle to cope with large increases in rates bills.

57. Alternatively, John Simpson saw little justification for this concept, questioning why a wealthy single person household should get a discount when a poorer two person household pays the full bill. He pointed out that domestic rates are essentially a property tax used to provide public services in an unhypothecated manner, whereas the argument that a single person consumes less public services rests on the view that rates are partly a hybrid tax.

58. In its evidence, IRRV advised that if a decision was taken to pursue the proposal then further research would be required and there would be a need for a rigorous policy with clear procedures and penalties for abuse, given the very high fraud levels in GB (£1.4m in one London borough). IRRV preferred the use of the relief scheme which could be used to target single person households if required. On the issue of fraud, DFP advised that the potential for this could be combatted to an extent by data matching between government agencies.

59. In considering this option, the Committee has also taken account of DFP's summary analysis of the associated costs, benefits, and impacts. (see Annex A)

60. Having considered the available evidence, the Committee recommends that a single person discount is not taken forward as part of the Review, given that this form of relief would be a blunt instrument, which would fail to target those most in need, and would be subject to potentially high levels of fraud as well as being costly in terms of revenue loss.

(c) Single Pensioner Discount

61. The Committee identified the following views on this option from the Department's report on the consultation and from the evidence provided to the Committee:

Arguments For	Arguments Against
Pensioners susceptible to hardship under the new capital value rating system.	Enhanced rate relief for single pensioners on lower incomes already introduced in April 2007.
	Increases in rates bills for pensioners should instead be linked to inflation or increases in state pension payments.
	Blanket discount to single pensioners is indiscriminate and could benefit those not in need. A more targeted solution needed.
	Would lead to a reduction in NI's AME funded housing benefit budget.

62. The Committee noted the view that, whilst the single person discount could be described as a blunt instrument, a discount for single pensioners would be more targeted. John Simpson drew attention to the fact that pension incomes tend to lag behind other changes such as average earnings, thus pensioner living standards in retirement are likely to be eroded. He argues, however, that low income pensioner households already qualify for partial relief via the increase in the savings disregard and raises the option of broadening the existing 15% relief to include pensioner households, and subsequently raising the relief to 35% for pensioners over 75 and granting a full exemption for those over 85. The IRRV stated that the issue of take-up of pension-related benefits needed to be addressed before this discount could be introduced, but preferred the use of the relief scheme which could be used to target single pensioner households if required, including the possibility of an age-related automatic discount. The Committee agreed

that the option of an age-related automatic discount should be carefully explored and that the potential for fraud was reduced if the discount was targeted at pensioners.

63. In considering this option, the Committee has also taken account of DFP's summary analysis of the associated costs, benefits, and impacts. (see Annex A)

64. The Committee recommends that a single pensioner discount should be introduced, subject to the outcome of further analysis by the Department of the affordability and feasibility.

(d) Automatic Pensioner Discount

65. The Committee identified the following views on this option from the Department's report on the consultation and from the evidence provided to the Committee:

Arguments For	Arguments Against
Gives dignity and security to those who have worked and saved throughout their lives.	Blanket reliefs are an indiscriminate use of resources and do not take account of need. Some pensioners could have substantial savings and/or income and might not need rate relief.
Offers protection to pensioners who are likely to reside in high value properties but have a reduced income.	Could have a negative impact on those on low incomes.
	May fail the equality impact assessment as it favours a select group of ratepayers.

66. In its evidence DFP suggested that there may be some justification for automatic discounts because of issues arising from take up. The Committee took evidence from Citizens Advice and also considered the Consumer Council response on the issue of take-up and considers this in greater detail later, in the 'Other Issues' section of the report.

67. ERINI pointed out to the Committee that any automatic scheme assumes that everyone in the group that benefits needs assistance and that this is not the case for pensioners, many of whom have substantial assets and incomes. ERINI argued that, as a general principle, automatic tax reliefs should be avoided.

68. The Committee supports the case for an automatic discount for pensioners over the age of 75. In addition, the Committee recommends further analysis by the Department of the affordability, in terms of revenue loss and the potential impact on other taxpayers, of introducing an automatic pensioner discount in general. The Committee considers that this reform should be introduced if the further analysis indicates that it would be affordable.

(e) Broadening of Existing Disabled Persons Allowance Provision

69. The Committee identified the following views on this option from the Department's report on the consultation and from the evidence provided to the Committee:

Arguments For (broadening)	Arguments Against
Allowance should be on basis of disability rather than simply because a house has been adapted to meet disability needs. The blind or mentally impaired might not have such adaptations and therefore would not currently qualify.	Rationale of existing provision not based on level of disability but instead on need to ensure disabled persons not penalised by the move to capital value system (i.e. adaptations to meet disability needs may increase the capital value of the property).
Scheme needs to be more flexible with higher rates of allowance depending on the degree of disability and the level of accommodation works required.	Concerns around who should qualify as a person with a disability.
Scheme needs more effective promotion to ensure that those entitled are able to apply.	Modelled on the GB scheme but already more generous (i.e. 20% reduction in GB, whereas 25% in NI).
	Current low income rate relief scheme provides reliefs for the disabled.

70. The Committee noted that some respondents to the consultation argued for an extension to the allowance provision to cover disabilities other than physical handicaps. It was pointed out that some people with disabilities, such as the visually or mentally impaired, who have not made the necessary adaptations to their properties would not currently qualify for the allowance. The Committee, therefore, believes that there may be a need to raise awareness of the allowance amongst some groups and for greater clarity on eligibility.

71. ERINI explained to the Committee that this allowance attaches to the property (not to the disabled person) on the assumption that property modifications to facilitate the disabled make it more valuable than an unmodified property of similar character, with a subsequent rise in rates. The rationale behind this scheme, therefore, is that the owners of such properties would not be disadvantaged during the move to a capital value system as opposed to a focus on the disabled person. The Committee raised this issue with DFP who agreed that there was a considerable amount of confusion in the consultation as to the objectives of this scheme. In response, DFP undertook to consider the potential for renaming the scheme to reflect the current focus on adaptations.

72. Also in its evidence, ERINI questioned whether this scheme provided value for money and stated that it might be better channelled through a specific enhancement to the low income relief scheme for the disabled. IRRV contended that research was needed on the current impact of the scheme.

73. In considering this option, the Committee has also taken account of DFP's summary analysis of the associated costs, benefits, and impacts. (see Annex A)

74. The Committee considers that there is a need to promote understanding and awareness of the existing Disabled Persons Allowance, both in terms of its rationale and the eligibility. The Committee recommends that the Department undertakes further analysis to establish the impact of the existing Disabled Persons Allowance before giving further consideration to the merits of the various options for broadening the provision.

(f) Circuit Breakers

75. The Committee identified the following views on this option from the Department's report on the consultation and from the evidence provided to the Committee:

Arguments For	Arguments Against
Aligns the system more closely to 'ability to pay' based on income.	Whilst income is an indicator of wealth, other factors should be taken into account such as capital values and savings.
Could potentially offer an alternative to some existing/proposed reliefs/caps.	International experience is that these are often limited to particular groups due to the potential for fraud. Policing difficulties are formidable.
Provides a safety net for unexpectedly high rates bills as a proportion of household income.	May lead to increased bureaucracy with more forms and declarations.
Use in USA indicates potential (however US does not provide a centrally funded housing benefit scheme which currently supports 25% of the lowest income households in NI).	Difficult to administer as verification processes required from HM Revenue and Customs, who are reluctant to share such information.
Enable more targeted as opposed to blanket relief (e.g. often designed to benefit pensioners and those on fixed incomes).	Problems in alignment with housing benefit – could reduce the gross liability meaning housing benefits will lower and HMT will benefit.
Targeted approach can make circuit breakers less costly than caps.	Extensive relief scheme in NI negates need for this option.

76. The Committee noted the limited response on this option in the consultation and the explanation from DFP that this may be due to lack of available information. In his evidence, John Simpson pointed out that there is no immediate case for what would be an extra and complicated adjustment to the regulations in the absence of case studies where existing reliefs and benefits still leave people at a serious disadvantage. The IRRV considered circuit breakers to be crude and foresaw massive administrative difficulties determining the family make-up of every household and in gathering information from the Inland Revenue (especially on the self-employed) and agreeing a definition of income. IRRV also contended that there is no need for this type of provision, given that an effective rate relief scheme is already in place in NI.

77. In considering this option, the Committee has also taken account of DFP's summary analysis of the associated costs, benefits. (see Annex A)

78. Whilst, on the face of it, circuit breakers have the attraction of apparent fairness and transparency, the Committee, having considered the available evidence and research, recommends that this option should not be pursued, given the likely difficulties in administering and policing such a system and also in view of the extensive relief scheme already in place in NI.

(g) Enhanced Discount for Farmers

79. The Committee identified the following views on this option from the Department's report on the consultation and from the evidence provided to the Committee:

Arguments For	Arguments Against
Reflects the fact that farmers and farm workers must live beside the farm and therefore have limited mobility.	Speculative interest on the value of a farmhouse (e.g. if it is close to a coastal or urban area) is disregarded.
Encourages a sustainable industry which constitutes a significant section of the NI economy.	This is likely to benefit only the more modern properties.
Some farmhouses, especially those built in the last 25 years, are subject to agricultural planning restrictions, affecting their open market value.	
Capital taxes office state that the agricultural value of a farmhouse is around two-thirds of its market value so current system does not go far enough.	
Restrictions on use imposed by agricultural planning rules could be reflected by valuing farmhouses at market rates and discounting directly by 20% or 25%.	

80. In its evidence to the Committee, ERINI contended that agriculture is already very highly subsidised and therefore proposals for further subsidies need to be carefully examined. ERINI also suggested the possibility of considerably widening the tax base by extending rating, or some other tax form, to land in general and agricultural land in particular, with the effect of lowering rates generally.

81. In considering this option, the Committee has also taken account of DFP's summary analysis of the associated costs, benefits, and impacts. (see Annex A)

82. Whilst there was no clear consensus in the evidence as to the merits of an enhanced discount to farmers, the Committee, nonetheless, recommends that the Department considers the option further in the context of its decisions on the other reforms.

(h) Introduction of Discount for Owner Occupiers

83. The Committee identified the following views on this option from the Department's report on the consultation and from the evidence provided to the Committee:

Arguments For Discount for Owner Occupiers	Arguments Against Discount for Owner Occupiers
Would mitigate against the high cost associated with home ownership.	Relief already available to owner occupiers in the form of a discount for prompt payment.
Popular in parts of USA though some States limit the allowance to the elderly or the disabled.	A crude and regressive blanket relief system which applies to all eligible households irrespective of income or need.
	Inequitable as people in rented property are excluded.
	Will result in a lower tax base and a higher tax rate.
	Existence of housing benefit and the low income relief scheme render this unnecessary.

Arguments For Discount for Owner Occupiers	Arguments Against Discount for Owner Occupiers
	Difficult to argue that owner occupiers (but not second home owners) in selected areas should get a subsidy when they are the primary beneficiaries of local services.
	Difficult to identify homeowners in an occupier based system.
Arguments For Rating of Second Homes	Arguments Against Rating of Second Homes
Targeting of second home owners would address community imbalance from the spread of holiday homes and private student accommodation.	Potential problems with definition and policing. Difficult to administer scheme where owners of second homes charged a supplementary rate or a discount applied to permanent residents.
Ownership of second homes, especially in high demand areas, inflating the value of all properties in the area and thus the rate liability.	No consensus on how second homes should be treated (i.e. higher rates as an owner has 2 or more properties or lower rates due to limited occupancy).
	University of Ulster research indicated that second home owners were not significantly affected by concerns over tax or level of rates payable.

84. In his evidence to the Committee, John Simpson took the view that, in respect of discount for owner occupiers, on an ability to pay argument, there is a case for treating all residential properties on the same basis until a justification for variations emerges. The IRRV questioned the policy objectives of the discount for owner occupiers option and argued that, if it was an attempt to prevent second home ownership, it would be better to examine the level of charge on second homes. DFP confirmed to the Committee that the main objective of the option was to address the issue of second homes.

85. ERINI, on the other hand, raised the question of whether it is a good idea to discriminate against asset investment and contended that any decision in this area involved weighing up rising property values against use of services (i.e. ability to pay and the benefit principle).

86. In considering this option, the Committee has also taken account of DFP's summary analysis of the associated costs, benefits, and impacts. (see Annex A)

87. The Committee considers that the option of introducing discount for owner occupiers should instead be framed in terms of applying an additional rate on second homes. Having considered the available evidence, the Committee believes that a fuller assessment of the potential administrative impediments to introducing a rating on second homes, together with the associated costs and benefits, will be required before this option can be considered further.

(i) Rates Credits

88. The Committee identified the following views on this option from the Department's report on the consultation and from the evidence provided to the Committee:

Arguments For	Arguments Against
Consistent with active climate change policies.	NIE already provides cash back if a home installs cavity wall or loft insulation. Also provided free to low income households.
Investment in specified energy saving improvements and potential part-funding from energy producers.	
Similar scheme operates under Council Tax in GB and partly funded by one of the utility companies.	

89. The Committee noted that, in responding to the consultation, the World Wide Fund for Nature made a proposal for a rate rebate for household energy efficiency improvements, specifically in relation to the installation of loft and cavity wall insulation. The Committee was informed that DFP is thoroughly investigating this option, along with other environmental options such as charging for refuse collection or awarding tax credits and will engage further with the Committee on this policy area. Whilst the form and scale of such credits has yet to be actively explored, the Committee believes that the issue should be on the Executive's agenda.

90. The Committee is aware, nonetheless, of the argument put forward by ERINI that, when rates are used to induce changes in behavior or investment in property for particular functions, there should be both a market failure argument in favour of the intervention and evidence that this is the most cost effective way of achieving the desired objective. The Committee agrees that any new scheme would need to complement the existing schemes for low-income groups and address existing access difficulties.

91. In considering this option, the Committee has also taken account of DFP's summary analysis of the associated costs, benefits, and impacts. (see Annex A)

92. The Committee considers that the option of rates credits for environmental measures, including energy efficiency improvements in the home, is deserving of careful consideration and calls on the Department to engage further with stakeholders, including the Committee, to establish the potential of this option.

Strand 2 Options (wider options for reform that consider ways of replacing or supplementing the new capital value system with alternative ways of raising revenue)

Case for Considering Alternatives to Property Tax

93. The Committee has considered the relative merits of property tax and the alternative and complementary systems of taxation. On the one hand, property tax can be seen as inherently regressive – representing a larger burden for low-income taxpayers. The Committee noted from research which it commissioned, that recent criticism of property tax has prompted many USA states to limit property tax revenues. Also, local governments have been increasingly relying on other broad-based taxes to finance local spending; income taxes and retail sales taxes have been used in this regard. Closer to home, the Scottish National Party (SNP) has announced that it intends to introduce a capped local income tax by 2010.

94. On the other hand, the Committee recognises that, due to visibility and immobility, property tax is hard to avoid, stable and easily enforceable. Also, the Committee is aware that the choice of tax can also create incentives and can cause tax competition between regions, and this is a consideration in terms of any proposal to move away from the present property-based system in NI.

(a) Banding of Capital Values (Council Tax Type System)

95. The Committee identified the following views on this option from the Department’s report on the consultation and from the evidence provided to the Committee:

Arguments For	Arguments Against
Conclusions in University of Ulster research (2003), which found against banding, may be different based on today's property values.	University of Ulster research and DFP impact assessments show that a discrete capital value system for NI would be more progressive, more new TSN positive and easier to understand.
Eight banded model may enable an equitable distribution.	NI already in advantageous position of having completed valuation process and has established information base. Current NI system gives wider spread and avoids tensions of setting band boundaries which subsequently need to be updated regularly.
Properties of a similar value have a similar tax burden.	Tax burden is increased on lower value properties and reduced on higher value properties, thus inherently regressive in nature.
Facilitate parity with GB.	Caps liability at top end of property market.
	Artificially restrained so that those at the bottom pay no more than one third of those at the top.
	Graduated tax system is a more viable option.

96. ERINI pointed out to the Committee that NI currently has a dual system with individual capital values and rate liabilities up to £500k and a zero rate band thereafter, meaning that until the cap is reached, households with property of different capital value pay a different amount for the same services. ERINI also explained that, as with any tax, people of high net worth, who are extremely valuable to the community and the economy, can and will adjust their affairs, including residency, when marginal tax rates become punitive.

97. In its evidence, IRRV explained that banding was introduced in GB as the quickest way of replacing the poll tax and led to imprecise ‘front door’ valuations, whereas much more precise information is now held on properties in NI. They stated that the system was hopelessly out of date in GB and that the introduction of a graduated tax would render the banding system irrelevant.

98. In considering this option, the Committee has also taken account of further analysis from DFP. (see Annex B)

99. The Committee recommends that the option of banding capital values is not ruled out until the Department establishes whether the conclusions of the University of Ulster research in 2003, which found against banding, would be different, based on present property values.

(b) Local Income Tax

100. The Committee identified the following views on this option from the Department's report on the consultation and from the evidence provided to the Committee:

Arguments For	Arguments Against
Could replace the regional rate, with the district rate continuing to be property based, thereby reducing administrative impediments.	Considerable operational/administrative difficulties and costs (e.g. issues around self-employed, unearned income, avoidance).
Taxing income fairer than taxing property as it is a truer reflection of ability to pay.	Would penalise hard working families and act as a disincentive to work (thereby exacerbating economic inactivity).
Significant redistribution of tax burden from retired households to working age population.	Not truly accountable nor transparent.
The SNP decision to introduce a capped local income tax by 2010 may provide a model for NI to follow.	Potential economic consequences would disadvantage NI as a tax competitor and may act as a disincentive for people to locate here (inc. NI-born graduates). High earners and large companies may relocate.
Some of the drawbacks of a local income tax could be mitigated to an extent through the application of the option at a NI-wide level.	International experience of reluctance of central government to share this tax base with local government.
There are several international examples of an income tax funding local or regional services.	Could represent a considerable additional administrative burden on local employers.
	In the most extreme case of local income tax replacing a property tax, there could not be a housing benefit element related to rates. Unless rents fell on a £ for £ basis with rate decrease low income households would be worse off.
	May impact on wage inflation especially minimum wage.

101. The Committee noted that the majority of respondents supported further work being carried out in this area. During the Committee's considerations, the view was expressed that it should be considered only in respect of the regional rate, and not the district rate, due to administrative difficulties if applied at a local level. John Simpson argued that a local supplement to income tax, as an alternative to part of the domestic rates, has attractions, especially if the domestic rates on property values are considered too high and are generating objections as being inequitable or insufficiently progressive. This raised the possibility of an income tax supplement accruing to the Executive, with domestic rates remaining as the main source of income for local government reshaped under RPA, allowing a single standard rate to be applied and avoiding the need to attribute the supplement to local authorities.

102. The Committee noted from the research, however, that whilst less regressive than property tax and better linked with 'ability to pay', a specific criticism of local income tax is based upon the 'Tiebout hypothesis'. This states that an individual chooses where he/she wants to live, at least in part, by weighing costs (taxes) against associated benefits (public services) – known as "voting with feet". This may be a particularly important consideration for NI, given the land border with RoI and given the economic benefits of attracting NI-born graduates back from GB.

103. In its evidence, ERINI stated that virtually all taxes have disincentive effects that can be hard to comprehend. A tax on capital values is a disincentive to acquire larger houses and taxes on income are a disincentive to work. Income tax rises may encourage workers to work less hours or try to pass on the tax to the employer.

104. IRRV contended that this option would completely restructure the tax system and had concerns that the quality of information held by the Inland Revenue was unknown. They also raised accountability and transparency issues given that the public generally know their rates bill but do not know the amount which they pay in income tax. In response to questioning from the Committee, IRRV argued that to replace just the regional rate with a local income tax would be less complex to administer and that potential replacement of the district rate could be further complicated by implementation of the RPA and what this may mean for council responsibilities.

105. The Committee is aware of the SNP proposals to replace council tax (and council tax benefit) with a local income tax, with the aim of introducing a regime which is based intrinsically on ability to pay. Current estimates are that this policy would leave a £450m revenue shortfall, which the SNP argues could be absorbed from efficiency savings in local authority councils of 1.5% per annum for 3 years. The Committee recognises that, should this policy come to fruition in Scotland, NI will have a test bed for local taxation close at hand. On this point, ERINI advised that, rather than rushing into such fundamental change, in the absence of evidence the Executive may wish to monitor the outcome of the Scottish experience.

106. In considering this option, the Committee has also taken account of further analysis from DFP.
(see Annex B)

107. Having considered the available evidence, the Committee recommends that the option of a local income tax should not be considered further at this stage, but that the option should be reviewed in the longer term and in light of any future experience of a local income tax operating in Scotland.

(For amendments moved to the Report and not agreed and for details of divisions see the Minutes of Proceedings of 24 October 2007 in Appendix 2).

(c) Income Tax Varying Powers

108. The Committee identified the following views on this option from the Department's report on the consultation and from the evidence provided to the Committee:

Arguments For	Arguments Against
Assembly could have the ability to modify or supplement income tax within certain parameters.	UK government would need to change Northern Ireland Act (1998).
Progressive and aligns closely with 'ability to pay' (depending on model).	Although Scottish Parliament has similar powers it has been reluctant to use them.
	Costs Scotland approx. £8 million a year to keep the necessary systems in place to allow the option to be used. Will also cost them about £10 million to activate those systems.

Arguments For	Arguments Against
	Scottish model (assuming the same model for NI) could be perceived as regressive as it relates only to the basic level of income tax.
	As with local income tax, could present a tax disadvantage for NI economically.

109. The Committee is aware that the Scottish Executive has the power to adjust income tax by a maximum of 3p, a power which they have not exercised to date. This power, for whatever reason, applies only to income earned at the basic rate, with earnings above this effectively protected from local tax. This characteristic of the system has been widely criticised and, in the view of the Committee, may partly explain why the power has not been used.

110. In considering this option, the Committee has also taken account of further analysis from DFP.
(see Annex B)

111. Having considered the available evidence, the Committee recommends that the option of income tax varying powers should not be considered further at this stage.

(For amendments moved to the Report and not agreed and for details of divisions see the Minutes of Proceedings of 24 October 2007 in Appendix 2).

(d) Local Sales Tax

112. The Committee identified the following views on this option from the Department's report on the consultation and from the evidence provided to the Committee:

Arguments For	Arguments Against
Widely used elsewhere but usually as a modest supplement to other sources of finance.	Regressive – fall most heavily on those least able to pay – and untested.
	Previous studies have eliminated this as a long-term option.
	Burt Review queried whether a local sales tax may be incompatible with EU law.
	Administrative impediments. Also, feasibility may be limited if the goods could be purchased tax free in RoI.
	Globalisation of market place and rise in internet buying limits effectiveness.

113. Both the Burt Review and the evidence from IRRV questioned the legality of this policy under EU law and the IRRV also explained that a sales tax would have a complicated relationship with VAT.

114. In considering this option, the Committee has also taken account of further analysis from DFP.
(see Annex B)

115. Given its limited feasibility and the potential impracticalities and administrative difficulties, the Committee agreed that a local sales tax should not be pursued as an option for raising revenue in NI.

(e) Poll Tax

116. The Committee identified the following views on this option from the Department’s report on the consultation and from the evidence provided to the Committee:

Arguments For	Arguments Against
Fairer to tax all adults rather than just householders.	Failed in GB.
	No relation to property.
	Does not relate to ability to pay.
	Historical evidence suggests significant difficulties in collection in an era where people can and do move around.

117. The Committee noted the failure of this policy in GB and the historical evidence of significant collection difficulties. The option also does not relate to the guiding principle of ‘ability to pay’ and members therefore agreed that this option should not be considered further.

118. In considering this option, the Committee has also taken account of further analysis from DFP.
(see Annex B)

119. The Committee recommends that the option of a poll tax is ruled out, not least because of the failure of the policy in GB and the fact that it does not relate to ability to pay.

(f) Tourist Tax

120. The Committee identified the following views on this option from the Department’s report on the consultation and from the evidence provided to the Committee:

Arguments For	Arguments Against
Lyons Report concluded that local authorities should be given discretion to levy a tourist tax.	Tourist industry in NI needs room to grow.
Works best when tourist demand is little affected by price.	NI economy becoming more dependent on tourism and this would be detrimental.
Infrastructure built around visitors should be paid for by tourists.	

121. The Committee agrees with the view expressed in the consultation report that this could be detrimental to the tourist industry and have a subsequent effect on the economy as a whole, at a time when the industry needs to be encouraged to expand. The Committee takes the view that, before any decision is taken to pursue this option and to add to tourism costs, further study and consultation with stakeholders is required.

122. One issue to be considered is whether the tax would be localised, in which case those district councils with the most popular tourist attractions would benefit most, or regionally taxed and distributed to councils via a mechanism such as population.

123. Regarding possible collection difficulties, the Committee heard evidence from IRRV that it would be relatively easy to add a charge to hotel bills which would subsequently be paid to a central fund and arguably that a 1% surcharge would not deter tourists.

124. The Committee agreed that the option should be kept on the agenda, with further research on the economic impacts and with consideration given to the possibility that any revenue raised could be ringfenced to develop tourist facilities.

125. In considering this option, the Committee has also taken account of further analysis from DFP.

(see Annex B)

126. Having considered the available evidence, the Committee recommends that the option of a tourist tax should not be taken forward at this time as this could adversely affect NI's tourism industry at a critical stage in its development. The Committee also considers that if a local tourist tax was to be introduced in the longer term, following consultation with stakeholders, there would be merit in the resultant revenue being ringfenced for further enhancement of the tourist product.

(g) Road Charging

127. The Committee identified the following views on this option from the Department's report on the consultation and from the evidence provided to the Committee:

Arguments For	Arguments Against
Will become more prominent with diminution of fossil fuels and impact of global warming.	Federation of Small Businesses highlighted that the Scottish Government recently published a Bill to abolish road tolls across Scotland and is of the opinion that tolls and congestion charges are stealth taxes dressed up as tackling climate change.
Adheres to principle of 'polluter pays'.	Potentially unacceptable to general public.
Road space limited and therefore a valuable commodity which needs to be rationed to obtain maximum value.	Could have disproportionate impact on those with lower incomes.
Technology available to give options for revenue raising.	Expensive to police, which would need to be accounted for in calculating net benefit.

128. In giving evidence, John Simpson argued that charging for access to town centres and use of new roads and bridges must be on the agenda if this access is to be manageable, but questioned current planning policy in Belfast which reduces access by denying planning permission for car parks. Mr Simpson also argued that it should be left to retailers to judge the economics of building car parks, with Government and local authorities developing counter-congestion policies.

129. In its evidence, IRRV explained that policy decisions in this area depended on policy objectives (to raise revenue or manage congestion) and on political decisions on the treatment of motorists. IRRV gave the example of congestion charging in London as evidence that such a policy can work administratively, but questioned whether it was meeting its policy objectives.

130. The Committee received information of a survey recently conducted by the Federation of Small Businesses which found that vehicles are crucial to over 90% of NI businesses and 70% could not reduce their usage. The survey also concluded that NI businesses, which regularly trade with, or make deliveries to Belfast city centre, would face a considerable burden with the introduction of a congestion charge for Belfast and many of these businesses are already paying extremely high insurance, energy and rates bills.

131. The Committee notes that further ideas are needed on how congestion or access charges might be levied. The Committee considers that detailed research needs to be undertaken on the potential economic impact of such a policy and the number of businesses which could potentially relocate (e.g. from Belfast) if charges were introduced.

132. In considering this option, the Committee has also taken account of further analysis from DFP.
(see Annex B)

133. Whilst recognising that there was no clear consensus in the evidence as to the merits of road charging, the Committee recommends that the Department considers the option further, particularly in terms of its potential economic impact, costs and benefits, feasibility, effectiveness in reducing road congestion and in the context of decisions on the other rating reforms.

(h) Green Taxes

134. The Committee identified the following views on this option from the Department's report on the consultation and from the evidence provided to the Committee:

Arguments For	Arguments Against
Lyons Report called for local authorities to be empowered to charge for domestic waste collection in a way that reflects community preferences.	Disproportionate impact on those with lower incomes.
Environmentally friendly.	Potentially unacceptable to general public.
Stable and certain revenue stream.	
Difficult to evade and quite enforceable.	
RoI policy on plastic bags has worked effectively. It has cut plastic bag use by approximately 90%, and proved to be a very useful income stream, with €75m being raised since its introduction in 2002 and €18.8m raised in 2006.	

135. The Committee notes that present thinking in this area is on charging for waste collection or disposal. In his evidence, John Simpson highlighted the dilemma of devising a charging mechanism which does not incentivise 'fly-tipping' or other types of fraud.

136. The IRRV gave evidence to the Lyons Review on this policy area and, in its evidence to this Committee, emphasised the need to incentivise recycling, rather than penalise it as part of the

tax raising process. IRRV also explained that it was logical to start in the home with such policies and then move to industry and raised the possibility of householders being issued with 'green cards' and receiving credits for environmentally friendly actions. In the view of IRRV, there was little research to date on how policies in this area could be implemented and not enough work being undertaken to forge partnerships with the private sector. IRRV has agreed to submit a further policy paper to the Committee and members have agreed that this should be shared with the Department to inform further considerations in this area.

137. In its evidence to the Committee, ERINI agreed that incentives worked better than penalties, provided that the correct incentives were introduced and stated that the policy objectives needed to be agreed from the start – whether to raise revenue or modify behaviour.

138. In considering this option, the Committee has also taken account of further analysis from DFP.
(see Annex B)

139. The Committee concludes that the option of green taxes/credits warrants careful consideration and looks forward to engaging with the Department and with other stakeholders to examine the range of possible approaches in this area and the associated merits.

(i) Land Value Taxation

140. The Committee identified the following views on this option from the Department's report on the consultation and from the evidence provided to the Committee:

Arguments For	Arguments Against
Encourages urban renewal, reduces dereliction and redistributes wealth.	May encourage over-development of valuable land along the coast, inappropriate development of the countryside and cramming property into city/town centres.
Free of the problems of avoidance and evasion.	Narrower tax base and would not be transparent.
Existing property taxes create a disincentive to developing land and improving properties as this results in tax.	Previous instances of land taxation in the UK were not significantly successful.
Research suggests that current UK fiscal policy is actively undermining attempts to increase housing supply.	Advocates referred to Denmark and New Zealand as examples of potential success. Both countries have recently removed major forms of LVT.
Applicability to shortage of housing in NI as it could motivate development. Pittsburgh (USA) case indicates success in this area.	Could be issues regarding fluctuations in land values and interactions with the planning system – e.g. would speculators be awarded a Land Value credit if the value of their land fell?
Cannot be avoided by keeping land unused.	Could affect pensioners with very low incomes but valuable land.
	Represents a major shift in the local taxation burden from those who own property to those who own land.

141. The Committee recognises that the general concept behind land value tax is that it applies to the 'highest and best use' value of the land rather than that of any buildings and is payable by the owner not the occupier. The rationale is that it encourages optimal use of land as the tax liability will be the same whether the land is left derelict or fully utilised. The Committee is aware that one argument against property tax is that, when faced with penal tax rates, owners often find it easier to make the property derelict rather than bringing it back into use.

142. Research commissioned by the Committee highlighted Pittsburgh as an interesting example of a seemingly successful regime. The Committee noted that fifteen Pennsylvania cities now use a two-rate approach to property tax: the tax on buildings is decreased, thereby providing an incentive to build and improve properties; the levy on land is increased, thus discouraging land speculation and encouraging development. There has been a considerable expansion in building activity and 85% of homeowners pay less with this policy than they do with the traditional approach. Those who do pay more tend to be wealthier homeowners. The research also suggests that this policy could result in a redistribution of the tax burden from residential ratepayers towards commercial and agricultural land-owners and that appropriate exemptions would be required to protect conservation areas.

143. The Committee has been briefed on the ongoing research by UU on the potential for land value taxation and agrees that the planned pilot study of the Belfast area will influence decisions as to whether this is worth considering as a policy option and examining in greater detail next year. DFP has agreed to provide the Committee with a report on the completed UU research and has confirmed that consultation and a full impact assessment would be completed before possible implementation.

144. In its evidence, ERINI contended that this was an effective way of curbing speculation and its introduction should be a gradual process working in tandem with a property tax. Care would need to be taken, however, on the extent to which the tax could be transferred, as the tax could affect local business if landowners passed on costs. IRRV considered that it would be much easier to impose this tax on the domestic sector, but in a mature city such as Belfast, non-domestic land (which would yield most revenue) could be owned by as few as fifteen landowners, resulting in the need for a high tax rate, which could potentially be passed on to the public.

145. The Committee also considered the fact that registration of land ownership is more complex in NI and that this could cause further problems. The Committee acknowledges that a tax on land value would restrict the tax base and that a more logical approach might be to introduce such a tax in conjunction with a property tax, which would widen the tax base and facilitate charging more people less tax.

146. The Committee had some concerns around the inclusion of agricultural land for taxation and considered that the tax should have an urban focus – especially on derelict land. Uncertainty in relation to planning and lack of current area development plans are, in the view of the Committee, a major impediment in developing this option.

147. In considering this option, the Committee has also taken account of further analysis from DFP.
(see Annex B)

148. The Committee considers that the research and analysis of land value taxation is at too early a stage to make even an initial assessment of the potential merits of this option as a replacement or supplement to the property-based system of local taxation.

(j) Derelict Land Taxation

149. The Committee identified the following views on this option from the Department's report on the consultation and from the evidence provided to the Committee:

Arguments For	Arguments Against
Close the loophole of owners leaving land derelict to avoid taxation which in turn would benefit the community and raise revenue.	Limited revenue implications.
May satisfy other policy aims (e.g. economic development or the provision of affordable housing).	

150. In his evidence to the Committee, John Simpson pointed to the logic of rating derelict land at least on the capital value of the site and raised the related question of the possibility of placing a rates demand on land zoned for development which is being held without action. Mr Simpson also argued that land zoned with planning approval for residential development should be rated on its enhanced capital value with 'use it or lose it' approaches to planning permission. IRRV was also in favour of this option, but stated that the definition of 'derelict' land would need careful consideration.

151. In considering this option, the Committee has also taken account of further analysis from DFP, which was provided to the Committee on a restricted basis (see Annex B)

152. The Committee recommends that derelict land taxation should be introduced in respect of land zoned for development, on the basis that this will help prevent land being left derelict to avoid taxation, whilst raising revenue and also supporting other policy aims, including economic development and the supply of affordable housing.

Other Issues

Transparency and Rates Bills

153. The Committee concurs with the Consumer Council's view that this review provides an opportunity for steps to be taken to give consumers a clearer understanding of what they are paying for and that a lack of public debate and understanding of the issues related to paying for public services through rates or other methods has led to a decline in public confidence and buy-in. The Committee notes that Consumer Council research has shown that consumers are confused over what rates pay for and particularly by the regional/district rate split in their bills. **The Committee recommends that the Regional Rate and District Rate element of rates bills should be clearly differentiated on household rates bills, including specification of the precise sum that is being allocated to each.**

154. The Committee notes that many of the respondents to the DFP consultation expressed the view that there should not be a separate charge for water as it should be, and already was, included in rates bills. The Consumer Council supported the Minister of Finance and Personnel's view that rating reform must be viewed in the context of Executive decisions on the funding of water and sewerage charges and is of the view that a holistic approach needs to be taken to total household bills, instead of looking at the impact of rates reform in isolation. The Consumer Council argued in its submission that the amount already paid for water through the rates should be deducted if a new water charge is introduced, in order to overcome the belief amongst consumers that they are being asked to pay twice. The Council calculated the amount to be

between £160 and £165 per household in 2007. The Committee notes that the recent recommendations from the Independent Review of Water Reform, led by Professor Paddy Hillyard, include measures to address this anomaly. On this point, however, the Committee is also aware that the Committee for Regional Development is seeking assurance on the feasibility of the Land and Property Services agency assuming the additional responsibilities in respect of billing. Whilst welcoming the approach of the Executive in recognising the existing contribution from ratepayers towards the cost of water services, **the Committee calls on the Department to ensure effective communication with ratepayers to promote public confidence and understanding of how the revenue from rates helps fund public services, both centrally and locally.** The Committee's comments in this section are limited to the matter of transparency, and are made without prejudice to wider discussion on the recommendations of the Independent Review of Water Reform.

Effect of Future Revaluation

155. Concerns were expressed in the consultation about the impact of a future revaluation if the existing system were to be retained. Such concerns were also discussed during the evidence session with Citizens Advice and it became clear to the Committee that there was a misunderstanding amongst the public at large around the effects on rates bills following the next revaluation. **The Committee considers that the Department should take immediate steps to assuage public concern that any subsequent increase in capital value will lead to a similar increase in an individual rates bill and to offer reassurance that the consequences of revaluation will be revenue neutral.**

Uptake of Reliefs/Benefits

156. In its evidence to the Committee, DFP revealed that significantly less than 50% of those eligible under the rate relief scheme are actually claiming relief, with take-up in the owner occupied sector significantly lower (42%), and that this was partly due to misconceptions about the support available to them. The Committee requested further information on take-up from the Department, including how it may be affected by the level of relief received, to determine whether take-up was extremely low amongst those entitled only to low rates of relief. DFP responded by advising that detailed information on the level of take-up of rate rebate/rate relief in NI was not readily available and that how it may be affected by the level of relief received was also unavailable at present.

157. The Committee heard evidence of the various reasons for poor take-up including lack of communication, cultural issues, people making the wrong assumptions and groups that are hard to reach. Citizens Advice informed the Committee that very often people are simply unaware of benefit entitlement, especially owner occupiers and people over 60, and it called for more publicity, targeted especially at older people. Other potential factors include literacy and sensory impairment and the possibility that the anti-fraud campaign may have an adverse impact through intimidating older people out of claiming means-tested benefits as they fear there is going to be an overpayment for which they will be subsequently liable.

158. Whilst explaining the impediments to increasing take-up of reliefs, DFP has outlined for the Committee a number of options which could be considered, including streamlining the application process, data sharing with other agencies and working in partnership with third party organisations to raise awareness and to target difficult to reach groups. The Committee has obtained a commitment from DFP to examine the report by the House of Commons Select Committee on Communities and Local Government on the take-up of council tax, for issues relevant to NI.

159. The Committee considered how the public could be made more aware of benefit entitlement and especially the role which organizations, such as Citizens Advice, can play in this regard. The forthcoming NI Direct system may, in the view of the Committee, provide an initial contact point through which callers could be referred to a more localised voluntary organisation or agency. The Committee acknowledges that government departments are reliant to some extent on organisations, such as Citizens Advice, to perform this informative role and believes that such organisations therefore need to be resourced accordingly. Also, the Committee is concerned that the current drive for benefit take-up is being adversely affected by cuts in the number of Social Security Agency benefit advisors and that this is placing increasing pressures on voluntary organisations providing information and advice.

160. When the Committee was finalising this report members received correspondence from the NI Fair Rates Campaign, which provided information relating to the uptake of housing benefit and rate rebate claims from owner occupier ratepayers (Appendix 4). Members agreed to seek clarification from the Department on the issues raised in this correspondence and the response from DFP has also been included as an appendix to this report (Appendix 5).

161. On the basis of the evidence received, the Committee concludes that there is a widespread problem with low uptake of rate reliefs (which also affects the level of rate rebate) and believes that this is a missed opportunity both in respect of relieving hardship and in terms of benefits revenue forgone to NI. The Committee, therefore, considers that the Department should pursue vigorously the measures identified for improving take-up of reliefs, which include the simplification of the application process and working more closely with other government agencies to identify those eligible for reliefs and with voluntary organisations to raise awareness amongst difficult to reach groups.

IT Deficiencies

162. Members also took evidence from Citizens Advice regarding the problems generated by incompatible IT systems in the public sector. The Committee was advised that the system used for rate collection does not interact correctly with those used for the payment of housing benefit and rate reliefs, with the result that rate reliefs are being manually processed. Citizens Advice also advised that this is not due to be fixed until sometime in 2008 and suggested one of the first outputs from any new system should be an all-in-one letter to claimants incorporating housing benefit and rate relief. The Committee also heard evidence of sixteen page computer-generated letters sent to inform claimants merely of the amount of housing benefit awarded, whilst manual letters were found to be succinct and easy to understand.

163. In view of the aforementioned difficulties, **the Committee recommends that the Department explores the potential for improved data sharing between relevant agencies, and in particular the possibility of the Land and Property Services agency having access to the Social Security Agency's database, which holds details of benefit entitlement, to make the applications process faster and more efficient.** Whilst recognising that provision for increased data sharing in NI may require primary legislation, the Committee considers that such impediments can and should be overcome when the purpose is to share data for the common good.

164. For ratepayers struggling with debt, Citizens Advice has advocated a role for an intermediary, similar to the partnership which the organisation has with the Housing Executive for tenants who fall into arrears. The Committee believes that the Department should give this proposal consideration.

Equality Impact Assessment (EQIA)

165. The Committee sought clarification from the Department on the equality impact assessments to be carried out prior to implementation of any of the options. The Department has explained that most of the strand 1A and many of the strand 1B options are mitigating measures which address shortcomings, and therefore will not be subjected to the full 7-stage EQIA. However, the Department has assured the Committee that it is actively considering all measures for likely differential impact on Section 75 groups and that all strand 2 proposals must be subjected to full EQIA before any legislation can be presented to the Assembly.

166. The Committee recognises that no such assessment was carried out on the creation of a maximum cap and that any further proposals on this option may require full EQIA.

Rural Proofing

167. The Committee received further information from the Rural Community Network (Appendix 4) in relation to its submission to DFP's consultation. The Network expressed some concern at the lack of reference to its submission in the consultation report and, in particular, highlighted the following recommendations to the Committee:

- an annual rural proofing analysis of the impact of rates bills, comparing rural and urban areas;
- regular analysis of rates relief uptake on a geographic basis linked to an analysis of low income earners with output areas;
- regular report on the use of and satisfaction with the appeal process on an urban and rural basis; and
- ensuring that all District Councils and other bodies, funded through rates, provide full and accurate information on their income and expenditure and how they have used our money.

The Committee calls upon the Department to respond to these recommendations.

Conclusion

168. The Committee has carefully considered all the policy options set out in the terms of reference for the Review of the Domestic Rating System and, based on the information and evidence available, has recommended a number of options for the Department to pursue, whilst ruling out others. The Committee recognises that, in the short to medium term, the scope for reform of local taxation in NI is constrained by the present legislation, in particular Paragraph 9 of Schedule 2 to the Northern Ireland Act 1998, which classifies as excepted matters both UK-wide taxes and duties and taxes and duties which are 'substantially of the same character'. However, the Committee has been advised that, even within existing legislative parameters, there are opportunities to create a more progressive system of regional taxation that would not adversely affect economic development.

169. The Committee looks forward to further engagement with the Department on the options which will be subject to further research and consideration, including the strand 2 issues which would require primary legislation. In the more immediate term, the Committee will welcome early sight of the proposals for subordinate legislation to implement the reforms to be in place by April 2008. The Committee will also welcome engagement with the Department on the potential reforms to non-domestic rating, including industrial derating and the case for a small business rates relief scheme, and considers that these reforms cannot be considered in isolation to the other areas of local taxation.

[1] The report on the consultation is available at the following website
<http://www.ratingreviewni.gov.uk/>

[2] DFP has subsequently lifted the restrictions on the analysis of policy options and these are included at Annexes A and B.

Annex A – DFP Summary Analysis of Strand 1 Options

Strand 1a Changes to the Level of the Maximum Capital Value

Background

A maximum capital value was introduced into the domestic rating system in April 2007 as part of the rating reforms following representations made by the local political parties at the St Andrews negotiations in late 2006. The current maximum capital value was set at properties with a capital value of £500,000. This level was chosen so as to ensure that the highest domestic rates bills in Northern Ireland were similar to the highest that existed in Great Britain at that time under the council tax system.

Options

The options examined were:

- Reduce cap to £400,000
- Reduce cap to £300,000
- Reduce cap to £300,000 for pensioners and keep at £500,000 for others

Impact

The table below shows the cost of a maximum cap at each level, in terms of revenue loss, as well as the number of properties likely to benefit and the increase in the average rates bill as a result.

CAP LEVEL	Total Revenue shortfall	No. of properties benefiting	Maximum bill	Increase on Average Bill
£500k	£2.5 - £3m	2 – 2,500	£3,500	£2
£400k	£4.5 - £5m	5 – 5,300	£2,800	£4
£300k	£10.3 - £10.5m	14,000	£2,100	£9
£300k for pensioners	£3 - £3.5m	4,000 pensioners, 2,000 others	See above	£3

Wider Impact

The vast majority of properties which benefit from this maximum capital value are in a small number of council areas. For example, at the current £500k level, 48% of beneficiaries are in Belfast and 27% are in North Down.

71% of those benefiting from a £500,000 cap were in the highest "Managerial/Professional" socio-economic classification used in the Census. Even at a £300,000 cap, some 64% are still in this category.

The policy tends to have a more negative impact on rural wards, although this effect decreases as the cap level falls.

Initial analysis of the impact on Section 75 groups suggest that a maximum capital value is more likely to benefit males, those with dependents, those without a disability, married persons and those from a Protestant community background.

Legislative implications

Subordinate legislation would be required to change the level at which the maximum capital value is set. The relevant regulations would be subject to the affirmative in draft procedure of the Assembly. This option is therefore legislatively possible by April 2008 although it is uncertain whether it would gain the support of the Assembly.

Administrative implications

Operationally, changing the level of the maximum capital value is viable for April 2008.

Consultation

42 responses referred to the maximum capital value issue. 18 individuals and 6 organisations supported it; 3 individuals and 15 organisations opposed it. A number of responses to the consultation suggested that capital values should be capped at £300,000. This was also the view of the Fair Rates Campaign.

Introduction of Minimum Capital Value

Background

While the domestic rating system is considered to be purely a property tax, the introduction of a minimum capital value would recognise the fact that there is a minimum limit to the level of local and regional government services that can be consumed by a household. As with the maximum capital value, the minimum capital value would be set in terms of capital values. That is, once the limit is chosen, any property with a capital value below that limit would be rated as if its capital value is at that limit.

Options

The options examined were:

- Introduce a minimum capital value at £75,000 (the lowest such council tax bill in 2007/08 is £454. Based on the average rate in Northern Ireland, this would relate to a property with a capital value of approximately £75,000)

- Introduce a minimum capital value at £50,000 (this relates to the lowest council tax band which exists in Wales, uplifted to January 2005 values)
- Introduce a minimum capital value at £62,500.

Impact

The following table shows the revenue gain associated with a minimum capital value and the number of properties faced with a higher rate bill as a result:

Minimum CV	Revenue increase (compared with current system)	No. properties less than Minimum CV
£50k	£6 - £6.5m	56,000
£62.5k	£13 - £14m	125,000
£75k	£27 - £28m	210,000

Wider Impact

Belfast is the council area with the highest number within each limit, although not disproportionately so. Craigavon, Derry, Lisburn and Newtownabbey also appear to be the councils most impacted. There is also a fair degree of concentration of affected properties at ward level. For example, around 14.8% of properties adversely affected are in just 10 wards.

A minimum capital value is more likely to affect properties in urban wards

There is a link between the proportion of properties in a ward affected by a minimum limit and the level of deprivation in a ward. For example, the bottom decile of wards in terms of deprivation contains just under 25% of all affected properties, while the least deprived decile has only around 1.7% of all such properties, at all minimum cap levels.

Initial section 75 impact analysis suggests that the measure would tend to have a greater impact on those over 60, females, those without dependents, those with a disability, single persons and persons from a Protestant community background. The degree of differential impact reduces as the minimum level increases.

Legislative implications

The introduction of a minimum capital value would require subordinate legislation. The relevant regulations would be subject to the affirmative in draft procedure of the Assembly. This option is therefore legislatively possible by April 2008 although it is uncertain whether such a measure would gain the support of the Assembly.

Administrative implications

The development and testing of IT systems necessary to introduce this measure may push implementation beyond April 2008.

Consultation

13 responses referred to the issue of a minimum capital value, with 12 organisations against and 1 ratepayer in favour.

Introduction of the Rating of Vacant Domestic Property

Background

Under the current domestic rating system, no rates are paid on properties which are deemed to be vacant. This is unlike the situation in GB under Council Tax, where vacant domestic properties are liable for taxation at 50%, following an initial six month exemption period.

Options

The review examined the option of matching the approach taken under Council Tax. That is, an initial 6 month exemption followed by 50% liability.

Other options include 100% rating of vacant properties or only rating those properties above a certain capital value. These have not been examined here, although other analysis has been carried out by the University of Ulster which has been made available to the Committee.

Impact

It is estimated that there are some 50,159 vacant domestic properties in Northern Ireland of which 10,597 are classed as never having been occupied.

In the first year of rating, applying a six month exemption and a rate of 50% the maximum rate revenue that could be collected from these properties is £7.7m, based on 2007/08 poundages. This is the total rate revenue, combining district and regional rates. Thus, £4.46m of this would consist of regional rate revenue.

Without the exempt period, the maximum potential revenue is £15.4m.

Wider Impact

Around 20% of the domestic vacant properties are in Belfast. Next highest is Newry (5.87%) and Derry (5.1%). Lowest proportions are in Moyle (1.33%) and Ballymoney (1.34%).

Urban wards have a higher level of vacant properties than their proportion of the overall population would suggest. Rural wards are marginally under-represented.

One of the main reasons why vacant rating was not introduced previously was the perceived high administrative costs, compared to the potential revenue (running costs at the time of the 2004 policy paper were estimated by RCA at around £0.5m, compared to a potential revenue in the first year of £2.55m. More recent cost projections are not yet available but it is expected to be significantly more given the Agency's recent experience of non domestic vacant rating).

Legislative implications

The introduction of the rating of vacant domestic property would require subordinate legislation. The relevant regulations would be subject to the affirmative in draft procedure of the Assembly. This option is therefore legislatively possible by April 2008.

Administrative implications

Given the need to develop systems to take account of likely exemptions and the need to establish a robust database of ownership details, it is unlikely that implementation of this measure could be achieved by April 2008.

Consultation

27 (6 ratepayers and 21 organisations) responded in relation to vacant rating with 21 in favour, including 4 ratepayers.

Amendments to the Rate Relief Scheme

Background

The low income rate relief scheme was introduced in April 2007. The scheme was based on the housing benefit rate rebate scheme, which was the main form of relief available for ratepayers in Northern Ireland prior to April 2007. The rate relief scheme sits above the housing benefit system and therefore provides relief over and above that available through housing benefit.

Figures available from LPS, which relate to claimants who are owner occupiers, show that there are 5,136 awards of rate relief in 2007/08. 2,110 of these rate relief claimants are getting full relief and 3,046 partial. For those receiving full rate relief, the average award is £99.88; for those on partial rate relief, it is £183.14. There are also 54,203 ratepayers being awarded housing benefit rate rebate in 2007/08 and the average award of those in receipt of housing benefit is £515.61.

Information available from the Northern Ireland Housing Executive, which administers the schemes for those in the social and private rented sectors, show that of 19,243 tenants eligible for rate relief (i.e. who are not getting full housing benefit), 12,587 are in receipt of rate relief. The average annual award for these recipients is £100.36.

Options

There are a wide range of variables which contribute to the calculation of an award within the scheme. The table below lists the options and variations which have been examined:

Option	Sub-option	Cost/Benefit (from FRS)
Increase the personal allowances which are part of the Applicable Amount	Increase all personal allowances by 10%	Cost = £7.87m No. benefiting = 13,600
	Increase all personal allowances by 20%	Cost = £15.16m No. benefiting = 24,580
	Increase single person personal allowance by 10%	Cost = £3.29m No. benefiting = 6,180
	Increase single person personal allowance by 20%	Cost = £5.47m No. benefiting = 8,090

Option	Sub-option	Cost/Benefit (from FRS)
	Increase single pensioner personal allowance by 10%	Cost = £2.21m No. benefiting = 5,200
	Increase single pensioner personal allowance by 20%	Cost = £4.52m No. benefiting = 7,100
	Increase personal allowance for single pensioners and pensioner couples by 10%	Cost = £5.49m No. benefiting = 8,590
	Increase personal allowance for single pensioners and pensioner couples by 20%	Cost = £10.05m No. benefiting = 13,390
	Increase child personal allowance by 10%	Cost = £2.24m No. benefiting = 6,920
	Increase child personal allowance by 20%	Cost = £3.15m No. benefiting = 8,150
Increase the premiums which form part of the Applicable Amount	Increase all premiums by 10%	Cost = £0.47m No. benefiting = 350
	Increase all premiums by 20%	Cost = £0.93m No. benefiting = 1460
	Increase family premium by 10%	Cost = £0.13m No. benefiting = 350
	Increase family premium by 20%	Cost = £0.265m No. benefiting = 1050
	Increase pensioner premium by 10%	No effect
	Increase pensioner premium by 20%	No effect
	Increase disability premium by 10%	Cost = £0.32m No. benefiting = 350
	Increase disability premium by 20%	Cost = £0.63m No. benefiting = 750
	Increase carer premium by 10%	No effect
Increase carer premium by 20%	No effect	
Increase the amount of income disregarded within the Assessable Income calculation	Increase by 10%	Cost = £0.44m No. benefiting = 1400
	Increase by 25%	Cost = £1.13m No. benefiting = 2710

Option	Sub-option	Cost/Benefit (from FRS)
	Increase by 50%	Cost = £2.37m No. benefiting = 6,000
Increase the amount of savings which are disregarded as part of the calculation		Not yet available
Increase the upper threshold for savings above £16,000	Increase to £20,000 for all	Cost = £1.81m No. benefiting = 5,548
	Increase to £30,000 for all	Cost = £3.22m No. benefiting = 7,680
	Increase to £50,000 for over 60's	Cost = 0 No. benefiting = 0
Reduce the rate at which savings are counted as weekly income	Reduce tariff rate to £1 for every £500 for all	Cost = £0.41 No. benefiting = 830
Reduce the 'taper' (the rate at which Excess Income affects rate relief) below 12%	Reduce taper to 10%	Cost = £4.48m No. benefiting = 12,900
Reduce non-dependent deductions	Reduce by 25%	No effect

Wider Impact

Derry and Belfast have the highest proportion of claimants, followed by Strabane. The lowest proportions are in North Down and Castlereagh.

As the level of deprivation in a ward increases, so does the proportion of persons in a ward in receipt of Housing Benefit.

Receipt is most prevalent in urban wards.

Legislative implications

Amendments to the existing rate relief scheme would require subordinate legislation. The relevant regulations would be subject to the negative resolution of the Assembly. This option is therefore legislatively possible by April 2008.

Administrative implications

Operationally, amendments to the existing rate relief scheme could be delivered by April 2008.

Consultation

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.

Twenty responses supported increasing the savings/capital limit; four responses supported passporting onto the Rate Relief Scheme those on other benefits. Two respondents were against means testing.

Revise the Existing Provision for Education and Training Relief

Background

The reforms which accompanied the 2007 revaluation included a relief for those in full time education and training. Specifically, this measure formed part of a provision providing 100% relief from rates where a dwelling is occupied wholly by certain eligible persons. Those eligible persons consisted of those in full time education, those in full time training, persons under 18 and young people leaving care. In addition, the scheme also included an exemption from rates for university halls of residence.

Options

In the short term, the whole relief scheme (or those elements pertaining to education and training) could be revoked so that it no longer operates within the Northern Ireland rating system. Some saving provision may have to be made for those that have already taken up the scheme.

In the longer term, the scheme could be changed so that the relief is targeted differently, for example it could be targeted at those households where the head of household or their partner is in full time education. Alternatively, the target for relief could be those households where the student resides in the parental home. (Both of the above options could also be linked to the level of household income, although this has not been analysed).

Impact

Current scheme

It had been estimated that there were between 3 and 4,000 eligible properties. Thus, providing a 100% relief from rates would lead to a revenue loss of around £2.5 - £3m. The numbers associated with the reliefs for other young people were considered to be low. However, the exemption for university halls of residence was estimated to cost a further £1m per annum in lost revenue. Thus, while take up at present is low, the scheme could in total potentially cost £3.5 - £4m each year. The rate of application has been low so far (only 338 applications by 2 Sept 2007), although the start of the new academic year may change this.

Alternative Options

Looking at the alternatives identified, analysis of the census data suggests that there are approximately 5,000 households in Northern Ireland in which the head of household or their partner is in full time education. Awarding such households a 25% reduction in their bill would cost £900,000 - £1m per annum. A 100% reduction would in itself cost £3.5 - £4m. It is likely that, with any such scheme, the exemption for halls of residence as well as the relief for other young persons would remain. The cost of these would therefore have to be added.

At the time of the last census, there were 18,960 full time students living in the family home. This represented 53% of all FT students. There may have been some over-estimation due to mis-reporting but this is difficult to estimate. Using this figure and the average rate bill for NI, a

25% discount for all households where a FT student resides in the parental home would cost £3.335m in 2007/08.

Wider Impact

Information from the census is not reliable, making the wider impact difficult to examine. Using available data there is a suggestion that the lowest proportion of FT students over 19 living at home is in Coleraine, followed by Belfast and that the highest proportion is in Dungannon and Magherafelt.

Legislative implications

Revocation of the existing relief would require subordinate legislation. The relevant regulations would be subject to the negative resolution of the Assembly. This option is therefore legislatively possible by April 2008. Savings provisions would be required for those already in receipt of the relief.

Amendments to the existing relief would however require primary legislation which means that this would not be legislatively possible by April 2008.

Administrative implications

Operationally, revocation of the scheme would be possible by April 2008. Delivery of amendments to the scheme would depend on the nature of the amendments.

Consultation

Many of the consultation responses, while not favouring the format of this relief scheme, did feel that there was some merit in providing support for those in full time education.

Of those responding to the consultation, 38 (18 ratepayers and 20 organisations) raised the issue of rate relief for full time students. 36 responses were opposed to the relief. Many responses were concerned that the blanket relief was not targeted at other more 'worthy' groups such as pensioners.

Introduction of Deferment Scheme for home owning Pensioners

Background

Deferment schemes exist in order to provide relief to homeowners through allowing them to defer their property taxes until the house is sold. In most cases where this exists, the relief is usually confined to the elderly and the disabled. The scheme is not usually means tested and could prove particularly attractive to those with a low or fixed income occupying a high valued property.

Options

As part of this review, the option has been considered of introducing a rates deferment scheme for pensioners. Under such a scheme, home owning pensioners (that is, those owning their home outright or with sufficient equity) could choose to defer all or part of their annual rate bill. They could do so until such times as the property on which the bill is being deferred is then sold. A rate of interest would be applied to the ongoing deferred amount.

Impact

The impact of such a scheme would depend both on the criteria established to determine eligibility as well as the rate of take up by ratepayers. For example, in British Columbia, where such a scheme exists, it is restricted to those who are 55 or older and who have a minimum equity of 25% in their homes. Elsewhere in Canada, in Prince Edward Island, the comparable scheme sets the minimum age at 65 and includes a further criterion that the household income is less than \$30,000.

Evidence is available to suggest that many pensioners who own their homes have either paid out their mortgage in full or have very low mortgage costs. Thus, given the data that was available on pensioner home owning households, it was assumed that 75% of these would have sufficient equity to join the scheme. Then, based on the levels of take up experienced internationally, it was decided to test the scheme at various levels of take up. The table below records the results of this analysis:

Estimated Annual Revenue Loss Associated with a Deferment Scheme

	1% take up	5% take up	10% take up
Revenue loss	£565,674.60	£2,828,373.02	£5,656,746.04

It is important to note, though, that the net cost of the scheme each year will, of course, be lower than this as the properties which are part of the scheme are sold and deferred bills are then paid, with interest. The scale of any net cost will depend on the rate of repayment compared to the rate of take up as well as the comparative rate bill of those joining and those leaving the scheme.

Wider Impact

The cost of the scheme in lost revenue is highly sensitive to the rate of take-up. It is also dependent on the level of take-up across councils. The above estimates assume a uniform rate across the country. Thus, a higher take-up rate in, for example, Belfast, which has 18.12% of pensioner home owning properties and 20.73% of the eligible tax base, would have a more significant impact on overall cost than in other council areas.

The average capital value of the home owning pensioner properties from the (matched) census sample is just over £120,000. However, the average capital value of non-home owning pensioner properties is just £86,779.

In terms of the equality impact, the census analysis suggests that the policy is more likely to benefit persons who are female, without dependents, with a disability, widowed or divorced and of a Protestant background. Such a result is unsurprising and reflective of the demographic profile of this section of the population.

Legislative implications

The introduction of a deferment scheme would require subordinate legislation. The relevant regulations would be subject to the affirmative in draft procedure of the Assembly. This option is therefore legislatively possible by April 2008. The provisions are however likely to be complex and may require considerable research which may be difficult to complete within the short space of time available.

Administrative implications

In operational terms delivery by April 2008 is difficult to assess at this point but given its likely complexity, April 2009 is considered a more viable date. Further work would be required to determine how exactly the scheme would operate.

Consultation

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.

Revise the Early Payment Discount

Background

Under the current arrangements for the payment of rates, a discount of 4% is available to those that pay in full within one month of the issue of their bill. Otherwise, payment can be made in monthly instalments over 10 months.

The level of discount was last reviewed in 1983, at which time the rate was increased from 2.5% to 4%. In 2006/07, there were 134,389 ratepayers that took advantage of the early payment discount. This represents around 19% of all domestic ratepayers. The total value of this discount in 2006/07 was approximately £3.87m.

Options

The options examined were:

- Abolish the discount
- Reduce the discount to pre-1983 level of 2.5%
- Retain the discount but target differently, at those who pay by Direct Debit (not examined below)

Impact

The regional rate bears the total cost of the discount. There is therefore no impact on the amount of rate revenue District Councils receive. The 4% discount is currently accounted for in the regional rate calculations through the adjustment factor. The removal of the discount would therefore mean an increase in the collection rate and, as a result, the adjustment factor.

Were the same households to benefit in 2007/08, the revenue loss would be in the region of £4.69m. Removing this lost revenue from the adjustment factor has only a marginal impact on the regional rate that could have been set. That is, average bills could have been around £3 lower this year as a result.

Wider Impact

The council area with the highest proportion of households in receipt of the discount are in Moyle and Ballymena. Lowest proportions are in Belfast and Derry.

Analysis carried out at ward level suggests that as the level of deprivation in a ward increases, the rate of early payment discount reduces.

The discount is more likely to be claimed in rural and mixed urban/rural wards.

There is some evidence that those over 60 are more likely to avail of the discount.

Legislative implications

Changing the level of the discount awarded for early payment would require subordinate legislation. The relevant order would be subject to the affirmative resolution of the Assembly. This option would therefore be legislatively possible by April 2008. Assembly support would however be difficult to predict. Attempts in the 1980s to abolish it met with considerable opposition.

Changing the purpose of the discount for example to incentivise direct debit payment would however require primary legislation which would mean that this option would not be legislatively possible by April 2008.

Administrative implications

Operationally, changing the level of the discount would be possible by April 2008.

Consultation

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-profile the existing Transitional Relief Scheme

Background

The move from rental to capital values which formed part of the domestic rate reforms had resulted in many ratepayers facing significant increases in their rate bills. In response, Direct Rule Ministers decided to provide transitional relief to those ratepayers that were most affected. This relief was awarded automatically to those households whose bill increased by 33% or more than it would otherwise have been this year under the old NAV system.

Options

The options for amending the scheme relate to the level of increase at which the relief would apply and to the rate at which the increase is phased in.

The most realistic option to allow a change to be made in time for bills issuing in April 2008 would appear to be to increase the time over which eligible ratepayers' bills are phased in. The option examined here is to phase in bills over 5 years instead of 3. That is, while the relief would still only be awarded to those households whose bills increased by 33%, it would be phased in over an additional 2 years.

Impact

Just under 100,000 households would benefit from this scheme. The cost in lost revenue would be as follows:

	Revenue loss (revised scheme)	Revenue loss (current scheme)
Year 1	£16.9m	£16.9m
Year 2	£13.6m	£11.3m
Year 3	£10.2m	£5.7m
Year 4	£6.8m	-
Year 5	£3.5m	-

Wider Impact

An analysis of the breakdown of benefiting households by council area also shows that Belfast is by some way the largest beneficiary, with 29% of all such properties, despite only having a 17.6% population share.

The average capital value of eligible households is approximately £140,000. This is substantially above the average capital value for Northern Ireland as a whole, which is close to £111,400. The average capital value of properties that are not eligible for this relief is £107,000.

The table below compares the distribution of those eligible for transitional relief across socio-economic group with the distribution for the entire population. As the table shows, those in the "Managerial/Professional" category are more likely to be eligible for relief while those in "Routine Occupations" are less likely.

Socio-economic Category	Percentage of category with TR	Percentage of category across NI
Managerial/Professional	26.07%	22.81%
Intermediate/Small Employer	28.16%	28.51%
Routine Occupations	25.35%	32.47%
Unemployed/Student	6.52%	6.24%
Not classified/coded	13.89%	9.97%
All properties in NI	26.07%	22.81%

Detached and terraced properties are also more likely to be eligible, as are those in rural wards

The policy has a slightly more beneficial impact on those over 60, those with dependents and single people. This outcome, though, may be as a result of the fact that these groups are over-represented in council areas such as Belfast which are more likely to be eligible for transitional relief.

Legislative implications

Changes to the existing scheme would require subordinate legislation. The relevant regulations would be subject to the negative resolution procedure of the Assembly. This option is therefore legislatively possible by April 2008.

Administrative implications

Operationally, changes to the existing scheme could be delivered by April 2008. However, awareness raising would be essential given that this is currently one of the biggest sources of enquiries from ratepayers.

Consultation

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

Strand 1B Graduated Tax System

Background

A graduated tax system establishes a standard rate up to a certain threshold of capital value, which every property pays. Properties whose capital value exceeds the threshold then pay an alternative rate. The graduated rate could either be upward, so that those above the threshold pay a higher tax rate, or it could be a downward system. A graduated system reflects the argument over the need to balance ability to pay with payment for services. In other words, a downward graduated system would support the view that there are limits to the consumption of government services from those in the highest valued properties.

Options

The options examined were:

- Reduced regional rate for those in the upper quartile (CV above £135,000)
- Reduced regional rate for those in the upper two quartiles (CV above £95,000)
- Increased regional rate for those in the upper quartile
- Increased regional rate for those in the upper two quartiles
- In terms of the change in rate for those above the threshold, the option chosen was a 35% change.

Impact

The table below looks at the percentage change in average rates bill for those in each quartile as a result of the various options:

	Downward Graduation for Top 25%	Downward Graduation for Top 50%	Upward Graduation for Top 25%	Upward Graduation for Top 50%
Q1 (lowest CV)	5.69	10.43	-18.07	-12.85
Q2	5.76	10.57	-11.99	-12.55
Q3	5.77	5.06	-1.52	-5.78

	Downward Graduation for Top 25%	Downward Graduation for Top 50%	Upward Graduation for Top 25%	Upward Graduation for Top 50%
Q4 (Highest CV)	-5.52	-9.11	10.89	12.07

As the table shows, the impact of a downward graduation is of most benefit to those in the upper quartile. Note that even with a downward graduation for the top 50% of properties, because of the need to ensure revenue neutrality, those in the third quartile end up paying a higher bill. Similarly, with an upward graduation applied to the top 50%, those in the third quartile have a reduced bill.

Wider Impact

The councils with the highest proportion of properties in the upper quartile are Castlereagh (44.81%) and North Down (44.50%). The council areas with the lowest proportion are Omagh (10.2%) and Strabane (17.58%). Belfast has a fairly even distribution of capital values across the quartiles.

Legislative implications

The introduction of a graduated tax system would require primary legislation.

Consultation

Three organisations commented on a graduated tax system and all were against its introduction. One organisation made reference to 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.

Single Person Discount

Background

A single person discount operates within the context of the Council Tax system in Great Britain but not within the domestic rating system in Northern Ireland. The rationale for a single person discount under Council Tax is based on the fact that the tax is part personal and part property tax. The personal element assumes that there are two adults residing in the property. Where this is not the case, a 25% discount applies.

It is not based on ability or inability to pay and there is evidence of widespread abuse (fraud) in GB with up to 33% of households in some local authorities claiming single person discount for Council Tax.

Options

The options considered were:

- 25% discount for all ratepayers
- 25% discount for single pensioners only

- 25% discount for single pensioners over the age of 75 only

Impact

Using analysis from the census, it is possible to estimate the number of single persons that occupy properties in Northern Ireland and thus would be eligible for a discount, as well as the total cost in lost revenue, as highlighted in the table below:

Relief	No. of properties	Estimated Revenue loss
Single person	190,000	£28m
Single pensioner	92,000	£13.8m
Single pensioner over 75	46,000	£6.8m

Recovering the £28m from ratepayers would add around another £40 to the average bill. It is worthwhile noting also that the average capital value of single adult households is £90,969 which is well below that for non-single adult households (£120,106) so the bills for this group would generally be lower anyway.

Wider Impact

Almost one quarter of single person households are in Belfast. The policy would also tend to benefit urban areas most.

A single person discount would have a broadly positive socio-economic impact.

The groups that are most likely to benefit are those over 60, females, those without dependents and, of course, those who are not married. Persons with a Protestant community background also tend to benefit more. This trend is repeated when the discount is targeted at those over 60 and 75, although persons with a disability are also more inclined to benefit.

A single person discount would be applied prior to any assessment for housing benefit or rate relief. Thus, clearly, any decision to provide such a discount could have a significant impact in terms of the cost of these reliefs.

Alternative Option – One-off Payment for Single Pensioners over 75

Another alternative, certainly in the interim period prior to the implementation of a single person/pensioner discount, is to award the group a one-off reduction in their rate bill, for example £200. A similar award was made to all pensioner households throughout the UK recently. Thus, there is some precedent for such an approach. Based on the estimates reported earlier, a £200 payment to single pensioners over 75 would cost in the region of £9.2m, which is higher than the cost of a 25% discount for this group. Again, there would be an impact on other reliefs, since much of this cost to pensioners may currently be being met by either housing benefit or rate relief.

Legislative implications

The introduction of a single person discount would require primary legislation. However, it would be possible to introduce a single pensioner discount for over 75s through subordinate legislation, subject to further consultation on the matter, which means that legislatively it could be introduced in April 2008.

Consultation

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.

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. 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.

Broadening of the existing Disabled Persons Allowance provision

Background

The Disabled Persons Allowance scheme currently provides a 25% rate rebate for ratepayers whose homes have been adapted to meet the needs of a disabled resident.

It is a simplification of the existing DPA scheme, to speed up the process and is more generous than the previous scheme in terms of average award. It is modelled on the GB scheme but is also more generous (equivalent DPA scheme under Council Tax provides for a 20% reduction).

Rationale is not to disadvantage those who have had to make modifications to their home (or buy or rent a specially designed home) to meet their (or a member of the household's) particular needs.

Ratepayers with disabilities who receive rate relief will be eligible for enhanced relief under this scheme

Options

A number of responses to the consultation suggested that the DPA scheme should be changed so that award of the relief is not dependant on adaptation to the property but rather should be available to all persons with a disability. To test this, the review therefore also examined the impact of using receipt of Disability Living Allowance (DLA) as a passport for eligibility for a new Disabled Persons Relief scheme. The options examined were:

- Increase allowance under current scheme to 30%
- Provide 25% discount to all on DLA
- Provide 25% discount to those on higher rate DLA (variations)

Impact

Option	Revenue Loss	No. benefiting
Current allowance	£2m	10,000
Increase allowance to 30%	£2.3m	10,000
25% discount for all on DLA	£27m	170,000
25% discount for all on higher rate care	£5.3m	30,000

Option	Revenue Loss	No. benefiting
25% for all on higher rate mobility	£6.9m	40,000
25% for all on either higher rate care and mobility	£4.9m	28,000

Wider Impact

12.78% of current DPA recipients reside in Belfast, although this is an under-representation compared to its population share. The highest proportions of population share are actually in Armagh, Craigavon and Cookstown.

With DLA, however, around 20% of all cases are in the Belfast council area. Derry is next highest with 8%. Thus, receipt of DLA appears to match trends for wider benefit uptake, whereas the distribution of DPA awards seems to be more evenly spread.

At ward level, the rate of DLA uptake in a ward increases as the level of deprivation in a ward increases. Again, the relationship between deprivation and DPA is not as direct.

DLA tends to favour urban wards but only slightly.

Legislative implications

Broadening the existing Disabled Persons Allowance scheme would require primary legislation.

Consultation

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.

Circuit Breakers

Background

Circuit Breakers are a method of targeting tax breaks at particular groups and are widely used in the US. A circuit breaker limits the percentage of income that is spent on property taxation. 18 US states deliver around \$3 billion of relief per year through circuit breaker programmes. The maximum income level for circuit breaker varies significantly across states ranging from \$200,000 in New Jersey (in 2004) to \$5,500 in Arizona (in 2004). Every state that uses circuit breakers has set a cap on the amount of relief awarded, which varies between \$1,530 in Minnesota to \$250 in New Mexico. The percentage of income threshold amount also varies from 1% to 9%.

An important consideration is that these jurisdictions do not provide the safety net of a centrally funded housing benefit scheme, which currently supports 25% of the lowest income households in NI (the majority of whom pay no rates)

Analysis

Analysis has been carried out using the Family Resources Survey which examined the proportion of income spent on rates by various groups. While this does not show what the cost would be of a circuit breaker type scheme in Northern Ireland, it does show what proportion of income is spent on rates by different groups.

As can be seen from the tables below, it is clear that the award of rebate/relief has a dramatic impact on this proportion.

Proportion of Income Spent on Rates (before reliefs)	% of Households	% of Population	% of Children	% of Pensioners
0%-5%	62	68	71	42
5%-10%	6	5	3	9
10%+	32	27	26	49

Proportion of Income Spent on Rates (after reliefs)	% of Households	% of Population	% of Children	% of Pensioners
0%	30	26	25	48
0%-5%	65	70	72	48
5%-10%	4	3	2	4
10%+	1	1	1	0

Legislative implications

The introduction of circuit breakers into the Northern Ireland rating system would require primary legislation.

Consultation

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

Enhanced Discount for Farmers

Background

Under the current system, properties that are held with agricultural land and are occupied by a person whose primary occupation is farming are valued on the basis that they will always be used and occupied as such. The purpose of this measure is to ensure that the potential impact of any speculative interest on the value of a farmhouse such as, for example, if it is close to a major tourist or urban area, is disregarded. It is also intended to take account of the fact that, due to their occupation, farmers tend to live on the land and have limited mobility because of this. The effect of the rule is that the capital value of farmhouses in Northern Ireland are typically reduced by 20% for rating purposes

There have been some calls, prior to and during the recent consultation, that the capital value placed on farmhouses should reflect the planning restriction that is normally placed on them and which, therefore, inhibits their true market value. That is, current planning policy is that permission will only be granted for a dwelling house on a farm if a number of criteria are met,

such as that its construction is essential to the needs of the farm, that the farm business is established and viable and so on. Those highlighting this have therefore suggested that this restriction is taken in account when properties are valued.

Options

A number of options therefore exist to reform the way in which agricultural properties are valued for rating purposes. The following have been examined for the purposes of the review:

- Increase valuation reduction, for example to a standard 25%. This would mean that the current situation would apply, whereby those properties that are deemed to be tied to agricultural land and in which the occupier's main employment is on the adjoining farm would have an increased reduction in the value of their property.
- Change legislation so that valuation reduction only applies to those properties which have an agricultural occupancy clause.
- Change legislation so that valuation reduction applies to those properties that are either classified as agricultural properties for the purposes of rating or have an agricultural planning restriction.
- Change legislation so that an additional valuation reduction is applied to those properties that have an agricultural occupancy clause as well as a valuer reviewed reduction.

Impact

LPS provided information on 39,386 properties which their records showed were in receipt of a 20% reduction in capital value because of their farmhouse status. The average capital value of these properties prior to the allowance being applied was £133,436. Following the reduction, the average capital value falls to £106,749. The impact on rate revenues of this reduction in capital values in 2007/08 is £6.63m.

Increasing the allowance to 25% would obviously increase the overall revenue loss associated with this relief. The additional cost associated with the level of relief in 2007/08 would have been £1.68m.

Wider Impact

The reduction in the value applied to farmhouses will also have an impact on the district rate, since the tax base on which rates are set will obviously be lower. Those council areas most affected include Armagh, Cookstown, Dungannon, Fermanagh, Magherafelt, Newry and Omagh. Those least affected councils include, not surprisingly, those which centre around major urban areas, such as Belfast, Castlereagh, Derry, Lisburn and North Down.

The geographical distribution of those properties in receipt of the allowance is interesting, given the perceived rationale for the policy which is to protect those farmhouses which are near high demand areas. That is, the number of properties in locations such as the North Coast and the Belfast hinterland which have been awarded the allowance is relatively low.

The average ward NIMDM score of those properties in receipt of this relief is 18.85, compared to a NI average of 22.18. A higher NIMDM score indicates a higher level of deprivation. 45% of benefiting households are classified as "Intermediate/Small employer" by the census.

The census analysis also suggested that any policy to extend the relief available to this group would have a more positive impact on males, those over 60, those who are married and those

without dependents, which perhaps reflects the profile of the farming community in Northern Ireland.

There is a suggestion that the occupancy clause is more likely to have been placed on to more modern properties and, therefore, any policy to limit the discount solely to those that have this clause would discriminate against older farmhouses. The average year of build of those farmhouses which are currently in receipt of the allowance is 1928. In addition, around 72% of these properties were built in 1930 or earlier. Therefore, if the assumption is correct and only more modern properties are subject to this clause, then the option of including only those properties which are bound by the clause obviously has the potential to exclude a large number of farmhouses currently in receipt.

Legislative implications

Increasing the valuer based reduction would not require any legislative change as this would be done at an operational level by LPS.

The option of changing the valuation assumptions to take into account agricultural planning restrictions would however require primary legislation.

Consultation

Eight responses (one ratepayer, one MLA and 6 organisations) specifically referred to the issue of enhanced discount for farmers. All were in favour. They were also keen to encourage a sustainable industry.

Discount for Owner Occupiers

Background

Discounts for owner occupiers are popular within the property taxation systems of many parts of the United States, where it is known as a 'homestead allowance'. The level of discount varies, as does eligibility, with some administrations restricting the allowance to the elderly and disabled.

Options

Options exist around the level of discount that should be awarded and the groups that should receive it. In many states in the U.S., the allowance represents a standard reduction in the actual valuation, rather than a percentage decrease. However, in this analysis, a percentage reduction only has been applied. A reduction of 10% in capital value has been chosen to illustrate the impact.

In terms of who should be eligible for the relief, two options have been examined. These are:

- Apply the relief to all owner-occupiers
- Apply the relief only to pensioner owner-occupiers.

Impact

It has been estimated, using the census match, that there are approximately 511,000 properties in Northern Ireland which are owner-occupied. The average capital value of these properties is £127,000. A 10% discount in the valuation for these properties would therefore result in a

revenue loss of somewhere in the region of £40m per annum. This would add around £59 to the average bill, if the lost revenue was recovered from ratepayers.

A discount for pensioner homeowners only would benefit around 132,000 households. The total cost, had it been introduced this year, would have been £9.8m in lost revenue.

Wider Impact

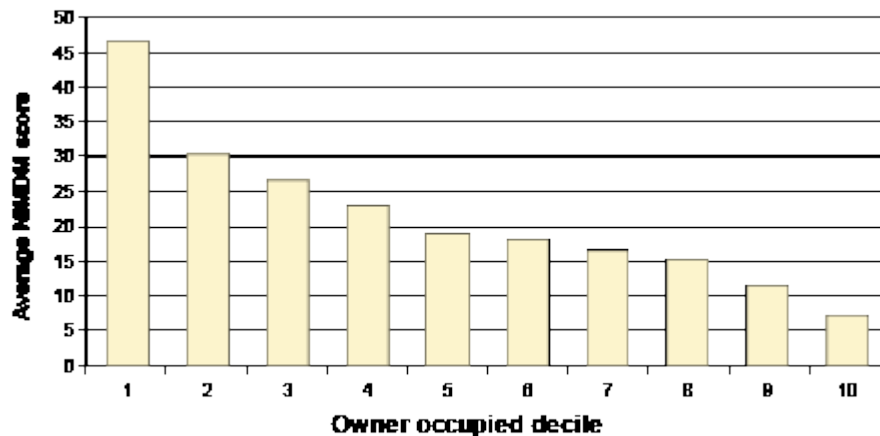
Belfast has the lowest proportion of owner-occupiers amongst all the councils, although the average capital value of these properties in Belfast is quite high (£140,100). North Down has both the highest proportion of properties in this sector (82%) and the highest average capital value for this type of property (£166,730).

In terms of a pensioner discount, North Down would be the council area most affected, along with Castlereagh.

An assessment of the socio-economic status of those benefiting, based on the census indicates that those in the 'Managerial/Professional' and 'Intermediate/Small Employer' categories are most likely to benefit. As the table below indicates, though, the measure, while benefiting these groups, the tendency is not an overwhelming one:

Socio-Economic Category	Percent of owner occupier household (%)	Percent of all households (%)
Managerial/Professional	28.21	22.81
Intermediate/Small Employer	33.11	28.51
Routine Occupations	27.51	32.47
Unemployed/Student	2.64	6.24
Not classified/coded	8.53	9.97

Analysis at ward level using the NIMDM score does present a clearer indication. This analysis involved breaking down wards in Northern Ireland in terms of the proportion of a ward which is made up of owner occupied properties. These are then separated into deciles, with decile 1 having the lowest proportion of owner occupiers. The table below then shows the average ward NIMDM score of each decile.



here are no significant equality concerns related to a general owner occupier discount. There is a tendency for the policy to be more likely to benefit Married persons, which is not an unsurprising outcome.

A discount for pensioners only has a more significant differential impact, with those over-represented also including Females, those without dependents and persons with a disability. As with other policies which are targeted at the elderly, this outcome reflects the demographic profile of this population.

Legislative implications

The introduction of a discount for owner occupiers would require primary legislation.

Consultation

In total 6 organisations responded, one in support, one qualified support and 4 opposed. One organisation opposed what it called 'a crude blanket relief system', to which people in rented property are excluded, and it would result in a lower tax base and a higher tax rate.

WWF Proposal – Rate Rebate for Household Energy Efficiency Improvements

Background

During the consultation process, WWF (the World Wide Fund for Nature) put forward a proposal for a rate rebate proposal to be awarded to households that installed energy efficiency measures in their homes. Specifically, the proposals related to the installation of loft and cavity wall insulation. The proposal referred to a similar scheme which operates under the Council Tax and which is part funded by one of the utility companies in GB. WWF therefore suggested that a Northern Ireland based scheme could equally be part financed through the voluntary Energy Efficiency Levy, which NIE contribute to.

Options

The WWF proposals have been examined as part of the review. It is also possible to think of a wide range of other energy or environmental improvements which households could make and which could then be subject to a rebate. For example, relief could be targeted at zero carbon or low carbon households. These have not been examined in detail as yet though.

Impact

The level of rebate available in GB ranges from £50 to £100. As mentioned above, this tends to be funded partly by British Gas and partly by the local authority. The NIE Energy Efficiency Levy referred to by WWF is a potential source of funding, although this is a voluntary levy. However, advice received from NIE is that, from this levy, the amount of funding available for projects of this type is limited and, in addition, any application would face strong competition from other sources. Thus, there can be no guarantee that any of this funding could be available and certainly not for next April.

What also needs to be noted is that similar financial incentives are also available for households in Northern Ireland that carry out either loft or cavity wall insulation. For example, NIE currently provide up to £150 cash back to homes that carry out either of these improvements. In addition, NIE will also, for free, fit both cavity wall and loft insulation into any owner-occupied or private rented house, where the household is on a low income. Free insulation is also available through

the DSD funded 'Warm Homes Scheme' to applicants on certain qualifying benefits. The WWF view is that both schemes could continue to operate in order to encourage maximum take-up.

WWF, in their proposal, state that there are around 70,000 homes in Northern Ireland without cavity wall insulation and 500,000 homes that have either no loft insulation or, if they do, are of poor quality. Their view is that the scheme should be available to those with some as well as no loft insulation. They do not say what they expect the number of applications for the proposed rebate might be or estimate the cost, although point to similar study carried out by the Energy Saving Trust in terms of Council Tax which pointed to an 8% take up rate.

The DSD Warm Homes Scheme awarded over 11,300 grants in 2005/06, the last year for which figures are available. NIE have advised that the rate of applications for its cash-back scheme runs at around 1,000 to 1,500 per year. The cost of a £100 rebate would depend on how the scheme is funded (either through the Energy Efficiency Levy, district rate or regional rate), what the level of take up might be and what groups of ratepayers would be able to apply.

Legislative implications

The introduction of a rate rebate for households that make energy efficiency improvements would require primary legislation.

Rating of Second Homes

Background

Concern has been expressed previously that the ownership of second homes by individuals, particularly in high demand areas such as in popular tourist locations or near universities, is inflating the value of all properties in that area and thus the rate liability. This has led to calls for the introduction of special rating measures to support long term residents in locations such as the North Coast in order to reflect this inflationary impact of this second home ownership.

The table below attempts to present some of the evidence behind this. This shows the average capital value in several wards in the Coleraine district, as well as the average capital value for the district as a whole. The table also shows the average change in rate bill as a result of the revaluation. That is, it compares capital value based bills with what they would have been had the previous NAV system continued.

Ward	Average Capital Value	Average percentage change in rate bill
Atlantic	£150,600	28%
Castlerock	£123,030	1%
Dunluce	£153,550	36%
Portstewart	£119,350	23%
Royal Portrush	£108,500	9%
Strand	£193,050	18%
University	£101,030	-7%
Coleraine	£121,700	3%

There are a few points to note from the results summarised in the table above. Firstly, the average capital value in some wards is well above the average for the council area as a whole, as well as that for Northern Ireland (around £112,000). However, this is not true in all cases

(University and Royal Portrush, for example). Also, looking at the average change in bill as a result of the revaluation, it is clear that, while some wards do appear to have experienced a sharp rise since the previous valuation in the 1970's, in other cases this is not the case.

Options

There are obviously a wide range of options in terms of where any scheme such as this would be applied, as well as the criteria used for assessment. However, in terms of the actual operation of a scheme, the two main approaches are to either:

- Provide a discount for permanent residents
- Rate second homes at a higher rate

Impact

Based on initial analysis of the North Coast area and using research carried out by the University of Ulster for the NIHE, a 20% discount for permanent residents could cost in the region of £1m - £1.5m each year in lost revenue.

This research also indicated, however, that second home owners were not significantly affected by concerns about taxation issues or the level of rates payable.

Legislative implications

The introduction of a discount for permanent residents or a higher rate on second homes would require primary legislation.

Increasing Take-up

Background

Concerns have existed for some time about the perceived low level of take up of housing benefit / rate relief, particularly in the owner occupied sector. For example, analysis using the Family Resources Survey suggests that the overall take up rate of this benefit in Northern Ireland among this sector is around 42%. This is not an issue which is limited to just this benefit, as other benefits have also suffered from poor take up. Nor is the problem higher in Northern Ireland. The Lyons Review of Local Government Finance in England and Wales, for example, addressed this problem and suggested a number of steps for improving take up of Council Tax Benefit.

Options

The approach taken in the review has been to examine the recommendations made by both the Lyons Review, as well as the Burt Report in relation to local taxation in Scotland, in order to determine if there are any measures which can be replicated in Northern Ireland. The review has also looked at best practice among local authorities in Great Britain, again to see if there are any relevant lessons to be learned.

From this review, a number of potential measures have emerged which could be considered for Northern Ireland. These include:

Streamline and simplify the application process – the complexity of the benefits system as a whole is viewed as a deterrent by some to application.

Raise awareness and encourage take-up – there is a consistent need to raise awareness of the availability of reliefs, particularly to certain, difficult to reach groups. Any measures along these lines should also be targeted to the relevant audience where possible.

Involve external agencies – other Government agencies have employed third party organisations, such as Citizens Advice, for example, to carry out the awareness raising on their behalf. These organisations are often viewed as more independent and have a higher degree of trust among the public.

Involve other Government Agencies – much of the data collected on individuals for the purpose of assessing eligibility for benefits is common to a number of these benefits. There are therefore opportunities for enhanced data sharing among these Agencies to improve take up. For example, a scheme within the Pension Service in GB, makes use of the information collected on an individual to determine their eligibility for Pension Credits, then uses the same information on income and savings to assess the applicant for Council Tax benefit. A pilot scheme is being considered as to whether this approach can be extended so as to provide an automatic assessment of Council Tax benefit eligibility for this group. A similar approach could therefore be adopted in Northern Ireland although primary legislation may be required to facilitate this in light of data protection rules.

Amend the Rate Relief Scheme – there is evidence that individual perceptions of eligibility for rate relief through this scheme deters applications, particularly given the complexity of the scheme. Increasing the capital threshold, whilst having limited effect on actual eligibility for relief (see earlier analysis) may though encourage take up.

Impact

As the analysis around circuit breakers has indicated (see earlier analysis) steps towards increased take up of benefits can have a significant impact on poverty levels.

Annex B – DFP Summary Analysis of Strand 2 Options

Local Income Tax

Local income taxes are a relatively 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 (LIT). The much more recent Balance of Funding Review also saw a Local Income Tax as the main alternative option arguing that it provides the opportunity for revenue to be raised and spent locally making Councils more directly responsible for their finance.

The Scottish Parliament has recently decided that they want to abolish council tax and replace it with a local income tax based on ability to pay. Their proposal is that it will be set at 3% across Scotland and that HMRC will be involved in its administration and they intend launching a consultation on their proposals later this year.

Tax Varying Powers

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

Under Schedule 2, paragraph 9 of the Northern Ireland Act 1998 ('the 1998 Act'), most issues of taxation are excepted matters. If however, following consideration of alternative forms of taxation by the Northern Ireland Assembly a system emerges that requires tax varying powers and therefore the consent of Parliament then the UK Government would have to be lobbied to change this aspect of the 1998 Act.

Local Sales Tax

A tax on transactions can be applied as 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%.

In any debate about whether to introduce a local sales tax in Northern Ireland consideration would have to be given to the fact that the Republic of Ireland does not currently impose such a tax. This is likely to encourage cross-border shopping which could have a significant detrimental impact on businesses in Northern Ireland, particularly those in the border areas and the Northern Ireland economy as a whole.

Poll Tax

In 1986 the Government published its Green Paper which paved the way for the introduction of the Community Charge or the Poll Tax as it was more commonly known. The central argument in the Green Paper was the need to strengthen local accountability and 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.

The recommended alternative to domestic rates was a per capita community charge (poll tax) which was introduced in Scotland in 1989, one year earlier than in England and Wales.

In any consideration of this issue consideration must be given to its great unpopularity and ultimate failure in GB.

Banding

The 1991 consultation paper 'A New Tax for Local Government' paved the way for a transition to the council tax system, introduced in 1993, following the decision to scrap the Poll Tax. Although fairness was identified as an underlying principle, this was not perceived simply in terms of ability-to-pay but also that most adults should make some contribution in order to try to ensure that the public perception was that the system was fair. The argument that all electors should pay something towards the cost of local services was scrapped in favour of a tax that would take account of most adults in a household but providing a reduction of 25% for single-person households. A banding system was introduced so the tax varied within a limited range according to property values. The banding system with an upper limit prevents very high bills falling on a minority of properties and meant there was a reduced need for regular and frequent valuations of properties.

As part of the previous Review of Rating Policy taken forward by Direct Rule Ministers a decision was taken that the outdated current 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 and this system has been introduced with effect from 1 April 2007.

Road Charging

Road Charging is a combination of three slightly different but related initiatives. These initiatives are Congestion Charging, Tolling and National Road Pricing.

Powers to operate congestion charging in London were granted by the Greater London Authority Act 1999 and the Transport Act 2000 extends these powers to outside London with the proviso that any charging would support the Local Transport Plan. These powers remain largely untested with the notable exception of London's congestion charge.

The Transport Act 2000 and the draft Local Transport Bill which is currently out for consultation are aimed at encouraging Local Authorities in GB, through the Transport Innovation Fund to submit local transport plans which include an element of congestion charging. The need for approval from the Secretary of State for Transport has also been removed so that local decisions can be made locally. 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.

DRD response

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. The Minister for Regional Development has confirmed that

(i) the Roads Service officials should not pursue further the introduction of the necessary powers to introduce congestion charging schemes and that the policy position should revert to that stated in paragraph 7.27 of the Belfast Metropolitan Transport Plan (reproduced below); and

(ii) agreed that Roads Service officials pro-actively review developments in congestion charging schemes in GB, and further afield, to inform future policy decisions.

Paragraph 7.27

The 2015 Plan does not propose the implementation of congestion charging within the Belfast Metropolitan Area (BMA). Congestion charging, however, is an evolving area and it will be reviewed further within the Plan period, drawing upon experience from other parts of the UK. The review will consider different types of charging systems and if they would benefit the BMA. The various types of congestion charging for possible consideration, include cordon-based systems focused on central Belfast (similar to that in use in London) and area-wide schemes using Global Positioning

Systems (GPS) which could be likened to a nationwide charging scheme currently being examined by government as a more flexible alternative to the existing system of road tax and fuel duty.)

Road Tolling

A Road Tolling Consultancy commission to look at the feasibility of introducing tolling on the 5 key transport corridors in Northern Ireland has recently been completed and the results of that study will be factored into the Roads Service submission under ISNI 2 for the further development of the Strategic Road Network. The study has identified that the income from tolling the 5 key transport corridors in Northern Ireland would amount to approximately 16% of the cost of providing and maintaining the infrastructure over a 25 year period. The highest % contribution would come from the eastern corridor with 40% of the costs recovered and the lowest % contribution would be on the Northern Corridor with only 10% of the costs recovered.

Green Taxes

Though local councils 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.

The Northern Ireland Landfill Allowance Scheme is one of the key measures to reduce the amount of biodegradable municipal waste going to landfill and was introduced on 1 April 2005 (similar schemes were introduced in the rest of the UK). The Scheme sees progressive reductions in the amount of biodegradable waste – such as paper, food and garden waste – that Councils can landfill.

Landfill allowances have been allocated to each council in Northern Ireland for each year to 2019/20 at a level that will enable Northern Ireland to meet its targets, as a contribution to the UK targets, under the Landfill Directive. Each allowance permits one tonne of biodegradable municipal waste to be land-filled and the allowances allocated to each council reduce over time to force compliance with the Landfill Directive targets. The DOE's Environment and Heritage Service monitors the Scheme.

Another way in which Northern Ireland might contribute to environmental improvement is to consider seeking to introduce a tax or levy in Northern Ireland on the use of plastic bags which would correspond to that deployed so successfully in the Republic of Ireland which has cut plastic bag use by approximately 90%, and proved to be a very useful income stream with €75m will being raised since its introduction in 2002 and €18.8m raised in 2006.

DOE response

Defra is currently seeking views on giving local authorities in England discretionary powers to introduce domestic waste charging. The Executive could certainly consider whether it would be appropriate to introduce a similar scheme in Northern Ireland. Indeed the Northern Ireland Waste Management Strategy 2006-2020, published in March 2006, commits DOE, 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.

It should also be noted that the scheme currently being considered by Defra is revenue neutral ie any money raised has to be returned in full to local residents.

At present the Department of the Environment is considering ways to tackle a number of local environmental problems such as litter, including plastic bag litter. In the Republic of Ireland the levy on plastic bags has changed consumer behaviour. However, it is interesting to note that after detailed consideration, Scotland decided against such a tax. Alternatives to plastic bags often entail their own environmental problems and all of the issues need to be considered before deciding on the most appropriate way forward for Northern Ireland.

Land Value Taxation

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 (ideally based on the concept of highest and best use including its development potential) rather than based solely on the rental or capital value of the buildings in their existing use. Advantages claimed for the system include its potential for encouraging urban renewal, reducing dereliction and redistributing wealth.

The Ulster University were commissioned to investigate the experience of other jurisdictions that have used Land Value Taxation as a revenue raising measure. They recently provided their draft report and the findings are currently under consideration. Their main conclusion is that to introduce Land Value Taxation to replace the current domestic and non-domestic rating systems would be difficult and not in line with international trends and, amongst other things, cite uncertainty in relation to planning and lack of current development plans as a major impediment.

Derelict Land Taxation

Land that is not capable of beneficial occupation is not currently taxed through business rates. Dereliction, therefore, is an attractive route for some owners to avoid taxation and so the potential exists to close this loophole by introducing derelict land taxation.

The University of Ulster are currently carrying out a pilot study in the greater Belfast area in relation the rating of derelict land and they hope to report within the next couple of weeks. If it was decided to introduce this measure it would be as a supplement to the current rating system and in addition to raising revenue there are potential benefits for housing affordability.

Tourist Tax

Accommodation charges have been deployed in a number of places around the world. For example, in France, a charge is levied on all overnight stays and the charge is largely left to be determined locally. Additionally other types of tourist tax such as airport taxes and departure fees are often used in other cities and countries are used in particular to assist the promotion of tourism locally.

Under the North/South Ministerial Council there are six North/South Implementation Bodies which implements policies agreed by Ministers in the North/South Ministerial Council. The bodies and Tourism Ireland Limited (i.e. the Northern Ireland Tourist Board and Bord Failte) are funded

from grants made by the relevant government departments, North and South. Current policy is for Tourism Ireland Ltd to jointly promote tourism on the island of Ireland as a means of mutually maximising the economic benefits of tourist activity. As no tourist tax is imposed in the Republic of Ireland the introduction of such a tax in Northern Ireland would conflict with the aforementioned joint approach.

DETI response

DETI would concur with the findings/views in the Lyons report. Tourism in Northern Ireland is competing not only in an all Ireland or indeed British Isles context, but in a global context. Anything which makes the industry less competitive will have a negative impact on future growth.

Whilst the Northern Ireland tourism sector is showing significant growth it should be noted that this growth is from a very low base which has been suppressed by years of conflict and a tourism tax could have a detrimental effect. It is also a growth which is biased strongly towards the Belfast marketplace. Whilst it might be considered that Belfast could carry such a tax it is highly unlikely that other areas would.

Appendix 1

Terms of Reference for the Review

Domestic Rating Policy Review – 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	Draft, agree and publish Terms of Reference	Mid June 2007
Stage 2 – Research and Scoping	Conduct factual analysis and research Identify main issues Confirm scope of review	Mid/End July 2007
Stage 3 – Options	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)	Draft and introduce legislation required to give effect to proposed changes	End of March 2008
*Stage 4B - Strand 2	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

Brian McClure,
Rating Policy Division ,
Department of Finance and Personnel,
Rathgael House,
Bangor.

Annex A

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.

Annex B

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.



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Mr Mitchel McLaughlin MLA
Chairman
Committee for Finance and Personnel
Committee Office
Parliament Buildings

Our ref SUB 213/07

7 June 2007

I am writing to you about the Executive's Review of the new domestic rating system to undertake an accelerated re-examination of the system to identify ways of improving the new system that can be implemented in April 2008; and to examine alternatives to the new system as a means of identifying options for longer term change.

I enclose the terms of reference, which I have agreed today with Executive colleagues. It would be my intention to undertake a public consultation immediately on the basis of the terms and I will be making an announcement shortly to this effect. I enclose a copy of the Press Release for your information.

You will note that the scope of the review is a fairly broad and flexible one. I can assure you that as a point of principle nothing has been ruled out, or in and therefore the Committee's views on the range of issues to be considered as part of the review would be extremely useful at this early stage.

Given my strong desire to implement some changes in time for next years bills, it is important that this process starts now because of the long lead in time required, both in terms of changing or introducing new subordinate legislation and the arrangements that would have to be put in place, particularly around the administration of reliefs.

I do not wish to have a prolonged review; we have suffered that with the new system; and so it would not be my intention to have a full blown consultation process or indulge in lengthy new analysis and research – we must avoid analysis paralysis. What I do want however is to hear a wide range of views on the matter and I am confident, given the profile and positions of all the local political parties that the NI public will be forthcoming on the issue, particularly now that the bills have issued and people are all too aware of the impact the new system is having on them as individuals. I will be providing the Committee with a detailed consultation report as soon as possible after the consultation has ended.



My immediate focus is looking at what can be delivered within the scope of the existing primary legislation and also in the medium term looking at how that legislation can be changed easily to further improve the system. I will be asking challenging questions of my department in my search for solutions and also examining the issue of paying for water through the rates. To make a difference next year, however, I will need to be presenting options and recommendations to the Executive around October.

At the same time I will be looking longer term at alternatives to the system and looking wider than the review that was completed by direct rule Ministers. I made it clear 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.

We should be under no illusions, however, about the difficulties that will lie ahead if we wish to completely transform the system. Some consider the new system to be fundamentally flawed but replacing what we have with something radically different will inevitably lead to a different set of winners and losers. Even providing new reliefs pushes the burden onto others and so we must adopt a balanced approach to this whole policy area.

There was much talk in the debate about the need for an 'ability to pay' local taxation system and no one would disagree with this fine sentiment. Reaching consensus on exactly what this means and finding a system that delivers on it, which is also broadly acceptable, stable and easy to administer as a local tax (for both this Assembly and the District Councils) is a tall order – something that the recently completed Lyons Inquiry report (into local government function and finance in England) recognised and we can learn from - but it is an order that I will accept with determination and a real sense of urgency.

I will need help in this task and would like to cooperate closely throughout the process with your Committee. I will ensure that my officials and I will play our part in keeping you informed of all relevant matters during this challenging process.

To this end, I have asked my officials to brief the Committee this month, and I understand that arrangements have been made for a committee meeting on the 13th.



RT HON PETER D ROBINSON MP MLA
Minister for Finance and Personnel



Committee for Finance and Personnel

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27 June 2007

Rt Honourable Peter D Robinson MP MLA
Minister for Finance and Personnel
Craigantlet Buildings
Stoney Rd
Belfast BT4 3SX

Domestic Rating Review

Dear

Thank you for arranging for the Terms of Reference for the Rating Review to be sent to the Committee in advance of your statement to the Assembly on 11 June 2007. The Committee considered the options in both Strands 1 and 2 of the Terms of Reference and is content with the range of issues to be examined. Members particularly welcomed the broad scope of the review and the fact that 'nothing has been ruled in or out' at this stage.

On behalf of the Committee I also welcome your commitment to engage as the Review continues, including sharing the consultation responses, providing a report on the consultation and reporting back to the Committee before finalising your proposals. The Committee has agreed that its main role will be one of monitoring the consultation process and examining the findings and recommendations emanating from the consultation. The Committee also considers that its main input to the Review will therefore be in September, following the end of the consultation process in August and before any recommendations are finalised.

I would be grateful if your officials could therefore build sufficient time (we suggest a four-week period) into the process to allow the Committee enough time to consider both the consultation report and the draft recommendations to be put to the Executive.

Your officials informally requested the Committee's research paper on the Long-Term Alternatives to Domestic Rates. The Committee agreed to this request at its meeting on 27 June 2007 and the paper is annexed to this response.

Yours Sincerely

Mitchel McLaughlin MLA

Chairperson
Committee for Finance and Personnel

Appendix 2

Minutes of Proceedings Relating to the Report

**Wednesday, 5 September 2007
Room 152, Parliament Buildings**

Present: Mitchel McLaughlin MLA (Chairperson)
Mervyn Storey MLA (Deputy Chairperson)
Roy Beggs MLA
Dr Stephen Farry MLA
Simon Hamilton MLA
Fra McCann MLA
Adrian McQuillan MLA
Declan O'Loan MLA
Dawn Purvis MLA
Peter Weir MLA

In Attendance: Alan Patterson (Principal Clerk)
Shane McAteer (Assembly Clerk)
Vivien Ireland (Assistant Assembly Clerk)
Colin Jones (Assistant Assembly Clerk)
Paula Sandford (Clerical Supervisor)
Paul Woods (Clerical Supervisor)
Mary Thompson (Clerical Officer)

Apologies: Jennifer McCann MLA

The meeting commenced at 10.06am in open session.

6. Correspondence

Members noted the following correspondence:

- DFP: Update on Rating Reviews;
- Minister, Finance and Personnel: Rate Relief for Small Businesses;

Agreed: that members would consider this issue following the update from DFP officials at next week's meeting.

Mitchel McLaughlin, Chairperson,

Committee for Finance and Personnel.
12 September 2007.

**Wednesday, 12 September 2007
Room 152, Parliament Buildings**

Present: Mitchel McLaughlin MLA (Chairperson)
Roy Beggs MLA
Dr Stephen Farry MLA
Simon Hamilton MLA
Fra McCann MLA
Jennifer McCann MLA
Adrian McQuillan MLA
Declan O'Loan MLA

Dawn Purvis MLA
Peter Weir MLA

In Attendance: Shane McAteer (Assembly Clerk)
Vivien Ireland (Assistant Assembly Clerk)
Colin Jones (Assistant Assembly Clerk)
Paula Sandford (Clerical Supervisor)
Mary Thompson (Clerical Officer)

Apologies: Mervyn Storey MLA (Deputy Chairperson)

The meeting commenced at 10.07 am in open session.

4. Review of Rating Issues: Domestic Rates, Rates Relief for Small Businesses and Industrial Derating

Assembly Research provided background briefing to the Committee on the Small Business Rate Relief Scheme.

Agreed: that Assembly Research will follow up on a number of issues raised by members.

The Committee was briefed by Brian McClure and Patrick Neeson, DFP Rating Policy Division, on Domestic Rates, Rates Relief for Small Businesses and Industrial Derating.

Mr McClure advised members that the forthcoming consultation report on the review of the Domestic Rating System will be made available to the Committee for its consideration by 26th September 2007.

Members were advised that in relation to Industrial Derating, the ERINI report is due to be received by DFP at the end of September. However, DFP will need to carry out its own analysis of this report and update the Committee by October/November. It is envisaged that the Executive will make any decisions before Christmas to allow for subordinate legislation to be in place for April 2008.

Mr McClure referred to the Minister's letter of 6 July 2007 asking for the Committee's views on the draft terms of reference on the review of rate relief for small businesses in Northern Ireland.

Agreed: response to the Minister regarding DFP's draft terms of reference in respect of the review of rate relief for small businesses.

Mitchel McLaughlin, Chairperson,

Committee for Finance and Personnel.
19 September 2007

Wednesday, 26 September 2007
Room 152, Parliament Buildings

Present: Mervyn Storey MLA (Deputy Chairperson)
Roy Beggs MLA
Dr Stephen Farry MLA
Simon Hamilton MLA
Jennifer McCann MLA

Adrian McQuillan MLA
Declan O'Loan MLA
Dawn Purvis MLA
Peter Weir MLA

In Attendance: Alan Patterson (Principal Clerk)
Shane McAteer (Assembly Clerk)
Vivien Ireland (Assistant Assembly Clerk)
Colin Jones (Assistant Assembly Clerk)
Paula Sandford (Clerical Supervisor)
Mary Thompson (Clerical Officer)

Apologies: Mitchel McLaughlin MLA (Chairperson)
Fra McCann MLA

The meeting commenced at 10.06 am in open session.

5. Review of Domestic Rating Reform – Consultation Report – Evidence Session

Agreed: Official Report (Hansard) to be made of the evidence session with DFP officials on the Review of Domestic Rating Reform and that this will be published on the Assembly website.

The Committee was briefed by the following DFP officials: Brian McClure, Head of Rating; Patrick Neeson, Rating Policy Division and Alison McCaffrey, Rating Policy Division on the Review of Domestic Rating – Consultation Report.

Brian McClure outlined the responses received to the consultation on the Review of Domestic Rating Reform. The DFP officials agreed to provide follow up information, including details of the costs and benefits of the various options and on the uptake of existing reliefs.

Members were advised that the Committee needs to agree a formal response on the Review of Domestic Rating by the end of October.

Members were advised that Assembly Research will be providing a paper on international comparators for the meeting on 10 October.

Agreed: that Citizen's Advice will be invited to give evidence at next week's Committee meeting.

Agreed: that further consideration will be given at next week's Committee meeting to agree other witnesses to give evidence on 10th and 17th October, including other umbrella groups, and professional and academic bodies.

Mervyn Storey, Deputy Chairperson,

Committee for Finance and Personnel.
3 October 2007

Wednesday, 3 October 2007
Room 152, Parliament Buildings

Present: Mitchel McLaughlin MLA (Chairperson)
Mervyn Storey MLA (Deputy Chairperson)
Roy Beggs MLA

Dr Stephen Farry MLA
Simon Hamilton MLA
Fra McCann MLA
Adrian McQuillan MLA
Declan O'Loan MLA
Dawn Purvis MLA
Peter Weir MLA

In Attendance: Shane McAteer (Assembly Clerk)
Vivien Ireland (Assistant Assembly Clerk)
Colin Jones (Assistant Assembly Clerk)
Mary Thompson (Clerical Officer)

Apologies: Jennifer McCann MLA

The meeting commenced at 10.04 am in open session.

4. Review of Domestic Rating Reform – Evidence Session with Citizens' Advice

Agreed: that an Official Report (Hansard) would be made of all the evidence taken by the Committee in relation to its consideration of the domestic rating review and that the finalised transcripts will be published on the Assembly website.

Mr Hamilton joined the meeting at 10.14am.

Mr Storey joined the meeting at 10.14am.

The Committee took evidence from Lucy Cochrane, Information and Policy Officer, Citizens' Advice. The session was recorded by Hansard.

Ms Purvis joined the meeting at 10.30am.

Mr Beggs left the meeting at 10.50am.

The Committee considered the key issues from the evidence session which could be included in its response to the Minister.

9. Review of Domestic Rating Reform

Members noted that DFP officials will update the Committee at next week's meeting and that they will be accompanied by representatives from the University of Ulster, who will brief the Committee on the ongoing research into land value taxation and the rating of vacant domestic properties. In addition, Assembly Research will also brief members on the paper requested on potential international comparators.

Members considered other potential witnesses to be invited to provide oral evidence to the Committee on 10th and 17th October.

Agreed: that representatives from the Institute of Revenues Rating and Valuation will be invited to attend on 17 October.

Agreed: that evidence is required from economists, such as John Simpson, Mike Smyth or ERINI, on the longer-term strand two options and that the Clerk will arrange appropriate sessions.

Members noted the submission to the Department's review from Professor Derek Birrell, Professor of Social Administration & Policy School of Policy Studies, University of Ulster

Agreed: that Professor Birrell will be asked whether he has undertaken any further research in this area which he would be prepared to share with the Committee and whether he would be prepared to provide a written response to any further queries arising from the Committee's considerations.

Agreed: that University of Ulster officials attending on 10 October will also be asked to brief the Committee on the issue of banding versus individual valuations.

Agreed: that the General Consumer Council will be asked whether it wishes to submit evidence which is additional to that contained in its submission to the recent DFP consultation and, if so, the Committee will consider the possibility of an oral evidence session.

Members were referred to a paper from DFP, containing an initial analysis of the costs and benefits associated with the various options under consideration in the review. Members noted that this information was restricted to the Committee at this stage and considered the Department's request that discussion on this paper should be held in closed session.

Agreed: that consideration of the DFP paper will be held in closed session.

The meeting continued in closed session at 12.10pm.

Agreed: a draft structure for the Committee response to the Minister.

Agreed: a list of options for which further information will be requested from DFP.

Agreed: that the restricted papers will be returned to Committee staff.

Mitchel McLaughlin, Chairperson,

Committee for Finance and Personnel.
10 October 2007

Wednesday, 10 October 2007
Room 152, Parliament Buildings

Present: Mitchel McLaughlin MLA (Chairperson)
Mervyn Storey MLA (Deputy Chairperson)
Roy Beggs MLA
Dr Stephen Farry MLA
Simon Hamilton MLA
Fra McCann MLA
Jennifer McCann MLA
Adrian McQuillan MLA
Declan O'Loan MLA

In Attendance: Shane McAteer (Assembly Clerk)
Vivien Ireland (Assistant Assembly Clerk)
Colin Jones (Assistant Assembly Clerk)
Paula Sandford (Clerical Supervisor)
Mary Thompson (Clerical Officer)

Apologies: Dawn Purvis MLA
Peter Weir MLA

The meeting commenced at 10.08 am in open session.

3. Matters Arising

Members noted the outstanding requests for information from the Department of Finance and Personnel (DFP).

Members noted that evidence on the Review of Domestic Rating Reform was not expected from the General Consumer Council or from Professor Birrell, University of Ulster, additional to that which had been provided to the DFP consultation.

4. Evidence Session on the Review of Domestic Rating Reform

Agreed: that an Official Report (Hansard) will be made of all the evidence taken by the Committee in relation to its consideration of the Review of Domestic Rating Reform and that the finalised transcripts will be published on the Assembly website.

The Committee received oral and written evidence from John Simpson, Economist on the Review of Domestic Rating Reform.

Mr Farry joined the meeting at 10.14am.

Agreed: that any follow up questions will be sent to John Simpson for written response.

5. Assembly Research Briefing on the Review of Domestic Rating Reform

Members received a briefing by Assembly Research on a research paper, entitled An International Comparison of Local Government Taxation.

Mr O'Loan left the meeting at 11.07am.

Mr Beggs left the meeting at 11.19am.

Agreed: that Assembly Research will follow up on whether international evidence suggests a relationship between the degree of home ownership and the basis of local government taxation.

6. Evidence Session on the Review of Domestic Rating Reform

The Committee received evidence on research into the options of land valuation taxation and of rating vacant domestic property. The witnesses included Brian McClure and Alison McCaffrey, DFP Rating Division and Peadar Davis and Dr Jasmine Lim, School of the Built Environment, University of Ulster.

Mr Hamilton left the meeting at 11.50am.

Mr O'Loan returned to the meeting at 11.50am.

Mr Hamilton returned to the meeting at 11.55am.

Mr McCann left the meeting at 11.55am.

Mr McCann returned to the meeting at 11.57am.

Mr Storey left the meeting at 12.10pm.

Ms McCann joined the meeting at 12.17pm.

Members noted that, whilst more detailed research is to be undertaken into both of these options, DFP will shortly provide preliminary research findings to help inform the Committee's considerations.

Agreed: that once the remaining evidence has been received, members will identify the Domestic Rating options which should be given particular consideration.

Mitchel McLaughlin, Chairperson,

Committee for Finance and Personnel.
17 October 2007

Wednesday, 17 October 2007
Room 152, Parliament Buildings

Present: Mitchel McLaughlin MLA (Chairperson)
Mervyn Storey MLA (Deputy Chairperson)
Roy Beggs MLA
Dr Stephen Farry MLA
Simon Hamilton MLA
Fra McCann MLA
Jennifer McCann MLA
Adrian McQuillan MLA
Declan O'Loan MLA
Dawn Purvis MLA
Peter Weir MLA

In Attendance: Shane McAteer (Assembly Clerk)
Vivien Ireland (Assistant Assembly Clerk)
Colin Jones (Assistant Assembly Clerk)
Paula Sandford (Clerical Supervisor)
Mary Thompson (Clerical Officer)

Apologies: None

The meeting commenced at 10.09 am in open session.

3. Matters Arising

Members noted the following:

- outstanding requests for information from the Department of Finance and Personnel (DFP);
- the Land Value Taxation Campaign response to Review of Domestic Rating Reform; and

- follow up Assembly research on international comparators for local taxation and on the Scottish National Party proposal for a local income tax.

Agreed: that DFP's evidence on the Review of Domestic Rating Reform will be held in closed session, as this had been requested by the Department on the basis that the information under discussion was not yet ready for publication and should be restricted.

4. Evidence Session on the Review of Domestic Rating Reform

Mr Beggs declared an interest as a resident of a working farmhouse and someone who provides assistance on a family farm.

The representatives from Institute of Revenues, Rating and Valuation (IRRV) declared an interest in respect of ongoing work for the Belfast City Council on an aspect of rating and explained that they previously carried out consultancy work for DFP on rate reliefs and, prior to that, had acted as specialist advisers to the previous Committee for Finance and Personnel.

Members received oral evidence from David Magor and Pat Doherty, IRRV in relation to the different policy options identified in the Review of Domestic Rating Reform.

As previously agreed by the Committee, an Official Report (Hansard) was made of the evidence taken, which will be published on the Assembly website.

Ms Purvis joined the meeting at 11.02am.

Mr McCann joined the meeting at 11.10am.

Agreed: that the representatives from IRRV will provide the Committee with a paper on Green Taxes in due course.

5. Evidence Session on the Review of Domestic Rating Reform

The Committee received oral and written evidence from Victor Hewitt, Director of the Economic Research Institute of Northern Ireland, on the different policy options identified in the Review of Domestic Rating Reform.

When discussing the option of discount for owner occupiers, Mr Hewitt declared an interest in owning a second home.

Agreed: that any follow up questions will be sent to Victor Hewitt for written response.

The meeting continued in closed session at 12.39pm.

6. Evidence Session on the Review of Domestic Rating Reform

The Committee received evidence from Brian McClure, Patrick Neeson and Alison McCaffrey, DFP Rating Policy Division, in relation to the Department's summary analysis of the policy options in the Review of Domestic Rating Reform.

Mr Hamilton joined the meeting at 12.45pm.

Meeting adjourned at 1.06pm.

The meeting continued in closed session at 1.20pm.

7. Review of Domestic Rating Reform – 2nd Draft of Committee Response

Mr O'Loan left the meeting at 1.50pm

The Committee considered a paper from the Rural Community Network on the Review of Domestic Rating Reform.

Agreed: that the Rural Community Network's key recommendations will be noted in the Committee's response to DFP.

Members noted the correspondence from the Consumer Council on the Review of Domestic Rating Reform.

Agreed: that the Committee will advise the Consumer Council that transcripts of evidence and the Committee's response to the Review will be placed on the website as soon as possible and that the Committee will continue to be involved in aspects of domestic rating, both in scrutinising any legislation arising from the Review and in giving further consideration to the longer-term options.

Members noted the correspondence from the Communication Workers Union (NI Regional Advisory Committee Retired Members) and were advised that the Union had been informed of the Committee's approach to taking evidence on the Review of Domestic Rating Reform.

Agreed: that the IRRV paper on Green Taxes will be copied to DFP when available.

Agreed: that any follow up questions will be sent to DFP for written response.

Members considered the second draft of the Committee's response to DFP on the Review.

Agreed: that an updated version of the draft response will be issued to members on Monday 22 October both electronically and in hard copy. Members will forward any proposed amendments to the Clerk before the meeting on Wednesday 24 October.

The meeting continued in open session at 2.14pm.

Mitchel McLaughlin, Chairperson,

Committee for Finance and Personnel.
24 October 2007

Wednesday, 24 October 2007
Room 152, Parliament Buildings

Present: Mitchel McLaughlin MLA (Chairperson)
Roy Beggs MLA
Dr Stephen Farry MLA
Simon Hamilton MLA
Jennifer McCann MLA
Adrian McQuillan MLA
Peter Weir MLA

In Attendance: Shane McAteer (Assembly Clerk)
Vivien Ireland (Assistant Assembly Clerk)
Colin Jones (Assistant Assembly Clerk)
Paula Sandford (Clerical Supervisor)
Mary Thompson (Clerical Officer)

Apologies: Mervyn Storey MLA (Deputy Chairperson)
Fra McCann MLA
Declan O'Loan MLA
Dawn Purvis MLA

The meeting commenced at 10.11 am in open session.

8. Consideration of Draft Committee Response to the Review of Domestic Rating Reform

Agreed: that the consideration of the Committee's draft response to the Review of Domestic Rating Reform will be held in closed session, which is in line with normal practice for consideration of draft committee reports.

Members considered a response from DFP to queries raised at the Committee meeting on 17 October 2007.

Members noted a paper on congestion charges and road tolling, which had been received from the Federation of Small Businesses. This was included with the other written evidence received by the Committee.

Members also noted written comments on the draft response from Mr O'Loan and Dr Farry, which had been circulated in advance of the meeting.

The Committee undertook a paragraph-by-paragraph consideration of the 3rd draft of the Committee response as follows:

Paragraphs 1 – 4 were agreed.

Paragraph 5 was agreed subject to a minor addition.

Paragraphs 6 – 7 were agreed.

Paragraph 8 was agreed subject to minor amendment.

Paragraphs 9 – 11 were agreed.

Members deliberated on paragraphs 12 -16.

Agreed: To select paragraph 14 for the Committee's recommendation on the option of 'Changes to the Level of Maximum Cap'.

Paragraphs 17 - 19 were agreed.

Paragraph 20 was agreed as the Committee's recommendation on the option of an 'Introduction of a Minimum Payment'.

Paragraphs 21 – 25 were agreed.

Members deliberated on paragraphs 26 -27.

Dr Farry: I beg to move

That paragraph 26 is selected for the Committee's recommendation on the option of an 'Introduction of Rating for Vacant Domestic Properties', subject to inserting 'starting with the properties with higher values' after 'implementation' in line 5.

Question put and agreed to.

Paragraphs 28 – 32 were agreed.

Paragraph 33 was agreed subject to minor amendment.

Paragraph 34 was agreed.

Members deliberated on paragraphs 35 – 36.

Agreed: To select paragraph 35 for the Committee's recommendation on the option of 'Amendments to the Rate Relief Scheme' subject to the following being added to the end of the paragraph:-

'...NI ratepayers if the increase is not funded by the UK Government as part of a wider reform of housing benefit. On the issue of funding uplift, the Committee calls on the Department to ensure that, by introducing this locally, NI would not subsequently lose out if the UK Government follows suit'.

Paragraphs 37 – 39 were agreed.

Members deliberated on paragraphs 40 – 41.

Agreed: To select paragraph 40 for the Committee's recommendation on the option of 'Revision of existing provision for education and travelling relief'.

Paragraphs 42 – 45 were agreed.

Members deliberated on paragraphs 46 – 47.

Agreed: To select paragraph 46 for the Committee's recommendation on the option of an 'Introduction of deferred payment scheme for pensioners'.

Paragraphs 48 – 50 were agreed.

Members deliberated on paragraphs 51 – 52.

Agreed: To select paragraph 51 for the Committee's recommendation on the option of a 'Revision of the early payment discount'.

Paragraphs 53 – 56 were agreed.

Members deliberated on paragraphs 57 - 58 and noted the written comments on these paragraphs which had been received from Mr O'Loan.

Agreed: To select paragraph 58 for the Committee's recommendation on the option of 'Reprofiling the existing Transitional Relief scheme', subject to this paragraph being amended to read as follows:-

'The Committee considers that the Department should establish whether there is sufficient evidence of need which would justify the significant administrative burden and revenue loss associated with an extension of the transitional relief scheme beyond the present 3-year period.'

Paragraphs 59 – 63 were agreed.

Members deliberated on paragraphs 64 - 66.

Agreed: To select paragraph 66 for the Committee's recommendation on the option of a 'Graduated Tax System', subject to minor amendment.

Paragraphs 67 – 71 were agreed.

Members deliberated on paragraphs 72 – 73.

Agreed: To select paragraph 73 for the Committee's recommendation on the option of a 'Single Person Discount'.

Paragraphs 74 – 75 were agreed.

Members deliberated on paragraphs 76 – 77.

Agreed: To select paragraph 76 for the Committee's recommendation on the option of a 'Single Pensioner Discount'.

Paragraphs 78 – 80 were agreed.

Members deliberated on paragraphs 81 - 82 and noted the written comments on these paragraphs which had been received from Mr O'Loan.

Agreed: To select paragraph 81 for the Committee's recommendation on the option of an 'Automatic Pensioner Discount', subject to this paragraph being amended to read as follows:-

'The Committee supports the case for an automatic discount for pensioners over the age of 75. In addition, the Committee recommends further analysis by the Department of the affordability, in terms of revenue loss and of the potential impact on other taxpayers, of introducing an automatic pensioner discount. The Committee considers that this reform should be introduced if the further analysis indicates that it would be affordable.'

Paragraphs 83 – 87 were agreed.

Members deliberated on paragraphs 88 – 89.

Agreed: To select paragraph 88 for the Committee's recommendation on the option of 'Broadening of Existing Disabled Persons Allowance Provision', subject to this paragraph being amended to read as follows:-

'The Committee considers that there is a need to promote understanding and awareness of the existing Disabled Persons Allowance, both in terms of its rationale and the eligibility. The

Committee recommends that the Department undertakes further analysis to establish the impact of the existing Disabled Persons Allowance before giving further consideration to the merits of the various options for broadening the provision.'

Paragraphs 90 – 92 were agreed.

Members deliberated on paragraphs 93 – 94.

Agreed: To select paragraph 94 for the Committee's recommendation on the option of 'Circuit Breakers'.

Having declared an interest, as someone who provides assistance on a family farm, Mr Beggs did not take part in the deliberations on the option of 'Enhanced Discount to Farmers'.

Paragraphs 95 was agreed subject to minor amendment.

Paragraphs 96 – 97 were agreed.

Members deliberated on paragraphs 98 – 99.

Agreed: To select paragraph 98 for the Committee's recommendation on the option of 'Enhanced Discount for Farmers'.

Paragraphs 100 – 103 were agreed.

Members deliberated on paragraphs 104 – 105.

Agreed: To select paragraph 105 for the Committee's recommendation on the option of an 'Introduction of Discount for Owner Occupiers', subject to the following sentence being added at the beginning of the paragraph:-

'The Committee considers that the option of introducing discount for owner occupiers should instead be framed in terms of applying an additional rate on second homes.'

Paragraphs 106 – 109 were agreed.

Members deliberated on paragraphs 110 – 111.

Agreed: To select paragraph 110 for the Committee's recommendation on the option of 'Rates Credits'.

Paragraphs 112 – 113 were agreed.

Paragraphs 114 – 117 were agreed.

Members deliberated on paragraphs 118 – 119.

Agreed: To select paragraph 119 for the Committee's recommendation on the option of 'Banding of Capital Values (Council Tax type system)'.

Members deliberated on paragraph 120.

Dr Farry: I beg to move

That the following additional points be included in the table under 'Arguments For' the option of a 'Local Income Tax':

- (a) 'Some of the drawbacks of a Local Income Tax could be mitigated to an extent through application of the option at a Northern Ireland wide level.'
- (b) 'The application of Local Income Tax could be simpler than a series of rates reliefs.'
- (c) 'The Tax and Benefits system already takes families/dependents into account.'
- (d) 'There are several international examples of an income tax funding local or regional services.'

Question put and after further deliberation it was agreed: That the proposed points at (a) and (d) will be added under 'Arguments For' in the table at paragraph 120.

Paragraphs 121 – 126 were agreed.

Members deliberated on paragraphs 127 – 129, which included the following options for a Committee recommendation on 'Local Income Tax':

Paragraph 127 – 'The Committee recommends that the Executive should take steps to introduce a local income tax, in particular as a replacement for regional domestic rates, as this would align local taxation more closely with the 'ability to pay' principle.'

Paragraph 128 – 'Whilst recognising that there was no clear consensus in the evidence as to the merits of introducing a local income tax, the Committee recommends that the Department considers this longer-term option further in the context of the decision of the Scottish National Party Coalition to introduce a capped local income tax by 2010. In particular, the Committee believes that this further consideration should focus on the potential of a local income tax as a replacement for regional domestic rates, with the district rate continuing as a property tax based on capital value.'

Paragraph 129 – 'Having considered the available evidence, the Committee recommends that the option of a local income tax should not be considered further at this stage but that the option could be reviewed in the longer term and in light of any future experience of a local income tax operating in Scotland.'

As a consensus could not be reached on any one of the options, the Chairperson, Mr McLaughlin, proposed:

That paragraph 129 is selected as the Committee's recommendation on 'Local Income Tax', subject to substituting 'could' with 'should' in line 3.

Question put.

The Committee divided: Ayes 4; Noes 2; Abstentions 1.

AYES

Mr Beggs, Mr Hamilton, Mr McQuillan, Mr Weir.

NOES

Dr Farry, Ms McCann.

ABSTENTIONS

Chairperson (Mr McLaughlin)

Question accordingly agreed to.

Agreed: that a reference will be made in the Committee's response to refer the reader to the relevant Minutes of Proceedings for details of amendments moved and not agreed and of divisions.

Paragraphs 130 – 132 were agreed.

Members deliberated on paragraph 133, which read as follows:

'The Committee's recommendation on local income tax also applies to the option of income tax varying powers.'

As a consensus could not be reached on this paragraph, the Chairperson, Mr McLaughlin, proposed:

That the recommendation in paragraph 133 is agreed subject to being amended to read as follows: 'Having considered the available evidence, the Committee recommends that the option of income tax varying powers should not be considered further at this stage'.

Question put.

The Committee divided: Ayes 4; Noes 2; Abstentions 1.

AYES

Mr Beggs, Mr Hamilton, Mr McQuillan, Mr Weir.

NOES

Dr Farry, Ms McCann.

ABSTENTIONS

Chairperson (Mr McLaughlin)

Question accordingly agreed to.

Agreed: that a reference will be made in the Committee's response to refer the reader to the relevant Minutes of Proceedings for details of amendments moved and not agreed and of divisions.

Paragraphs 134 – 136 were agreed.

Paragraph 137 was agreed as the Committee's recommendation on the option of a 'Local Sales Tax'.

Paragraphs 138 – 140 were agreed.

Paragraph 141 was agreed as the Committee's recommendation on the option of a 'Poll Tax'.

Paragraphs 142 – 147 were agreed.

Paragraph 148 was agreed as the Committee's recommendation on the option of a 'Tourist Tax'.

Paragraphs 149 – 154 were agreed.

Members deliberated on paragraphs 155 - 157 and noted the written comments on these paragraphs which had been received from Mr O'Loan.

Agreed: To select paragraph 156 for the Committee's recommendation on the option of 'Road Charging', subject to the paragraph being amended to read as follows:

'Whilst recognising that there was no clear consensus in the evidence as to the merits of road charging, the Committee recommends that the Department considers the option further, particularly in terms of its potential economic impact, costs and benefits, feasibility, effectiveness in reducing road congestion, and in the context of decisions on the other rating reforms.'

Paragraphs 158 – 162 were agreed.

Members deliberated on paragraphs 163 – 164.

Agreed: To select paragraph 163 for the Committee's recommendation on the option of 'Green Taxes', subject to substituting 'taxes' with 'taxes/credits' in line 1.

Paragraphs 165 -172 were agreed.

Members deliberated on paragraphs 173 – 174.

Agreed: To select paragraph 174 for the Committee's recommendation on the option of 'Land Valuation Taxation'.

Paragraphs 175 – 177 were agreed.

Members deliberated on paragraphs 178 – 179.

Agreed: To select paragraph 178 for the Committee's recommendation on the option of 'Derelict Land Taxation', subject to the deletion of the last sentence.

Members deliberated on Paragraph 180.

Dr Farry: I beg to move

That paragraph 180 is agreed subject to the following being added to the end of the paragraph:

'The Committee recommends that the Regional Rate and District Rate element of rates bills should be clearly differentiated on household rates bills, including through specifying the precise sum that is being allocated to each.'

Question put and agreed to.

Members deliberated on Paragraph 181.

Dr Farry: I beg to move

That paragraph 181 is agreed subject to the following being added to the end of the paragraph:

'The above comments of the Committee are limited to the matter of transparency, and are made without prejudice to wider discussion on the recommendation of the Independent Review of Water Reform.'

Question put and agreed to.

Paragraphs 182 – 186 were agreed, subject to adding an additional paragraph to explain that, when finalising the response, the Committee had received correspondence from the NI Fair Rates Campaign relating to the uptake of housing benefit and rate rebate claims from owner-occupier ratepayers.

Agreed: that a reply to the correspondence from the NI Fair Rates Campaign will be sought from DFP and that both pieces of correspondence will be included as appendices to the Committee's response.

Paragraphs 187 – 193 were agreed.

Paragraph 194 was agreed subject to the third and fourth sentences being amended to read as follows:

'However, the Committee has been advised that, even within existing legislative parameters, there are opportunities to create a more progressive system of regional taxation that would not adversely affect economic development.'

Paragraph 195 was agreed.

Agreed: That the amended Committee response to the Review of Domestic Rating Reform will be sent to the Department as soon as possible.

Agreed: That the amended Committee response, together with the evidence received, will be formatted as a formal Committee report and considered at the meeting on 7 November with a view to the report being approved for publication.

The meeting continued in open session at 1.37pm

Wednesday, 7 November 2007
Room 152, Parliament Buildings

Present: Mitchel McLaughlin MLA (Chairperson)
Mervyn Storey MLA (Deputy Chairperson)
Roy Beggs MLA
Dr Stephen Farry MLA
Simon Hamilton MLA
Fra McCann MLA
Adrian McQuillan MLA
Declan O'Loan MLA
Peter Weir MLA

In Attendance: Shane McAteer (Assembly Clerk)
Colin Jones (Assistant Assembly Clerk)
Paula Sandford (Clerical Supervisor)
Mary Thompson (Clerical Officer)

Apologies: Jennifer McCann MLA
Dawn Purvis MLA

The meeting commenced at 10.05 am in open session.

9. Consideration of Formatted Report of Committee's Response to the 2007 Executive Review of the Domestic Rating System

Members noted that, as agreed at the last meeting, the Committee's response to the Minister had been issued to DFP.

As agreed at the last meeting, the response had subsequently been formatted and tabled as a Draft Report for the Committee's consideration. Members noted that, apart from typographical amendments, the formatted Draft Report was the same as the response previously agreed and sent to the Minister.

Members were advised that DFP had lifted the 'restricted' marking on its analysis of the various options and on the initial research commissioned from the University of Ulster and that these had therefore been included as appendices to the formatted Committee Report.

Dr Farry stated that the minutes of proceedings of 24 October 2007 did not reflect the fact that the Committee had divided on whether to issue its response to the Minister.

Agreed: that, as the minutes of proceedings of 24 October 2007 had been formally agreed earlier in the meeting, the recording of the proceedings on 24 October 2007 will be checked and the issue would be addressed at the next meeting on 14 November 2007.

As the Committee had already considered the typescript response on a paragraph by paragraph basis, the Chairperson, Mr McLaughlin, proposed:

That the Committee is content to agree the main body of the Report without going through it again on a paragraph by paragraph basis.

Question put.

The Committee divided: Ayes 6; Noes 1; Abstentions None.

AYES

Mr Beggs, Mr McCann, Mr McLaughlin, Mr O'Loan, Mr Storey, Mr Weir.

NOES

Dr Farry.

ABSTENTIONS

None

Question accordingly agreed to.

Mr O'Loan left the meeting at 12.46 pm.

Agreed: that the draft executive summary stands part of the Report.

Agreed: that paragraph 34 of the Key Conclusions and Recommendations section is deleted and that the related sentence in paragraph 168 is not printed in bold.

Agreed: that the appendices stand part of the Report.

Agreed: that the Report, as amended, be the Second Report of the Committee for Finance and Personnel to the Assembly for Session 2007/08.

Members considered whether to table a motion for a 'take note' debate on the Committee Report.

Members noted that the Executive is due to consider the issue of domestic rating on 22 November and that the Minister of Finance and Personnel is likely to make a statement in the Assembly on 26 November 2007. It was also noted that order papers for plenary business on 19 and 20 November had already been agreed by the Business Committee.

Agreed: that the Committee will not seek a plenary debate on its Report on the Executive's Review of the Domestic Rating System.

Wednesday, 14 November 2007
Room 152, Parliament Buildings

Unapproved Minutes of Proceedings

Present: Mitchel McLaughlin MLA (Chairperson)
Mervyn Storey MLA (Deputy Chairperson)
Roy Beggs MLA
Dr Stephen Farry MLA
Simon Hamilton MLA
Fra McCann MLA
Jennifer McCann MLA
Declan O'Loan MLA
Peter Weir MLA

In Attendance: Shane McAteer (Assembly Clerk)
Colin Jones (Assistant Assembly Clerk)
Vivien Ireland (Assistant Assembly Clerk)
Paula Sandford (Clerical Supervisor)
Mary Thompson (Clerical Officer)

Apologies: Adrian McQuillan MLA
Dawn Purvis MLA

3. Matters Arising

Consideration of Committee Response to the Review of Domestic Rating

Members reviewed the recording of the Committee's decision to forward its response to the Department.

Agreed: that details of the division on the decision to issue the Committee Response to the Department should be read into the record of the Committee's consideration as follows:-

The Chairperson, Mr McLaughlin, proposed:

That the amended Committee response to the Review of Domestic Rating Reform will be sent to the Department as soon as possible.

Question put.

The Committee divided: Ayes 5; Noes 1; Abstentions 1.

AYES

Mr Beggs, Mr Hamilton, Ms McCann, Mr McQuillan, Mr Weir.

NOES

Dr Farry.

ABSTENTIONS

Chairperson (Mr McLaughlin)

Question accordingly agreed to.

Appendix 3

Minutes of Evidence

26 September 2007

Members present for all or part of the proceedings:

Mr Mervyn Storey (Deputy Chairperson)

Mr Roy Beggs

Dr Stephen Farry

Mr Simon Hamilton

Ms Jennifer McCann

Mr Adrian McQuillan

Mr Declan O'Loan

Ms Dawn Purvis

Mr Peter Weir

Witnesses:

Ms Alison McCaffrey

Mr Brian McClure Department of Finance and Personnel

Mr Patrick Neeson

1. The Deputy Chairperson: The next item on the agenda is the review of domestic rating. I welcome the return of Mr Brian McClure, who is head of the rating policy division in the Department of Finance and Personnel. I also welcome Mr Patrick Neeson and Ms Alison McCaffrey.

2. Mr Brian McClure (Department of Finance and Personnel): Good morning, Mr Deputy Chairperson. Committee members should have a copy of the consultation report. Would the Committee like me to give a high-level overview of the report and pick out some highlights, or would members prefer that I answer questions?

3. The Deputy Chairperson: It would be preferable if you could provide an overview, and then, because we have an allotted time for this subject, we could ask questions.

4. Mr McClure: The report begins with an introduction, as all reports do, and then goes on to the summary of key reforms that were introduced by direct rule Ministers for April 2007. The report merely aims to summarise the views expressed by those who responded to the consultation, and I provided the Committee with figures for the respondents the last time that I was here.

5. Everything cannot be covered in the report. Even today, we received a phone call from an organisation saying that we had not referred to it, on a specific issue, in the report. We could not have done that, because to do so would have made the report 150 pages long and virtually unreadable. Therefore, we have attempted to capture the flavour of the responses. For a better view of the individual responses, people should consult the rating reform website. However, there has been a technical hitch in that we have been unable to put all of the responses on the website. We hope to have that rectified by close of play today. I apologise for that.

6. Our intention was to publish the responses at the same time as the report. Instead, they are going to be 24 hours late. However, once the responses are available, people will be able to examine them in detail. It is important to note that the report does not contain further analysis of the options on which respondents have commented nor does it give any recommendations. Of course, the Minister will not be in a position to make any recommendations until he has received the Committee's views on the important issues that are the subject of the review.

7. Section 2 of the report covers 'Strand 1 Options', which have been broken down into two strands. Strand 1A refers to those changes that can be made to the existing system by April 2008. In other words, it refers to those changes that can be given effect, fairly easily, through subordinate legislation, which provides for a much speedier route for policy change although it will still require the Assembly to pass legislation. We have divided the issues that fall into that category from the more long-term ones. I will outline the strand 1A options in a moment.

8. Strand 1B options are changes that will require primary legislation, but in the context of the existing system.

9. That section begins with general comments made by respondents about the merits, or otherwise, of the capital-value system. Those comments range from the difficult issue of the ability to pay, district rates, regional rates, and asset-rich/income-poor, which is a thread that flows through a lot of the responses. Then we move on to the strand 1A issues, of which I will focus on two or three.

10. First, 42 responses referred specifically to the maximum cap, which is a difficult issue. A slight majority was in favour. However, it is worth noting that of the responses from representational organisations only six were in favour of a cap, or a lower cap, whereas 18 were opposed, which is interesting. We have attempted to summarise the issues. The fair rates campaign is in favour of a cap at around £300,000 capital value.

11. The consultation found overwhelming support for the rating of vacant domestic property. Some of the support suggested that more work needed to be done, but most of the responses, particularly from organisations, were in favour of the measure being introduced.

12. There were a number of responses about amendments to the rate relief scheme. As I have said before, parts of the low-income relief scheme can be changed quite easily. One of those that attracted comment was the savings limit. The fair rates campaign has been lobbying hard for the savings limit that applies under rate rebate to be increased to £50,000 for pensioners. We will be looking at that.

13. There was a lot of concern from organisations about whether the revision of the existing provision for education and training relief targeted students, or if landlords benefited more.

14. The transitional relief scheme allows a three-year phasing-in for those who were affected most adversely by revaluation. Some people have suggested a profiling of that scheme again, and the citizens advice bureau has suggested that it should be graduated. However, there were not many responses on that. That is all of strand 1A. As I explained, strand 1A is for measures that can be implemented easily for April 2008.

15. Strand 1B refers to options under the existing system, or the retaining and improving of some of the main elements of the capital value system. A number of options were presented in the terms of reference. The most contentious issue by far was the single-person discount. A high number of respondents were in favour of that. That is a feature of council tax in GB. Fifty respondents, including all ratepayers, were in favour of its introduction. Parity with the rest of the UK was the main rationale that respondents gave for that.

16. However, some respondents, notably the Alliance Party, acknowledged that it was a fairly blunt relief, which should, perhaps, be targeted more at single pensioners.

17. A single-pensioner's discount also attracted responses; eleven of which — four from ratepayers and seven from organisations — referred to it specifically. Virtually all those supported its introduction. That is the flavour that the Department is getting from consultation. People believe that relief should be given to those who are most in need and that there is justification for providing automatic discounts for particular groups because of issues arising from take-up, and so on. That is borne out by the responses. The Ulster Unionist Party supports a non-means-tested, automatic discount for pensioners as well, arguing that it gives security to those who have worked hard and saved throughout their lives.

18. The curiously titled "circuit-breakers" is another way of saying that there should be an income limit on the amount that people are expected to pay on property tax. There were only five responses to that, which perhaps reflects the lack of information that is available on it; people may not have felt able to comment in detail. Some of those who responded were in favour.

19. Under the existing capital-value system and, indeed, under the old net annual value (NAV)-based system, it is traditional that farmhouses are treated differently from other houses, so that gives rise to a discount. Some have argued that the discount should be enhanced. Six organisations that responded to the consultation sought enhanced discounts for farmers to reflect the user restrictions that apply to planning applications or permissions. They felt that the existing discount — which, I believe, equates to around 20% — should be greater.

20. Finally, with regard to strand 1, the World Wide Fund for Nature has put forward an interesting proposal on providing a rates credit for those who invest in specified energy-saving improvements, such as insulation, which could be partially funded by energy producers through the voluntary energy efficiency levy agreement. The Department is examining that in detail and consulting counterparts in GB where a similar scheme exists under the council tax.

21. That was a quick run-through of the strand 1 issues. Strand 1 can be divided into those measures that can be easily introduced by April 2008 and those that will take a bit longer because of the need for primary legislation. Strand 2 options examine alternatives and supplements to the rating system. That includes the banding of capital values — in other words, a kind of council tax solution. Twelve respondents to the consultation referred to that specifically. The Ulster Unionist Party believes that it deserves a little more consideration before any final decision is made. The fair rates campaign has argued for an eight-banded model.

22. It is worth mentioning that one of the key features of the council tax system is not just the banding of values, but the fact that it is quite restrained. People who are at the bottom of the system pay a third of what those who are at the top pay, so the council tax system has a one-to-three progression. That is a deliberate feature of the system, which recognises that council tax is not just a property tax, but a charge for local services. The Fair Rates Campaign is interested in that as a possible option. However, it has argued for a slightly different model with a one-in-five progression.

23. Local income tax is a difficult issue.

24. We received a substantial response on that. There were fifty respondents — 25 ratepayers and 25 organisations. Thirty-five respondents supported its introduction, and 15, including several ratepayers, were opposed to it.

25. The organisations that supported the introduction of local income tax — or, at least, supported further work being carried out to consider its introduction — included the Fair Rates Campaign, the General Consumer Council, Age Concern, Castlerock Causeway Coast Community Consortium, the National Federation of Post Office and BT Pensioners, Lisburn City Council and various others. The Ulster Unionist Party strongly opposed it. The Alliance Party, as members know, favoured it, although it argued that it should apply only to the regional rate and not to the district rate, because of the difficulties of administration if applied at a local level.

26. There was little comment on, or support for, sales tax. Perhaps people think that, given the land border that we share with the South and globalisation of the marketplace, for example, with the rise in internet buying, a sales tax might not be effective. Fifteen respondents commented on it, but only two offered what I would describe as qualified support, and 13 opposed it.

27. Land-value taxation is an interesting option. I know that the Chairman is interested in the further work that the Department is carrying out with the University of Ulster. Some of the respondents were interested in land-value taxation as a potential alternative, or supplement, to the existing rating system. Ten of the respondents, two of whom were ratepayers and eight were organisations, referred specifically to land-value taxation. Three of those respondents supported the introduction of such a tax, two offered qualified support and five opposed it. That is a mixed bag of responses to a pure land-value taxation system.

28. One subset of that is the possibility of introducing a derelict-land tax, which would apply to land that is unused, derelict or otherwise not on the market. That gathered some support from respondents, 11 of whom referred specifically to the issue. Six of those, including ratepayers, supported its introduction, four offered qualified support, and one was opposed to it. Many of the respondents saw that tax, not merely as a revenue-raising measure, but as something that could satisfy other policy aims, such as economic development or the provision of affordable housing.

29. In section 4, water-reform policy issues were at the top of the list. The Department did not ask directly for views on water charging; we asked about it as an issue in relation to rates. Unsurprisingly, many respondents took the opportunity to voice their opposition to water

charging. Many people were of the view that there should not be a separate charge for water, but that it should be — and already was — included in rates bills.

30. Other issues in this section included second homes and relief for permanent residents, and those measures had pockets of support. Some comments were made about revaluation. Concerns were voiced about the impact of a revaluation, if the existing system were to be retained. Finally, there were a couple of concerns about the appeals system.

31. That was a quick run through the report; I hope that I have given the Committee a flavour. The report is not comprehensive; it is intended to be a signpost that will enable people to consider the issues in more detail through examining the individual responses that will be on our website by the close of play today.

32. The Deputy Chairperson: Thank you. The Committee appreciates having sight of the report before it was published, and that all the information will be on the rating review website so that people can see the specific submissions that have been made.

33. The Committee is interested in having more information on one issue that has come up several times. Does the Department have any cost-and-benefit analysis of the various caps and reliefs that will be available? The Committee urgently needs information on the revenue that would be lost and on the number of households that would benefit, as members must get their heads around the issues contained in the consultation report.

34. Mr McClure: Yes, the Department has a lot of information and would be happy to share that with the Committee fairly quickly. People have commented on a myriad of options, and it will be helpful for us to compile a shortlist of around 20 options, which we can provide as soon as possible. We have done much of the analysis on costs and on the likely numbers of people who will benefit, and we have done various other assessments.

35. Ms Purvis: Numerous reliefs were introduced in April. Difficulties with take-up have been mentioned. Do you have any up-to-date information on the take-up levels and costs?

36. Mr McClure: We have not advised the Minister about this. We receive information daily, and we had an interesting meeting yesterday with colleagues in the Department for Social Development (DSD), who have carried out analysis using the family-resources survey to help us gauge the success or otherwise of the relief scheme. We understand that significantly less than 50% of the people who we think are eligible under the relief scheme are actually claiming relief. It is no surprise that people in the social-rented sector and, to a large degree, the private-rented sector are well covered in the advice that they receive about entitlements. However, take-up rates among those in the owner-occupied sector are significantly lower, and the Minister recognises that that is a serious problem that must be addressed.

37. Ms Purvis: Is it possible to make those figures available?

38. Mr McClure: Yes, the Department intends to share all of the analysis. Currently, we have only preliminary results from DSD and we have not yet advised the Minister. However, we will bring the analysis to the Committee at the earliest opportunity. We will supply the information in advance of the Committee meetings in October.

39. Ms Purvis: That information will help the Committee when it considers direct-relief, single-person discounts and passport relief. It seems that there is a better take-up with respect to passport relief.

40. Mr Weir: As regards lack of take-up, we have seen this trend with a number of other benefits. Do you have any figures showing the distribution of take-up compared with the level of relief that people receive? In other words, if the level of relief is tapered — for example, in the case of pension credit where the level of relief is varied — lots of people tend not to claim if they feel that what they will get will be marginal and will be only a couple of pounds.

41. You mentioned that less than 50% of eligible people claim that relief. Will you supply us with figures that suggest variations in the levels of relief? If the figure is 50% across the board, perhaps it is variational. I may be proved wrong, but the take-up may be extremely low for those who are only entitled to low levels of relief.

42. Mr McClure: We raised that point with officials from the Department for Social Development yesterday, and they will forward that information to us. However, they made an interesting point that some people do not claim as they think that they may not be entitled to anything, but that quite often they are wrong about that. They have misconceptions about the support that is available to them, but we hope to provide the Committee with a breakdown of the levels of claimants. We received the first cut of that information yesterday, but we have asked officials from the Department for Social Development to supplement that with a breakdown of claimants.

43. Mr Hamilton: Before the review, much of the debate about the new system centred on the capital-value system and its introduction. However, from reading the report, I note that, out of over 100 respondents, only 29 criticised the new system. In fact, there was actually some support for the capital-value system. With that low level of attention on capital values and discussion on relief, discount schemes, etc, is there some satisfaction with, or acceptance of, capital values? Are people more interested in getting a system that is fairer on particular groups, such as pensioners or single people?

44. Mr McClure: There may be a higher level of acquiescence, and I gauge that from the amount of correspondence that the Department receives. Aside from the correspondence that this has generated, we have noticed a remarkable reduction in the correspondence that we have received from ratepayers on various policy issues. I am unsure whether it is fair to jump to the conclusion that silence is acquiescence, but that is all that I have to go on. You are asking me a question on which I cannot give an objective view.

45. Mr Hamilton: I understand that. There is a lot more in the consultation on relief and discounts.

46. Mr McClure: There is more focus on the fact that some people do not like the system, so we should find ways of improving it.

47. The Deputy Chairperson: It is the same with people in Northern Ireland acquiescing on paying money.

48. Dr Farry: There were 119 respondents to the consultation, and we must bear in mind that it took place over the summer. What is the Department's view on that level of response? Is it encouraged or discouraged?

49. Mr McClure: There are two aspects to that. First, 42 organisations, including 12 district councils, responded. That surpasses the organisational responses for the main consultation on the capital value system, so that is a healthy response. I mentioned at the previous Committee meeting, and it was quoted in the newspapers, that only 77 ratepayers took the trouble to respond, and that is disappointing. Does that mean that people put more faith in the representative organisations?

50. Dr Farry: Are most consultations conducted by the public sector? The vast majority of respondents tend to be from organisations rather than from individuals.

51. Mr McClure: That is correct.

52. Dr Farry: So, is that level of response from individuals different from the norm?

53. Mr McClure: I can only go on our experience with rating policy. More ratepayers responded in the early stages of the reforms that were introduced in April 2007 than responded to this consultation.

54. Dr Farry: Will you confirm that equality impact assessments will be carried out before any of the different options and strands are finally implemented?

55. Mr McClure: It depends what the measures are. Some are mitigating and address a shortcoming; therefore, a full equality impact assessment will not necessarily be required. However, some of the main policy changes must be subjected to equality impact assessment.

56. Dr Farry: Was the decision to create a cap of £500,000 subject to equality impact assessment? Was that decision not part of a political deal to bypass the process?

57. Mr McClure: You are right; it more or less bypassed the process.

58. Dr Farry: For that reason, it would be critical if the cap, in particular, were considered further.

59. Mr McClure: Given that we have linked all the capital values with the census, it would be quite easy for us to carry out that work, and we can dig quite deep if necessary.

60. Dr Farry: At the beginning of the report, you referred to a lot of respondents using the phrase "ability to pay". That is difficult to define. However, when the Minister introduced the reform, he used that phrase frequently. Therefore, I presume that the Department of Finance understands exactly what it means.

61. Mr McClure: The Department takes the phrase to mean that: "Most of the respondents appear to view it as directly relating tax liability with current income."

62. Dr Farry: Is that a consensual view that has been worked out from responses, or is it the Department's view?

63. Mr McClure: That is the respondents' consensual view. Most respondents appear to view it as relating tax liability with current income.

64. Dr Farry: What is the Department's definition? Given that the Department used the phrase, one would assume that it has an understanding of what it means.

65. Mr McClure: The way in which the Department has always looked at it, in the context of the capital-value system, is by linking relief to inability to pay, which usually boils down to income and savings. Therefore, the converse of that —ability to pay— is a relationship between tax liability and income and/or savings.

66. Dr Farry: Without going into too much detail on circuit breakers, does the Department require a mixture of the bureaucracy that is involved both in property evaluations and in the

income-and-benefits system, which is entirely separate? Does the Department need to find a mechanism to bring those together?

67. Mr McClure: Administration will be very difficult, because certain verification processes may be required with HM Revenue and Customs, which is loath to share that information. Therefore, there are problems with that aspect of administration and with how that will align with the housing-benefit system. The Minister does not want to do anything that would jeopardise the housing-benefit budget for Northern Ireland. If such a mechanism were introduced, it could reduce the gross liability; therefore, housing benefits will be lower and HM Treasury will benefit.

68. Dr Farry: I appreciate there was not a huge response on green taxes, but can you assure me that the Department will consider fully that option in the strand 2 options, not least because of the debates that are occurring across the water?

69. Mr McClure: I specifically mentioned the suggestion of the WWF — formerly the World Wide Fund for Nature. The Minister, who takes the issue very seriously, has already met with that group and has asked the Department to thoroughly investigate that option. There are other environmental options, such as charging for refuse collection, or tax credits.

70. Dr Farry: I do not accept that the nature of the responses demonstrates acquiescence or that people are happy with a capital-value system. There is a slight paradox, in that although people may not be jumping up and down over rates reform, they are jumping up and down about water charges.

71. It is envisaged that water charges will be applied on a capital-value basis, and that the amount of money being raised through water charges — steep as that will be — will be dwarfed by that raised through domestic rates. There is, therefore, still an underlying problem with capital-value charging, and that must not be swept under the carpet.

72. Mr McClure: I agree, and that is why I was careful to say that I could not give an objective answer.

73. Mr O'Loan: What is meant by derelict land? Does that include derelict buildings?

74. Mr McClure: It is unused land or buildings such as old industrial sites.

75. Mr O'Loan: Why is there such a distinction between individual capital valuation — which we have — and the council-tax system of banding?

76. Mr McClure: The big difference is that council tax is a restrained tax: it is artificially restrained so that those at the bottom pay no more than one third of those at the top. Therefore, Band A council tax payers will pay one third of Band H payers — the top band. Council tax is not proportionate, unlike the individual capital-value system. Under the latter, a householder's bill is related directly to their house's capital value, which is not the case with council tax. That is the fundamental difference, but there are other differences such as the application of the banding of values, which allows a restraint to be applied.

77. One might ask whether we would want to apply a restrained tax in Northern Ireland, and if so how it could be done. It would be achieved by applying graduated-tax rates to various levels of value, and views were canvassed on that option. However, that suggestion did not receive a lot of comment, and those who did comment said that it was not an attractive option because of the impact it would have on ratepayers in the lower values. It is not like capping, which would not wash back as much as a graduated-tax system. If rates were to be capped at a fairly high

level, the wash-back to other ratepayers would not be substantial. However, if rates were to be applied through a graduated-tax system, people at the lower end would pay significantly more.

78. Ms J McCann: You mentioned the difficulties in administrating the circuit-breaker system. It seems that the people most disadvantaged by the current rating system are those on low incomes and who do not fulfil the criteria for housing benefit. Pensioners, for instance, may have bought their homes at discounted prices and now face rates that will be based on the value of those homes. If the circuit-breaker system is not a viable option, is there another option — apart from the relief system — that will assist people in that category?

79. Mr McClure: I gave you some of the cons about circuit breakers. However, the option has not been ruled out. Nothing has been ruled out because the Committee has to consider all of the issues before the Minister makes up his mind, and he has expressed an interest in circuit breakers.

80. The intention of the low-income relief scheme was to assist those who are not entitled to housing benefit, but who are just above the threshold for rates relief. The effectiveness of that scheme and its adequacy are also being tested in the consultation. Various thresholds can be increased. Under the current special rates-relief scheme, the increase is tapered. That means that people are able to earn more than the income threshold and still be eligible for relief. It also applies additional allowances for single-pensioner households and pensioner-couple households, and that was something that came out of the St Andrews Agreement.

81. Other measures can be taken, however, such as increasing the savings limit for pensioners. Many pensioners have built up savings for their old age, and those savings are limited to £16,000. The Assembly has the power to say that the special rates-relief scheme should allow for more generous savings. The Lyons report, which looked at council taxes and other issues in England, recommended that savings could be increased to £50,000. The fair rates campaign believes that the savings limit should be increased.

82. There could also be enhanced relief for people with disabilities and for carers. There is a whole range of different options that could be deployed, and the Assembly has the power to do that.

83. Mr Beggs: The short-term decisions that have to be made are the changes that could be enacted before April, and those changes would have to be incorporated into the Budget planning process. There are a couple of issues on the plus side that could raise money — the vacant-property tax and the derelict-land tax. First, have you any figures that show how those changes would impact positively on the Budget?

84. Secondly, you indicated that some of the schemes that have been introduced for rate relief have had only a 50% take-up. What analysis has there been as to why that take-up has been so poor? Have you assessed which groups are not applying? Is it mostly pensioner groups? There is work to be done on those issues. We need to know the cost of, and the timescale for implementing, each of those schemes.

85. Finally, I would like to see a simple, straightforward process for the introduction of those new rate-relief schemes. Ending up with half-a-dozen different forms would be over-bureaucratic, and the advantages of the money saved would be lost in the administrative burden and a poor take-up rate because of the degree of complexity. I hope that you will be able to build in a straightforward, simple process that is easy to administer, that makes it easy for people to apply and that caters for changes in their circumstances.

86. Mr McClure: Your first point relates to factoring some of the schemes into the Budget or the comprehensive spending review (CSR). The derelict-land-tax system would need primary legislation, and it would require all the impact assessments associated with that. That would be a medium-term option; it is not something that could be done quickly. Although the vacant-domestic-property issue could be legislated for fairly easily, there are issues with implementation. While it may be brigaded with all the other immediate strand 1 issues, there would be some operational constraints on its introduction; it could not be done for October 2008.

87. You asked about the revenue that those schemes are likely to generate. We have information on that from Land and Property Services. The University of Ulster is doing some modelling work for us, and rating policy division is doing its own, although that is not yet complete. However, when we looked at revenue four years ago, we reckoned that around £4 million would be generated. That figure could be significantly higher now.

88. The Deputy Chairperson: That report is scheduled to be brought to the Committee on 10 October 2007.

89. Mr McClure: Such schemes may not benefit the Budget immediately as they will fall outside the next couple of years. Thereafter, vacant-property rating —

90. Mr Beggs: Why does it take two years to bring about change? I am astonished; surely some consultation could take place over four to six months.

91. Mr McClure: As I said, it is not the legislative issues that are a problem; we could put together the required legislation this morning to be implemented in time for next year. However, there are operational issues with Land and Property Services. They have to get details about the owners of each and every vacant house in Northern Ireland and charge accordingly, because the taxation system is occupier-based.

92. We have sought advice from Land and Property Services on this issue, and I do not believe that their systems are capable of dealing with that before April 2009 — perhaps beyond that. I will come back to the Committee with a more informed view.

93. As I have already said, the rating policy division in the Department can draw up the regulations, which could be passed through the Assembly pretty quickly. However, the timescales involved with that implementation delay the process. It is very difficult to implement immediately, because it is an occupier-based taxation system.

94. Mr Beggs: I am surprised. I thought that the Department recently had a new computer system installed — at a huge cost. If the Department were a business, it would have been thinking further into the future about its capabilities, and the changes would have been implemented much faster. The speed of change is grindingly slow.

95. Mr McClure: As I said, the rating policy division is responsible for policy, and all it can do is implement the Minister's decisions and draw up the legislation. If necessary, the division can draw up that legislation regarding vacant-property rating in time for April 2008.

96. The issue of derelict-land taxation may require further consultation and an impact assessment, and it will require primary legislation to be passed through the Assembly. That process, at best, could take 18 months but will probably take two years.

97. The second part of the question concerns benefit take-up. We are using information from the family resources survey, and we are working on that in order to identify the potential shortfall in benefit take-up. We believe that it is substantially lower than 50%.

98. There are many and various reasons for people not claiming the benefits to which they are entitled. Those reasons include: a lack of communication; cultural issues; people making the wrong assumptions — a belief that, because they own their house, they are not entitled to benefits, or because they are not Housing Executive tenants. Many people have strange perceptions about that issue. There are also groups that are hard to reach — people who just do not have the right information.

99. The Commons Select Committee on Communities and Local Government published a useful report into take-up of council tax benefit. Much consultation was conducted for that report, and it was analysed in detail. The report outlines some of the reasons that people do not claim that benefit. We will consult that report on the points that are relevant to Northern Ireland.

100. Mr McQuillan: My problem concerns the second homes issue on the north coast. What is the Department's thinking on that issue?

101. Mr McClure: At the moment, the Department and the Minister are in contemplation mode. We are engaging with the Committee, and we hope to have the Committee's views. It is a difficult issue. We have to consider whether that issue, and affordable housing settlements on the north coast, should be dealt with through the taxation system, a system that is currently based on occupation. Views were expressed that owners of second homes should be charged a supplementary rate, or a rate levy; that would be difficult to implement. There are several perspectives for the Minister to consider.

102. On Mr Beggs's point, anything that we do must be as simple and effective as possible, and that philosophy applies to the issue of second homes. Some take the view that, if a levy is not charged for second homes, a discount should be granted to permanent residents. That is another way to look at it. How does one come up with a simple set of rules to easily administer such a scheme? The issue is still on the table for consideration, and we would value the Committee's opinion.

103. The Deputy Chairperson: Thank you for coming. Obviously, a huge amount of work has to be done by the members of the Committee in order to formulate an opinion, and we will be keen to bring those thoughts to the Minister to aid his contemplations on the decisions that he has to make.

104. Thanks to Patrick Neeson and Alison McCaffrey, who had a relatively easy task this morning, and to Brian McClure for answering the Committee's questions. No doubt you will be back to see us in the next few weeks.

105. Mr McClure: Patrick and Alison do all the work back at the office.

106. If any of my answers were inadequate, I am more than happy to fill in the gaps and provide whatever analysis we have on the costs of the various options, the number of beneficiaries and any wider considerations relating to those options.

107. The Deputy Chairperson: Thank you.

Wednesday 3 October 2007

Members present for all or part of the proceedings:

Mr Mitchel McLaughlin (Chairperson)

Mr Mervyn Storey (Deputy Chairperson)

Mr Roy Beggs

Mr Simon Hamilton

Mr Fra McCann

Mr Adrian McQuillan

Mr Declan O'Loan

Mrs Dawn Purvis

Mr Peter Weir

Witnesses:

Ms Lucy Cochrane Citizens Advice Bureau

108. The Chairperson (Mr McLaughlin): The Citizens Advice Bureau has agreed to give evidence to the Committee on the review of domestic rating, and I appreciate the fact that it has responded at short notice. I welcome Lucy Cochrane to the Committee. The session is being recorded by Hansard, and I remind everyone to switch off their mobile phones.

109. Ms Lucy Cochrane (Citizens Advice Bureau): Have all members seen a copy of our submission?

110. The Chairperson: Yes. We also have the case studies that you provided, which are very helpful.

111. Ms Cochrane: I presented that document to the head of the rating division in July. The Department of Finance and Personnel has been made aware of those issues, and we have a close working relationship. If we receive difficult rates cases, we pass them on.

112. I refer to the main points of our submission. One of the biggest problems that we noted in the Rates (Amendment) (Northern Ireland) Order 2006 was that there was no single-person discount. That should have been added to the legislation, because so many aspects of the capital-value system mirror that of Great Britain; yet that was left out. Many people are not eligible for any type of means-tested benefit. They are not eligible for the new relief, or housing benefits for rates, and if they are in a middle bracket for earnings — perhaps on the national minimum wage, or because they are single parents — they will be penalised if they receive a larger rates bill from April 2007. We felt that that issue should be reconsidered.

113. Since our 2006 consultation, there is less pressure from Land and Property Services on our clients. However, in our submission, we mention that there should be an intermediary, such as the CAB or the advice sector, for ratepayers who are struggling with debt. Currently, it appears that, if a person does not pay the bill, he or she goes straight to court, and we feel that there should be more flexible ways for people to pay those bills. There should be more leeway; for example, Citizens Advice Bureau has a partnership with the Housing Executive for tenants who fall into arrears. The CAB advisor goes through their income and expenditure and comes up with a repayment proposal. A similar model may be suitable.

114. Citizens Advice Bureau also pointed out that, although the transitional relief for those who had a substantial increase in their rates bill this year is welcome, it should be more generous. Those with a large increase in their bills are struggling, even given the initial scheme. That has had an impact on those who are not entitled to means-tested benefits, but who are not on a high salary.

115. It is difficult for us to comment on the new rate relief, but I have statistics from the CAB network that I can leave with the Committee. Approximately 20% to 25% of rates issues that have been raised with us are about the new relief, either from people enquiring about access to it, or from those who have made a claim and are waiting to see what has happened. It may take us another few months to examine the trends in the CAB statistics.

116. The main problems that we have identified with rates relief and housing benefit are IT issues. I mentioned in the submission that that is not due to be fixed until 2008. The computer system does not seem to interact correctly between the collection of rates and the payment of housing benefit and rate relief. Consequently, rate relief is being manually processed because the new calculation of that relief does not tie in with the housing-benefit calculations, and people are receiving an award letter for their housing benefits for rates, and a separate letter for rate relief.

117. We want to know why that happened, and what IT infrastructure is in place to prevent it from recurring. Should a central Government Department not have a robust IT system that can handle a sudden change in housing-benefit legislation with the introduction of the new relief?

118. Receiving two award letters has led to confusion and frustration for clients. They go to an advice centre where they are told that they are entitled to a certain amount of benefit each week, and they subsequently receive a letter stating that they will receive a lesser amount, which makes them believe that they have received the wrong information. Then, they receive a letter stating the amount of relief to which they are entitled. One of the first necessary mechanisms is an all-in-one letter that incorporates housing benefit and rate relief.

119. The problems experienced by individuals who are entitled to full rate relief are gradually being sorted out. There are backlogs, and some outstanding cases go back to 2006. However, as far as our client base is concerned, we are over the worst of those problems. We are concerned about those individuals who have not sought help from an advice centre. If they do not have an advocate who can contact the benefits office on their behalf, their case may sit untouched. That concerns us, but it is lucky that some individuals are able to contact the CAB. In view of that, we are running a large benefit-uptake project in conjunction with the Social Security Agency. We are writing to 17,000 clients, and every one of those will receive a full benefits check, incorporating rates, disability benefits, and any income-related benefits. However, we are concerned about those who are outside the CAB access loop or the independent advice sector.

120. Clients' feedback suggests that the award letters are very confusing and unnecessarily long. In some instances, 16 pages of computer-generated letters were sent to say simply that a client was entitled to x amount of housing benefit for rates each week. We have raised that matter with the rating division of Land and Property Services, and it is considering reviewing that process. However, we have not yet seen that review.

121. Ironically, the manual letters that are received by clients who are receiving the new rate relief scheme are succinct and really easy to understand. We wonder why that template could not be used for housing benefit letters. We understand that many letters are computer-generated, and sometimes letters that go out to recipients can be out of our control. However, we would be interested to see how that process could be reviewed.

122. Rating division needs to have access to the Social Security Agency's database that details the other benefits to which a client is entitled. That scheme rolled out with the Housing Executive, so staff can examine clients' other incomes, such as state or occupational pension. That makes the benefit-uptake process faster and more efficient. We see no reason why rating division should not be able to access that database; there should be better communication between the four agencies.

123. With regard to queries, the worst of that problem has been dealt with, as the Committee can see from the statistics that I have provided. However, when people's bills arrived in April and May, there were considerable issues with contacting the rating division. Although I am sure that extra staff and phone lines were available for that period, there must be better planning for next year's predictably busy times.

124. Last-minute changes to the Rates (Amendment) (Northern Ireland) Order 2006, which was amended in April, provide a more generous calculation for people who are over 60. We welcomed the legislation, although we got wind of it only 10 days before it came into operation. That threw a spanner into the works of the Citizens Advice Bureau information system. We were not able to obtain a copy of the legislation, and it was not on the Office of Public Sector Information's website. That made it difficult for us to disseminate the information to our advisers because we had to make last-minute changes to the information database that they use.

125. We simplify the legislation for the advisers for when they, in turn, advise their clients. We would have preferred to have had better notice of the change. It took considerable staff time and resources to deal with that in a short space of time, and we would have been able to change our information system with a lot less pressure had we sooner been informed of the correct legislation.

126. The legislation was introduced hastily here, compared to the legislative process in GB, where organisations are given more notice when changes are made to legislation. In addition, more experienced advisers use maximising software that is bought in, and advisers who worked out the calculations may not have been aware of such changes, because the Statutory Rule had not been passed. Therefore, even the advisers' calculations had to be changed after the review. That must be taken into account if dramatic changes are to be made to the system in future.

127. Those are the main points that have been raised on the benefits system, but I have collated more. The Committee has been given a copy of the case studies up to July, and the main issues that have been highlighted since then include delays in the processing of housing benefit and rate relief. The correspondence confuses clients. One adviser pointed out that clients should automatically be sent a letter when their claim has been received to reassure them that their claim has arrived and that it will be worked on.

128. There is an issue for people over 60 in respect of housing benefit for rate relief and the pension service. Some forms go missing when the pension service distributes them to Land and Property Services. I do not know whether that problem lies with the pension service or with the rating division, but some housing benefit for rate relief forms go through the pension service, but do not end up with Land and Property Services, so that should be flagged up.

129. I turn to the matter of long delays. One of our clients made a claim in January, but the case was erroneously closed. It was not until that client approached Citizens Advice that they were able to investigate the matter. Another client's case had expired because it was made in September 2006, but no one had worked on it, so the case was closed until Citizens Advice contacted the client.

130. The Chairperson: Examples of communication difficulties are reflected throughout the report. Have there been any improvements as the IT system beds in, or is the situation worsening?

131. Ms Cochrane: The Citizens Advice Bureau receives more queries, but I presume that that includes people who make contact through the benefit-uptake programme. However, there has been an improvement in delays because the rating division has been working through the backlog since April. There are outstanding cases, but there is an improvement in the time that

they take to process. However, there will be many new cases as a result of the work of Citizens Advice and Advice NI. We are worried about the backlog building up again, and have expressed concerns because there will be a deluge of fresh claims in the next few months.

132. Mr Weir: Thank you for your presentation and for the points that you have covered. What is the take-up of reliefs? Do you foresee any problems with that? Could any solutions be employed to ensure that there is a greater take-up? One concern is that some people who perhaps fall within the boundaries of entitlement may not even bother to make a claim.

133. How do we get around that problem?

134. Ms Cochrane: Probably one of the greatest obstacles is that people are unaware of their benefit entitlements. CAB finds that the main problem is with owner-occupiers and with people over the age of 60. Most people have found out about benefits such as pension credit — which is additional to their income — but they do not realise that they can get extra help with rates because they think that homeownership precludes entitlement to that. Perhaps simple measures such as promotional materials are needed to dispel that myth.

135. A CAB adviser will consider every scenario with any client who looks for advice. For example, an adviser will check a client's rates. Historically, there has been a slow uptake of rates rebates. There are also additional obstacles — such as gathering data — associated with benefits. Previously, clients had to prove owner-occupation. Many people found it difficult to obtain any kind of paperwork that would prove that they owned their house. As far as the future is concerned, perhaps there should be more publicity that is targeted particularly at older people.

136. Mr Weir: If many problems relate to elderly people in particular, what impact do you think that the recent reduction in the number of pension credit advisers will have? You have said that when advice is given, it often goes beyond advice on pension credits and can include advice on rates relief and other issues.

137. Ms Cochrane: CAB has offices in 30 different locations with numerous outreach facilities. The current benefit-uptake process is the main issue being addressed by all CABs in Northern Ireland. People can approach their local CAB.

138. Mr Weir: If the Department for Social Development's role is cut back, will that have an impact on the CAB's advice role?

139. Ms Cochrane: Do you mean as far as pension advisers are concerned?

140. Mr Weir: Yes.

141. Ms Cochrane: It would be difficult for the CAB to know the answer to that question. We deal with clients who have been selected by the Social Security Agency's anti-poverty unit. Although people make use of pension advisers, the independent advice sector could pick up on that.

142. Mr Beggs: First, you mentioned the lack of uptake of certain entitlements. You have also spoken about long delays, computer systems, 16-page letters, telephones not being answered and the need for an advocate to progress a person's application. Although those seem to be significant reasons that many people might not bother to engage in what appears to be a difficult process, it would be helpful if you could tell us of any other reasons for the lack of uptake?

143. Secondly, you said that you were given very short notice about the exact content of the legislation and how CAB might give practical advice to clients on how it might affect them. Does the Department of Finance and Personnel consult the CAB about the enactment of new legislation so that it will be aware in advance of any ramifications about how it will work in practice for clients and client advisers?

144. Ms Cochrane: In answer to your second question, CAB was fully consulted about the Rates (Amendment) (Northern Ireland) Order 2006. That consultation process took place over a year.

145. Mr Beggs: My question concerns its implementation.

146. Ms Cochrane: CAB knew exactly what the new reliefs would look like. However, the last section of the Order, which deals with people over the age of 60, came into force suddenly. A steering group had worked on the section of the Order that dealt with the age sector. However, a last-minute decision was made. On that occasion, CAB felt that it had not been adequately consulted. Nevertheless, CAB was fully consulted in the overall process for the 2006 Order.

147. In answer to your first question — regarding the way in which people should be told about benefits — when I talk about IT problems and letters, those problems may occur only after someone has actually made a claim. When people make claims off their own bat and do not get an advice worker to fill in the claim form on their behalf, they find that, although the forms have been shortened and simplified, they can still be quite difficult to complete.

148. There are issues about literacy and sensory impairment, and there have been a couple of cases in which people have been nervous about claiming Government benefits. The anti-fraud campaign on the television did not give people much confidence to claim new means-tested benefits. There are not huge volumes of people reporting that, but we have heard of incidents in which older people in particular have been intimidated out of claiming means-tested benefits because they are afraid that there is going to be an overpayment.

149. Mr McQuillan: Has any research been done to identify those people who have not sought help?

150. Ms Cochrane: Several pieces of research have been done, but off the top of my head I cannot name any of them. There was some research carried out by the Office of the First Minister and the Deputy First Minister on that subject. It is difficult to gauge, because unclaimed benefits amount to somewhere between £16 million and £74 million a year, which is a wide margin. There is a great deal of statistics on how many households should be claiming benefits in Northern Ireland. I will get back to you on that.

151. Mr McQuillan: Do you have any idea how we could make people aware that they are entitled to certain benefits?

152. Ms Cochrane: The usual way is through press releases in local and national newspapers, and more publicity, such as leaflets through the door. That is how we promote our services. When everybody got their rates bill in April it was accompanied by an information leaflet on rate relief. It was good to have that, but people need reminding. It may be time for another publicity campaign.

153. Mr McQuillan: Should the Department carry out that campaign?

154. Ms Cochrane: Yes; through the media.

155. Mr O'Loan: Citizens Advice is an important organisation; it is perhaps uniquely well placed to provide information on how people are responding to the changes in the system. I welcome your submission, and it strikes me that you have made several new points. It is important that that information goes to Land and Property Services. I am pleased to hear that your organisation has a good relationship with Land and Property Services; that is important.

156. The rates bills generated a huge volume of enquiries, and as time has passed, you have commented usefully on a number of matters that need tidying up, shall we say. What is your overall assessment of the management of this substantial change in the rating system?

157. Ms Cochrane: You will note that we did not have any criticisms of the relief per se. It is great that the benefit has been improved, and we welcome the new reliefs, although we did suggest that there needed to be some tweaking in certain areas. Overall, there should have been better planning, as I said earlier, to deal with the increased volume of calls in April. This year was different, because although some people's rates were reduced, many other people experienced a rates increase. A lot of people were confused; they did not know who to contact about, for example, the capital value of their house: should they phone the valuations division; should they phone the rates division? There should have been more hands on deck to handle those queries.

158. Our biggest issue was the problem with the IT system, which has still not been resolved. Since I last met them in July 2007, staff in the rating division have been working round the clock to clear the backlog. However, cases are still coming through — Rome was not built in a day. The rating division did not promise that the backlog would be cleared overnight. Everyone is being realistic, but the situation could definitely have been handled better. Those in the higher echelons of Land and Property Services should review their IT system to ensure that it can handle the volume.

159. Mr O'Loan: That is a useful answer to which, no doubt, Land and Property Services will listen with interest.

160. You have suggested a couple of extra reliefs, such as an automatic 25% discount for all single-person households.

161. Ms Cochrane: Yes, as is the case in GB.

162. Mr O'Loan: You have also suggested an extension of the disabled person's allowance to all cases in which people are on disability-related benefits — and I assume that disability living allowance (DLA) is the primary benefit. Do you have any costings for that, or any view on where to place the burden of cost? Would you spread it across the rest of the ratepayers, or should that income be foregone?

163. Ms Cochrane: That is a difficult question.

164. A Member: It is meant to be.

165. Ms Cochrane: The main theme of our submission is the availability to pay. Since the change in legislation, the disabled person's allowance has been restricted, which means that new claimants can no longer avail of certain forms of assistance, such as when having central heating installed. Therefore, many people will miss out.

166. We welcome some new measures, such as those over the age of 60 receiving a higher applicable amount. We presume that a pot of money will be set aside to balance any automatic

reduction in rates. Although the reductions would not be means-tested, we presume that a bank of money from ratepayers would accommodate them.

167. Mr O'Loan: There appears to be an error in your report, regarding the consequences of the next valuation for domestic rates. This is important, because it is not generally understood that, should every single valuation double, rates bills will not necessarily double, or even increase at all. If capital valuations increase in one part of Northern Ireland and decrease in another, the rates burden will be spread accordingly. However, it is important not to convey the impression that any inflation in house prices will automatically lead to inflation in the rates.

168. Ms Cochrane: Does that mean that the current capital valuation system, for as long as it is in place, will not be reassessed based on the capital value of houses in 2010?

169. Mr O'Loan: When all the valuations have been completed, a decision must be made as to how much income is to be sought from the rates. A simple doubling of every individual house valuation does not necessarily lead to any increase in the rates bill for those houses.

170. Ms Cochrane: Our understanding is that all properties will be reassessed and that therefore, there will be some increase in the rates.

171. Mr O'Loan: It is important that a body such as yours does not convey the wrong message to the public, who already have a right to be fearful about an increase in rates.

172. Mr Weir: If I may introduce an analogy, it is similar to reassessing how to slice the same cake. Perhaps if house prices have risen faster in certain areas than in others, they may contribute a larger slice. However, the overall size of the cake would be exactly the same in any reassessment.

173. Reassessment does not mean that there will automatically be a particular change: any change would be relative to an area. Those areas in which there had been a greater increase in house prices would be badly affected. However, under those circumstances, areas in which there had been a lower-than-average increase in capital values would benefit from a reduction in rates. That is the nature of reassessment.

174. Mr Weir: No; rates will rise in some areas and in others they will decrease. That will happen as a result of any reassessment. The consequences would be revenue neutral.

175. Mr Beggs: For example, a council would not necessarily spend any more money. Therefore, the issue is about how the money would be raised. The regional rate might be different.

176. Mr F McCann: Some of my questions have been answered already. However, I want to pick up on a point that was raised earlier. You said that fairly good consultation has taken place recently between the Department and Citizens Advice on rolling out the new system. However, you also said that there are still major difficulties in trying to contact people to explain the workings of the system. There is a lot of experience in the voluntary sector; and as that sector will have to pick up the pieces, should more consultation take place before the schemes are rolled out to establish what form they should take and how they will work best so as to minimise any difficulties?

177. You also said that around 17,000 cases have been dealt with by Citizens Advice. I agree that the older people get, the more terrified they are of forms, and many will throw them in the bin rather than read them. Would you agree that a better-resourced outreach approach for people who may not visit offices might be a better way to tackle the issue?

178. Ms Cochrane: Are you referring to outreach services from the rating policy division?

179. Mr F McCann: No; I am talking about the voluntary sector.

180. Ms Cochrane: Outreach workers already make home visits to people who cannot make it to one of our offices, and they also provide outreach surgeries in health centres, and so on. Therefore, a significant amount of consultation does take place. There are quarterly meetings with rating policy division, which includes representatives from the entire voluntary sector.

181. The Chairperson: Who attends those quarterly meetings?

182. Ms Cochrane: Age Concern, Citizens Advice, Advice NI, Help the Aged, the Housing Rights Service and all the main charities that deal with advocacy on rates; housing benefit for rates and collection of rates. Housing associations are also present.

183. The Chairperson: Has that proved to be an effective forum in which to iron out the kinks in the system?

184. Ms Cochrane: It is a good way to exchange information.

185. Mr F McCann: Have all of your suggestions been taken on board?

186. Ms Cochrane: The meetings are based on action points. Therefore, although they provide a forum for the exchange of information and discussion, much is taken away and raised again at subsequent meetings. As the last meeting with rating policy division was in July 2007, another meeting is due. Would you remind me of your other question?

187. Mr F McCann: It concerned resources and outreach, which is more of an issue for those who live in rural areas. Would it be beneficial to have better outreach resources to help people who have difficulty travelling to offices?

188. Ms Cochrane: In 2003, much of the benefit system changed with the introduction of pension credit, and advice-sector staff were given welfare-reform posts. Perhaps the model should be revisited, and consideration given to funding. Consideration could also be given to the employment of independent advice workers to cover large areas, such as Fermanagh and Tyrone, where many people may be isolated. People in the advice sector would certainly welcome that.

189. Mr F McCann: Are contact numbers provided for the Citizens Advice, or one of the other advice agencies, on housing benefit and rate-relief statements? That would allow people who may not be able to deal with issues themselves to contact one of those services directly for assistance.

190. Ms Cochrane: As far as I am aware, the statements tell people that they may wish to take advice; however, the statements do not provide phone numbers. It must be borne in mind that there are around 30 CAB offices and around 60 independent advice offices. I am not sure how that problem could be overcome with one dedicated phone number.

191. We have a dedicated phone number for our uptake project, as does Advice NI, but that is merely to refer callers to their nearest advice worker. That is a big obstacle. Perhaps we should produce a flyer that lists all the office telephone numbers, which would be sent out with any correspondence.

192. The Chairperson: The new NI Direct system provides for a single access number. There might be a facility whereby your telephone numbers might be incorporated into that programme. That would serve as an agreed contact point, at least initially, and then people may be referred to a more localised voluntary organisation or agency.

193. Mr F McCann: There is a target audience — this issue affects mostly the elderly, and that is the audience on which you could test it.

194. The Chairperson: Thank you, Lucy, for your evidence and for your comments, which the Committee will consider in the context of other information that will be brought before it. You have been most helpful. Keep up the good work.

195. Ms Cochrane: Thank you.

10 October 2007

Members present for all or part of the proceedings:

Mr Mitchel McLaughlin (Chairperson)

Mr Mervyn Storey (Deputy Chairperson)

Mr Roy Beggs

Dr Stephen Farry

Mr Simon Hamilton

Mr Fra McCann

Ms Jennifer McCann

Mr Adrian McQuillan

Mr Declan O'Loan

Witnesses:

Mr John Simpson Economist

1. The Chairperson (Mr McLaughlin): I respectfully remind members, witnesses and those in the public gallery that because the session is being covered by Hansard, mobile phones must be switched off as they interfere with the recording equipment. To put them on silent is not sufficient.

2. I want to thank Mr John Simpson, who has not only agreed at short notice to attend the meeting, but has also prepared a useful paper, which members will find at tab 3 of their packs. Mr Simpson, you are very welcome. Everyone knows who you are at this stage. I invite you to speak on your paper. Afterwards, members will, perhaps, respond to some of the issues that you have raised.

3. Mr John Simpson (Economist): Thank you, Chairman. At last week's meeting, I was sitting behind a senior civil servant who was explaining the proposals. Today, he has done me the honour of sitting behind me. I feel as though, if I speak out of turn, there may be a sudden movement behind me.

4. The Chairperson: I will try to give you advance warning of any movement behind you.

5. Mr Simpson: I have examined the options that have been put to the Committee as possible areas for discussion. I appreciate that they come in three categories and that the most immediately significant are those in strand 1A. Since the Committee's advice, and strand 1A's acceptability or otherwise, to the Ministers will be critically important during the next couple of

months as the administrative arrangements for any changes are made, I find it helpful for myself — so be it, you may say — to think about what principles I would apply, given that people have suggested several options.

6. The first is negative; I have avoided turning a discussion on variations in domestic rates into a form of debate about social merit on issues that lie outside the question of how to raise enough finance under a uniform and generally accepted rating system. I find myself back at the statement that rates, as they are now organised — indeed, as they were organised under the old system, but much more clearly under the new system — are a form of property tax. The main constraint that should be applied to property tax is whether it is being applied as reasonably as can be humanly devised, so that it relates to ability to pay. In an ideal world — although, I do not know what would make it ideal — ownership of property of a certain value would indicate the ability to pay a certain value. However, life is not like that.

7. There is no equation that brings the two together.

8. However, I question, with some respect, the notion that rates are the hybrid form of taxation. The word “hybrid” enters into the discussions when it is argued that people pay rates in order to pay for their services. In fact, there is little relationship between the rates bill and services to the individual or the individual household. If a property tax were turned into a payment for services, it would cease to be a property tax. A much more complex and difficult formula would have to be devised. The link between rates and services are, at best, indirect. Each individual may make more or less use of certain services, so it is hard to trace the impact of that and how much property tax they should pay. That is a subjective opinion and I respect the different views of others on the matter.

9. The second point on the options that are offered is that any changes that the Committee recommends should be revenue neutral. I am not sure whether that is stated anywhere, but I presume that it is implicit. Neither the Department nor the Minister would appreciate the Committee putting forward a compelling argument that its total revenue from rates should be 20% lower than it was last year. The options should be revenue neutral so that if money is taken from one place, it will be put back in another place. That other place may be that everyone, on average, pays a bit more. In each case, where change is suggested, there must mentally be the impression that an offsetting calculation has been made somewhere else.

10. Staying away from any personal preferences, which might have influenced some of the answers, I considered the Committee’s strand 1a changes. I have presented you with a piece of paper that is longer than I thought it would be when I started on it on Saturday afternoon. I will not tell you when I finished it.

11. As you know, the decision to put a maximum cap on property value of over £500,000 was made at the last minute last year. The reasoning for that was that Ministers did not want an excessively large rate bill for people that owned a major property valued above £500,000. The present cap should be retained because £500,000 is the value of a property three times that of the overall average property in Northern Ireland. If the cap were reduced to below three times the average property price, it would reduce the spread, change the impact and make the system a bit more regressive. I use the words “regressive” and “progressive” in the tax sense of the word, rather than in the words’ emotional sense. I recommend to the Committee that the present cap should be retained.

12. There is no good argument for excluding vacant domestic property from rating. One possible argument for its exclusion is that, when people change where they live, they do not want to pay rates twice — once on the property that they are leaving, and once on the property that they are going to — if it takes some time for the market to clear one property off the books. That is not

seen as fair, based on their ability to pay. Therefore, I suggest that there should be a time between the property falling vacant and it becoming rateable. A discretionary decision should be made on the length of that time. I thought of six months as an initial period, before the charges would weigh in and I ask the Committee to consider whether the charges should weigh in at 50% of the total.

13. The third area is that of changes to the current rate relief scheme. The scheme is a method of ensuring that the people on low incomes can cope with the ability to pay.

14. The changes to the rate relief scheme should help those who have incomes that are just high enough to be outside the band, and are ineligible for housing benefit. The taper provisions are a useful method of getting a reduction in rates for those low-income households, and I have no difficulty in seeing them maintained because they indirectly reflect an inability to pay.

15. All of us are inclined to say that a pensioner household should be treated differently. Pensioner households are just as capable of being affluent as they are of needing extra income. Therefore, simply because someone is a pensioner does not necessarily make them eligible for consideration for rate relief. As the Committee will see from my paper, I suggest that the maximum allowance, for savings that enter the means test for low incomes, is raised. The Government's paper, the Lyons Review, suggested that the figure should be £50,000.

16. The next issue is education relief, which I have shortened to rates relief for students in my notes, but the two amount to the same thing. The Committee will know that that is not the most popular provision in the present system. Certainly, I hear more people comment on it than on other provisions, partly because they misunderstand the theory — which is that it should be administered through the landlord, and therefore exemptions have to be made — and partly because there is not that much sympathy for students. If an administrative system is devised that makes students liable to pay domestic rates for properties where they are tenants for a short period, the proportion of bad debt and non-traced debt will be very high. Therefore, it is best to leave education relief alone. As it has been in operation for a year and begun to settle it down, possibly we should test it for another year.

17. The deferred payment scheme for pensioners is, socially, a very acceptable idea, which will very rarely be used. The scheme is on the statute books, or the equivalent, and should be left alone.

18. The present discount for early-single payment of the annual charge should be retained as it offsets the interest earned on getting money in advance.

19. The existing transitional relief scheme — where there was a two-thirds remission off the increase in charges — is being re-profiled to a one-third remission from next April. That scheme was designed to phase in people whose rate bills were going to change sharply. That adjustment is over a three-year period, which, it could be argued, is fairly quick. If water charges were being implemented on 1 April next year — I am sure that the Committee has not expressed a strong view on that, although some of its members may have individually — then there might have been a case for phasing them in over a longer period. If, as I understand, water charges do not commence on 1 April 2008, the steps that have already been ordained should be kept in place so we can get where we want to. If we are involved in these extra charges, we might wish to say that the system is now there for personal benefit.

20. Looking at strand 1B, the graduated-tax system can be argued for from both ends of the spectrum. People who are paying higher rates may advocate a graduated system so that when a property is worth more, the rate decreases. For low-income households, on the other end of the spectrum, start on a low rate and let it go up as the property becomes more valuable.

21. I suspect that there is some equity in the argument, but this is not yet an option on which we are ready to make a firm decision.

22. As to the single person discount, in paragraph 19, my last sentence is:

“There seems little justification for this concept.”

23. What is the equation that this makes? Does a single person have a lesser or a greater ability to pay than a couple? As someone living alone, I am frequently told that I have more ability to pay. It is not an argument that I appreciate. A person's single status has no bearing on their ability to pay.

24. The next possibility is that of a single pensioner discount, discussed in my paragraph 20. I am more sympathetic to that and I wonder whether the Committee might consider a system with such a provision. However, the single pensioner household should be the unit, rather than a single pensioner. After all, rates are paid on a household. If two pensioners are living together in a household, does it mean that they have greater ability to pay than a single pensioner household? I suggest, tentatively, that that might be the case where they have inherited property. There might be a case for phasing down the rates bill for pensioner households where there are no other adult earners. That is important. If a pensioner lives with an adult family, and they are earning, that alters the nature of the household.

25. Automatic pension discount is covered by paragraph 20.

26. The disabled person's allowance, considered in my paragraph 22, was introduced because the property might be more expensive to provide and might command a better market value at a later stage. I do not accept the second part of that argument. I have seen few cases where that might happen. On the other hand, there is a logic to making some sort of allowance where someone has incurred extra expenditure and there is disability. I looked at the responses to the consultative paper and I see the argument clearly. However, the difficulty lies in deciding where the line should be drawn. Would any one of us like to have to set the rules for the issue of the blue pass? Where would you draw the line — especially if it were not physical disability? Degree of incapacity arises. I suspect that extension of this allowance base would require some consideration of what qualification should be applied; of what persons we would deem to be disabled. It sounds as though I am being unsympathetic; but this is a difficult area. If I broke my ankle — touch wood — and it was to be six months before I could walk again, should I then qualify as a disabled person? I do not think so. It is not an easy issue; though emotionally, the appropriate response is clear.

27. I turn to the issue of a circuit-breaker. I understand why people might want to put a cap on rates as a proportion of a person's income. However, until we have some evidence that there are unusual circumstances, I do not think there is any immediate case for a circuit-breaker. Until that evidence emerges, I do not know what figure we could suggest for a circuit-breaker.

28. As to the issue of a discount for farmers, I draw the Committee's attention to the argument that has been made in the consultation. I accept what has been said by some of the farming interests, that a building used as a farmhouse is not of the same market value as an ordinary non-farming dwelling. A discounted figure might well be appropriate. The planners argue that that is already reflected in the capital value. I am not sure. Those members who have experience of rural areas will tell me whether or not that is fair comment, coming from the people who have issued planning permission for various farm houses.

29. I am not sympathetic to a discount for owner-occupiers. I do not know what the difference is between an owner-occupier and a non-owner-occupier. Paragraph 25 introduces, in some of the

consultative responses, the question of second homes. I do not have a formula, other than if anyone has a second home they should pay full rates on it. Some people who have a second home which is a holiday home will argue that they should only pay rates for the period during which they are in residence. That suggests that they are paying for services, rather than paying a property tax.

30. I have no sympathy with the notion that a holiday home should have a reduction in rates. If I could have a watertight definition of a holiday home, I might even be prepared to suggest how to put a premium on it, in order to deter multiple ownership of houses in a society that does not have enough houses.

31. Rates credits would be linked to climate change and green policies. I do not think that we have enough evidence as to how we might do that and the way that it should be done. The Assembly will soon have to talk about a climate change law. If the Assembly can find a way to word that legislation, and to do it in a way that the difference between devolution and UK policy is clear, then it might well be worth considering. However, my answer is that it is pending — come back to it another day.

32. In relation to strand two, I am against the banding of capital values as in the English system. Our system is much fairer: we do not get people in the middle of a band who would otherwise be at either the bottom or the top, and those bands are quite wide. Our system, by taking the capital value straight, and charging rates on it, is fairer: it takes us into the problem we started with about whether there should be a maximum cap: it opens that door. Banding is a useful piece of evolution, but we did not end up with the English system.

33. A local income tax is an option that merits further study. I do not know whether any political parties are espousing that option.

34. Dr Farry: I am brave enough.

35. Mr Simpson: However, the point arises that if we get to a position where we need to supplement local revenue, and rates are considered to be or are subjecting too high, then the possibility of a local income tax to supplement or replace the regional rate is a mathematical possibility. I would forget about a local income tax to replace district council rates: it would be too difficult. However, if you want to substitute one source of revenue for another, the equivalent regional rate from the local income tax — or part of it — might be on the agenda for further study. That also answers the question of income tax varying powers, because whether it is local income tax instead of, or whether it is with a few pence one way of the other, it would come from that study.

36. It is interesting that road charging should be brought into the discussion of changing rateable value. Nevertheless, I suspect that we are all instinctively looking for ways in which to reduce congestion. For example, the present planning policy in Belfast is simply to try to reduce access for cars by denying planning permission for new car parks. All sorts of people tell me that if they had planning permission they could build car parks and they could pay off the capital handsomely. However, the planning provision stops them from building car parks. That is not very logical, and it is not charging according to what the market would like to happen.

37. There is an interesting planning issue. Retailers in the city centre who want to provide free parking are being told by the planners that it cannot be done. They would prefer that the retailers did not have free parking so that the customers would have to come into the city by bus. However, the answer to that would be out-of-town shopping centres. We have all heard the debates about the shopping centres at Sprucefield, Antrim and Holywood Exchange. For a city that does not have peripheral shopping centres, Belfast is not doing badly. I do not know the

situation in the north-west, although I think that there are one or two shopping centres there as well.

38. The Chairperson: They certainly shape up.

39. Mr Simpson: The next issue is green taxes. If a green tax were to simply tax waste and rubbish collection, then we could all work out whether we were being asked to pay a tax to have our rubbish collected. Would there be any incentive to reduce the amount of rubbish that went through the official system? The fly-tipping syndrome would be a major problem. Could it be policed?

40. Waste disposal costs will be significant. Most of you are in local government and will be aware of that. As I have suggested at paragraph 31 of my discussion paper, further work should be done on exploring other practical options.

41. The Chairperson was present at a meeting at which the secretary of the land value taxation campaign made his interesting case about land value taxation. It is a radically different approach and will have some effect on the property market. The campaign group's concept is worth studying, and to save boring the Committee even further by commenting on it, members may access, on the Internet, an interesting paper that the secretary has produced in response to the consultation.

42. With regard to derelict land taxation, land that has become derelict should be rated at, at least, the capital value of the site. We must accept that and build in an incentive to prevent derelict land lying idle. There is another issue around what happens to land values when planning permission is granted and the owner decides to hold the land — I think that that is known as land banking. Is it sensible to suggest that any land on which planning permission has been granted but which is not developed within one year, for example, should be rated as if the planning permission had been implemented? There is the route to unpopularity.

43. The Chairperson: You might be right. I appreciate your full response, Mr Simpson, especially since you were given such short notice.

44. Dr Farry: Thank you, Mr Simpson, for your presentation, and I apologise for being late. My first question relates to the overall trends in tax policy. You, rightly, said at the beginning of your presentation that levied taxes are put into a separate pot, and that they are not directly related to a particular service, use or delivery. Is there a trend, first, towards some hypothecation of taxes, and secondly, towards green taxes — which are very much on the political agenda in Great Britain, if not here — so that a household's taxes will be linked to its consumption rather than all individuals or households being taxed the same, regardless of their consumption.

45. Mr J Simpson: The Government do not usually like hypothecation of taxes because it reduces their freedom to deal with all their revenue and to match the demands on that revenue. Over the years, members will have heard suggestions of hypothecation of money paid for using roads to go back into building roads, and there have also been occasional arguments that hypothecated taxes should be used to run the Health Service. Governments have always resisted that, and the Opposition has never said otherwise, because it reduces discretionary decision making. That does not take away from Dr Farry's second point about taxation being imposed to achieve policy results. For instance, owners of cars with high carbon emissions have to pay a high tax, rather than all cars being taxed the same. The argument that the taxation vehicle licences on cars should be phased across the scale of their emissions is saying to consumers, "you want to have a car that burns a lot of carbon, so you will pay for it". The rest of us will trade down so that we will not have to pay the higher car tax. We will see more of that.

46. Yesterday, a paper was produced alongside the Chancellor's pre-budget speech on the next steps for implementing climate change. It is clear that the Government are talking about increasing regulation, legislation and charging, and those three measures point towards environmental changes. The Assembly will have to consider the delegated or devolved aspects of those measures.

47. Dr Farry: My second question relates to the local income tax model. I am conscious that there is speculation that the Executive review into water charges is proposing to shift that burden on to the rates.

48. The debate over rating reform has been fairly quiet compared to that on the controversial water charges, although, paradoxically, water charging will raise less money than the regional rate. If a shift takes place, there will be concern about the ability to pay. The issue of local income tax will become more topical and relevant, and the Assembly will need to discuss it.

49. The Alliance Party is making a case for local income tax, but it is trying to differentiate between replacing both the regional rate and district rate — a line that your paper seemed to follow also.

50. I am concerned that the debate has been framed around the argument that local income tax will be bureaucratically difficult to implement, because there are so many district councils. However, there will be much fewer bureaucratic difficulties in replacing only the regional rate with a single rate for all of Northern Ireland. What other impediments or difficulties do you see for implementing such a policy across Northern Ireland?

51. Mr J Simpson: If Government could manage to charge a variation in income tax across all tax payers in Northern Ireland, when employees get their pay slips at the end of the month there would be a box that details the percentage of Northern Ireland levy, or whatever it would be called. That ought to be straightforward. However, there are difficulties. For example, the Inland Revenue would have to agree to deal with the self-employed as a special category — they could not simply use the same formula as that for computerised pay packets.

52. As it would be an income tax, I presume that the Assembly would have to consider the complications arising from unearned income. That is not a huge problem in itself, but equity might cause major problems. For example, would people be able to shift their unearned income, so that they appeared to earn it in Birkenhead instead of Bellarena? I presume that the citizens of Bellarena would fall into that category.

53. Dr Farry: There are international examples. In the United States, different states have a local income tax to supplement the federal income tax. Presumably they have mechanisms to prevent money being shifted from one state to another in an effort to avoid tax?

54. Mr J Simpson: I cannot answer that question. However, if a person works in location A, he or she will be pinned down. The United States also impose sales tax on goods crossing state boundaries, which we would find difficult to deal with also.

55. Mr O'Loan: The paper is admirable for its clarity, and there is little in it that I would disagree with. It will be very useful to the Committee. I want to ask two questions. First, it has already been said that water charging will have to be factored into the debate. If I am allowed to refer to it, I hear that the Hillyard report —

56. The Chairperson: Do you mean that water charging or water reform must be factored in? I am just clarifying what the SDLP is saying. [Laughter]

57. Mr O'Loan: One hears that the Hillyard report might make some reference to charging for water as part of the over all rating system and hypothecating it. Is John extending the argument against hypothecating that revenue?

58. Secondly, John said that a deferred payment scheme for pensioners should continue as it is, and I would like clarification on that. I thought that there was legislation to allow such a system to exist, but there is not.

59. Mr J Simpson: You need to talk to the Department of Finance and Personnel about that.

60. Mr O'Loan: We will do that, if we get a chance.

61. Mr J Simpson: The Assembly has critical decisions to make on water charges at the top, middle and bottom. I am not suggesting that water should be privatised — I am not even hinting at that — but is it a trading entity that ought to have built-in incentives, so that it provides water at economic charges and raises revenue in some way to match that? Also, how much capital should it have? It is easier to envisage water as a trading entity, even publicly owned, on the same basis as other utilities. Would we ever have suggested that electricity should not have been a trading entity, whether it was state owned or privatised? It is capable of the normal commercial practice of trading. Then there is the matter of where the revenue comes from. I understand that it almost looks as though we are saying that that will be hypothecated. I would have suggested keeping away from the central Government pot, as it can trade in its own existence, as a nationalised industry.

62. The Committee for Finance and Personnel and other Committees will deal with the question of whether we already pay for water through rates and taxation, but mainly rates, because the taxation rate is the same as across the pond. The answer is that we pay for water partly from revenue that we raise ourselves, for example, through rates, and partly from the degree to which we do not raise all the revenue that we need for all the services that we want. Therefore, it is possible to argue that some of the current payment for water comes from Westminster providing subvention to Northern Ireland. Civil servants who are dealing with those issues run into difficulties, because the Barnett formula makes no allowance for water. In England, water is not the responsibility of central Government. Therefore, as the years go by, if we tend to use some of the funding that comes to us under the block grant to fund water, we will actually reduce our ability to maintain other services. Mr O'Loan's question raises fundamental issues, and there is no easy answer.

63. Mr Beggs: The discussion paper is very useful. It is clear and provides practical outcomes as to why some issues would — or would not — work. However, with regard to rating vacant domestic property, you suggested there should be a six-month holiday and a six-month ramping period, shall we say. Why did you suggest the free period of six months? There could be a danger that holiday-home owners could simply declare that their holiday homes were vacant for six months, which would, therefore, get round the second home issue. Do you accept that there is an issue to be dealt with there?

64. Mr J Simpson: If I were to go out today and buy a holiday home and leave it vacant until next spring, I would not pay any rates until I went to live in it for a fortnight next easter. That is a good question, so how do we get round that?

65. Mr Beggs: Why should that rate-free period last as long as six months?

66. Mr J Simpson: Six months is an arbitrary figure. If someone is buying and selling a house, six months is a long time for an overlap, but I was allowing for hardship cases. The logic of your argument is to simply make that period six days, but it is about compromise. I suspect that if a

home was bought and left vacant for some time to exploit the legislation, it would be difficult to get round that. Some policing of statements of intent would have to be in place. Occasionally, some revenue would be lost.

67. The Chairperson: I can imagine estate agents offering six months free rates as part of their packages.

68. Mr J Simpson: You can just imagine that.

69. Mr Beggs: My second question relates to the taxation of derelict land. I see advantages, in that it will stop land banking and encourage redevelopment, but are there any negative aspects, and why has it not been introduced?

70. Mr Simpson: The negative aspect is that developers will not like it.

71. Mr Beggs: They might actually develop or sell the land.

72. Mr Simpson: If land with planning permission was rated on the assumption that it would be developed in accordance with that permission within a year, developers would still buy the land but would not apply for planning permission. They would pretend that it was their intention to go into intensive farming. That is human nature.

73. Mr Beggs: Should some form of taxation be imposed in zoned areas that are part of an area plan? Sizable areas in my constituency were zoned for housing more than 20 years ago; however, it is only now that planning applications are being submitted. Consequently, a lack of houses has resulted in a distortion of the housing market. Is there an argument for taxing land that is included in an area plan, even though it may not have planning permission?

74. Mr Simpson: One suggestion is that, as soon land is zoned, it is deemed to have planning permission for residential development. However, the zoning order would have to specify a specific use, although, I believe that commercial or residential use is specified when land is zoned.

75. Interestingly, when an area plan is currently being developed, many land owners attempt to have their land included in that area. If the local authority were then to suggest that, from the following 1 April, that land would be rated in accordance with having planning permission for 1000 houses, there would be a problem with equity.

76. Mr Beggs: Finally, do you accept that there is a cultural difficulty with pensioner-rates discounts and exemptions? Some pensioner households are fearful of applying for other benefits, believing that, once a rates discount has granted, those other benefits may be reclaimed. Perhaps, an automatic system would be preferable to one that is means-tested.

77. Mr Simpson: I agree with Mr Beggs. If a phased non-means-tested rates-discount scheme for pensioner households were to be introduced, as described in paragraph 20 of my discussion paper, its age qualification requirement would result in the ages of householders being registered, which would, in turn, negate that reluctance to apply.

78. Mr Beggs: Should a system not be capable of recognising that the payment of a pension indicates the residence of a pensioner; therefore, minimising paperwork?

79. Mr Simpson: Yes, the people who run the social security system, which pays old-age pensions, could, if authorised, inform the valuations office of pensioners in specific areas.

However, one should bear in mind that social security offices would not necessarily know if adult offspring were living with their pensioner parents.

80. Mr McQuillan: Thank you. Mr Simpson's paper was interesting, written in plain English and easily understood, which is important for such a subject.

81. I have questions on two issues, which are similar to those highlighted by Roy Beggs. I am sure that members are fed up hearing me harp on about the second-home issue; however it is important to my constituents. Even paying full rates on a second home is not enough. People in places such as Portballintrae want something that will deter the purchase of second homes, and having to pay full rates would not do that.

82. Secondly, on the issue of land banking and a land-value tax, sites are sometimes sold for four or five times their normal value — even without being developed. There are areas in every village in Northern Ireland that are eyesores because properties have been knocked down, or are falling down.

83. A similar situation exists in Portstewart, where developers obtained planning permission as long as 10 years ago, began building and then left the site unfinished. The planners cannot touch them, nor can the council. That situation must change, and some sort of tax might be the answer.

84. Mr Simpson: There has been a move towards treating a property as having been developed even if has not been completed. I know about one of the sites in Portstewart to which Mr McQuillan referred. There is a problem there, and the sort of changes that have been mentioned might help. What was your first point, Mr McQuillan?

85. Mr McQuillan: It was about paying full rates on a second home.

86. Mr Simpson: I do not know how to solve the problem of second homes. Do we want a social policy that would deter people from buying second homes? I shall not embarrass them, Chairperson, but there may be some members at the table who have a second home.

87. Mr Hamilton: Or three.

88. Mr Simpson: Does that mean that we believe that owners of second homes are being antisocial? As long as the housing market allows freedom to purchase — provided the buyer has the means to pay and does not take out an excessive loan that bankrupts the local building society when he is unable to pay — I cannot, for the moment, think of a better method of deterring the purchase of second homes. In Portballintrae, perhaps, the introduction of a weekly £100 community charge would protect those second homes that are lying empty.

89. Mr McQuillan: If that was workable I would be on for that.

90. Mr Simpson: Would you have permission? [Laughter.]

91. Mr Hamilton: Mr Simpson's discussion paper touches on the issue of ability to pay. A local income tax, which, on the face of it, might seem to be a simple solution to the problem that rates bills do not take account of ability to pay, also fails to address the situation faced by young working families or wealthy pensioners sitting on a large amount of equity with unearned income going somewhere else. Capital value has been introduced as a method of rates assessment, and the pay argument is related to that. What are Mr Simpson's views on capital values as a method

for establishing rates levels? Is there any merit in that? I note that in paragraph 7 of his paper Mr Simpson mentions the outdated net asset value (NAV) system.

92. Mr Simpson: In simple terms, the switch to capital values is in place. It should not be very different to the old NAV system, because rates, if they are assessed in an up-to-date market, should correlate strongly with capital value. The reason why they did not correlate was that the NAV system had become outdated. It was not because it was bad in principle; it was just not up-to-date. Secondly, NAV was invented in an era when the majority of houses were rented. Today in Northern Ireland, 70 of our properties are owner-occupied. I read, to my surprise, the other day, that the rate of owner-occupation in Northern Ireland is higher than that of any comparable region in the United Kingdom.

93. We are stuck, therefore, with capital values. We do not want another evaluation under another system now, unless you have a plan for making a radical difference. Later on, when more evidence is available on climate change, we may be able to talk about how to adjust capital value for the degree to which a property is environmentally-friendly. The Members of the Assembly will legislate on the environmental requirements of properties in the next few years, and then we will have to take those adjustments into account.

94. The Chairperson: Mr Simpson, you only briefly referred to the circuit-breaker mechanism in paragraph 23 of your discussion paper. Did you consider that to be a more effective response to the issues? There were various sub-categories, such as disabled people's allowances, and single-pensioner allowances. You did say that there was insufficient data.

95. Mr Simpson: I would hope that those who were responsible for organising the family household survey, or whatever it is now called, would build questions into the next series of surveys on the levels of rates that householders are paying, so that they could be compared to declarations of income.

96. I do not think that any of us have a clear idea of how the average rates bill compares to income. The average would not be so important, but, going by the average, I do not think that any of us have a clear idea of the distribution. How many households have a rateable bill that costs a disproportionately high percentage of their income? I do not think that any of us can know that, even when we allow for the fact that households claiming housing benefit will not be included. We need evidence, but it has not been collected yet.

97. The Chairperson: I referred to that approach because, from this remove at least, it seems to offer a less bureaucratic and complicated means of reflecting the matter.

98. Mr J Simpson: Far be it from me to point out difficulties where you see simplicity, but can you imagine if we said that rates would not constitute more than 3% of income? The question would then become how income is defined. People would ask whether they could deduct from their income hire-purchase charges or mortgage payments. It is by no means easy to have a single rule. It is not a matter of taking the rates bill and annual income and putting one figure over the other to get a calculation.

99. However, I appreciate your sentiment. That is why I would like the family household survey to begin to give us evidence in the next year or so, so that next time the Committee carries out this exercise, somebody can point out that there are a small number of cases with which there is a particular difficulty that had not been spotted.

100. Mr McLaughlin: Thank you, Mr Simpson; that was very helpful. The Committee will obviously pay close attention to the information that you gave us as part of its ongoing deliberations.

101. Mr J Simpson: I thank the Committee for the invitation.

102. The Chairperson: John, I want to make one last point before you leave. In its discussion, the Committee may wish to follow up on some issues. If it is acceptable, and does not overburden you, we may write to you seeking further assistance.

103. Mr J Simpson: Please do.

104. The Chairperson: Thank you.

105. Do members have any initial responses to John's presentation in the context of the Committee's wider work on the report? Perhaps, as with all these matters, we need to take a little time for reflection.

106. Dr Farry: I want to stress that local income tax is a viable option that is worthy of further consideration. In essence, we are discussing it as an alternative to the regional rate. I certainly accept — and the Alliance Party made this point in its submission — that the hurdles that would be experienced in trying to replace the district rate would be just too immense. In practice, most of the focus is on the regional rate, because that is where the main balance of payments accrues. There was a clear message that that option is worth further discussion. Clearly, Mr Simpson did not endorse that option — he did not endorse any option — but it certainly should be on the agenda.

107. Mr Storey: It should be clarified that those comments are party political rather than reflective of the collective response of the Committee.

108. Dr Farry: As a single member, Mervyn, I could not possibly speak on behalf of all 11 Committee members.

109. The Chairperson: In fairness, we have agreed as a methodology that if a Member expresses a particular interest in keeping a topic on the table, we will do so. Clearly, we are reaching the point whereby we will have to reduce the list of issues to include only those on which we can reach agreement. Stephen, at this point, though, your position is secure. [Laughter.]

110. Mr Elliott: If not his argument.

111. Mr Beggs: We would, of course, have to take a balanced view in any such investigation.

112. The Chairperson: I hope that you are not suggesting that the Committee would be anything other than balanced in its views.

113. Mr Beggs: We would have to check the implications of such a move on the Northern Ireland economy, and how it would encourage people to work.

114. Mr Hamilton: We would have to focus on definition of income, and so on.

115. The Chairperson: Without pushing that proposal too far up the pipeline, can we agree that it is a consideration? [Laughter.]

116. The Chairperson: We now move to the evidence session on the domestic rating review. I remind members, witnesses and those in the public gallery that Hansard is covering the session. Therefore, please switch off mobile phones, as opposed to putting them on silent, because they interfere with the recording.

117. At last week's meeting, DFP was asked to provide more detailed information on the options that the Committee has kept on the table for consideration. The Department has provided a brief update, which is included in the members' pack. DFP officials will be joined by researchers from the University of Ulster, who will update the Committee on their work on land value taxation and the rating of vacant domestic property.

118. Last week, the Committee considered a paper entitled 'Domestic Rate reform in Northern Ireland: a critical review of policy options'. The paper favoured a discrete value system rather than a banded system. Two of its three co-authors are here today and are prepared to answer any questions that may arise.

119. I welcome Brian McClure, head of the rating division in DFP and his colleague Alison McCaffrey and Dr Jasmine Lim and Peadar Davis from the University of Ulster's school of built environment.

120. Mr Brian McClure (Department of Finance and Personnel): Thank you for the opportunity to update the Committee on what we have been doing and to talk about our work on vacant property and land value taxation. If there is time, we will also try to sweep up some of the issues that were discussed this morning. On occasion, John Simpson said that the Department may have a view on certain matters, and I hope that we can help the Committee with those.

121. Over the last few days, the Department has been extremely busy. We are now at an advanced stage of our analysis. We have not yet received a set of statistics from the Northern Ireland Housing Executive on the take-up of the relief scheme and rate rebate, but we expect to receive them today or tomorrow. We also await some further analysis from the Department for Social Development (DSD), based on the family resources survey, on take-up generally and circuit-breakers. As John Simpson mentioned, the evidence on circuit-breakers has not been gathered. We can use the family resources survey to provide some rudimentary, but, I hope, helpful, analysis to the Committee and Minister on the potential effectiveness of circuit-breakers. As previously indicated, all analysis will be provided to the Committee, and will be sent to the Minister this week.

122. The leader of the university's team is Dr Billy McCluskey. Had he not been out of the country, he would have been here this morning, and he sends his apologies. Two of his team, Dr Jasmine Lim and Peadar Davis, are here to answer questions.

123. They have carried out two pieces of research, the first of which is on the rating of vacant homes. They provided the Department with a first-phase report on Friday 5 October 2007, which we have examined and refined. We gave a copy to the Minister yesterday and will provide a copy to the Committee in the next couple of days. Perhaps Dr Lim and Mr Davis will be able to go through some of the main findings with the Committee this morning.

124. Their first-phase report is on the number of vacant homes, where they are, of what type, and so forth. The second phase of their analysis, on which they will work in conjunction with bodies such as the Housing Executive, will examine why those vacancies occur. That is important, because the Department, Committee, and Minister must understand whether there is a need for the policy and, if so, what form it should take.

125. In other words, should there be exemptions, various allowances, and so on? The second leg of the work is, therefore, an important phase. The first leg is also important, because it tells us the properties' location, age, characteristics, and so on. The university has just completed a report on land value taxation, of which I took delivery just yesterday. It has already gone to the Minister. The report is a literature review that draws upon international experience of land value taxation using existing research and practical examples of its use throughout the world. Dr Lim

and Mr Davis will be able to answer questions on that. The Department will also provide the Committee with the report within the next couple of days.

126. The Department continues to have an open mind about land value taxation. Rating policy division and various other commentators consider it to be a conceptually sound taxation system. However, there are certain practical difficulties associated with it. I hope that the evidence provided by my university colleagues will draw out some of those difficulties, of which I will mention three. First, it raises the prospect of the rating of agricultural land. Secondly, a taxation system that is based on the highest and best use of available land — in other words its potential use, not necessarily its existing use — raises the issue of the preservation of local character. Some exclusions may be needed so that the character of towns and cities is preserved.

127. Thirdly, an important issue with regard to Northern Ireland is the current problem with the clarity of the planning system and, in particular, the status of various area plans throughout the country. Clarity of planning is needed for a land-valuation taxation system to work effectively, so that the system is defensible.

128. Those are some of the issues that the university has brought out in its report through examining systems in other countries. We will try to answer questions on that. I will pass over to Mr Davis and Dr Lim. Does the Committee want them to give a brief summary of the report first, or do members simply want to ask questions?

129. The Chairperson: Some introductory comments would help the members to focus on the issues.

130. Mr Peadar Davis (University of Ulster): I will start with the study into vacant domestic property. The university received data from rating policy division and Land and Property Services (LPS) on around 50,500 properties. We were able to clean up that figure slightly and take out some of the anomalous data, and we were left with a total sample of just over 48,000 properties that were identified as vacant. We were then able to analyse those properties on the basis of location and whether they were originally privately or publicly built, and so on. We were then able to identify the level of vacancy in each of the district council areas, for example.

131. There are some caveats related to the data. First, we do not have information at present on the condition of the properties that are vacant. They have not been individually inspected. Among them will be a full range of properties that are completely derelict and unfit for occupation, through to properties that are merely vacant at present but are capable of occupation. The information was taken at a fixed point in time. Therefore, it is effectively a snapshot. Because there is a dynamic property market, it is difficult to say with any great certainty, as time goes on, whether those properties are still vacant and what sort of condition they are in. The other issue is that the data must be regularly updated otherwise it will become out of date as properties change.

132. Another substantial caveat is the availability to public bodies, who are owners, alongside other landlords, to take advantage of the landlord's discount. That gives a discount to the landlord but removes the ability to claim vacancy. As a result, there is a possibility that public-sector property is under-represented by our figures, although we are not 100% sure of that.

133. Mr McClure: Those are properties owned by the Northern Ireland Housing Executive, which pays a global sum for its properties but does not claim vacancies on them. Therefore, they do not necessarily show up on the LPS data, and that is an important consideration.

134. Mr Davis: Currently, rates are paid on those properties so it is perhaps correct not to include them when considering the contribution that those properties make to the finances. They

are not considered as vacant for rating purposes. The figures take the current cap of £500,000 into account but do not consider any rebate scheme for the initial six-month period that was covered earlier.

135. One of the main aspects of our data is that approximately 85% of the properties were privately built dwellings, with the remainder being publicly built. We think that that is one of the reasons that the public sector is under-represented, because we would have expected a higher degree overall of vacancy in that sector.

136. Mr McClure: Is it worthwhile mentioning the geographical spread of some of the vacant properties? For example, Belfast has the highest number of vacant properties.

137. Mr Davis: Yes, as you might expect, approximately one fifth of all the vacant properties that are listed are in Belfast. That is around 10,000 properties. Overall, there are between 48,000 and 50,000 vacant properties that we are aware of.

138. The Chairperson: Is public-housing stock a significant component of that?

139. Mr Davis: Currently, public housing accounts for between 14% and 15% of vacant properties, which is why we feel that perhaps our figures under-represent vacancy. However, our figures do not under-represent vacancy in terms of contribution to rating. If all the vacant properties were captured, the extras would not provide more rate revenue, because they are already paying rates.

140. As you might expect, older properties, due to dereliction, for example, make up a substantial proportion of vacant properties — 31% of vacant properties were built pre-1919. A substantial proportion of vacant properties, nearly 16%, are apartments. Traditionally, it is always difficult to ascertain whether apartments are vacant or not. There is an increased difficulty of inspection and enforcement to check whether they are vacant. It is more difficult to gain access to apartment buildings than to gain access to terraced streets. The level of vacancies among apartments may be higher than our figures suggest.

141. Mr McClure: It is worth letting the Committee know that a high number of those are in Belfast. There are 2,925 vacant apartments in Belfast, which is a huge number. Some of those may not have been caught up by the vacancy process but, even if they have not, that provides a lot of justification for a taxation measure, given the high numbers involved.

142. Mr Davis: As you might imagine, there is a high level of vacancy among new-build apartments that have been sold to investors.

143. Mr McClure: A recent phenomenon in the housing market is, instead of buy to let, buy to forget. People buy properties, let them lie empty and get the capital gain from them. Is it fair that they do not make a contribution to local taxation? Many would argue that that is not fair.

144. Mr Davis: Vacant properties are more likely to catch fire, or attract arson attacks, than those that are occupied. Where there are many vacant properties there can, potentially, be other types of problems that can result in a cost to the public purse.

145. Rather than looking at the geographical location of vacant properties, we considered their location with regard to deprivation levels. We did not separate the data by district council. We examined all of Northern Ireland's 582 wards, individually, and attributed them to deciles of deprivation. Therefore, 10 subgroups were created, ranging from the low numbers which

indicate the least deprived areas, to the high numbers which indicate the most deprived areas. It was interesting to find that clear patterns emerged from the research.

146. When we looked at the number of vacant properties according to deprivation, it was obvious that the more deprivation experienced in the ward, the higher the level of vacancy. There was a clear pattern. In the least deprived wards, there were almost 4,000 vacant properties. In the most deprived decile of wards, there were nearly 6,500 vacant properties. There is a clear and consistent pattern of increasing property vacancy, as deprivation increases.

147. However, when we examine the total capital value of the properties, despite the fact that there are more vacant properties in the more deprived wards, it is clear that they are of lower value. By contrast, when we look at the total capital value by deprivation decile, the total capital value of vacant properties is substantially higher in the least deprived areas. Therefore, there are less vacant properties in the least deprived wards, but they are mostly of higher value.

148. Mr McClure: We have talked about the location of those properties, and what sort of properties they are. In relation to potential revenue from that measure — based on using all the caveats that Peadar has mentioned on the overall figures — if a 50% rate liability were employed, which is what applies under the council tax, the maximum potential revenue for that would be approximately £15 million.

149. However, that figure does not allow for any exclusions. It does not allow for the six-month initial exemption period, or for any type of initial exemption period. That is something that must be considered and was discussed earlier with John Simpson in relation to something that is part of the ebb and flow of buying and selling property. You would want to make sure that you allowed an initial exemption period. Therefore, that figure of £15 million would have to be cut back, significantly. That is the sort of scale that would be needed if we were to apply a similar level of rate to that which applies under the council tax in GB.

150. The Chairperson: Are you applying the administrative costs associated with that as well?

151. Mr McClure: No, that is only in relation to potential revenue. I will try to provide the Committee with a figure. Three or four years ago, we did some estimates on the likely figure.

152. The Chairperson: Would that be the net potential benefit?

153. Mr McClure: That would be the gross potential benefit. Obviously, the administrative costs would have to be subtracted from that figure. If the Committee wishes, I will try to provide it with some sort of figure. That is a very pertinent question because it relates to the efficiency of the tax. That is one of the reasons why the direct rule Ministers decided not to introduce it. There was a fairly high administrative cost when compared to the potential revenues.

154. Mr Davis: Particularly, if you imagine that in the more deprived areas, where there are more of those properties and they are of lower value, it is a case of diminishing returns. The collection efforts start to run into difficulties because the actual yield per property reduces quite significantly. Those are properties where there will be more costs associated with getting the money back. In the wealthier areas, where there are fewer, higher-value properties, you might find that to be a reasonably good source of additional income. However, you might easily waste that income chasing after lower-value properties in the more deprived areas. One issue is that while we suspect that those properties are vacant, we may not know who the owners are or how easy it would be to track them down. For example, it would help if LPS had a robust address list of all owners, but that may not be the case.

155. Mr McClure: At the last Committee meeting, Mr Beggs pressed me on why that could not be introduced next April. It is not about the legislation, but about the issue of LPS being able to draw up a comprehensive list of property owners so that it knows where to send the bills.

156. The Chairperson: That is a capacity that is developing. At this time we do not have that information.

157. Mr McClure: Currently, LPS does not hold that information, but if that is a policy measure that the Assembly wishes to take forward, LPS will have to build up that capacity very quickly.

158. Mr McCann: Recently, the issue of vacant properties has been hotly debated, in relation to bringing some of them back into the housing stock. One of the answers that we received to questions recently was that many of the empty properties are disused farm buildings and houses in rural areas. Is it possible to tell if those buildings are being used as second homes, an issue that Adrian has raised many times?

159. Mr McClure: The second phase of the university's work will be to find out the causes of vacancies. Researchers will not be able to cite individual households because of the numbers involved, but they will conduct a ward-level analysis to see where the vacant-property hotspots are, and whether there is any correlation with levels of unfitness, second homes, or other existing data, so that we can try to draw some conclusions about the various causes.

160. Mr Davis: It is worth noting that second homes should be rated.

161. Mr McClure: As discussed earlier, the rules behind the rating of second homes state that if there is an intention to return to the property, that is considered to be rateable occupation. If a property is occupied in July and August, but left empty for the rest of the year, it should be rated for the full year at the full rate. Those are the long-established rules under the rating system, so there should not be any question of holiday homes being classed as vacant for the periods that they are not occupied. The intention of the ratepayer to return to the property is sufficient to incur liability for the full year.

162. Mr Davis: The properties would have to be completely unfurnished.

163. Mr McClure: Yes. All furniture would have to be removed.

164. Mr Davis: Checking through the window to see if the property was ready for immediate occupation would be enough to remove the property from the vacant list.

165. Mr McClure: One other issue that may be of interest to the Committee is that an outcome of the review into affordable housing by Sir John Semple is that the Department for Social Development has engaged the Northern Ireland Housing Executive to undertake a study into empty homes. That is at an earlier stage than we are at. It will complement the work that the university is doing, but I am not sure that it will fit into the timescales. I will keep a watching brief on developments in that area.

166. The Chairperson: Does Dr Lim have any comments to offer at this stage?

167. Dr Jasmine Lim (University of Ulster): Generally, findings indicate that nearly 30% of the vacant properties are pre-nineteenth century properties, and it will be a major issue to find out exactly whether a property is suitable for occupation, and whether it falls within the definition of beneficial occupation. That is one of the key factors in the second phase of our research.

168. The Chairperson: What percentage of the overall audit would be represented by buildings of that vintage?

169. Mr Davis: It is around 30%. Mr McClure will correct me if I am wrong, but even if rating for vacant properties were introduced, if a property were not capable of beneficial occupation, — for example, if it did not have a roof, or was not wind-tight and watertight — then it would be rateable, but it would be valued as having zero capital value.

170. Mr McClure: I hope that answers Mr McCann's question about derelict farm houses. Such buildings should not be on the valuation list anyway. Some are, but only because they have not been removed from the list. Any still on the valuation list will be removed if they are not wind-tight and watertight.

171. Mr Davis: There may well be replacement dwellings under the planning system, which means that the derelict buildings cannot legally be brought into use without planning permission.

172. Mr F McCann: That brings to mind something that probably happened in the South. If buildings which are not wind-tight and watertight are exempt, you will probably find that most allegedly empty dwellings without roofs are actually perfectly habitable and being lived in. That needs to be taken into consideration. That was one way that taxation was dodged.

173. Mr Davis: If the property is in a poor state, and all you are talking about is letting the pigeons get in a bit more easily by taking a few slates off, that is permissible. However, where a building is capable of beneficial occupation, then no-one will destroy the interior of the building and lower its value to avoid a tax that is not onerous. If the tax were high enough, people would consider destroying the building's fabric to evade the tax; however, it would have to be a high level of taxation before people would do that.

174. Mr McClure: It is a valid point. If the decision is taken to proceed with this, that must be taken into account in the detail of the regulations.

175. Mr McQuillan: There must be joined-up working on the rules, especially those that apply in rural areas. In many cases, where a farmer or owner tries to replace or repair a property, the Planning Service prohibits him from doing so. The two Departments must work closely together to move the whole thing forward.

176. Mr Davis: Preservation of vernacular architecture in rural areas is an issue. People are, to an extent, being incentivised to demolish old historical buildings, if it facilitates the building of a replacement dwelling. In other cases, they have built the replacement dwelling, and they cannot beneficially use the original property.

177. The Chairperson: Let us move the discussion along.

178. Mr McClure: Jasmine and Peadar will talk about their work on land value taxation.

179. The Chairperson: Adrian was taking you in that direction anyway.

180. Mr Davis: As Brian mentioned earlier, this study has largely been a literature review of what happens elsewhere and the reasons for that. We found that there are few instances of pure land value taxation; land and property value taxation is much more common, and, in that, the land may be taxed at a different rate to the improvements.

181. We found that the countries that utilised a pure land tax brought it in when they had large land masses that were not heavily developed. It was a major taxation resource for countries such as New Zealand, Australia and America. In their developmental phase, taxing the value of land — as opposed to taxing the improvements — was a sensible option. A pure land tax is also used in some developing countries, where the value of improvements is potentially low by comparison to the value of the land. A lot of the improvements may be illegal dwellings and could not be brought into the taxation regime anyway.

182. Our findings, however, suggest that although land value taxation brings many benefits, most of those benefits are captured by a land and buildings taxation, which has a broader tax base. In a developed country such as Northern Ireland, the improvements and buildings on the land are a substantial component of the value. A land and buildings taxation facilitates the charging of a lower tax rate, and it is better linked to ability to pay than taxation of the pure land element.

183. We drew on experience from elsewhere and also the results of the Lyons Review and the Barker Report. Both of those consider land value taxation, and they highlight the major problems that we have also identified.

184. The major problems are that clarity is required in the planning regulations and the planning regime. A major barrier is, in the United Kingdom context, that even when up to date plans are in place, planning permission or the ability to develop is not granted. Just because an area is zoned for a residential development, it does not mean that planning permission will be granted; it simply means that it is more likely to be granted if the application is in line with, not only the plan, but all the other policies. Therefore, even when up to date plans are in place, it does not necessarily mean that you can immediately attribute the value to that land.

185. The planning system, certainly in Northern Ireland, does not even have those up to date, clear plans. There has been a review and a legal challenge to the zonings that have been put in place. Therefore, from a planning perspective, there is no clear direction on that issue.

186. The value of the land is going to be fundamentally affected by the availability of planning permission. The planning system does not necessarily state the kind of density of development that can take place, even where land has been zoned. It does not mention issues such as the level of affordable housing that needs to be built into the scheme. The planning system can be open to a lot of interpretation, lots of additional planning guidance, and so on, some of which is statutory and some of which is not.

187. That can, therefore, result in a situation that when you come to value the land, it will be difficult to calculate how much that land is actually worth. It depends effectively on the scheme that could be put on it, as Brian said, under the concept of highest and best use.

188. Mr McClure: This was something that came home to me at a meeting this week in Coleraine with the balanced communities review group. A lot of the discussion was about the judicial review of the northern area plan and the Magherafelt area plan, and what effect that had. While those plans are effectively in limbo, and there is this uncertainty around the planning system that currently exists in Northern Ireland, it is hard to think how a land valuation taxation system that values potential use could ever be introduced. Therefore, that is one major difficulty.

189. Mr Davis: The Lyons Review and the Barker Report considered those issues, and they seemed to suggest a similar kind of idea that, although a pure land value taxation system has its advantages, the majority of them can be captured using a capital value improved system as we have here. The main direction where a bit more of the value may be captured is — as has been mentioned today — where underdeveloped or undeveloped land exists.

190. That led to the planning-gain supplements that it was intended to introduce on the mainland, and which was effectively dropped yesterday as it was extremely difficult and created a lot of objections from the development community, and so on. Therefore, even that specific element — where the development of land that could be proceeded with is being encouraged — has proved to be politically, practically and technically difficult to do on the mainland.

191. There are a variety of issues — for example, the lack of a comprehensive register of land holdings that would need to be drawn up before it could be implemented. The concept is that, at times, it may be beneficial to develop land more intensively. There may a city-centre scheme that is being used as a surface car park, and is awaiting the right time for the developer to develop that property. Highest and best use under that kind of system suggests that that would be valued as a development site, not as a car park. That seems beneficial in that it would advance the developments.

192. The Chairperson: The presentation that the Committee received, which was organised by Peter Robinson, had an example of a site that had been bombed during the Second World War. It is currently worth an absolute fortune, but nothing other than the surfacing of it has taken place since the Second World War.

193. Mr McClure: The first part of the University of Ulster's work was a literature review on the subject of land value taxation as an alternative to the rating system. The second part is perhaps a supplementary measure in relation to vacant or underused land. They hope to undertake a pilot study in the greater Belfast area that looks at the impact of a vacant land taxation system: what sort of land areas are involved, what the main considerations are, the likely impact of such a system, and what sort of revenue it could raise. That will begin very soon, and there are meetings already set up with various public landowners.

194. Mr Davis: It is obvious what sort of issues will initially arise. The difficulty is that there is no central point where we can get a comprehensive list of development sites, even in the greater Belfast area. Instead, we have to go through a variety of different entities in the private and public sector, to draw up a list. For example, we are receiving evidence from the private sector, which might put the value of land in a central area of Belfast at anything up to £23 million an acre, which is a huge expectation considering that the building potential is not known; if the planning regulations provide clarity then, depending on what scheme is allowed on the site, that figure could go down to £4 million an acre. There are practical considerations. If there is a building on the site that can be valued, then we could make a theoretical separation of the site value and building value and apply differential rates, as is done in Philadelphia. However, when a site has no building on it, we have to look at highest and best use and speculate as to what the value might be.

195. Mr McClure: If that is something that the Committee and the Minister favour, then where there is a will, there is a way. The Department feels that there is considerable merit in a land-value taxation system that targets underused and underdeveloped land.

196. The Chairperson: Is there a current predisposition for vacant-land tax to be a supplementary, as opposed to an alternative, system?

197. Mr McClure: A land-valuation taxation system would be an alternative to the current rating system because it would rate all land regardless of whether it was used. In contrast, if the Department adopted a taxation system that only looked at vacant land, it would not be able to raise anywhere near the same amount of revenue, or come anywhere close to that. Therefore, it would be a supplementary measure, and one based on considerations such as housing affordability, freeing up land for economic development, in addition to revenue raising. As this

issue develops, we would have to involve other Departments, but it would be broader than a simple a revenue-raising measure.

198. Mr F McCann: Would that set a rate right across the board, or would there be different designations?

199. Mr McClure: That would depend on the type of land being rated. Would it be land that had planning permission? Would it be land that was zoned for particular planning permission? Would it be land that was ripe for development? Not all land in areas zoned for development is ripe for development, so there is an issue of whether that should be brought into taxation. Those issues have to be attended to. If such a measure found favour in the Assembly, then where there is a will, there is a way. There are examples that the Department can draw upon. The Lyons Review gave a positive recommendation on the measure, although they have not been moved ahead with that in GB. However, Northern Ireland does not have to follow what happens in GB.

200. Mr Hamilton: A comprehensive and accurate list of land ownership is absolutely essential. I, and probably all Assembly Members, in constituency work find it difficult to get people to take ownership of land when you are just asking for it to be cleaned up or tidied. If there is a rates bill for such land there will be some people running a million miles away. That is a key element. Just to clarify, would agricultural land be included?

201. Mr McClure: In most instances where land-valuation taxation applies agricultural land would be included in the tax base.

202. Mr Hamilton: Is there any discount or relief to allow for the variation in size and value of agricultural land?

203. Mr McClure: Normally, jurisdictions that have a land-valuation taxation system apply a differential rate, so agricultural land would be rated at a particular rate and industrial land would be rated at a particular rate.

204. Dr Lim: We found that special consideration has to be given to land devoted to agricultural use, and it is normally applied to the evaluation process where the values are based on the existing use, which is agricultural use rather than highest and best use.

205. Mr McClure: Effectively, agricultural land would be capped at its existing use.

206. Mr Davis: On the issue of land banking, a lot of those sites are agricultural land on the urban fringe, just inside and just outside the development limit. If you brought in a land-value taxation system that gave preferential treatment to agricultural land and capped it at its existing use value, you would not, in fact, incentivise bringing that forward at all. Consider the price difference for a farmer with an acre of agricultural land at £10,000 an acre, as opposed to perhaps £4.5 million an acre as a site for residential use. If land value taxation is to be brought in, you will have to think about how to tax the agricultural land, but if you want to incentivise the development, you need to move away from that.

207. Mr McClure: It is part of the equation; it comes with the package. The experience elsewhere is that virtually every jurisdiction taxes agricultural land to some extent.

208. Mr McQuillan: There is a difference between farmers working the land as agricultural land and having perhaps 14 sites passed for planning approval on the land. That should be taxed at a higher rate than agricultural land. Care also needs to be taken with land that has been zoned, because I have farmers telling me of zoned land that has no chance of being built on because it

is too near to their homes. We should be trying to get the land that has planning permission released and built upon — in other words, to force the developer's hand.

209. Mr Davis: Planning permission is not always applied for on land that is zoned for residential, so developers can always do back deals on payments if planning permission is subsequently gained. That is something that can always be got round by perhaps cutting the footings on part of the development site to keep the planning permission valid, so that is not a panacea for bringing development on. It may result in people holding back on submitting planning applications, and selling options on the land rather than just selling the land with the benefit of planning permission.

210. Mr McQuillan: When the land got planning permission, it would become more valuable.

211. Mr McClure: What we are saying is that the development community can be quite canny about that, and there are ways and means round it.

212. The Chairperson: You would have to apply a considerable amount of incentive for them to follow through.

213. Mr Davis: They have time horizons of maybe 15 to 20 years and will be buying some of the most valuable land held in land banks, which will not be in the plans at all. It will be five to 10 years before that comes into the urban development limit.

214. Dr Farry: I want to look at the land value taxation from the urban perspective. In Belfast, presumably, you are looking at vacant land. In the city centre there are no real rules about how tall buildings can be. How would the system cope with assessing the land? In a city-centre location the buildings can go up and up and the higher they go the more value that adds to the property but the value of the land stays the same.

215. Dr Lim: One underlying issue on land value taxation is the highest and best use. However when you look at the highest and best use you must ask whether it is legally permissible and financially viable to develop the scheme. Density will be a key issue. You need to consider how many storeys should be built. Developers will want to maximise the value.

216. Dr Farry: That is a very subjective judgement for people to make. Presumably, parkland in an urban setting is zoned as open space and would be protected accordingly. On 1 October the Assembly debated a motion on strategic planning policy, which addressed the issue of back-garden development. At the moment back gardens in urban settings are zoned as brownfield. Therefore, I presume that land value taxation, with regard to maximum best use, would encourage owners to build as much as possible in back gardens.

217. Mr Davis: The practical approach would be to look at that on a case-by-case basis. Ordinarily, a house in best use could be taken as existing use. For example, if there were a street of houses with slightly larger than usual back gardens, which could, theoretically, be grouped together to make a development site, then, ordinarily, the interpretation of a house in best use would say that the highest and best use was the existing usage as a single-family-occupancy dwelling. If a developer bought several of those gardens and it started to look like a development site, or if it were a vacant site next door to those properties, then it would be highest and best use, such as apartments.

218. Mr McClure: As I understand the question, it relates to "back gardening", which is to do with infill sites, where somebody has an abnormally large side or back garden where another dwelling could be built. That would be rated at the higher amount and the site's potential would be reflected in its assessment, which is not the case under the existing rating system.

219. Dr Farry: That would be a problem in a number of areas. Is the base of taxpayers potentially larger, narrower or the same under land value taxation as it would for a property-based taxation system?

220. Mr McClure: I will let the university give its views. However, my view is that there would be a narrower tax base as it is an ownership-based taxation system, whereas we have an occupation-based taxation system.

221. Mr Davis: It depends on the area. Take London, for example. Vast tracts of it are owned by a small number of individuals, and everyone else is on long leases. It depends on how you define the ownership in terms of who is responsible for paying the bill. However, I would say that it would almost certainly be narrower. There would be fewer owners than occupiers.

222. Dr Farry: On the whole issue of democratic accountability, the more people who contribute to the tax system, the more positive and beneficial it is to society.

223. Mr McClure: That is a valid point.

224. Mr O'Loan: The potential for taxing or rating agricultural land would cause incredible consternation, and I am very concerned about that proposition. People would accept the basic idea of taxing derelict land, or land with immense development potential. I understand a lot of the difficulties that have been presented today about valuation and the timing at which it would be appropriate.

225. Gardens were mentioned, and it sounds good in principle to say that they could be taxed. However, until a planning application has been made you cannot test whether a garden has a value only as a garden or whether it suddenly has a dramatically enhanced value as a building site. However, to go back to agricultural land, the suggestion of rating it would cause incredible consternation in the agricultural community. It is certainly not just a technical detail.

226. Mr McClure: I made that comment in relation to the broad application of a land valuation taxation as an alternative to the rating system, which would inevitably lead to agricultural land being rated. I do not think that there is any intention of bringing agricultural land within the remit of that tax. And, to save the headlines in the 'News Letter' and 'The Irish News' tomorrow, I should say that there is no intention to include people's gardens in such a tax. It would only be for derelict or vacant town sites, usually of the brownfield variety.

227. Mr O'Loan: The signals that the Department sends out are important. Are we talking about potential adjustments to, or tweaking of, the existing rating system, that may include some elements of land, and if so, what are they? Or are we having an interesting theoretical discussion about shifting the whole basis of our rating system to a landed property tax that for technical reasons, our experts tell us, would include agricultural land?

228. Mr McClure: We are talking conceptually about either alternatives or supplements, rather than the introduction of something to the existing rating system. The options are either an alternative, which would be a broad, land-valuation taxation system, or a supplement, such as taxing vacant land in cities and towns, which may be done for other reasons as well as raising revenue.

229. The Chairperson: We should constantly remind ourselves that we are talking about a review. The Committee will get down to consideration of the proposals, subsequently. Are there any other issues that you want to raise, Brian?

230. Mr McClure: There are a few points from earlier that I would like to pick up. John Simpson was asked by either by Mr O'Loan or Mr Beggs if there is an early payment discount scheme, or a deferred payment discount scheme. There may be some confusion of the two. There is an early payment discount scheme of which a number of ratepayers take advantage. That scheme includes a 4% discount if you pay upfront by a particular date. Currently, a deferred payment scheme does not exist, but there is legislation to introduce it.

231. There was some discussion about pensioner discounts, data-sharing and whether LPS could get information from the Social Security Agency. Last week, I attended an interesting conference given by the Information Commissioner's Office in Northern Ireland, at which that issue was raised. The Department of Finance and Personnel hopes to be able to improve data-sharing so that we can target reliefs. We may not be able to apply those automatically, but if we know that there is a likelihood that a large number of people in a particular household or street may be eligible for reliefs, we will be able to use that information in targeting campaigns to ensure that people get the discounts, allowances and rebates to which they are entitled. That work will be ongoing.

232. The Chairperson: In your introductory remarks you referred to a point covered during John Simpson's session about the percentage of household income.

233. Mr McClure: That was in relation to the issue of circuit-breakers. We had hoped to have information this week from the DSD to give us an indication of the practical outcome of having a circuit-breaker system. As I mentioned at the last Committee meeting, circuit-breaker measures are important in other jurisdictions to help those who are least able to pay. In Northern Ireland, there is rate rebate available through the housing benefit system, so 20% of households in Northern Ireland do not pay rates, and those people are entitled to a 100% rebate. If the system that limits the rate bill payable as a percentage of income is applied on top of that, they do not dovetail well, and that has the potential to affect Northern Ireland's overall income through the housing benefit budget. Therefore, there are issues related to that. I will be happy to go into that in more detail in next week's meeting when we will have the analysis of circuit-breakers to show the Committee.

234. There was a lot of discussion about local income tax. In Scotland there is a perfect example of further work. The Scots are going to introduce local income tax, which they hope to achieve by 2010. The new SNP Scottish Government have declared their intention to do that. If we are not asked to do our own analysis, we certainly have a live example of the introduction of local income tax from a country within the UK.

235. The Chairperson: When the Scottish Parliament was given its devolved powers, why was its tax-varying power limited to the basic rate of income tax? What was the rationale for that?

236. Mr McClure: Those are the powers applied under the Scotland Act 1998. If the Scottish Parliament wants to exercise powers different to that, it will have to get the consent of the Westminster Parliament to do so. I believe that the SNP's proposals for a regional income tax will require a further amendment to the Scotland Act 1998.

237. The Chairperson: Do you know why the power was limited to the basic rate of income tax, in the first instance?

238. Mr McClure: No, I am not sure why that happened.

239. The Chairperson: Alison, have you any words of wisdom?

240. Ms Alison McCaffrey (Department of Finance and Personnel): I have nothing really to add to Brian's comments, other than to say that it is important to remember what the public said about vacant rating and land value taxation, which we discussed earlier. The Committee has the report on that. Vacant rating was clearly a popular measure, as was land value taxation, from the point of view of unused and derelict land. It is important to remember that.

241. The Chairperson: Do members have any other comments? Brian, thank you very much for your assistance. No doubt, we will have further work to do. The brief that you have given to the university is particularly valuable, and I think that both strands of the research will be very pertinent to the outcomes of the exercise. Well done.

242. Mr McClure: I intend to provide copies of the university's work-in-progress report. We want to be as helpful as possible to the Committee, but I am also mindful that we would be handing over work that is not yet complete. I wonder if there is some way in which this work could be kept for the Committee's use only. Is that possible?

243. The Chairperson: I am sure that it is possible, and I understand the need to protect the integrity of the project. The Committee is working within a very tight time frame, and we may end up with information overload, if, for example, preliminary papers are followed up almost immediately by the final report. Let us give some consideration to this matter.

244. Mr McClure: I do not think that that will be the case with the work on the rating of vacant houses. Phase one of that work is nearly complete, but the second phase, which looks at the causes of vacancy, will take a few weeks. Similarly, phase one of the work on land value taxation is virtually complete, and we can provide the Committee with a copy of that shortly. However, phase two is some weeks away from delivery. It looks at the issue of derelict and underused land and the pilot exercise in the greater Belfast area.

245. The Chairperson: We will keep in touch to let you know how that work can be incorporated in the Committee's work programme. Thank you very much.

17 October 2007

Members present for all or part of the proceedings:

Mr Mitchel McLaughlin (Chairperson)
Mr Mervyn Storey (Deputy Chairperson)
Mr Roy Beggs
Dr Stephen Farry
Mr Fra McCann
Ms Jennifer McCann
Mr Adrian McQuillan
Mr Declan O'Loan
Mrs Dawn Purvis
Mr Peter Weir

Witnesses:

Mr Pat Doherty
Mr David Magor Institute of Revenues Rating and Valuation
Mr Victor Hewitt Economic Research Institute of Northern Ireland

246. The Chairperson (Mr McLaughlin): I welcome David Magor, chief executive officer, and Pat Doherty, consultant, from the Institute of Revenues, Rating and Valuation. It is worth

mentioning your relationship with the predecessor of this Committee; you were consultants to DFP — I am not sure if that is still the case — and may have also have a contractual relationship with Belfast City Council. Please declare any interests that you have before the evidence session formally begins.

247. Mr David Magor (Institute of Revenues, Rating and Valuation): As the Chairperson has correctly stated, we were consultants to the former Committee and are currently doing some work for Belfast City Council on the penny rate product.

248. Mr Pat Doherty (Institute of Revenues, Rating and Valuation): We were contracted to work with the Department on the development of a relief scheme that has been implemented in Northern Ireland. Therefore, we have a direct interest in that piece of legislation.

249. The Chairperson: The Committee very much appreciates the effort that you have made to join us at short notice. You have the floor, and I will ask Members to put any questions that they may have after you have finished.

250. Mr Magor: We have taken a keen interest in the changes over the last six to nine months and the introduction of the new scheme. We have looked at the various issues and strands in the Department's consultation document; the options for change in April 2008, and the options for change in the medium and long term. We will take turns in speaking about each of those.

251. Where a new property tax system based on the value of property is introduced, and a decision is made to cap the value, revising that cap after its introduction is always very difficult. There is also a problem of any future removal of that cap and how it would be phased out. We do not recommend a revision of the cap.

252. We cannot see the need for rules about a minimum payment. The amount that a rate payer is liable to pay is triggered by local-rate relief schemes, housing-benefit schemes, and the value of their home. The minimum payment is driven by the ability of those people to pay, although that is linked to a means-tested benefits scheme, which only applies to people who have applied for the benefit. At this stage, we cannot see the need to introduce a minimum-payment rule at this stage.

253. Mr P Doherty (IRRV): It should be remembered that every time that there is some form of relief — whatever shape that takes — someone has to pay for it. Therefore, if a cap is put on the upper limits, the level of charge is moved further down. That is a political decision, and something that has to be recognised.

254. Mr Magor: We recommend that the rating of vacant domestic properties be implemented as soon as possible, but there are considerable practical issues around that. Land and Property Services would have to identify the owners of all vacant domestic properties, check their liability status, and, finally, go through the billing and collection process. It would be difficult to compile all the necessary data for every bill by April 2008. However, we commend the rating of vacant domestic properties as soon as possible, because it gives a balance to the tax system.

255. Mr P Doherty (IRRV): Mr Magor is right about the need to identify property owners; resources would have to be put into place to deal with that, because it would require more resources than Land and Property Services currently has. Based on our experience in GB, there is more work involved in empty-property rates than in the normal occupied-property charge. Land and Property Services has gone through enormous changes in the past two years with its new computer systems and the reorganisation and implementation of the new rating system and the relief scheme. To add another responsibility in the agency's second year of operation might, from an administrative perspective, be extremely difficult for the agency.

256. The Chairperson: Are those difficulties typically related to the tracing of ownership, or —

257. Mr P Doherty (IRRV): There are two big issues. First, we know that Land and Property Services has new computer systems, but one must ask whether those systems will be able to levy an empty-property rate. Some work may well be required in that area. The major work is in identifying the owners of vacant properties, because it is they who will be charged the rate. I suspect that Land and Property Services does not have the records. Because there is currently no empty-property rate, there is no good reason to retain information when a property becomes vacant. Our educated guess is that there will be a tremendous amount of work in identifying current owners.

258. Mr Magor: To start the collection process you need to serve a demand notice; if you do not have that essential information you cannot start the collection process. You need a good 12 months' preparation just in terms of administration, notwithstanding the points that Mr Doherty has made in relation to computer systems.

259. Mr P Doherty (IRRV): We are firmly of the view that there should be a charge on vacant domestic properties, but Land and Property Services will need time, if you decide to go that way.

260. The Chairperson: A lead-in time will be necessary.

261. Mr Magor: We have no idea what records Land and Property Services holds. It may have a wealth of information about owners: I do not know, but I suspect not.

262. Mr Beggs: The Land Registers will soon be part of Land and Property Services Agency. Should it not, therefore, have ownership details?

263. Mr P Doherty (IRRV): It should have access to ownership details, but their accuracy is another matter.

264. Mr Beggs: There will be issues around the computer systems requiring software adjustments.

265. Mr P Doherty (IRRV): It also depends on who is being defined as being the rateable person for empty-property rate purposes. It is not necessarily the direct owner, because the property might be sublet to another individual. For the purposes of the empty-property rate, that person would be liable, because he or she is the person with the most immediate interest in the property, and the Land Registers might not hold those details.

266. Mr Magor: That is the challenge. You must determine how much information Land and Property Services has available, how quickly that can be marshalled to create adequate information for billing purposes, and whether the software system will allow the changes to be implemented. It is October, so you are talking in terms of six months.

267. Dr Farry: Is it possible to phase in that option, starting with properties of higher value? The Department could set a threshold, above which rates could be set for certain properties in year one. In year two, the Department could lower the threshold if it so wished.

268. Mr Magor: That would be possible if primary legislation provided an enabling power. An enabling power would be required; otherwise there would be an argument of discrimination between people who own lower-value properties and those who own higher-value properties. However, any threshold could be phased out. The start date does not need to be 1 April either. The start date can be 1 July, 1 August, or whenever it is ready.

269. Mr P Doherty (IRRV): We tend to believe that because the financial year begins on 1 April, that is a convenient start date.

270. Mr Magor: It is easier to do the sums if the start date is 1 April.

271. The Chairperson: Basically, therefore, you make a forthright recommendation but note that there are clearly anticipated difficulties with developing the capacity and the data sets in which they operate.

272. Mr P Doherty (IRRV): That is correct. Another issue that has not been mentioned is that it is not just a matter of generating income stream, but about encouraging the use of property.

273. Mr Storey: On that point, I noticed that in one of the papers that we shall consider later the comment is made that, counter to speculation, the measure is also partial to the housing market, which the capital-gains tax reforms that are proposed by the Chancellor seem likely to encourage further.

274. Mr Magor: I am not sure that that has a significant effect at all. It is completely different. The rating of vacant domestic property gives two advantages; one is that it creates an income stream, and the other is encourages people to occupy premises. There is absolutely no doubt about that. There is plenty of evidence of that in Great Britain. It has always had a two-fold role. That is the reason that rating of empty property was introduced in GB several years ago.

275. Mr P Doherty (IRRV): The principal purpose of its introduction and implementation was to encourage the use of a particular property in south London. However, it did not work in that case.

276. The Chairperson: Was that particular property Buckingham Palace? [Laughter.]

277. Mr Magor: Well, it has been empty for a long time.

278. The IRRV supports the introduction of a deferment scheme. It is one small way to bridge the gap for those who are asset-rich and income-poor. The deferment scheme can be run in many different ways, for example, by the collection agency. Of course, it can also be run by a bank. Such schemes are widely used throughout Europe and in GB, for example, where it is highly effective. The IRRV strongly recommends its introduction. There are no particular administrative issues with its introduction, which would be relatively straightforward. It would relieve some of the pressure on people who are asset-rich and income-poor.

279. Mr P Doherty (IRRV): We must declare an interest as that was part of a previous piece of work that we carried out for the Department. It was one of the reliefs that we recommended.

280. The Chairperson: Has there been any social resistance to that? What is the take-up? As with anything, I suppose that there are pros and cons.

281. Mr Magor: It is fair to say that there is social resistance, particularly within families. Obviously, when an elderly or older person has acquired an asset through having worked hard their entire lives, and he or she wishes to leave it to their children, introduction of a deferment scheme chips away at that asset. There has been much publicity about income schemes that relate to property. Many of the banks have now introduced them. If the deferment scheme is related to the payment of property tax, it can be controlled through an advantageous interest rate, et cetera. There are many ways that the effects of the scheme can be ameliorated. Ultimately, however, people look upon their property as part of their savings which they may

wish to bequest to their children. That is being slowly chipped away. There are definitely social issues with regard to that.

282. The Chairperson: Has the experience been better when the scheme has been rolled out by the collection agency, rather than by banks or the private sector?

283. Mr Magor: In GB, worldwide and particularly in the US, it is run by local authorities. It works quite effectively.

284. Mr P Doherty (IRRV): It is probably most widely used in the USA. We are unaware of any research in GB in relation to the existing scheme; however, it has been researched in the States and it comes back to the point the Chairman made and the essence of his question. The deferment scheme is not widely used in the States, simply because of the resistance to it. Where it is used, it is seen as very useful.

285. Mr Magor: There is a major issue, in that if it becomes popular, the collection agency suddenly has a cash-flow problem. That is why there is a great advantage in involving a bank, so that then the legislature can have the cash year-by-year, whereas, if it is operated within the collection authority, there is a cash-flow problem if 100,000 or 50,000 people take it up. It would become a major cash-flow issue and it would get worse year-on-year; because, progressively, an enormous amount of money is left owing to the collection agency until someone dies.

286. Mr P Doherty (IRRV): The scheme could be run on an annual basis as well. The legislature would not just put the charge on and have it automatically renewed each year. Each year the scheme would have to be reviewed according to whether the individual still wants it. Some individuals will come across a particular problem in one year and want relief only for that particular year.

287. The Chairperson: I think I can see political antennae blowing in the wind. It might be a problem that would build over a period of time. That will have to be considered. In any case, this is not the time for making judgement on it. It is one of the options.

288. Mr Magor: It is a good option.

289. As to the low-income rate relief scheme, we should again declare an interest. In a darkened room in the Hilton Hotel in Belfast, we came up with this idea after lengthy consultation with third sector groups in Northern Ireland.

290. The scheme is a bolt-on to the housing benefit rent rebate scheme, in that it sits on top of that scheme and gives the legislature the ability to enhance various elements of the measurement of need in relation to the structure of the community: older people, lone parents, families with children and so on. The choice was made to enhance an element of the scheme for the current year. The advantage of the way the scheme is structured is that it is directed towards the measurement of need, and therefore it is targeted towards people who are in need.

291. The issue there — I suspect you are about to raise it — is the question of take-up. There needs to be a concerted effort to make sure that, for both mainstream and special relief benefits, take-up is maximised. There is plenty of scope in Northern Ireland for partnerships with the third sector, the CAB and other voluntary bodies, to push forward the take-up. The legislature is free to revise the low-income scheme in whatever way it thinks appropriate. If it feels that the scheme does not meet the needs of a particular group in the community, it can revise the scheme.

292. The main issue for us is that when the scheme is revised, one should be careful not to do things for the Government — the Department for Work and Pensions. The obvious way in which take-up can be maximised in Northern Ireland is by the lifting of the capital rule. Lifting that rule, however, should be the duty of central government and that should be funded from the centre. The reason we say that — and I was waiting for an appropriate point to raise this — is that it is grossly unfair that the capital rule has remained in place for more than twenty years now. It is still stuck at £16,000. The rate of income that is derived from capital, through the housing benefit scheme, assumes a 20% return on capital. If you can invest capital and get a 20% return anywhere in the world, let me know. Not that I have any capital.

293. Income-related benefits turn on capital rules. Those capital rules are so unfair. Everything else has been up-rated, but the capital has not been up-rated. That impacts particularly on Northern Ireland, where levels of savings — particularly of just over £16,000 — is high, according to all the surveys and data sets that we looked at. That is an area in which the scheme could be revised: the capital rule or the derived income rule could be lifted. However, an enormous door could be opened with respect to the amount of relief paid. Ultimately, if that relief is paid by all the other taxpayers, it will have the effect of lifting the tax.

294. The low income rate relief scheme is flexible. If it is felt that it does not target the right community groups, it can be moved in whichever way is deemed appropriate.

295. Mr P Doherty (IRRV): The scheme is called a low-income rate relief scheme. The work that Sir Michael Lyons undertook shows that the name of schemes can be an issue. To call a scheme a low-income rate relief scheme perhaps sends out the wrong message — a better title might be the Northern Ireland rebate scheme. A psychological element comes into play. It is important to get across the message that a rebate is available, and that it is not a matter of holding out a begging bowl. The approach could be as simple as that.

296. The Chairperson: I can see that that is an important factor.

297. Mr P Doherty (IRRV): I almost apologise when I say that, simply because it sounds naive and trite. However, Sir Michael Lyons undertook some work on that issue, as did our institute, and that issue emerged clearly.

298. We developed the low-income rate relief scheme, and we spent a lot of time over here talking to the third sector, interested parties, political parties, and so on. Some very clear messages emerged from those talks. One message was that there should not be an indiscriminate relief scheme that peppers money across the board without any criteria to determine how people should receive money. That is why we came up with the concept of the low-income rate relief scheme. The current benefit scheme is very good and has the ability to target individual client groups, but, of course, the Department for Work and Pensions is restricted by the amount of money available, and so on. However, your scheme has much more flexibility in that it is based on that, so, as David said, it can target whichever groups are in most need of help — for example, elderly people, various age-groups, single-parent families, couples.

299. An important aspect of this scheme is that it sits on top of the benefits scheme, which means that the millions of pounds that come into Northern Ireland through the current statutory scheme are not affected by it. I want to highlight one of the big issues, which we will touch on shortly when we discuss single-person discount and pensioner discount. If you allow indiscriminate discounts on the amount of rates that is due, the calculation for the amount of benefit is then based on the reduced figure. Say, for example, a 25% discount is allowed on a £200 bill, as is the case in GB. With a discount scheme, the benefit subsidy would be based on £150, whereas now, the benefit subsidy would be based on £200. Therefore, Northern Ireland would automatically lose a £50 subsidy from the centre. When we were developing the low-

benefit rate relief scheme, we had to consider how we could retain that income to Northern Ireland. We wanted to develop a scheme that could sit on top of the current scheme but still give relief to taxpayers. That is one of the strengths of our scheme.

300. However, a key issue emerged in the evidence that was gathered through the work that we carried out two years ago. In general, there is an under-claiming of rate rebate among owner-occupiers in Northern Ireland. There is a good take-up in both the public- and private-rented sectors, but the rate of take-up among owner-occupiers appears to be below the average for GB.

301. Mr Magor: In fairness to the Housing Executive, I must say that it does a marvellous job in encouraging take-up, both for their own properties and for the private-rented sector. The organisation is very focused on take-up. The difference between take-up rates among owner-occupiers and take-up rates for Housing Executive properties is quite remarkable, even allowing for the fact that people who live in owner-occupied properties perhaps have more assets. The take-up rate in the rented sector, both private and public, is very impressive, much better than in GB. Certainly the performance in that area is much better than that of local authorities in GB.

302. Mr P Doherty (IRRV): With owner-occupiers, it is the other way round.

303. Mr Magor: Yes, the weakness here is the owner-occupier take-up rate.

304. Mr P Doherty (IRRV): That, of course, impacts on this relief scheme as well, because if owner-occupiers do not apply for statutory rebate, they do not automatically come into this scheme.

305. Mr McQuillan: How can that situation be turned around? What is the way forward?

306. Mr Magor: Northern Ireland is amazingly rich in data, and that data should be put to good purpose. People will say that there are issues around the Data Protection Act 1998. However, if something is being done for the social good, I do not see how the Act comes into it.

307. Mr P Doherty (IRRV): I think that the Information Commissioner's views are now changing, anyway.

308. Mr Magor: "Modifying" is the word.

309. Some good work has already been carried out in partnership with the Pension Service in Northern Ireland, and that work should be developed. Individual local authorities should be given support to do that, and work should be carried out a local level. There should be targeted campaigns, and data profiles should be created using existing data sets. Information should be gathered on where older people live, and they should probably be visited.

310. I could go on forever because I am a great believer in take up, and there is such a contrast between the rented sector and the owner-occupied sector. In the rented sector, there is maximum saturation and a good job is being done, but the message has not got through to the owner-occupied sector. In lots of cases, that may be the resistance of the owner-occupier. The data is available; it is possible to identify where the older people live by postcode. It can be arranged for nice people to knock on the doors of older people, or they can be approached by letter or text message — there are 101 different ways of contacting them. However, the data set must be analysed, it must be established where the older people live and where the low-income pockets are. A targeted campaign would yield dramatic results.

311. As we move to rate relief for students, I should declare an interest on the issue, as I used to be director of housing and revenues for Oxford City Council when the poll tax was introduced and the council tax was introduced to replace it with a relief scheme for students. The relief scheme was an absolute nightmare to administer because students are incredibly mobile. The majority of them live in private rented accommodation and their inclusive rent is paid to the landlord. A relief can be awarded to a student in a multiple-occupied house, but that relief may not get to the student, but be taken by the landlord, who pays the rate bill. There are loads of issues surrounding that. In simple terms, the reason for rate relief schemes for students is because the majority of students were taken out of the rate rebate scheme a number of years ago. Only specialist groups —

312. Mr P Doherty (IRRV): Vulnerable groups.

313. Mr Magor: Essentially, only vulnerable groups, mainly students with families, were kept in the rate rebate scheme. The majority of students were taken out of the scheme. There used to be an occupational element of the grant, which was taken off before the benefit was calculated. That is gone, and relief schemes were introduced as some kind of compensation. In practice, rate relief schemes for students are difficult to administer. The two main reasons for that are because students generally live in multi-occupied properties where the landlord is liable for the payment, and because of the student's mobility. In addition, their status as a student makes it difficult to administer rate relief. As their circumstances change — for example if they leave their course — it becomes impossible to manage the process. Although Northern Ireland has a rate relief scheme for students, I feel that generally there are better ways of assisting students than through local taxation relief schemes. Perhaps that is a task for national government, as opposed to one for local government with local funding.

314. Mr P Doherty (IRRV): There is no incentive in that rate relief scheme. It is impossible to see how an incentive could be built in for landlords to inform you when the composition of the property changes. It is a negative incentive; why should a landlord give the information that a working person has moved in and that a student has moved out, when they will have to start paying rates?

315. Mr Magor: The majority of students are not direct rate payers so they have no direct relationship with land and Property Services and probably do not know about the scheme. Their rate liability is included in their weekly rent payment anyway.

316. Mr P Doherty (IRRV): It will be interesting to see whether the benefits of that relief have been passed on to students. I would put money on it; rents have not reduced. There are areas in Belfast where many properties are student-based. I bet that rents have not reduced in those areas.

317. The Chairperson: That is probably also the general view. It is a complex and difficult area to properly supervise.

318. Mr Magor: It is almost impossible to supervise. Such a scheme might encourage the temptation of dishonesty. Landlords may not disclose when they know that there has been a change in the status of their tenant. They might bring people into the property with false student certificates. There are lots of different ways in which the scheme can be manipulated, and it is difficult to administer.

319. Mr P Doherty (IRRV): The bottom line is that someone else pays anyway because the charges are spread out among the other rate payers.

320. Mr Magor: So if the intention of the scheme was to give relief to students, the relief may not be getting to them. We have no detailed evidence of that as we have not done a study, but that is our experience from GB.

321. Turning now to transitional relief schemes, once such a scheme is set up, it is there and can be modified. However, it costs money to modify transitional relief schemes. There is also the problem of taking people out of the transitional stage and moving them slowly from a relief scheme that has given them some help. I am sure that the ratepayer would welcome the modification of the transitional relief scheme at that stage.

322. Nevertheless, that will depend on whether the Committee feels that the transitional relief scheme has hit its target — that of relieving the financial burden. We do not recommend any changes to the transitional schemes, or to any transitional approach. Once a scheme is fixed it should remain fixed, and it should stay.

323. Mr P Doherty (IRRV): If you have contemplated changes then, at least, keep those changes to within the life of an existing valuation period. One would not want to get into the same position as those dealing with non-domestic rates in GB where properties that went into transition in 1990 — and in each subsequent five-year period — have remained in transition, having gone into a further transitional scheme. It is nonsense. There are places — such as a big store in London — that have never yet paid a full rate bill, since the new rating system in 1990, because of the transitional scheme. One does not want to get into that position.

324. The Chairperson: I will pick up on any members who would like to make an intervention or ask a question. However, that will make the process a bit disjointed for you.

325. Mr P Doherty (IRRV): It is perfectly fine by me. I am more than happy. I have spent my life working with elected members.

326. The Chairperson: So, you know what we are like.

327. Mr Magor: Once one has early payment discount schemes it is difficult to get rid of them. You have a payment discount scheme. There is absolutely no doubt that it is an enormous aid to cash flow in the collection process in Northern Ireland. However, there are costs involved in discount schemes. There are costs as regards to collection. In many respects, one can argue that they are unfair to the community in general. However, they create a cash pot for the public sector, from the outset. We are neither for nor against them. However, once one has them it is impossible to get rid of them because people do use them and see them as an incentive. They feel as if they are getting something back for paying early. We do not recommend that you modify the existing scheme as it has worked well for a number of years. We suggest that you keep it in place.

328. Mr P Doherty (IRRV): Our understanding is that approximately 20% of taxpayers take advantage of the discount scheme. Frankly, it would be impossible to remove that scheme because of the level of uptake.

329. Mr Magor: It is interesting that, with modern payment methods such as direct debiting, there are issues about automating the collection process and making collection more efficient for the other 80% who pay by instalments, introducing direct debits. Of course, while there is a discount scheme, people will weigh up the cost of paying by monthly instalments — perhaps by our automated method — against paying in one lump sum and getting the discount. That is a judgement that the taxpayer makes. However, you have the scheme and it is still heavily used. Someone needs to do the maths every year to make sure that it is cost-effective. There is no

point in continuing to run a discount scheme if it is actually costing money as opposed to making you money.

330. Mr P Doherty (IRRV): The theory behind the schemes is that they should be cost-neutral. However, that will depend on current interest rates as compared to the statutory discount rate.

331. Mr Magor: The institute takes a particular interest in graduated tax rates because its evidence to the Lyons Inquiry into Local Government Funding in England — and to the balance of funding prior to that — recommended graduated tax rates. The banding system in GB has not worked at all well and is hopelessly regressive. If there were individual values, as you have in Northern Ireland, we could envisage a series of graduated tax rates working effectively. Perhaps, they might even allow those decisions to be made at a local level. However, that depends on how one sees, in the general reform of local government in Northern Ireland, the amount of freedom that will be given to local authorities at a local level.

332. Graduated tax rates, as regards to individual capital values, are something that works successfully in other parts of the world. If you could progress towards that, we would commend it to you. However, it is still a difficult one to call because, obviously, the local decision that is made — or the national decision that is made — will be seen as unfair by those who are taxed at the higher rates when compared to those who are taxed at the lower rates. It is a way of evening the burden, particularly of those living in highly valued properties.

333. Mr P Doherty (IRRV): It would be more feasible to enable local authorities to set their own variable tax rate when the administrative changes have been made and the decision has been taken on the eventual number of councils. In theory, local authorities know the local economies better than the centre does. Therefore, it is a question of enabling councils to set tax rates according to their economic needs.

334. Mr Magor: In the early days of the research for the reform process in Northern Ireland, the University of Ulster carried out some work on graduated tax rates, which produced some interesting models. Those are worthy of further investigation.

335. Just to pick up on Pat Doherty's original comment about the single person discount, if you grant a discount to someone who is in receipt of benefit, you immediately reduce your take from the Government, in terms of rate rebate, because it reduces the amount of property tax that is used for the calculation of benefit. Therefore, money is being taken from Northern Ireland to finance the single person discount, either at local level or through the local taxpayer. I worked in local government when the single person discount was first introduced in 1993. You would expect a city such as Oxford to have a fair number of people who live on their own, but not 38% of the population; however, that was the reality. Some 38% of my taxpayers claimed a single person discount. We tried to police and administer those claims, but it became impossible. For years I was suspicious of those statistics, but we reviewed the claims frequently.

336. Recently, more scientific data matching was carried out in GB, and it transpired that 25% of the single person discounts in GB are fraudulent, which is horrifying. People simply apply for the benefit, take the 25% discount, and the local authority pays it year on year without carrying out any checks. The Audit Commission recently carried out a data-matching exercise, comparing several data sources under the national fraud initiative. In one London borough, the Audit Commission found that £1.4 million per annum is being lost to single-person-discount fraud.

337. The other problem is that the single person discount is regressive, because it is a discount for living alone, and it has no regard at all to someone's ability to pay. There are many threads to granting the discount, and I find them all negative. That is why the relief scheme is so important. Relief can be targeted to people living alone, through premiums, such as the

measurement of need for housing benefit and the rent rebate system. Those premiums can be enhanced and more help can be provided to people who live alone. The beauty of the rate relief scheme was its flexibility. Simply granting an arbitrary single person discount, without the proper policing mechanisms, could turn out to be costly and prove to be a massive administrative burden.

338. Some single pensioner discounts and other automated discounts have become popular, and four or five local authorities in GB have introduced them. People expect many local authorities in GB to introduce those, but they will not because of the impact on the take from central Government in relation to rebates — money will actually be lost. The treasurer of any organisation or public body has a fiduciary duty to ensure that the organisation maximises its income and does not lose subsidy. As soon as any targeted discount schemes are introduced, subsidy from Government is lost, and that seems foolish. However, recent evidence of policing such schemes puts another nail in the coffin of single person discounts. It remains to be seen how the reaction from GB authorities will be managed through the revenue support grant process in GB, because it could be argued that so much money is being lost due to fraudulent claims that local authorities have acted in an inappropriate manner in trying to police them, and that could cause major difficulties. I recommend that you should not go down that path. If you are keen on the idea, a lot of research must be carried out. Clear procedures must be put in place to find out whether someone is living alone. You have to think carefully how you will police that, and you also have to think carefully about the penalties that you will impose if people abuse the scheme, because the evidence of abuse is very high indeed.

339. Mr P Doherty (IRRV): You have to think whether it is a good use of public money, when it could be used in a more targeted way to achieve the same end, but with people who genuinely cannot afford to pay.

340. I echo everything that David has said. My former authority is in Harrogate, which, as most people will know, is a fairly wealthy area, but it still has about 28% of people claiming a single person discount. However, it is not just the Audit Commission — under the national fraud initiative (NFI) — that has been undertaking that sort of work to try to assess the level of incorrect claims. A couple of major companies in the UK who are big data holders have developed products that they use with local authorities in GB to run the information through their systems. Their data shows that 25% of claims for single person discount are incorrect. We would not recommend it.

341. The Chairperson: We have a very clear message there. It is useful to hear the experience and see the spectrum of issues that have to be factored into any move in that direction.

342. Mr Magor: The single pensioner discount, or automatic pensioner discount, must be looked at in the wider context of pensioner take-up for income-related benefits. I would suggest that you go through that exercise first and find out why older people are not applying for benefits, and the number of older people who are not applying for rate rebate. We estimate that it is a very high proportion of pensioner owner-occupiers — subject to this unknown, which is the capital holdings of those people. Is the take-up not very high because lots of older people have capital holdings just above £16,000? Or is it that they do not understand the way that the capital rule works? That should be the first exercise, before you start thinking of just going for a discriminatory approach to picking on a client group.

343. The rate-relief schemes are available, and they can be manipulated and directed towards pensioners living alone. There are lots of different ways before you would have to revert to automatic discounts. I commend to you to carry out a major take-up exercise. The need is there, and there is an important role for the distinct councils and the voluntary sector.

344. The disabled persons allowance schemes would depend on how you want to direct policy. Differently able people need help in lots of different ways, and helping them through the property tax scheme is a very laudable thing to do, and it could be expanded. A decision must be taken on how to approach it. The current scheme is very workable and effective, and it could be broadened. That is a policy decision that could be made if you feel that you want to give people in particular circumstances more help through the tax scheme. However, the existing scheme is working satisfactorily.

345. Mr P Doherty (IRRV): The existing scheme aligns with the GB scheme that has been operating for 14 years with no suggestions for change. However, before you develop any thoughts about change, some research should be done as to how that has impacted, because the scheme was a change from the previous one. Some research should be done to determine whether the scheme is effective, whether it needs broadening, and whether it is hitting the differently abled sector in different ways.

346. Mr Magor: Circuit-breakers are used by some local authorities in the US. I have carried out quite a detailed study of them, and they do not work — for lots of different reasons. The US does not have the same culture as GB and Northern Ireland in relation to filling in forms, applying for benefits and being absolutely honest. The problem in the US is that circuit-breakers tend to be introduced as a short-term measure to help people who are believed to be in poverty. Their income is examined to see what proportion of that income should be paid towards the property tax.

347. If you have an effective relief scheme — which you have in Northern Ireland — and if you have an effective scheme to top up that relief, then why would you want to think about circuit-breakers? They are crude and would be a massive administrative burden if they were to be applied to every taxpayer: the family make-up and the income of every household in Northern Ireland would have to be identified, and some of those households may not have thought about applying for any form of relief. That would then have to be related to their tax bill, there would have to be a definition of income, you would have to decide how you would deal with the cap, and it becomes an enormous problem.

348. Circuit-breakers are, obviously, used in the United States but not by every local authority. There are 14,000 taxing jurisdictions in the United States. A small proportion of them use circuit-breakers, and they use them in a very crude way.

349. There is no detailed research regarding the use of circuit-breakers. Before even considering making any move in that direction, some detailed research will be required on where the information would start to be gathered from. For example, how would those who are self-employed be dealt with if circuit-breakers are introduced? How would information be gathered from HM Revenue and Customs (HMRC)? I can think of numerous problems; I cannot think of any advantages.

350. Mr P Doherty (IRRV): Of course, there would also be an impact on the housing benefit subsidy if it worked in partnership with something else.

351. Mr Magor: It depends how the scheme would be made to work. If circuit-breakers were used instead of the benefits schemes, or if they were used in parallel with the benefits schemes, it would have a dramatic effect — depending on what level the circuit-breaker was set at.

352. I am not sure what the aim was behind the proposal for discounts for owner-occupiers. Obviously, there are a large group of owner-occupiers, and you would discount them against people who are not owner-occupiers.

353. Mr Weir: I suspect that the proposal was aimed at dealing with the issue of second homes, particularly in some of the coastal areas.

354. Mr Magor: It may be easier to make second-home owners pay more; rather than giving discounts to owner-occupiers.

355. Mr Weir: It is slightly wrongly phrased in that regard. I assume that that was the thinking behind that suggestion.

356. Mr P Doherty (IRRV): Again, in the US, in addition to the circuit-breaker issue, there are what they call "homestead exemptions"; it varies from state to state. That is the problem with trying to describe what happens, but essentially it is a way of giving a discount to owner-occupiers. Frankly, they do not work; they are indiscriminate. Home ownership is very high in the UK — approximately 70%. Therefore, why would you want to give a discount to 70% of the tax base?

357. If that proposal is related to the issue of second homes, it should be tackled the other way round — the levels of charges on second-home owners should be considered. However, politically, that has caused a lot of problems in GB under the poll tax. At one point, second homes were taxed at twice the level of owner-occupied properties. There was huge fallout over that.

358. Mr Beggs: Obviously there would be fallout depending on the level of the charge. How are second-home owners identified? Is there a practical method of doing that? Has it been implemented anywhere that you are aware of?

359. Mr Magor: Where there is a high level of second homes, the majority of local authorities have introduced the scheme. However, that penalises the owners of second home, as opposed to giving discounts to other people.

360. Mr Weir: I assume that there is a certain element of spin in the way that the consultation process has been carried out. The suggestion is for a discount for owner-occupiers. However, in practice, there will not be much of a discount at all — it will simply result in a higher premium for second-home owners. I assume that that is what was intended. Therefore, people should not get too hung up on the exact wording.

361. Mr Magor: The answer to the question is that those schemes are working. It is debatable whether they are a disincentive to people buying a second home — I suspect that they are not. However, it is part of a bigger argument about the housing issue and homeless people.

362. Mr Beggs: Regarding the administration of running such a scheme, is there much evidence of fraud, and of people claiming that they do not have a second home, and so on. Does it work?

363. Mr Magor: The scheme works. There is no particular administrative problem.

364. Mr P Doherty (IRRV): Basically, they pay the same level of council tax as everybody else. It is as simple as that. Therefore, there is no incentive and no disincentive. The local authorities get the name of the occupier, the owner, and they charge them.

365. Mr Beggs: The same applies in Northern Ireland at present; people pay rates at the standard rate.

366. Mr Magor: There would be no difficulty in actually applying a penalty rate — no difficulty at all.

367. Mr Beggs: Other than finding out who owns the second home.

368. Mr P Doherty (IRRV): There is an administrative issue regarding identifying second-home owners in the first place. However, it is important to remember that second-home owners do not tend to change and sell properties as quickly as owner-occupiers. People tend to buy a second home and keep it for x number of years.

369. Mr O'Loan: Did you indicate the systems or levels of penalty that will be used?

370. Mr Magor: No, that will depend on the impact. There have not been any statistics gathered on second homes in GB. The level of penalty will be decided on a local level, according to the policy objective. For example, the imposition of a penalty rate on properties would be effective if the policy were to use the tax system to try to discourage people from buying second homes.

371. Mr P Doherty (IRRV): Under the poll tax the charge was twice the standard charge, which resulted in significant political fallout, and that was changed fairly quickly. It did not last the three years of the poll tax. Initially, the charge was 200% as against 100%.

372. Mr Magor: To return to the GB system, the council tax is based on a sole or main residence. There used to be a discount because second homes were not used as a sole or main residence, so, effectively, second home owners used to pay less than everybody else. There is nothing to prevent the Department from devising a system that would penalise people for owning second homes. That would depend on the policy objective that you want to achieve.

373. In relation to the enhanced discount for farmers, they may have land, farm buildings and homes for which they can, if they are taxpayers, apply for benefits like anyone else. However, properties, land and buildings that are used for agricultural purposes have always been discounted, traditionally. It is a matter of policy objective, whether you want to increase that discount and develop it even further

374. Mr P Doherty (IRRV): Currently, there is a 20% allowance for the assessed value — previously, it was 10%. The allowance in GB was typically 10%. Whether or not to give the discount, and how much that should be is a straightforward policy decision. We would not say that we are for or against it. However, it recognises the restrictions that farmers have on their properties in the general marketplace.

375. Mr Magor: One longer-term option for fundamental change is the banding of house values, which is used only in GB, out of all the countries in the world. People have forgotten that banding was introduced as it was the quickest way of getting out of the poll tax. The banding scheme and the valuations for banding purposes were all delivered in six months. That included the devising of the legislation, delivering the values and billing by the local authorities the following year. That was driven by two factors: first, there was a desperate desire to get rid of the poll tax; and, secondly, abolishing the poll tax meant putting another scheme in place that funded local government. Therefore, everyone in central Government, local government and the private sector worked hard to introduce the council-tax system. The problem was how to value many millions of properties in such a short time span, and that was why banding was introduced. Front-door valuations were used, resulting in all those television programmes in which people claim that their properties are undervalued. The valuation process in GB was not precise.

376. The situation in Northern Ireland is almost the direct opposite. Computer-aided techniques have been used, and, more significantly, there is a wonderful source of information about properties, which is not as strong in GB. There was an attempt to move to the Northern Ireland system in GB, but that has been abandoned. We still use the banding system, which is hopelessly out of date, as the bands were first introduced in 1993. It is beginning to look like the old rating system prior to the introduction of the poll tax. They are doing exactly the same again: it is a case of "been there before, got the T-shirt".

377. Whatever happens in the future regarding the property-tax system in GB, something must be done about banding. Generally, in the banding system, there is a relationship between the bottom band and the top band, which is in itself regressive. Currently, in bands A and H in GB there is a 1:3 ratio, and it is arguable that that ratio was chosen as a political decision rather than a sensible or a fair decision. In any case, it is arbitrary. Banding was chosen as a compromise in introducing the new system. The intention was to band on a regular basis, and to change to individual values at the first opportunity.

378. There is still a great fear of the direct nature of the property tax, and therefore, it is the property tax and the banding system that comes under pressure. However, if the graduated tax scheme were introduced there would be no need for banding, because that gives you a banding system that could be far more refined, and decisions could be made at a local level. We do not recommend banding house values, but if you want the tax to have a different impact on different types of property use the graduated tax scheme.

379. Mr P Doherty (IRRV): You are using the graduated tax scheme then on a progressive tax base. A move to banding now would be a completely regressive step in our view.

380. Mr Magor: You have to be very careful what you say about local income tax nowadays, because of the impending decision in Scotland. The arguments on local income tax have been well rehearsed — are you going to have true local income tax, or a levy raised at the centre and distributed to local government? If you have a true local income tax there are then the problems of administration, and a lot of research has been done on how that would be implemented, and the speed at which HMRC could implement it.

381. The president of the IRRV said that when it was announced that it would take six or seven years in Scotland, he thought that he had misread it and that it would take 67 years. That is most likely right, because the quality of the information held by HMRC is the massive unknown. It holds lots of information about people on PAYE, but what about the rest? The PAYE information is based on place of work, as opposed to place of residence, and therein starts HMRC's problem. If you have true local income tax you will completely have to restructure the tax system. Logically, it would be collected at national level rather than at local level, and HMRC would have to keep all that data up to date. The last time that individual person data — movement of people — was used in GB was the poll tax. That did not work. The administrative challenges for a true local income tax are enormous.

382. Having said that, one has to be a realist and say that it would be linked to the ability to pay. The real problem with local income tax is that it does rather target those on PAYE, who can almost be regarded as the victims of local income tax, because they will be targeted straight away, whereas the self-employed would perhaps be in a more advantageous situation.

383. The real issue is the old argument about the rating system — the widow living next door to the house full of burly bricklayers and they are paying the same rate bill. While local income tax works the other way round, think about the household with three young people working on the minimum wage who suddenly have a local taxation bill to be paid through their income. What do they do? Perhaps one of them has a job in somewhere like McDonald's and suddenly is paying

up to £5 a week in local income tax. That person is going to go to McDonald's and ask for more wages to pay for that, otherwise the minimum wage would have to rise. Studies have been done by lots of people on local income tax being a disincentive to work, and what the inflationary effect would be on wages. All those issues stand aside from the administrative ones. Governments need to think very carefully.

384. The debate is going to be had in Scotland, but, of course, it does not have pure local income tax. What we are talking about is 3p at the centre, and the money is going to be distributed.

385. Mr P Doherty (IRRV): Assigned revenue.

386. Mr Magor: The problem is that local services in Scotland estimate that the council tax will be 7p in the pound, so where is the other 4p going to come from? Will it be paid through Exchequer grants? How is it going to work? There is talk of a council-tax freeze, and that all has to be put in place if that change is going to happen. The tests will be undertaken in Scotland, and already the Scottish Parliament has set up the abolition of council tax working party. The IRRV is giving evidence to it, and what happens when the consultation paper goes out should be quite interesting. The HMRC may magically make it work, and suddenly come up with some way to capture all the information. No doubt it will deliver that far more effectively than its other face-to-face administrative tasks, such as tax credits, at which it failed miserably. The whole nature of the way HMRC operates will have to change to make local income tax work. That does not mean that the local income tax is not fairer than the property tax. — it is. However, the problem is the administrative cost and the way that it is delivered.

387. Mr P Doherty (IRRV): It is interesting that David mentioned HMRC. Two weeks ago, I happened to be in Shipley doing some work with HMRC. Over 400 people are employed there to clear a two-year backlog of refunds to taxpayers. That makes you think about its administrative processes.

388. David has not touched on the political side of local income tax: accountability, transparency and openness. If I were to go round the table now and ask how much you will pay in income tax or national insurance this year, not one of you could tell me. However, if I ask you how much your rate bill is, I bet that every one of you could tell me. That is a form of accountability: its greatest strength is its greatest weakness. The openness, accountability and transparency of the rating system are also its biggest weaknesses as far as taxpayers are concerned. I could walk out into the street and ask anyone how much they pay in rates, and they know. We see that as a major strength for the rating system, accountability and local government.

389. Mr Magor: The income-tax-varying powers —

390. Dr Farry: Sorry to interrupt, but I have a question for David.

391. Given the situation in Northern Ireland, is there the potential for the administrative problems to be less acute because rates are not only for the benefit of local authorities? There is a district rate for councils and a regional rate goes to the Assembly. If the decision were taken to replace only the regional rate with income tax and to keep the district rate for councils, thereby essentially setting one rate for Northern Ireland to replace the regional rate, would the administrative problems be as acute?

392. Mr Magor: The problems would not be as acute because one standard tax rate would apply throughout Northern Ireland. It would be a local tax-varying power similar to that in Scotland and, undoubtedly, its administration would be relatively simple. However, as that tax would be collected through the income-tax system, it would impact on people who are on PAYE. It would

mean an increase in income tax, affect relative wealth and poverty, and so forth. Subject to all those considerations, the transparency of the system and any other issues, it would work.

393. Mr P Doherty (IRRV): The assumption must be that it could be complicated by the proposals for the administrative changes in local government when, presumably, some of the services that are currently run at regional level will be devolved to local authorities. The overall impact of that requires careful consideration.

394. Dr Farry: There would have to be a balance between the regional and district rates.

395. Mr P Doherty (IRRV): Frankly, by the time that services have been transferred, it may not even be worth thinking about it.

396. Dr Farry: It sounds as though we should keep control of most things.

397. The Chairperson: We must keep our options open.

398. Stephen has been battling for local tax-varying powers for some time, so let us indulge him.

399. Dr Farry: I thought that the Sinn Féin members were not too far behind me on that.

400. Mr Weir: They are disappearing in the rear-view mirror.

401. Mr Magor: As we work in the system, we are realistic about local income tax and how it works. We have examined different models of income tax internationally. The obvious model that people highlight is that of Sweden, where local income tax replaced the property tax. However, that is the only country in Europe in which that has happened, and there are arguments about how successful it has been and what impact it has had on accountability at a local level. However, that is a much longer argument for another day.

402. Mr P Doherty (IRRV): Ironically, we have worked, and are working, in countries that are introducing property tax.

403. Mr Magor: We have not done a great deal of research on local sales tax. The last time that a lot of work was done was prior to the introduction of VAT, and I have not researched it at a European level. However, probably due to the way that VAT is administered across Europe, a local sales tax cannot be introduced without some direction from Europe. Research must be carried out on that before it can be considered.

404. Local sales tax is very popular in the US, and there is a big move for it to replace property taxes. However, there is no value-added-tax in the US. Local sales taxes in the US have been around for several years, but some areas have high taxes and some areas have low taxes. The first issue to consider is the relationship between local sales tax and VAT, how it would work and whether it is legally permitted.

405. After that, then, there are issues such as cross-border shopping and administering equalisation. The issue of a local sales tax has been well rehearsed, but the legality of such a tax would have to be checked before potentially wasting time and money on working out its distributive effects.

406. Mr P Doherty (IRRV): On the question of a poll tax, we would simply say, "why would you?" We worked in that system, believe us.

407. Mr Magor: The idea of a tourist tax is interesting. Tourist taxes are levied across Europe, so it would be wrong of us to say that it is not important — it certainly is. Pat and I have different views. Pat supports it; he comes from Harrogate. I come from Oxford, but I do not think that it is a very good thing. Why tax tourists? It is a policy decision: what impact would a tourist tax have on the holiday industry and on people coming to Northern Ireland? I really do not know, but various landing taxes and tourist taxes are levied all over the world, and they are major sources of revenue. It could be applied in Northern Ireland, but it would require proper consultation with stakeholders as well as research into the management of the tax and its yield. Where would it be collected? Would it be a room tax or a landing tax? How would it be managed?

408. Mr P Doherty (IRRV): There is another side to that coin. In my days as a financial officer in Harrogate, we placed a levy on business tourism. It was an unofficial tourist tax, which the hotels paid to us per visitor night. It brought in several million pounds and we saw it as a good thing. I read the statistics recently; 6.9 million people visited Belfast last year. We could not get a room in the city last night. The infrastructure that has to be built around those visitors costs local government and central government in Northern Ireland a hefty annual amount. Why should there not be a return on that for the local authorities that create the infrastructure? It is a painless tax. It is added to the bill, collected by the hotels and paid to the local authorities.

409. Dr Farry: I assume that your perspective on that is not overly coloured by what happened to you last night?

410. Mr P Doherty (IRRV): It is coloured by the fact that Belfast had 6.9 million visitors last year.

411. Dr Farry: Is there any evidence that areas in which a tourist tax has been levied successfully tend to have an already well-established demand for visitors, such as Manhattan? People will always be attracted to New York, irrespective of a tourist tax, and the authorities there can add a 10% room tax to hotel bills without any real loss in tourism due to the elasticity of demand. Northern Ireland, however, is in a much more competitive market alongside Scotland and the Republic of Ireland, and a tourist levy would be detrimental to our attempts to grow our economy. Our tourist infrastructure is far less developed than those of our competitors, and we should not deter tourists from coming.

412. Mr P Doherty (IRRV): Those are the issues that would have to be considered, and that is where research comes in, to try to assess what the impact of a tourist tax would be. However, I do not think that it would be as high as 10%. The percentage levied, whether in France, Germany or the United States, is typically between 1% and 3%. The government sales tax in New York is around 1.5%.

413. The Chairperson: The debate will hinge on whether we have optimised tourism potential and whether the market has matured. I suspect that people would be concerned that we have not achieved the level of stability that would allow us to consider such a move.

414. Mr P Doherty (IRRV): An extra 1% on a bill — £1 a night — is not going to affect anyone's decision to come to Belfast or any part of Northern Ireland. It is about carrying out research and making a judgement as to whether it is a good or a bad thing, or what its impact will be on visitors. The idea should not have the door closed on it.

415. Mr Magor: Pat is correct. The economic effect has to be measured, as well as the impact on Northern Ireland's tourist industry as a whole.

416. Having come to Northern Ireland for several years and watched the growth in tourism, when I left the city last night, my eyes were opened. Although I may not have spent enough

time in Northern Ireland, I have been around, and I have seen how the tourism infrastructure is developing in areas outside of the city. It would be sad to affect that in any way. The tourism industry in Northern Ireland has not yet matured; there is a long way to go and the potential is enormous; however, I am not a tourism expert.

417. The Chairperson: That is on the agenda, you have addressed it and people will consider the pros and cons. Possibly, a cost-effective approach might be to ring-fence the revenues in order to further develop the product.

418. Mr Magor: Turning now to road charges, we prefer to call these “traffic-management” charges, which sounds a little less aggressive.

419. The Chairperson: He spins like a spin doctor.

420. Mr Magor: It broadens the discussion. Given the available technology, the term, traffic-management charges, applies to road calming and lots of other measures. It is not necessary to use measures that are as crude as speed cameras. There are many different methods. For example, lessons were learned about the effectiveness of spot cameras on motorways, which resulted in the introduction of variable-speed cameras.

421. If one is considering raising revenue, one thinks of congestion charging in London. Irrespective of what has been said about the effectiveness of the administrative process, congestion charging works well — very well. It has raised an awful lot of revenue; however, it is questionable as to whether it has achieved its desired effect. Traffic-management technology enables you to make the choice. Implementation is simple and is no longer a technological challenge. Once implemented, collection processes are also effective.

422. The real decision to be made is about how much the Government wants to impact on the motorist, which raises the issue of ring-fencing revenues. Should that money go back to benefit motorists in the form of improved roads and public transport?

423. Traffic management charges encompass many measures, including parking charges. They are viable sources of income, and modern technology means that the cost of collection is relatively low and enforcement performance is high. However, implementation decisions are political and will affect motorists.

424. Mr P Doherty (IRRV): The economic impact on city centres is also relevant, particularly in an area such as Northern Ireland in which 60% of the population work in Belfast. That figure may be wrong; however, the economic impact of such decisions must be considered.

425. Mr McQuillan: On that point, how would such a measure work in Northern Ireland? Could it work?

426. The Chairperson: We would start somewhere and then roll it out.

427. Mr P Doherty (IRRV): It could work. London is not the only example. Durham is a small city in the north of England that introduced congestion charges. The decision to adopt traffic-management measures comes back to what you want to achieve and what would its economic impact would be.

428. If, for example, a congestion charge were to be introduced in Belfast — which, going by this morning’s evidence, could certainly do with such a scheme — half of the workforce might suddenly stop coming into the city centre and move their places of employment — if that were

possible. Although that is an exaggeration, such a scheme would have a major economic impact on city. As we said earlier, in addition to deciding what you want to achieve, it would be important to undertake an overall economic impact assessment. However, to answer your question, it could work. Given the one-way systems in Belfast, it would be quite easy to position the charging cameras at various entrance and exit points in the city.

429. Mr Magor: Administration is no longer an issue. The real issues are economic and the impact on motorists and how they should be treated.

430. Mr P Doherty (IRRV): It would be a major political decision.

431. Mr Magor: There are numerous successful methods to administer such a scheme.

432. Moving now to green taxes, the Institute of Revenues, Rating and Valuation generally supports their introduction. In the evidence that we presented to the Lyons inquiry into local government, we suggested a range of green taxes including green increments and the local availability of green cards that would enable people to earn green credits through recycling, managing carbon emissions in their homes and so on. We identified lots of different methods. People would then use those green credits to pay for local taxes or services.

433. So there are lots of incentives. Consumers could earn green credits and use them to pay for local taxes or local services. There are, therefore, many ways of introducing green taxes or linking environmental matters to the local property tax or to local services. I would be happy to produce a lot of data on that, because I believe that it is a sensible way of improving matters relating to the climate and global warming. It seems logical to start introducing measures for the home, and then move on to industry. There is some interesting work being carried out by the Social Market Foundation in relation to the carbon footprints of industry and how they should be taxed. All the data is available, and it is viable to link environmental issues to the taxation system in some way, and there is no reason why it should not be linked at a local level.

434. People should not be penalised for not recycling: instead, they should be incentivised to recycle. I have a nectar card and a Boots advantage card, and if I had a similar card on which I could earn points for recycling, I would be incentivised to recycle. Incentivising with adequate rewards for green increments is a way forward, and we have looked at that in great detail.

435. Mr Beggs: How could it be practically introduced, or has it been introduced elsewhere? Are you suggesting that barcodes are put on bins so that the authorities can check whether a householder is using his or her blue bin, for instance, effectively? Is that the sort of practical measure you are talking about?

436. Mr Magor: Many different schemes have been implemented all over Europe. However, the ham-fisted approach of putting microchips in wheelie bins that was adopted by some authorities in Great Britain was silly. There are many different ways of managing that process, but people should be incentivised rather than penalised.

437. Mr Beggs: What is the alternative to microchips or bar readers?

438. Mr Magor: Microchips and bar readers will be used, but not secretly, and the householders will be incentivised rather than penalised. Those chips were inserted in the bin solely to record the weight of the rubbish. They were connected to a device at the back of a dustcart where the bin was weighed. That is a crazy way of operating. It should be done the other way round. People should be incentivised to recycle. If a bin is overfull, the chip will detect that, but the chip should be a means to reward people rather than penalise them. We are not refuse-collection experts, but sometimes it pays for the refuse-collection experts to listen to the public. The

availability of green increments and incentives for people who want to recycle or insulate their homes, for instance, is better than penalising people and using the issue as a tax-raising process.

439. Mr P Doherty (IRRV): There are other simple measures, such as the tax on plastic bags. One only has to look south of the border or to Denmark to see how effective that has been. In the Republic of Ireland, something in excess of one billion plastic bags have been taken out of circulation, and €30 million has been raised in the process. The combination of those must be of benefit. The Danish Government imposed the plastic bag tax in 1993, but it has not been considered for Great Britain. The tax on plastic bags is a simple measure compared with the more policy-driven measures that Mr Magor is talking about. We can do a paper on it if you like.

440. Mr F McCann: Has there been research carried out on the administration of green taxes?

441. Mr Magor: There has not, and we are funding research with a couple of universities on low level matters, because we are not a particularly wealthy institute. However, we have some ideas for the green card which should be a swipe or a chip-based card on which people will earn credits and use them for the payment of local authority services. A couple of private-sector organisations are interested in that. Research, therefore, is under way, but not enough work is being done on that side of things. There are lots of ideas about green taxes and green increments, but not enough work is being done on the administrative side.

442. Considering how technology is moving forward, it is achievable to develop something. One tends to look at technology now, specify what they want, and a device is developed to their specification. That is how things are nowadays. Technology is such that there is no reason why an effective administrative scheme of managing green taxes cannot be introduced.

443. The Chairperson: You mentioned the need for education and the raising of consciousness regarding green issues, but revenue streams can be protected for that purpose.

444. Mr Magor: The Government underestimate the enthusiasm of the majority of the public to participate in recycling and the improvement of the environment.

445. They underestimate how strongly people feel about that, but the research must be done.

446. Ms Purvis: How would those people who do not pay rates be incentivised?

447. Mr Magor: People use local-authority services, so if it were done at a local level it would be no different to any other rewards card. There are loads of ways in which it could be done; incentives could be offered in partnership with commercial organisations. People could use their green credits in partnership with, for example, Tesco. There are loads of different ways of providing incentives but not enough work is being done in partnership with the private sector. Mr Doherty mentioned plastic bags. Local authorities could work more effectively with the private sector to deal with packaging and other green issues. Those issues are often considered to be insurmountable. I do not think that they are, although not enough innovation has been applied to them.

448. The Chairperson: Mr Doherty, did you indicate that you could prepare a paper for the Committee?

449. Mr P Doherty (IRRV): Yes, we can do that.

450. Mr Magor: The general principle of land value and direct land taxation is to tax the land, whether it is improved land or otherwise. Generally, land value taxation is applied to unimproved land on the concept of highest and best use. The tax is determined based on what the highest and best use of a plot of land is. The person who owns the land pays the tax. That sounds simple but the theory is that the taxable burden is passed through the hierarchies of ownership and occupations on that land.

451. If one was to start with a clean sheet of paper, one would start with land tax and consider an improved land tax — which is effectively a property tax — after a number of years. The land-tax theory would work for owner occupiers — where single plots of land are built on — and for land in a building. Countries in the new Europe, for example Lithuania, have a successful land-tax system which works well.

452. However, in a mature city such as Belfast, the introduction of a land tax would be difficult. There would only be around 15 tax payers because the ultimate and absolute owners of the land are a small amount of people. That is a problem in a commercial sense because the level of land tax would have to be so high to match the current yield of the rating system for non-domestic properties. The tax payer would have to defray that tax through the various levels of ownership.

453. The practical side of how that would work is interesting. I am giving a paper on it to Oxford City Council, where I used to work, because the controlling group there are interested in land tax. Oxford is a classic example of a place where, if a pure land tax were introduced in the city centre, there would be six tax payers paying an enormous tax bill, and they would all be colleges of the university. The current rates bill for the properties in Oxford city centre, which include Marks and Spencer, office blocks and a shopping precinct, is enormous. The owners of the land would be faced with a massive tax burden that they would have to quickly defray. I have not seen any examples of how that would work.

454. I have looked at the Pennsylvania study and it is quite misleading. Land tax has not been collected in that way in Pennsylvania. When problems came along they were not taxed; only the easy problems were taxed. If land tax is to be introduced, the impact on the non-domestic sector must be considered. It must be considered whether land tax can give the same yield of non-domestic rates for the same plots.

455. If land tax were accepted as a principle, it could be introduced into the domestic sector tomorrow because the plots of land are identified and the value of the land is easily achieved. However, the big yield is non-domestic. How would that be replaced with a land tax? I will ask that question in my paper to Oxford City Council, and it will be interesting to see how that is answered.

456. The Chairperson: At an early stage, the Minister of Finance and Personnel identified that as being worthy of consideration. That is perhaps as strongly as that could be put. However, there have been some interesting papers and discussions on that subject. Perhaps your own paper will add to the discussion.

457. Mr Weir: There is an added complication with introducing a land tax in Northern Ireland. Land law across the whole of Ireland is radically different to that in England. Registration of land is less frequent and the law is much more complex — massively more complex from an administrative point of view. It would present even greater problems than the various difficulties that you have described in other parts of the United Kingdom. It would be next to impossible.

458. Mr Beggs: I want to ask about the non-domestic sector. I am interested in dealing with the sizeable land-banks that have been created. These are cases where land has planning and

general approval for building for domestic purposes, but where the landowner has just sat on the property.

459. Are there any complications in introducing some sort of tax that would encourage the landowner to introduce that land into the housing sector?

460. Mr Magor: Over the years, there have been various taxes related to that problem. There have been many attempts to try to tax vacant sites. Taxing them would not present a problem. If there is vacant land that is not built on, to tax it to its highest and best use would encourage the use of it.

461. There are different views on that; but if the tax is set high enough, a point will be reached where it is cheaper for the landowner to develop the land than to continue paying the tax burden. That is a viable new source of revenue for Northern Ireland — and GB for that matter — if the Government felt strongly enough to take the bull by the horns.

462. The Chairperson: That would also discourage land banking.

463. Mr Magor: It would discourage land banking and encourage good bringing land into good use.

464. Mr P Doherty (IRRV): However, it would have to be a very specific, rather than a general, land tax.

465. Mr Magor: How it would work would make for an interesting piece of research in Northern Ireland, particularly in Belfast. One looks around and sees massive potential for development in the city. It is certainly a viable option.

466. The Chairperson: Let us move on to the subject of derelict land.

467. Mr Magor: Derelict land falls into the same category. There are always problems with contaminated land and the definition of derelict land. If land can be put to use, and if it has no problems with contamination or other inherent difficulties, a derelict land tax could work in exactly the same way to encourage landowners to bring that land into use. The concept of highest and best use could be applied here also. It would have an interesting effect.

468. Mr P Doherty (IRRV): Sir Michael Lyons, in his report, saw that as something worthy of further research.

469. That is concludes our evidence.

470. The Chairperson: That was very interesting. You have raised many issues and your evidence has been very helpful in our considerations. Do Members have any final comments or questions?

471. Mr Weir: I agree that it was extremely helpful. To be honest, members had not given a great deal of thought to a number of those aspects and were unaware of the practical implications. We would not necessarily have dealt with those aspects in our experience.

472. The Chairperson: Thank you very much, David and Patrick, for your assistance.

473. Mr P Doherty (IRRV): We are very sorry that we were late this morning.

474. The Chairperson: Let us move on to item five on our agenda, the review of domestic rating reform. Victor has been waiting patiently. The Committee offers him apologies. The last session was both late starting and then overran because of the range of issues that came up. You heard some of the presentations. I invite you to proceed.

475. Mr Victor Hewitt (Economic Research Institute of Northern Ireland): From what I have heard, the Committee has covered much of this ground already. I have prepared a short paper, at short notice, in which I have echoed many of the points you have heard this morning.

476. Occasionally, it would be useful to be a little provocative in some of the analyses. Members have probably gathered by now that the subject matter is not easy. I used to say that anyone who worked in rates for too long eventually went mad. There is probably some living proof of that around.

477. Rates inevitably get mixed up with issues such as equality agendas, and so on. It also raises notions of fairness. Just to be provocative, I suggest that quite a few economic crimes have been carried out in the name of fairness. Sometimes, it is useful to take Scrooge's approach and be suspicious of certain proposals that merely amount to an excuse to pick people's pockets.

478. I have gone through the various options that have been identified by the review of domestic rating and the consultation report, many of which the Committee has already discussed. I am not sure how the Committee wishes me to proceed. Members have the paper in front of them. If they want me to go through it, I am happy to do so. Instead, they may wish to choose issues from the paper for discussion.

479. The Chairperson: I shall invite members to ask questions. In order to economise your time and effort, Mr Hewitt, perhaps you could highlight the particular issues that you would like the Committee to consider.

480. Mr Hewitt: There are issues about how broad the range of taxes should be upon the people who live in the jurisdiction. That comes down to caps and floors, and so on. Theoretically, under the current system, every household could pay a different amount for essentially the same services. Therefore, the range of taxation could be extremely large. For example, 20:1 could be the range of figures. Essentially, local Government and the regional Assembly are there to provide services. Taxes are there to pay for those services. We must not forget that we pay for services. It is not a good idea to disconnect totally the services that are consumed from the amount that is paid for them, because people then feel that they are being punitively taxed for the consumption of what are, ultimately, relatively few services. Therefore, the Committee must contemplate how big the range of taxation should be.

481. The water-tax proposals, for example, are a precise illustration of that because those proposals are essentially based on the rating system. In fact, for all intents and purposes, they are the rating system. When I spoke to another Committee, I said that if the word "petrol" were used instead of "water", one person, when asked at the pumps about the value of his or her house, would be charged £10 per litre for petrol, while another would be charged just £1 per litre. That is the sort of situation that could arise. Ultimately, all of that must be paid for. However, the importance of ranges must be kept in mind.

482. There is no argument about whether there should be rating of vacant domestic property. Valuable assets should not be derelict or unused.

483. There are various amendments to the rating scheme. I have introduced a matter that is seldom brought into the light, which is the parity principle. The idea is that as long as the

Assembly does not depart vastly, though lavish expenditure or taxation, from the tax burdens that are borne by the rest of the UK, it will benefit, because the deal is that any deficits in the Budget will be made up by the UK taxpayer. If the Assembly is lavish in discounts and abatements, or in the services that it provides, it will start to stretch that principle.

484. Perhaps that principle is not as important to the Treasury under devolution as it was under direct rule. Under direct rule, people were reminded about it from time to time, and it is worth bearing that in mind.

485. I heard the argument about the early payment discount. In the private sector, if a company allows people to spread the cost of paying for something over time, it charges a fee for the privilege. Car insurance is a good example; people can pay for it in 10 or 12 instalments, but they usually pay more than they would if they paid the full sum up front. However, from what I can see, we give a generous discount to people who pay up front.

486. A graduated tax system was mentioned. Members can see how that will operate. You can defend an upward graduation to some extent because it is progressive. A downward graduation will inevitably be a bit regressive. At the end of the day, that is a policy decision.

487. I was interested to hear what was said about the single person discount. When you start giving almost automatic discount to particular groups, the situation becomes very difficult, because lots of people who are not really entitled to that discount will claim it. In general, I am hostile to automatic discounts of any sort — they contain too much deadweight.

488. An enhanced discount for farmers was mentioned. To be provocative, perhaps one way forward on local taxation is, rather than to keep thinking about narrowing the tax base, to think about broadening it, but lowering the rates. You would bring more people into the net, and, therefore, you can charge less, instead of taking people out of the net and having to charge more those who are left more.

489. There are issues about whether agricultural land should continue to be entirely exempt from rates. Why should we give a special privilege to that asset as opposed to others? Those issues are worth thinking about, and members should not close their minds to them. They pose difficulties, and there are arguments against them, but the general principle of spreading the tax base widely is a good one. It brings people in and engages them with the services that they consume. It starts to get away from the special pleading, or what economists call "rent-seeking behaviour", among individuals, where they attempt to change the system in such a way as to confer a particular benefit on themselves. The energy is going into changing the system, rather than going into generating the wealth to pay the taxes that would otherwise fall on them. It is worth bearing that in mind.

490. Banding was mentioned, and that is a way of keeping down the range of the tax payment, to some extent. It must be regularly updated, as the previous witnesses said.

491. Local income tax has always been on the cards, but it has practical difficulties, as the Committee heard. You would need primary legislation in order to introduce it. You cannot order HM Revenue and Customs (HMRC) to do anything at the moment. Frankly, given the state of HMRC, I am not sure that it would be capable of doing it at present. There is an issue of paying according to residence, as opposed to workplace. The legislation would need to be taken through Westminster.

492. The Scottish Nationalist Party (SNP) is attempting to introduce a variation of local income tax — 3p in the pound — by 2010. As the previous witness said, instead of rushing into

introducing that sort of tax, you can watch the interesting experiment that is taking place on your doorstep and see how it proceeds.

493. Westminster launched a shot across the bows by saying that, if the Scots do away with the council tax, they will lose the council tax rebate, which is paid by Westminster. They would lose £450 million of council-tax rebate, and they would have to make up that amount. There is an argument for saying that there are still poor people in the local income tax system, and Alex Salmond seemed to think that efficiency savings would make up the £450 million.

494. The Committee must think about all the consequences that would flow from introducing local income tax, including the economic consequences. As I have said, taxes on income inevitably are taxes on employment or taxes on effort. That is not something that you need to rush into. I would have the same view on income-tax varying powers.

495. There are issues of legality surrounding a local sales tax. Looking back, the Northern Ireland Administration in the 1920s or 1930s did have the power to vary sales taxes in Northern Ireland as compared to sales taxes in Great Britain, but it was never utilised. I would need to look at that again, but it was mentioned by Professor Lawrence in his book. A lot of those things are lost in time.

496. The poll tax is really a medieval concept. It worked in medieval times because it was difficult for people to move around then — most people lived their lives within about five miles of where they were born. However, in a modern society when a burden is put on individuals, they will move and be difficult to track down. The poll tax was a reasonable principle for medieval times but probably not for our times.

497. I have heard both sides of the argument for a tourist tax, and there are merits in looking at that. I do not know whether the tourist market here is matured to the point where it would be able to take that strain. It might be a very modest strain. There would also be issues surrounding the tourist attractions: where are they and would they benefit from the tax? Would it be done at a regional level where the money would be distributed out on population as is done with the non-domestic rate? Again, it is worth thinking about, but I do not think that it would raise an enormous amount of money.

498. We sometimes get a bit mixed up about the purpose of road charging: is it to raise revenue or is it to deal with traffic management? The basic idea is that road space is, at various times of the day, of different value to different people. At rush hour the road space is very valuable indeed, and in the middle of the night it is not very valuable. There would be tolls and charges at different times of the day. I was in Spain recently, and the toll road changed from its summer toll rate to its winter toll rate on the recognition that there are not going to be too many tourists in the winter. However, the road was empty on either rate, because the traffic was using another road — but that is a policing difficulty.

499. Land value taxation is much beloved by economists because it is, theoretically, very efficient. It does not disturb other choices. The practicalities are that you never start with a blank sheet of paper; when introducing the tax you always start with some distribution of property rights, and that will shift the burden from property owners to landowners. There have been occasions when the UK was tempted to introduce some sort of land value tax. The first occasion was in the first part of the last century and led, in part, to the crisis with the House of Lords and the passing of the Parliament Act 1911. There was another attempt just before the Second World War, when it actually reached the statute books but was never implemented. There are power struggles between different groups in society when you start changing the burdens of taxation within society. However, in principle, it is a very efficient way of taxing as it does not disturb the choices that people make.

500. That is a very quick run through my submission, and I am happy to answer any questions.

501. The Chairperson: Very well done, Victor.

502. Ms J McCann: I did not hear the green tax mentioned.

503. Mr Hewitt: I have missed out a few.

504. Ms J McCann: What is your opinion on green taxes?

505. Mr Hewitt: Green taxes are a bit like the road taxes in some ways. You would be trying, first and foremost, to modify people's behaviour with green taxes. They are not just revenue-raising mechanisms. In principle, they could be neutral in the amount of revenue raised. You would be trying to stop people from misusing resources over time. That could be done either through the penalty route, which seems to be the route that the UK is taking, or the incentive route. As explained by the previous witnesses, if you get the incentives right, that is the best route to take.

506. Ms J McCann: Does that increase revenue?

507. Mr Hewitt: Yes, if you want it to. The objectives of a policy must be set out. Is the primary objective to change people's behaviour so that they do not use as much material, they manage their waste properly and they do not abuse the amenities, or is the objective to raise revenue? If the intention is a mixture of both, then there is a question over the weight that is applied to each one. Often, the behaviour can be changed with a level of taxation that will not bring in a vast amount of revenue. Therefore, if revenue is the dominant feature, people must be charged more for their behaviour than is strictly necessary.

508. The Chairperson: Then we are penalising people rather than offering them an incentive.

509. Mr McQuillan: The discount for owner-occupiers, which is a bad title to begin with, is really about second homes. How do you go about addressing that problem, particularly on the north coast?

510. Mr Hewitt: As the owner of a second home, I declare an interest.

511. Is it a good idea to discriminate against those with investments and assets? People invest in a second home, which is an asset. It is often also used for lifestyle purposes. Is a second home an asset that produces adverse affects in the local area and therefore something that requires an additional rate of return in order to compensate? Possibly it is.

512. As mentioned earlier, there is no real evidence or research base on this issue, so we have to look at the experiences of other countries. However, the circumstances of other areas are different, so I am always cautious about saying that we should definitely do something when there is no great evidence base.

513. The problem on the north coast is that local people are being priced out of the housing market. The other side of that is that the owners of second homes are not putting as much strain on local services as local residents because they are not there most of the time. That goes back to the very principles of taxation; on the one hand there is a fairness agenda on taxation that says that ability to pay is everything, and on the other there is a benefit principle that holds that there should be a correlation between services consumed and the amount of tax paid for them. Over the centuries, the struggle between those principles has been the source of most of

our difficulties in taxation. Generally, the ability-to-pay principle has won, which is why we have progressive taxation. However, where tax is directly linked to local services the benefit principle is legitimate as it is more transparent. When you make national taxation payments, you receive a bundle of goods from central Government — such as defence and overseas representation — for which consumption cannot be quantified. However, with local services such as collection of rubbish — whether it is once a week or once a fortnight — there is a much more intimate relationship, and people look to see what benefit they are receiving from the tax that they are paying. That is when the benefit principle kicks in. It is a very difficult area.

514. Mr Beggs: You mentioned the issue of land value taxation, and that if there were a blank canvass there would be more freedom to come up with a workable system. I am concerned that if land value taxation was applied in a blanket fashion, there could be a detrimental effect on local jobs and small businesses. I previously worked in a textile company and another fabrication company, where survival seemed to be the main goal. Such businesses experience difficult times, and if land value taxation were applied in a blanket fashion, some companies would be pushed over the edge. First, do you think that such a policy would adversely affect existing businesses? Secondly, can land value taxation be applied solely to areas zoned for housing that have not been developed by those who are land banking?

515. Mr Hewitt: For businesses, it depends to a large degree on the extent to which the tax burden can be transferred. In the first instance, the landowner is legally required to pay the tax, but there is a concept in economics that is known as the incidence of taxation, whereby the people who end up paying the tax are not necessarily those who are legally liable to foot the bill. It is about whether the landowner can pass those charges effectively to the people who utilise the land or who have property on the land. There are difficulties with people who own the land and utilise it for business purposes. As a result, there will be a hit on the capital value of the land. It really depends on whether the local market is competitive, whether you can shift around, whether many landowners are trying to get people onto their land in order to pass the tax on. It is difficult for those landowners to pass the tax on. If there is a monopolistic situation, if there is not much movement, landowners will pass it on. Rents increase if taxes are reduced, and vice versa.

516. Land value taxation is an effective way of curbing speculative holdings, because the speculators are penalised if they do not bring the land into use quickly. That is good for areas that have become rundown or derelict and where a lot of land is sitting about that is not in productive use. It is partly not in productive use because there is no great incentive. It might be possible to isolate those areas. I am talking with some degree of ignorance here, but our ability to map the ownership of land in Northern Ireland is a little patchy. It can probably be done in the domestic sector, because of the various deeds, and so on, but the non-domestic sector may be more difficult. Usually the ownership of such lands goes back into history, depending on which robber baron arrived first. I am unsure whether Land and Property Services has an up-to-date picture of who owns what land in Northern Ireland.

517. Mr O'Loan: You did not give a definitive answer on the maximum cap. The revenue foregone is about £2.5 million. Is that figure worth getting excited about? What are the attractions in a higher cap, with possibly a taper on the cap?

518. Mr Hewitt: All sorts of combinations can be used. However, it comes down to whether a small number of people will be crushed with a tax, and whether they are in a position to pay that in order to generate a relatively small benefit for the rest — it is a distributional thing. I gave an average of about £1,000 for the 2,500 people who are exempted above the £500,000 threshold. There is a huge range within that, but there were big ranges in the old rating system as well. There would have been some very high net asset values (NAVs) on domestic properties, and a few people paid around £6,000 in rates. It is a distributional thing. It is about whether you want

to bring everyone in, or whether there are some groups of people — who are associated with high income on the basis of high property value — who are well able to bear the burden. I do not know that the correlation between high income and high property values is as precise as some might think. For example, a widow may inherit a large house, but the income level will go down. That effectively shifts the burden onto those who are asset rich and income poor.

519. The Chairperson: Victor, you have commented on the menu of options that DFP has outlined. Have you any views on other options that perhaps are not on that menu?

520. Mr Hewitt: You may be aware that we were asked to do some work on the issue of industrial derating, and subsequently on the small-business relief scheme. I do not want to preempt that. We have made some preliminary proposals to the Department. However, the full range of the work will probably not be completed for another week or so.

521. Part of our terms of reference was to consider alternative revenue sources. We have done so. Some sources that we have considered are in the sort of categories that have been mentioned, and some of them are outside that altogether.

522. We have opted for revenue raising, rather than modification of behaviour. We have opted for what would be an effective tax. An effective tax has to have a tax base that does not walk away, which is why houses are very popular for taxing. If additional taxes are introduced, people will do their best to evade them by one means or another. Therefore, we had to examine effective taxes that cannot be escaped from too readily. That does not mean that the measures that we are suggesting cannot be evaded, but they are not as easy to escape from as some may think.

523. We have carried out some interesting revenue projections — I am teasing you a little bit, but I do not want to reveal too much about that at the moment. It is quite possible to raise substantial sums of money through systems that are quite difficult to evade. The burden will be spread pretty widely; it does not fall on particular individuals. It does fall on a group of individuals, but that will be a very broad group of individuals. Therefore, there are other revenue-raising mechanisms.

524. We have had to bear in mind the restrictions of the legislation, which basically states that a tax of a similar character to a national tax cannot be introduced, nor can a national tax be modified. However, that still leaves opportunities. We did consider window taxes, but that was tried some time ago. There also used to be clock taxes, and that is why clocks were in town squares — people would not keep them in their homes because they were taxed on them. Therefore, a lot of measures have been tried over the years.

525. The Chairperson: I thought that the small windows in traditional Ireland had to do with the climate and managing the climate.

526. I might just let our barrister have a go at you first.

527. Mr Weir: In light of your last response, Victor, could you be a little bit less specific?

528. Mr Hewitt: There are other possibilities — satellite-dish taxes and measures such as that, which are not used in the rest of the UK.

529. Mr Weir: I know that you have made general reference to other options, and some of them were a little bit facetious. I appreciate that you are working on measures regarding small businesses. Leaving that aside, and the industrial derating aside, I presume that although you

have generally talked about other options, the lack of mentioning specific other options suggests that you regard the range of options that we have access to as reasonably comprehensive.

530. Mr Hewitt: I regard those options as fairly comprehensive.

531. Mr Weir: Is there anything specific outside the areas of small businesses and industrial derating that you are considering separately? It would probably be unfair too push you too hard on that. Is there anything really glaring that the Committee should be considering that we are not already aware of in some shape or form?

532. Mr Hewitt: Nothing has particularly leapt out from the research on this issue. Obviously, we are not finished yet, and we may want to think a bit further about it. This ground has been ploughed over many times throughout the world. If there were hidden gems out there, they are liable to have been uncovered by now. The reality is that there probably are not. It comes down to the issue of finding an easy way to collect the money, in which case something like property is the obvious choice, because a house cannot be put in a Swiss bank account. Is that the best way of doing it though?

533. If you go to the other extreme, and try to go for the individual, there are all the difficulties that generally go with individual taxation. If you go for assets you get into the kind of mess that we have with capital gains tax at the moment. Various things have to be done in different asset classes, such as hedge funds, which badly damage the small-business community.

534. Mr McQuillan: Has any thought been given to an urban tax and a rural tax, given that rural people have fewer services?

535. Mr Hewitt: There are certainly some interesting views from the United States about that. There is always a town and country distinction in America. There are something like 14,000 or 15,000 taxing jurisdictions in America, be it the state, the county, the city or whatever. I found, while travelling around some of the rural areas in America, that there was quite a lot of resentment in the rural community about having to pay for the education of children who live in the towns. People felt that their contributions should better mirror the services that they consume.

536. That takes me back to the distinction between the benefit principle, and the ability-to-pay principle. Another way to look at it is: does it cost less to provide services to people in rural areas? It probably does not, because there are economies of scale in towns. You can provide refuse collection, for example, much more efficiently in urban areas with a lot of people, and relatively small distances to travel between collections.

537. I am not really answering your question, but I am bringing onto the table issues that inevitably come up in this argument.

538. The Chairperson: Victor, that was much appreciated. It was straight and to the point, and very helpful. Thank you very much.

539. Mr Hewitt: If there is anything that ERINI can do for the Committee, please let me know.

540. The Chairperson: That is

541. excellent. Thank you.

Appendix 4

Written Submissions

Citizens Advice, Northern Ireland

Consultation Response to The Executive Review of Domestic Rating Reform



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Introduction

Citizens Advice is the largest advice charity in Northern Ireland working against poverty, meeting the information and advice needs of some 260,000 people per year. Citizens Advice has formal links to National Citizens Advice in England and Wales and close working relationships with Citizens Advice Scotland (CAS). Together the three Associations constitute the biggest advice network in Europe, with 60 years experience of providing advice and information to the public.

The Citizens Advice Bureau (CAB) network is very finely tuned to the targeting of social need and, with its regional spread, modern integrated IT infrastructure and skilled staff, represents an efficient and cost effective arena for the delivery of information and advice to the most socially vulnerable people in Northern Ireland.

Access, Inclusiveness and Principles

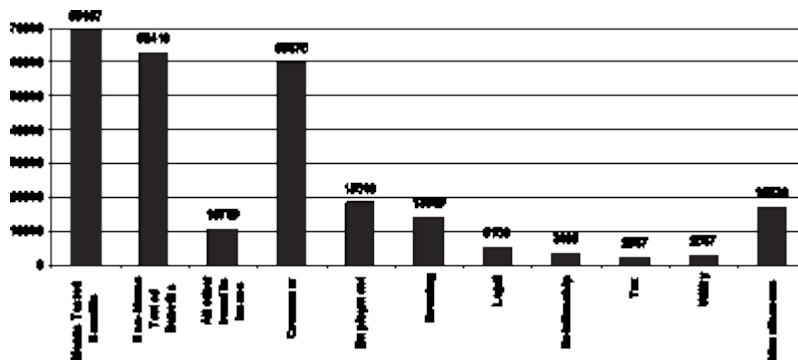
Advice is provided on a huge range of issues by trained, specialist advisers across both main communities and to minority groupings, from 30 main offices and from some 120 other outlets within the framework of 4 principles. The advice given is:-

- Free;
- Impartial;
- Confidential; and
- Independent.

Commitment to Equality

Citizens Advice has been actively involved in the promotion of equality in Northern Ireland for many years and is an active member of the Equality Coalition. Numerous responses on behalf of CAB have been made to a variety of Equality Impact Assessments, Draft Equality Schemes, Screening documents and proposed legislative reform. Citizens Advice strives to ensure that individuals do not suffer through lack of knowledge of their rights and responsibilities or of the services available to them, or through an inability to express their needs effectively and equally. Citizens Advice endeavours to exercise a responsible influence on the development of social policies and services, both locally and nationally for the good of all of society. Citizens Advice has also built up a number of partnerships with other organisations also working towards the promotion of equality of opportunity.

This Citizens Advice submission is based on the experience and evidence gained in from CAB advisers dealing with 264,743 enquiries between April 2006 and March 2007. CAB provided information, advice and advocacy to clients experiencing problems in the following areas:



Response

Response

Citizens Advice welcomes this opportunity to respond to the Executive Review of Domestic rating reform

Capital Value System

We appreciate that the previous rating system was outdated and in many cases had a negative impact on people on low incomes particularly if they fell just outside the qualifying conditions for housing benefit for rates. One of the most obvious inequalities about the old rating system is that those on higher incomes paid a smaller percentage of their income on rates than those on lower incomes.

Citizens Advice believes that in order for the capital value system of rating to be fair and affordable for ratepayers it must be accompanied by an ample and comprehensive relief package available for those who have difficulties paying their rates bills. It is vital that the relief package is clearly outlined, publicised widely and targeted to those who need it most in order that take-up is maximised. There are many lessons to be learned from the low uptake of housing benefit for rates in the past.

Many high earners have benefited in recent years with the inevitable rise in house prices so it is therefore fair for them to be taxed accordingly. However, there are many individuals who are living in high equity properties but living on relatively modest incomes. Some of the bills received

by ratepayers have more than doubled their proposed annual bill. We consider the new capital value system as having a negative impact on those ratepayers who have experienced a dramatic increase in their annual bill and who are not able to benefit from the new rate relief scheme or the transitional relief scheme.

Northern Ireland Statistics

- Approximately half of Northern Ireland's population has incomes less than £300 per week. More than a fifth earn less than £213 which represents half of the UK average income. Earned income is the main source of income generally but not in the poorest 20% of households where benefits and tax credits count for most of the gross income. (Households Below Average Income, Northern Ireland 2004/05)
- 350,000 people are living in income poverty in Northern Ireland. A household is defined as being in income poverty if its income is less than 60% of the GB median household income. (Monitoring Poverty and Social Exclusion in Northern Ireland, Joseph Rowntree Foundation, 2006)
- Northern Ireland not only has higher poverty rates but considerably higher levels of income inequality than Britain. (Bare Necessities Report OFMDFM, Northern Ireland, 2003)
- Households in Northern Ireland earn on average 20% less than those in the rest of the UK. (HMSO, Regional Trends, 2000)
- Families in Northern Ireland spend £213 more a year on food than the UK average. In Northern Ireland we spend 26% more on bread, rice and cereals and £431.60 more on clothing and footwear. While clothing and footwear cost 37% more than the UK average, children's clothes are even more expensive. The amount spent on clothes for girls (5-15 years old) is 50% higher than the UK average and for boys (5-15) is 87% higher. Footwear is also considerably more expensive – some 51% dearer than the UK average. (The Family Spending Survey 2003-04).
- By the end of the decade Northern Ireland electricity consumers will have paid £1 billion more for their electricity than the rest of the UK - overall that equates to around £1,600 per household (Northern Ireland Authority for Energy Regulation, July 2005).
- Phoenix Natural Gas (Phoenix) has recently announced a number of increases in its prices meaning that an average bill will have soared by 52% or £200 in only four months. Phoenix customers will now pay nearly two thirds more than gas customers in Great Britain and more than a fifth more than those in the Republic of Ireland (General Consumer Council, January 2006)
- Personal insolvencies have hit a record high with a more pronounced increase in Northern Ireland than in other regions – bankruptcies are up by 45% overall up no less than two-thirds over the same period in 2003 and the number of people entering into IVAs was up 26% on the same quarter in 2003. The particularly high increase in self-declaration of bankruptcy, together with the increase in IVAs may be explained by the fact that spending in Northern Ireland households tends to exceed disposable income. Credit cards are being used to a greater extent than elsewhere in the UK to finance, for example, weekly food shopping and purchases of clothing and footwear (Grant Thornton, 2006).

25% discount for single person households

The new rating system based on capital values has moved closer to the system that exists in Great Britain, yet the single person discount which exists in England was not introduced in April

2007. This is automatically unfair as a household consisting of four income earning adults would pay the same rates bill as a single person household in the same area.

Citizens Advice believes that the introduction of the 25% reduction for single person households would help many of those households in more affluent areas where the person lives alone on a relatively modest income.

Affordability Issues

In 2001 the number of repossession judgements passed to the EJO for enforcement was 425. By 2005 this figure had increased to 973 an increase of almost 130%. The latest Northern Ireland Housing Bulletin shows that 566 properties were taken back into lenders hands in January, February and March of this year alone. Households presenting to the Housing Executive and citing mortgage arrears as the reason for homelessness showed an increase of 44% on the previous year.

Citizens Advice dealt with over 54,000 debt enquiries for 2006/2007 showing an 18% increase on the previous year. A recent money advice project showed the average amount of debt for a CAB client in Northern Ireland was £13,362.

An OFMDFM report into Personal Over-indebtedness in Northern Ireland published in February 2006 showed that 9% of people were using more than a quarter of their gross monthly income on consumer credit repayments (25% measure) and 11% used more than half of their gross monthly income to service consumer debts and mortgage repayments (50% measure). 5% were in arrears with at least one credit commitment or domestic bill. The OFMDFM research was based on the population of people aged 16 and over which stands at 1,343,174 million. Therefore there are potentially almost 148,000 people in Northern Ireland who are over-indebted at the 50% measure. In addition there are potentially over 67,000 people already in arrears with at least one credit commitment or domestic bill.

The increased prevalence of debt and house repossessions due to mortgage arrears, coupled with the introduction of household water and sewerage charges, gives serious cause for concern and again shows how vital it is that the relief packages available are adequate and well communicated to the ratepayers of Northern Ireland.

Transitional Relief

We initially welcomed the idea of a safety net via transitional relief, however this scheme is still only available to households whose rates have increased by 33% or more. There is no sliding scale for those who receive an increase of, for example, 20%. An increase of 20% in annual rates bill can be a substantial amount for a householder particularly if that person lives alone and is elderly. Transitional relief only lasts for a three year period and the value of the relief available decreases each year meaning that in year three only a minimal amount of help is available and in year four the full amount of the bill must be paid.

The transitional relief scheme only allows for limited relief in a short period which may well make it difficult for people to adjust financially to the new system of rates. Citizens Advice would propose the extension of this scheme to four years with a tapered system of 100%, 75%, 50% and 25% in the four years of the relief scheme. This would mean that ratepayers would only have to pay their full rates bill in year five which would prepare them for the next capital revaluation.

The next capital revaluation is scheduled to be carried out in 2010 and we recommend that meaningful consultation is carried out on the effects that this re-evaluation will have on ratepayers' ability to pay a revised rates bill given the recent levels of house price inflation.

Housing Benefit for Rates and Rate Relief Scheme

The new relief for people on low incomes was welcomed as many people who face difficulties in paying their rates bills were just outside the qualifying conditions for housing benefit. The new relief scheme has only been operational since April 2007 and it is difficult for us to comment at this stage on how successful it is.

Householders on low incomes can apply for both the housing benefit for rates and the new rates relief scheme to help with their bills. However, there is still an issue about under-claiming of this benefit and evidence from Citizens Advice Bureaux clients suggests that many owner-occupiers still do not know about this benefit or if they do they think they will not be eligible as they own their own home. There is still a considerable job to be done to ensure the maximum possible take-up for the existing housing benefit for rates scheme and the new rate relief scheme otherwise they will fail to help those they were specifically designed to help.

Currently there are huge problems with the Information Technology system used by the Land and Property Services agency (Rating Division). This has resulted in many householders waiting considerable periods of time for their housing benefit and/or rate relief to be processed. Many other householders who are entitled to full or partial housing benefit have paid their bills in full and are experiencing delays obtaining refunds for this. The IT system is now envisaged to be in full operation in January 2008, however we feel that this is unacceptable given the current levels of outstanding cases and delays.

There needs to be more effective communication between the rating division and their customers. The volume of calls in April and May understandably increases when the rates bills are issued and new claims are subsequently made. The LPS should have a robust call handling system in place in order to cope with this increase in demand. CAB advisers are also being kept on hold for considerable periods of time then contacting rating offices throughout Northern Ireland, which in turn is a drain on CAB staff resources and finances.

More effective communication needs to be put in place between the Rating division, the Social Security Agency and the Housing Executive. There are still problems with Pension credit claimants having to provide the same data twice when they initially make a claim for housing benefit. In addition to this, Private tenants applying for housing benefit for rates via the Housing executive are also experiencing delays and in some cases are being pursued for rates that they are not liable to pay.

Clients have expressed that they have difficulties understanding the housing benefit award letters which have become more complicated, and in some cases individuals have received 16 pages in a single correspondence. To date, some clients have found the rate relief scheme award letters much easier to decipher than the housing benefit award letters, however this may be as a result of the relief letters being produced manually and are not automatically generated by computer. More confusion has been created due to the fact that housing benefit and the rate relief scheme generate separate letters. The Rating division should therefore strive to ensure that the two awards are explained comprehensively on one award letter. It is necessary that ratepayers know about and feel able to apply for all the benefits they are entitled to.

In March 2007 the Minister announced a further amendment to the Rates Northern Ireland order based on a proposal to enhance the relief for people who had reached pensionable age. This created a higher amount of housing benefit for people over 60 through the introduction of a

higher personal allowance when calculating their applicable amounts and this has served to increase benefit for some of the most socially deprived in Northern Ireland. Citizens Advice was given very little notice to this sudden change in legislation and had limited time to digest and amend our information system in time for the changes. It is hoped that all future legislative changes will be more effectively planned and managed with the objective of keeping the advice sector, and the clients we represent, well informed in advance.

Rates arrears

There has been further evidence from Bureaux of clients receiving letters from the LPS seeking payment in full, including those clients waiting for their housing benefit or rate relief to be processed. Anyone in these circumstances should have all action suspended on further recovery of rates.

The LPS should consider reforming the current process of arrears recovery. Currently the system appears to be non-negotiable and 42% of EJO judgements are in relation to rates arrears. Citizens Advice welcomes any move to provide householders with reasonable arrangements to pay rates arrears before formal recovery proceedings take place.

Full relief from rates

We welcome the full relief from rates available to properties occupied solely by those in full time training and education, 16/17 year olds and young people leaving care. The proviso that full relief is only available to properties occupied solely by these groups gives rise for some concern as it is likely to be more difficult for 16/17 year olds and young people leaving care to meet this requirement. We believe entitlement to help under these categories should be based on the circumstances of the individual rather than the circumstances of the household.

Disabled Persons Allowance

We initially welcomed the continued provision of help for those people with disabilities but recommended that help for people with disabilities should be extended to all those in receipt of disability related benefits rather than simply those who have had an adaptation made to their home.

We also queried why the allowance criteria had been amended to no longer provide a rebate to people with disabilities who have had a garage or central heating provided as a result of their disabilities. We would like to reiterate that this is preventing many claimants from obtaining the Disabled Person's Allowance.

Private rented accommodation

There is no standard protocol for the charging of rates within the private rented sector. Some landlords charge a fixed amount while paying the rates bill themselves while other tenants pay the entire rates bill as an occupier. Greater clarity is needed in this area so as to protect both the landlord and tenant.

Citizens Advice has received social policy evidence that some landlords have been increasing rents due to the increase in their rates bill and the forthcoming introduction of water charges. It is imperative that protection is put in place for private tenants to ensure they are not paying excessive amounts for rates.

Recommendations:

- The 25% discount for single householders which exists in England should also be introduced in Northern Ireland
- Increases in the number of house repossessions, the level of debt in general in Northern Ireland and the imminent introduction of household and water charges shows the priority which must be placed on communicating clearly the relief packages available
- The transitional relief scheme should be extended for a further year to allow people to adjust financially to the new system of rates and prepare for the next capital revaluation
- More detailed information on the rates relief scheme is required and information on this scheme which is to be provided to ratepayers must be clear and unambiguous
- Full relief from rates should be based on the circumstances of the individual rather than the household circumstances
- Help for people with disabilities should be extended to all those in receipt of disability related benefits rather than simply those who have had an adaptation made to their home
- More clarity is needed on liability for rates in the private rented sector
- Householders should be given more flexibility around arrangements to pay arrears before formal proceedings take place
- In line with the Compact with the Voluntary and Community Sector, discussions should take place between Government and organisations like Citizens Advice to ensure that resources are made available to provide the necessary advice and information to the public as a result of the implementation of rates reform in Northern Ireland.

Rates issues 2007

- A Banbridge Client aged 65 with physical and mental health problems in receipt of guarantee pension credit made a claim for HB for Rates in October 2006 but he is still paying a direct debit to the LPS. Bureau spoke to HB Central Unit and they stated that claims are being hindered by the new computer system. This particular client's claim was received 20/11/06, first looked at on 13/12/06 and client is passported to full HB as he is receiving guarantee pension credit but client is still paying rates (direct debit taken out of his bank account Jan 07) and has not yet received an award
- A Downpatrick client made a claim in March 2007. PC and Rate Rebate claim received by Pension Service and Rate Rebate form forwarded to LPS. LPS state they have not received form. Client has to complete a new claim form and will therefore experience a further delay in waiting on this claim being processed.
- An East Belfast client received his new HB for rates award letter which he could not understand. He said he thought he may now have to pay his rates and was extremely worried as he could not afford it.
- A Banbridge client with physical health problems still has had no payment from the RCA despite confirmation of his full entitlement to HB for rates. LPS stated that they are still not able to issue payments for HB. Other cases running over 12 months now.
- A Dungannon Client aged 70 has a hearing impairment applied for Housing benefit in March 2007. He has received a rates bill for full. Bureau contacted LPS on 4 separate occasions in one day. Adviser was getting a constant engaged tone. Phoned separate office and was informed their computer is down so they cannot say if a rebate is in place, was advised to try back tomorrow.

- An East Belfast Client in receipt of guarantee pension credit was not able to understand the new letter from Housing Benefit Central Unit showing her HB for rates award. She thought she now had to pay rates.
- A Banbridge client aged over 75 had 2006 and 2007 bills. 2006 clearly shows a discount of 4% being deducted while the 2007 bill indicates the same amount as 'balance outstanding' the LPS computer was not deducting discount from client account yet it's clearly printed on the bill. System then threw it up on the following year's bill as an 'unpaid amount' Bureau contacted LPS and pointed this out.
- A Banbridge Client received a letter in May from the LPS - she states she claimed HB in June 06, she paid rates for year 06-07 but she has not received a refund of the money she had already paid or a bill for this years rates. Client waiting almost a year for award of HB has been notified of entitlement (only required to pay rates of £1.20 p/wk) but she has not yet received rebate of the £326 paid last year. Bureau Contacted LPS and were informed the delay as due to large backlog but they 'hope' to issue rebates due to client's at the end of May 07.
- An East Belfast Client had an ongoing problem with his housing benefit for rates. He informed LPS that he was no longer in receipt of Pension credit since January due to a change in circumstances and was informed that he was £150 in arrears and this would be taken out of his account by direct debit. Client is pensioner and cannot afford this. He was entitled to guarantee PC since April 2006 and applied for HB for rates at same time and still had not been assessed by January 2007. Bureau contacted LPS and were informed that the client was entitled to rate rebate from April 2006 to end December 2006 however client had not been paid due to computer failure. The LPS were unable to tell bureau when client would be paid but they have already taken £150 out of his account for some of that period and cannot refund this until the computer issue has been fixed.
- A Lisburn client aged 83 received 18 pages from LPS relating to her HB for rates and could not understand it. Each page has a different figure.
- A Banbridge couple received a letter following application to get rates paid via Housing Benefit. The couple are in receipt of guarantee pension credit. Clients have been waiting over a year to be paid HB for rates via the LPS. Both are elderly, vulnerable and concerned by mounting rates bills.
- A Banbridge client aged over 75 received notification of full housing benefit for rates. Client has not received her refund of rates paid for last year. (Claim made in November with backdating applicable) LPS backlog allegedly caused by 'new' computer system results in vulnerable clients waiting months for refund of payments already made.
- A Banbridge client applied for housing benefit in February 2007 for her mother. HB for rates claims via the LPS are still taking months to process. Often with the LPS Clients do not even know if their claim has been received. When they try to query HB claim they are having a lot of difficulties getting through on the phone.
- A Carrickfergus client is a lone parent with 4 children and in receipt of income support from August 2006. She applied for housing benefit last August and has been paying £48.00 rates, she contacted LPS who advised they have a large backlog and until her claim is processed she has to keep paying - client cannot afford this amount each month. This is putting client in financial hardship.
- A Dungannon client has been entitled to Pension Credit Guarantee Credit for over a year. Applied for rates Rebate in March 2007 and he subsequently received a bill for full rates. He paid the bill in full and the amount paid amounts to more than 4 times his weekly Guarantee Pension Credit which is the minimum subsistence level the government says this person needs to live on. Bureau contacted LPS and were on hold for 27 minutes.

They were then told that, though they had received the Housing Benefit application, no action would be taken for at least 2 months.

- A North Down Client had not heard from HB for rates about claim made April 2006. Bureau contacted office and discovered that she had been awarded full rate rebate but that the LPS had been unable to put that in place due to computer problems with their new system.
- A North Down Client had received a new rates bill with no deduction for HB for rates. Problems with computers not loading information from one system to another. Bureau Rang HB for rates and were assured that the client need pay no rates as on full HB for rates.
- A North Down Client aged over 75 has not heard anything about her rate rebate for this year.

FSB Short Brief on Congestion Charges and Road Tolling

- A recent FSB survey found that vehicles are crucial to over 90% of businesses and 70% could not reduce their usage.
- Transport, especially road transport, is fundamental to business. Almost half of small businesses carry out their trade within twenty miles of their base and congestion charges would have a detrimental effect on them.
- The FSB is completely opposed to Road Tolls and Congestion Charging being introduced as there is no such thing as a non essential journey for a small business.
- Businesses across Northern Ireland who regularly trade or make deliveries to Belfast City Centre will face a considerable financial burden in the running of their business if a Congestion Charge is introduced in Belfast. Many of these businesses are already paying extremely high insurance, energy and rates bills
- The Federation of Small Businesses wrote to the Secretary of State for Transport, Ruth Kelly, to call on the Government to follow the lead of the Scottish Government, which recently published a bill to abolish road tolls across Scotland.
- The FSB would call upon the Minister for Finance and Personnel, Peter Robinson to make it clear that the Executive will rule out the introduction of such charges in the future
- In the view of the FSB, Road Tolls and Congestion charging are nothing more than stealth taxes which are a significant barrier to business growth, dressed up as tackling Climate Change. At a time when the NI Executive is looking to grow the private sector, such a tax would only be a negative effect on the indigenous business community.
- Transport presents a significant cost for small businesses and it is essential that the Government finds ways to relieve this burden to increase competitiveness
- For further information contact Glyn Roberts on 07917 628 994 or glyn.roberts@fsb.org.uk

Consumer Council

11 October 2007

Mr Colin Jones
Assistant Clerk
Committee for Finance and Personnel
Room 419 Parliament Buildings

Stormont
Belfast

Dear Mr Jones

Re: Review of Domestic Rating

Thank you for your invitation to submit any additional evidence-based views in relation to the reform of the domestic rating system. At this stage we do not have anything further to add to our consultation response other than to emphasise our view that the payment of rates based on the capital value system is a fairer one than the previous system for those who can afford to pay, but that it must provide adequate protection for those with affordability issues who may be adversely affected. Therefore we would like to see the short term rating review focusing on addressing any anomalies in the capital value system including ability to pay in relation to groups such as the asset rich: income poor, and "Mr and Mrs Average" i.e. those who are not on benefits but on fixed and often low incomes.

We would appreciate being kept updated on progress with the review and proposals emerging from the Committee's deliberations. We are available to provide any further evidence, information or analysis as the Committee requires as always and would wish to play our full role in assisting in consultation and seeking consumers' views to advise your work.

The Consumer Council would like to commend the Minister, the Finance and Personnel Committee and the Department for Finance and Personnel for the approach taken to this review to date. In particular we welcome the conscientious consideration of, and the timely publication of the summary report on, the responses received. We believe that the inclusive, open and transparent approach adopted helps with the ongoing debate and understanding of how our public services should be paid for in a way which is fair, affordable, honest and understandable for us all.

We look forward to hearing from the Committee on this issue and assisting you with your deliberations where we can.

The Consumer Council wishes the Committee well in your important work.

Yours sincerely

Eleanor Gill

Chief Executive

Cc Mr Mitchel McLaughlin MLA, Chair of Committee for Finance and Personnel
Cc Mr Peter Robinson MP, Minister for Finance and Personnel

**Consumer Council Response
to the 2007 Executive Review of
Domestic Rating Reform**

The Consumer Council welcomes the opportunity to comment on the review of the current domestic rating system which has important implications for consumers; particularly with regard to its effect on the total household bill.

The review also provides an opportunity for steps to be taken to help consumers have a clearer understanding of what they are paying for and to develop a system that better meets their needs.

We believe the current capital value-based charge is more appropriate than the previous rental value rating system given that the majority of Northern Ireland householders^[1] (72.8 per cent) now own their own home rather than rent it. It is clear that few understood the rationale behind the previous rental value system and the Consumer Council views the new capital value system as a fairer way to calculate rates. However, as capital value is not always synonymous with ability to pay there needs to be protection within the system for consumers who have difficulties paying so that a new category of vulnerable consumers does not develop as a result. It is imperative that all policies support rather than work against the Government's Lifetime Opportunities strategy to ensure that poverty and social exclusion is tackled in a joined-up approach.

While other alternatives to the current system are worth considering, such as a local sales or income tax, it would be remiss of us to support one of these options without further investigation into how each system could be implemented and how it would impact on consumers. We would however recommend that the Executive investigate these options further for longer term rating policy options and to provide full opportunity for an open and informed public debate into the pros and cons of different long term options. It is our view that a lack of public debate and understanding of the issues related to paying for public services through rates or other methods has led to a decline in public confidence and "buy-in". The NI Assembly has a unique opportunity to reengage the public in decision making thus building trust in our local democracy.

The Consumer Council would welcome the opportunity to work with the Minister in this debate and to play a constructive role in exploring the options for the future in greater detail. We would recommend that a two phase approach is adopted. In the short term the focus should be on taking steps to fix any anomalies in the current system that are unfair or present affordability problems for consumers. This then creates an opportunity to look at how we pay for public services in the longer term and to investigate all options to ensure that all systems are fair, affordable and sustainable. We would welcome further discussion on how the Consumer Council can contribute to the development of a system that meets the needs of consumers.

We have provided further comments on a number of key issues and in particular on the need to consider the impact of rates on the total household bill, the need to educate consumers on what they are paying for and to protect those who are most vulnerable. We have also provided comments on the discount scheme that should be available to consumers for prompt or early payment of their rates bills. This is included as appendix A at the end of our response for your information.

A summary of the Consumer Councils research into rates is also attached as Appendix B for your information.

Total Household Bill

The Consumer Council fully supports the Minister's view that rating reform should be viewed in the context of how the Executive intend to address the funding of water and sewerage services in Northern Ireland.

The Consumer Council has consistently registered our concerns during the reviews of the rating system and the water and sewerage charges of the impact of these charges on the Total Household Bill. We outlined these concerns in a response to DRD in March 2005^[2].

The Government has yet to explain or acknowledge the impact of these two new charges as a total household bill and a holistic approach needs to be taken instead of looking at the impact of the rates reform in isolation. As well as identifying the true cost of these reforms on consumers, a joined-up approach also provides the opportunity to provide better value for money and improve understanding among consumers on what they are paying for.

A more holistic approach can help to identify what revenue is needed to pay for public services and ensure that there is an adequate level of protection for vulnerable consumers. The amount already paid for water through the rates should be deducted if a new water charge is introduced in order to overcome the belief among many consumers that they are being made to pay this bill twice. The Consumer Council calculates the amount to be between £160 and £165 per household in 2007^[3].

We have also recommended that the independent review of water reform must examine whether a separate water bill is necessary and represents value for money, or whether both rates and water charges should be presented on the one bill.

Educating Consumers

The Consumer Council welcomes the publication of the capital value of every domestic property. However, it is important that the assessment of households is accurate to reduce the level of appeals and increase consumer confidence in the process.

The Consumer Council has consistently called for clarity, openness and transparency in respect of the water reform process and this must also apply to rating reform. Clarity is required concerning what exactly rates cover and it is a duty on the Government to clearly explain to consumers about the system and how rates are spent.

Our research has shown that consumers are confused by what rates pay for. When consumers were asked in 2002 what their rates covered 'refuse collection' was the most mentioned service (61 per cent) followed by 'water' (41 per cent)^[4]. When asked the same question in 2004^[5] more than half (56 per cent) continued to spontaneously cite bin collection while one-third (33 per cent) believed water services are funded through the collection of rates. An important minority (12 per cent) was unable to give any response to this question highlighting an important public education deficit.

Consumers are also confused by the distinction between the Regional and District rates and the 55 per cent / 45 per cent (respective) split in their bills. The services that each provide must be clearly explained. If it is not possible to be explicit, and there is no clear correlation between the tax and service provided, then a satisfactory explanation must be provided. Consumers can then deduce that rates are effectively a tax or local property tax. There should also be a sophisticated level of performance monitoring by an independent Audit Commission as in GB. Monitored criteria should include value for money, cost of services and customer satisfaction surveys. These criteria should be monitored across all public services to ensure accountability and transparency to the ratepayer.

We further believe that a serious issue exists around the uptake of relief among those eligible. We therefore recommend that a public education campaign is needed to raise awareness of the assistance available and to promote the uptake of benefits.

Relief Scheme

We strongly support the Executive's position that reform must be underpinned by the ability to pay principle i.e. those on higher incomes pay a fair share and the most vulnerable are provided with appropriate financial assistance. It is worth noting that the levels of protection in the current rating policy review are much greater than those within the water reform proposals, which are also based on home capital value, and yet the households in need are the same.

We agree that assistance should be targeted in order to be accessible to those either on or near the vulnerable threshold. The Consumer Council believes more work is needed to identify how best to help the 'average consumer' who may be above the benefits threshold but is facing significant hardship as a result of increases in rates and planned water charges. It is vital that these changes do not create a new category of vulnerable consumers who fall into the poverty trap.

The review terms of reference states that the system should be transparent and readily understood, sustainable and provide protection to those less able to pay. These are welcome principles. We believe that relief should be provided by way of social policy and not a cross-subsidy on other householders in order that the majority does not bear the burden of a large minority. The principle of transparency and the need for efficiency mean that cross subsidies should be avoided where possible and open to public scrutiny where they do exist.

Our October 2004 research identified significant support (among 80 per cent of respondents) for the elderly, households on low income (63 per cent) and those with particular health or medical problems (44 per cent) to receive special allowances when paying rates.

It was a strongly held view by most (79 per cent) that the Government should pay the costs of providing relief for vulnerable consumers: 63 per cent believed that the Government through the existing benefit system should be responsible for covering the cost of discount or relief schemes and 16 per cent preferred a new benefit scheme funded by central taxation.

We firmly believe that vulnerable consumer groups should be protected by a scheme that is neither difficult to access or administer. The importance of informing those consumers who are eligible for rate relief is paramount and government must work with the relevant agencies and representative organisations to ensure that consumers have easy access to this information and the benefits available. A more pro-active relief system needs to be established so all consumers who are entitled to benefits are made aware of this and the process to claim relief must also be easy to use and understand. The Consumer Council would welcome the opportunity to work with government and other stakeholders on this issue.

Household size

Using the equity principle there are issues surrounding the rate burden relative to householders' overall consumption of local services; for example large families compared to single occupancy dwellers in high capital value homes and the asset-rich: income poor.

In research conducted by the Consumer Council in 2004, the most popular method to calculate rates was by the number of people living in the household (27 per cent). However, there was a spread of consumer opinion with regard to this issue demonstrating that there is no clear consensus as to how rates should be calculated.

Deferral Scheme

The Consumer Council has concerns about the option of a deferral scheme for pensioners. Other representative organisations and consumers have expressed concern on the growing number of

'death taxes' that our being placed on consumers in this age range. The proposal to introduce a deferment scheme for pensioners would have a number of legal and logistic implications that would need further consideration before such a scheme could be considered. For example, the impact that this would have on rates collection during the early years of a scheme would need to be considered and information provided on who would cover any deficit in expected income during this time. The cost of administering such a scheme should also be considered further as should the impact of other existing competing demands on property equity such as long-term care costs.

We therefore recommend that a cost-benefit analysis and further consultation with stakeholders is conducted before any decisions are reached.

Maximum Cap

We believe that there should be no upper level for rates payments. To have a maximum cap would effectively mean that lower-income householders are cross-subsidising higher-income householders. This actually negates the underpinning principle of the rating policy reform that requires a redistributive effect of the local tax burden to ensure progressivity; that those on higher incomes pay a fair share.

We do believe however that a cap must be placed on the total revenue to be generated through rates as this should not be allowed to increase unreservedly. There must also be full transparency and accountability to ratepayers for any rise in rates accompanied with efficiencies and value for money on all rates spending.

Minimum Cap

We believe that there should be no minimum cap on rates bills. Instead, we believe that there must be an adequate system of protection for vulnerable householders funded, where possible, from central taxation rather than through a cross-subsidy on other householders.

Rating of vacant domestic property

We believe that incentives are needed to require landlords and homeowners to bring the Northern Ireland housing stock up to an acceptable standard.

If charging were to be introduced a balanced approach must be taken that considers the property owners' responsibility to the local community whilst acknowledging that they have a low level of access to services paid for by rates. The level of such a charge and the cost effectiveness of such a scheme would need to be considered further before any decision is reached on this matter.

Appendix A:

Consumer Council policy on a discount for payment of the domestic rates by direct debit

Background

Discounts to bills for payment by direct debit have existed for many years. The rationale behind this is, in the view of business, direct debit provides a more reliable and consistent revenue stream and is cheaper to administrate. Because it is cheaper to administrate the company can encourage consumers to use this method of payment by providing a discount that is cost reflective. Thus, savings are passed on to the consumers who use this payment option.

Key Principles

- The Consumer Council accepts the principle of a company providing an incentive that encourages a consumer to choose a particular payment method. However, we are opposed to any measures which penalise those who choose not to pay by the companies preferred payment method, as this is contrary to the principle of consumer choice.
- The Consumer Council aims to promote responsible consumerism. We believe that providing an incentive for consumers to pay in advance for services encourages household budgeting and reduces debt. There is a close correlation between those consumers who choose to pay by cash and cheque, and financial exclusion. Whilst choosing not to pay by direct debit, these consumers should still be rewarded for prompt payment. The Consumer Council strongly believes that a discount for full early payment must remain, irrelevant of the payment method.
- The amount of discount offered must be a fair reflection of the savings the company makes when the consumer pays by the preferred payment method. The discount must not be cross subsidised by other consumers who are not paying by the company's preferred payment method.

Position

The Consumer Council supports the following methods of discounting;

1. A discount for consumers who pay by direct debit,
2. A discount for early full payment of the annual bill,
3. A discount off the following year's bill once one year of monthly payments, by any method other than direct debit, have been paid promptly and in full.

We see these methods as offering the following features:

- They do not penalise those who fail to use the company's preferred payment method,
- They assist in offsetting the potential lost bank interest to the consumer which they could have accrued had the amount remained in their account. This amount can be used by The Agency to attract bank interest,
- They reflect the reduced cost of administration offered by direct debit and a once a year collection as well as the non requirement for any debt chasing to take place,
- They encourage budgeting and reduce debt, whilst providing consumer choice in payment method.

Appendix B:

Summary of Rates Research Findings for General Consumer Council

1. The Consumer Council conducted research through an Omnibus Survey that covered all regions of Northern Ireland. The interviews were conducted on 7-14 October 2004 and comprised of 1044 adults aged 16+. A summary of the findings is below.

'What rates pay for'

Services That the Money Collected in Rates is Contributed to
[Base: All Respondents --1044]

TOTAL 2004 %	AGE					AREA	
	16-24	25-34	35-49	50-64	65+	Gr. Belfast	Rest of NI
	146	136	207	217	198	450	594
	%	%	%	%	%	%	
Bin collection 56	35	00	01	50	55	48	01
Water and sewerage 33	15	31	30	37	30	30	25
Road repairs 22	14	18	25	30	10	25	20
Road clearing 21	10	17	21	24	31	22	21
Health Service / hospitals 12	13	13	11	14	12	14	11
Street lighting 11	2	12	15	14	8	10	12
Bus and transport 9	13	7	9	13	5	12	7
Education / schools 8	5	8	8	13	8	11	8
Park maintenance 7	7	5	8	7	8	7	7
Leisure centres 5	4	7	5	4	4	5	4
Local councils 4	3	2	4	5	4	5	3
Others 6	0	0	5	0	7	4	0
Don't know 12	32	14	7	0	8	14	10

2 This question set out to establish consumer understanding of which public services benefited from the collection of rates. Almost 3 in 5 (56%) spontaneously cited bin collection, with a third (33%) referring to water and sewerage, and just under a quarter mentioning road repairs (22%) and roadclearing (21%). There was a plethora of other responses ranging from the health service / hospitals (12%), street lighting (11%), transport (9%), education (8%) and park maintenance (7%). Interestingly, over 1 in 10 were unable to give any response. See table below.

'Which services should receive investment?'

3. Over 7 in 10 (71%) respondents stated that health was the public service which they would most like to see receive more investment, a feeling which was significantly more prevalent amongst the older age categories (16-24 = 58%; 65+ = 79%). Education was the next most frequently cited response (14%), however in sharp contrast this public service was of greater importance to the younger respondents (16-24 = 24%; 25-34 = 21%; 65+ = 5%) and those in the C2 socio-economic grouping (21%).

4. A quarter (25%) referred to transport as the public service which they would least like to see receive more investment, followed by the roads (12%) and water and sewerage (9%).

'How to pay for public services'

5. Almost two thirds agreed (63%) that those who use a public service more, should have to pay more for it. This perception was slightly higher amongst males (67%), and those in the ABC1 (66%) and C2 (66%) socio-economic groupings. Under a quarter (22%) of respondents disagreed with this proposition.

'How to raise additional funding'

6. Some 3 in 5 respondents (60%) disagreed with the statement that all taxpayers should pay more through general taxation to raise additional funding, a trend which was generally consistent across all demographics. The only exception to this was a slightly higher proportion of respondents agreeing to this proposition in the North of the Province (25%), compared to Belfast City (18%), South (11%) and West (17%).

7. Almost a third (30%) regarded cutting waste and inefficiencies as the best way to raise money to pay for public services in Northern Ireland, a response spontaneously mentioned more by those from ABC1 (35%) and C2 (31%) socio-economic backgrounds. Others made reference to raising income tax (13%); new additional / local income tax (5%), increased rates (4%) and congestion / toll charges (4%).

How should rates be calculated?

8. Over a quarter (27%) stated that the calculation of rates should be based upon the number of people in the household. This trend was significantly more prevalent amongst the older respondents (16-24 = 25%; 65+ = 43%), and those living within Greater Belfast (31%) as opposed to the rest of Northern Ireland (25%). The second most frequently cited response was that rates should be based upon the value of the house (21%), closely followed by a calculation based on the size of house (17%). Over 1 in 10 (14%) believed rates should be the same fixed charge for every household. See tables below.

Preferred Way of Calculating Rates

[Base: All Respondents – 1044]

	TOTAL 1044 %	SEX		AGE				
		Male 490 %	Female 554 %	16-24 146 %	25-34 196 %	35-49 287 %	50-64 217 %	65+ 198 %
Based on number of people in the house:	27	26	27	25	21	18	32	43
Based on the value of your house:	21	21	20	16	26	22	20	16
Based on size of your house:	17	16	18	15	19	21	18	12
Based on a fixed charge which is the same for every household:	14	14	14	12	14	17	15	10
Based on type of your house:	8	8	8	8	9	10	7	5
Based on the value of your house falling within a certain range:	4	5	4	3	5	5	5	3
None of these:	10	10	10	17	8	11	6	11
Don't know / no reply:	3	3	3	6	2	1	2	3

Preferred Way of Calculating Rates (Continued)

[Base: All Respondents – 1044]

	CLASS			AREA		DENOMINATION		
	ABC1 456 %	C2 288 %	D/E 300 %	Gr. Belfast 450 %	Rest of NI 594 %	Protestant 672 %	Catholic 317 %	Other / refused 55 %
Based on number of people in the house:	29	25	27	31	25	32	20	22
Based on the value of your house:	21	25	18	16	25	20	24	16
Based on size of your house:	18	16	17	10	23	14	25	18
Based on the value of your house falling within a certain range:	15	13	13	15	13	13	16	13
Based on size of your house:	7	11	7	6	9	7	8	15
Based on the value of your house falling within a certain range:	6	4	3	6	3	4	4	7
None of these:	8	9	14	14	7	12	5	16
Don't know / no reply:	1	2	5	5	1	1	6	0

9. Those disadvantaged groups whom respondents believed should be entitled to special allowances when paying rates were the elderly, over 65 (80%), households on low incomes (63%), and those with particular health or medical problems (44%). See table below.

People Who Should be Entitled to Special Allowance when Paying Rates [Base: All Respondents - 1044]

	TOTAL 1044 %	SEX		AGE				
		Male 483 %	Female 561 %	15-24 145 %	25-34 156 %	35-49 287 %	50-64 217 %	65+ 198 %
The elderly, over 65	80	79	80	73	80	80	79	84
Households on low income	63	61	66	64	72	67	62	52
Those with particular health or medical conditions	44	45	43	38	43	45	49	42
Large families with more than 6 people	21	17	23	23	26	20	21	12
Those with young children under 3	21	18	23	23	30	21	16	15
None of these	1	1	1	1	0	2	0	1

Who should pay for discount/relief schemes?

Who Should be Responsible for Covering Cost of Discount / Relief Schemes (Continued) [Base: All Respondents – 1044]

	CLASS			AREA		DENOMINATION		
	ABC1 456 %	C2 208 %	DE 380 %	Gr. Belfast 450 %	Rest of NI 594 %	Protestant 672 %	Catholic 317 %	Other / refused 55 %
Government through the existing benefits system	61	66	65	63	64	61	70	53
Other consumers through higher rates	5	3	3	3	4	3	5	9
A new benefit scheme funded by central taxation	20	12	13	15	17	18	12	16
Other	2	0	1	1	1	1	1	2
Don't know / no reply	12	18	18	18	14	17	12	20

10. It was a strongly held view by most (63%) that Government through the exiting benefit system should be responsible for covering the cost of discount or relief schemes. Almost 1 in 5 (16%) however did prefer a new benefit scheme funded by central taxation. See table below.

[1] DSD Northern Ireland Housing Statistics Annual 2005-06. Owner-occupied dwellings accounted for 483,700 i.e. 72.8% of total occupied stock (664,300).

[2] GCCNI Submission to the Department for Regional Development on the Reform of Water and Sewerage Services in Northern Ireland - Integrated Impact Assessment, March 2005

[3] £160 to £165 figure based on £127 per annum contribution to Water Service in 1998-1999 (DoE). £160 extrapolated from yearly inflation rises; £165 based on average 3 per cent inflation.

[4] GCCNI Water Survey, August 2002

[5] GCCNI Water and Rating Policy Survey, October 2004

Rural Community Network



Mitchell McLaughlin
Chair of the Committee of Finance and Personnel

12th October 2007

Dear Mr. McLaughlin

Re:

Please find attached the Rural Community Network's submission to the Domestic Rating Review. As part of this consultation, we sent out a survey to our membership with 79 responses back, the majority of which lived 5+ miles from the nearest town.

We are very disappointed that these views do not seem to have been taken on board in the Consultation Report. The word 'rural' is only mentioned three times despite at least 79 rural households responding. There is no reference made to the key issue raised around 'what are we paying for' in terms of access, usage of and quality of services in rural areas. As one of the respondents said:

"At present people in the countryside are facing cut backs, no services such as public transport, poor quality roads, no public lighting, next to no health services, no public sewers yet we are expected to pay more or less the same to facilitate these facilities. We are happy to pay tax to ensure there is a quality of service, but at present we are not benefiting from this."

We made four key recommendations, none of which were noted in the Consultation Report:

1. **An annual rural proofing analysis of the impact of rate bills, comparing rural and urban areas;**
2. **A regular analysis of rates relief uptake on a geographic basis linked to an analysis of low income earners with output areas;**
3. **Regular report on the use of and satisfaction with the appeal's process on an urban and rural basis.**
4. **Ensuring that all District Councils and other bodies funded through the rates give full and accurate information on their income and expenditure and how they have used our money.**

In light of the issues raised in our submission and the above recommendations we would be interested in how the Committee is going to progress the rural specific issues with regards domestic rates.

Yours sincerely

Michael Hughes
Chief Executive Officer

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Rural Community Network
SUPPORTING RURAL COMMUNITIES

Rural Community Network

Response to the Review of Rating Reform

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August 2007

Key Recommendations

1. An annual rural proofing analysis of the impact of rates bills, comparing rural and urban areas.
2. A regular analysis of rates relief uptake on a geographic basis linked to an analysis of low income earners within output areas.
3. Regular report on the use of and satisfaction with the appeals' process on an urban and rural basis.
4. Ensuring that all District Councils and other bodies funded through the rates give full and accurate information on their income and expenditure and how they have used our money.

1.0 Introduction

1.1 Rural Community Network (RCN) is a regional voluntary organisation established by community groups from rural areas in 1991 to articulate the voice of rural communities on issues relating to poverty, disadvantage and equality.

1.2 As the regional rural voluntary organisation for rural communities, RCN focuses its work in two core areas:

- Building excellence in rural community development as an agent for change through consultation, training, mentoring and support, networking;
- Articulating a rural voice which is inclusive, confident and effective through community action and issue based research with the twelve sub-regional Rural Support Networks.

1.3 RCN welcomes the opportunity to respond to the review of domestic rating reform. As a membership-based organisation we sent out a short questionnaire to all our members seeking people's experiences of the new rating system. The questionnaire focused on experiences of the new rating system, as well perspectives on longer term changes. We received 79 questionnaires back and this response is based on the views received.

2.0 Profile of Respondents

We asked people to identify themselves with regards their age, economic activity and distance from the nearest town. The majority of respondents were between 40-59 years [43%], in full time employment [49%] and living 5+ miles from the nearest town [38%].

Age	20 - 39	40 - 59	60 - 75+
	29%	43%	28%

F/T Employed	PT Employed	Self-Employed	Unemployed	L/T Unemployed	Retired	Economically Inactive	F/T Student
49%	18%	9%	0	1%	23%	0	1%

Live in the town	Live on the edge of the town	Live 1-4 miles from the town	Live 5+ miles from the town
16%	15%	26%	38%

3.0 Experiences of the New Rating System

People were asked whether they considered the new system fair, levels of awareness with regards how their rates were calculated, whether people's rates' bill had changed, percentage of their income spent on rates, and experiences of the appeals' process.

3.1 Fairness

Of those who responded, 53% said that the present system was unfair as compared to 15% who said it was fair. 22% ticked the 'don't know' box.

One of the main reasons for the perceived unfairness of the new system was that it does not take into account people's ability to pay.

"It does not reflect the ability of people to pay. It ignores the investment elderly people have made and penalises them."

"I have worked all my life and bought a house 20 years ago and struggled to pay the mortgage. My house has increased in value, my income has stayed the same and I get the same services today that I got 20 years ago – why the massive increase in rates?"

"It does not take into account the ability to pay – it is unfair to base it on the capital value of a property. It severely disadvantages rural dwellers."

"Because it will be hard to pay on my income, I may have to ask my family for help."

A critical aspect with regards to ability to pay is the rise in house prices over recent years.

"I bought my house 10 years ago. The area around me is very affluent but our street has remained the same. Rates have risen due to our postcode and the surrounding area. Our house is worth 5 times what we paid for it but we can't afford to move."

"The fact that house prices have risen is no way reflected in the financial circumstances of the people living in them."

"House values are dictated by bank policies offering cheap money. House values bear no relation to the earning potential in an area or to the income of occupiers."

"It is based on house value and not the person's income. It will encourage segregation of communities to rich and poor areas, thereby reinforcing disadvantage and social exclusion."

"There is the assumption that those who live in more expensive housing can afford to pay more for local services – it is very wrong and unfair."

There was also a feeling that rural dwellers often don't have access to quality services and that it was unfair to be faced with an increase in rates when services haven't improved.

"Those who have most access to public services should pay a greater share. Urban dwellers should therefore bear a greater proportion."

"The rates are getting higher and services getting less."

"Our rates are over £1500 per year. We only get our bins emptied every fortnight and we now have to get our septic tanks emptied."

"The rural area in which I live has decreasing amenities, poor bus services, no local shop, poor road surface and generally receives poor service from the local Council."

"Living in a rural area, I do not receive the services that are available in urban areas."

A number of people felt that rates should be based on usage of services rather than property values.

"As a single occupant, I use very little of the services provided and my income is slowly eroding."

"Rates ought to be levied on the basis of use of services, not property value which can be subject to arbitrary influence."

Concern was expressed with regards specific groups of people such as single-occupancy households, older people, the private rental sector.

"It is only partly fair in rateable value but no allowance is made for single households."

"It does not take into account the levels of social deprivation or the needs of senior citizens."

"Should be discount for single occupancy as in Great Britain. There should also be discounts for retired people and exemption for students."

"The system is based on property values and location, not on ability to pay or usage. Also landlords or retirement properties do not pay rates yet their tenants use local services, consequently private one-dwellings owners subsidise these landlords."

For others, the lack of knowledge and information with regards to the new system was also of concern. In addition, there was unease with regards incorrect valuations.

"I don't feel I know enough about the system."

"I haven't had enough information."

"It is not clear what we are paying for, (is it just the collection of bins?)"

"Obvious inaccuracies in valuation data is leading to inaccurate capital valuations and hence unfair/negotiable bills for some. Also newer properties appear to be valued at 'market value' whilst older properties seem to be at historical cost."

It is clear that for those who perceived the system as unfair one of the main reasons is the feeling that the present system is not based on ability to pay or level of usage of services. For many rural dwellers, this is coupled with the experience of lack of access to quality services thereby adding to the perceived unfairness of the system. There also seems to be a degree of misinformation or lack of knowledge with regards what the rates are used for.

Overall, it is apparent that if one of the Executive's four criteria for a rating system is "that the system is accepted by the majority of people in Northern Ireland", this has yet been achieved with the majority of respondents to our survey. This needs to be counterbalanced with the reality that taxation is and will never be popular.

3.2 Calculation of Rates Bills

57% responded that they were aware as to how their rates were calculated and 32% responded that they were not aware.

"There is no clarity as to how capital value was arrived at. There is no evidence that the database is up to date or has been reviewed recently. There is no assurance that properties on private lanes (rural) with no road services have had this taken into account."

Rates had gone up for 72% of respondents, 18% said that their rates bills had gone down and 8% said that they had stayed the same, 4% said they didn't know. For those whose rates had gone up, the majority lived 5+ miles from the nearest town.

The majority said that they spent less than 8% of their household income on rates (37%), 26% said they spent between 8%-10%, 9% said they spent between 11%-15%, 4% spent more than 16% of their household income and 24% of respondents said they didn't know.

3.3 Levels of satisfaction

When asked about levels of satisfaction with the process of calculating their domestic rates, 0% said they were very satisfied, 15% said they were satisfied, 20% were neither satisfied nor dissatisfied, 33% were dissatisfied, 14% very dissatisfied and 15% didn't know. The accompanying comments elaborated on some of the reasons for the dissatisfaction. These mirror some of those expressed in Section 3.1 focusing on the need to for single-occupancy rebates and the failure of the system to take into account usage of and quality of public services.

"Rates should be calculated in relation to services and public amenities. Water should be included in rates metered as we have 3 occupants in our house and other families in the area have 4-5 children."

"The number of people living in the house should be taken into account."

"There should be allowance for sole occupancy."

"Need a fairer system to grade according to the number of residents per household."

"Rates should be related to the frequency or level of use of services as opposed to the value of your home – e.g. look at the Republic of Ireland with regards bin charges."

"Not sure how this is calculated, however, I am shocked by the disparity of charges."

"Living in the country, the services provided are minimal and really only amount to getting the bins emptied once a week."

3.4 Rates Relief

Respondents were asked about whether they had accessed rates relief to help them pay their rates bill. 96% responded that they had not accessed rates relief. A couple of the comments stated they were not sure whether they were eligible.

3.5 Appeals Process

When asked about levels of awareness with regards the appeals process, 43% stated they were aware and 57% said they were not aware of the appeals process.

With regards whether people had used the appeals process, 94 % said that they had not used the appeals process with 6% stating that they had used it. Those who had used it were asked about how satisfied they had been with the process.

"Not satisfied. I have appealed for two years but no one has had the courtesy to return my calls or respond to my letters."

"Informal process prior to 1st April. I am not satisfied in that my valid points were not addressed. I was able to quote facts from data on internet but there were no attempts to rectify anomalies."

"Dissatisfied- felt that the valuation of my house was wrong but they wouldn't change it."

"Very satisfied."

There is clearly a gap between the levels of dissatisfaction with the system for those who responded to this survey and doing something about it. This might be partly due to the lack of awareness with regards the existence of an appeals system.

4.0 Future Ideas

These questions focused on whether people know how their money is being used, which groups of people they would be willing personally to pay higher rates for and by how much, other options with regards how they might pay for public services and the specific impact of rurality.

4.1 How your money is being spent

The majority of people stated that they knew what their rates money is being spent on, 57%, with a significant minority, 43%, saying they didn't know. For those who stated they did know, further details were given with a selection of comments outlined below.

Approval

"We have fantastic facilities and a brilliant local Council who have provided first class service with both facilities and support for the community and voluntary sector."

"Refuse collection, Lakeland Forum, Fermanagh District Council services, Dog Warden, Council employees, town hall, Fermanagh Halls."

"Public services – would like some clarification as public services in our area are poor to say the least."

"Sewage, water, roads and services."

"Waste, paths, public services and leisure."

"Local government and some regional services."

"In general terms, only set out in your briefing paper."

"Supposed to meet the cost of services provided by government which for us who live in rural areas leaves us out."

"Leisure centres and when you visit they are expensive anyway. The assembly – they are being paid too well."

"Refuse collection, street cleaning, flower pots, silly looking metal Christmas trees, swimming pool, council administration, tourism."

For a few there is some confusion as to whether rates pay for local as well as central government services. One believed that we still paid for water and sewerage, which again is a point of confusion for many.

For the significant minority who stated they didn't know, 90% said they would like a breakdown of how their rates money is being used. This clearly shows that people would like to have some sense of where their money is going introducing a greater degree of accountability and transparency.

4.2 Who would you be willing to personally pay more for?

A list of people were given with respondents asked who they would be willing to pay higher levels of rates so that the identified population group could pay less. This question is based on the premise that a decision to extend existing reliefs and exemptions or introduce new reliefs or exemptions would either reduce the amount of revenue generated by the rating system to spend on public services or impose a greater burden on tax payers.

The three groups which were most frequently mentioned were people with disabilities or long term illness, followed by carers, and retired people. The group people were least likely to pay more for were single occupancy dwellers. This is interesting in light of one of the options proposed by the Executive with regards introducing single person discount as well as some of the concern expressed in earlier questions with regards single occupancy.

People who have a long term illness	58%
People who don't work but take care of sick or disabled family or friends	61%
Retired people	38%
People on low incomes but with no savings	30%
People who live on their own	11%

Students	18%
People who live in poor areas	15%
People with children	14%
People who are totally reliant on benefits	24%
No one	19%

"There are flaws in this is. Those are illegally claiming benefits and those who are on benefits are just as well off at times as those working."

"I feel that this should be one category consisting of the people listed (ticked). I have issues around DLA and long-term sickness. As a community development worker I see some genuine cases but as a rule many benefits are a scam."

"Rates should not be used to subsidize these people. Social benefits are there for a reason."

"Whether or not these people had savings/investments would have to be taken into account as they may be very wealthy."

"Depends upon circumstances. An OAP may be rich. A sick person may be on loads of benefits. A person on their own may be very rich."

"It is my belief that all those listed above should not have to pay rates or pay a token amount."

"People with learning disabilities should be included."

"Essential workers who must live near work should be included...junior teachers, nurses and health care workers."

"Government should have funds to accommodate the disadvantaged because currently rates are too high and we pay enough tax and yet we have poor quality roads and health services."

"Single parents should be there."

"If we all paid a sensible amount everyone should feel they are being treated fairly and getting value for money. Concessions in my view leads to abuse of the system and the most deserving are very often declined help."

"Surely a way could be found that it's not just working families who have to pay. There are many people on benefit who could be working but for whatever reason choose not to."

"We are all makers of our own destiny."

People were then asked by how much they would be willing to pay. A slight majority, 27%, stated they would not be willing to pay more.

£10 per year	22%
£20 per year	20%
£50 per year	18%
£100 per year	4%
More than £100 per year	0
Nothing	27%
Don't currently pay rates	1%

4.3 How else might we pay for our public services?

Respondents were given different options to consider with regards how else public services might be paid for including the current property tax system. A local income tax was just in the lead as the fairest option with the current system of the property tax close behind.

Local income tax (tax on income)	43%
Property tax (tax on wealth)	42%
Poll tax (tax on people)	5%
Local sales tax (tax on local goods and services)	20%
Tourist tax	16%
Road charging	7%
Charging for domestic waste	2%
Other	6%

"They did away with rates system in the South and the services are in a real mess."

"Working people are taxed enough thank you."

"Fewer people are working so I think it is unfair that those who do should keep paying – people need incentives to work and pay their way to increase the economy and the workforce."

"Rates are still ok rather than the other options."

"I feel that with proper management enough taxes are being collected presently to fund public services. There is too much waste and too much spent on administration."

"Pay as you use them."

"I don't agree with any of the above."

"Should be according to use of services."

"There should be taxes on luxury items such as cigarettes, alcohol, holidays, jewellery, restaurants and beauty treatments."

"Taxes should be lower in rural areas as they pay more in transport and food etc."

"The regional rate should be replaced by local water tax and rates should be retained for Council services only."

"Pay for services available – lighting and public sewers."

"Should use fines for illegal dumping."

"Charging for domestic waste might encourage illegal dumping so this would need addressed."

"A poll tax seems to be the only system that is simple and effective to implement and manage. It seems fair that the more people that reside in a dwelling the more that household should be charged."

4.4 Specific issues for rural dwellers

Respondents were asked to identify whether there were specific issues for people living in rural areas. Most of the comments focused on the perceived unfairness of paying for services which rural dwellers in many instances spend money accessing in terms of needing transport, cannot access, and are often limited and of poor quality.

Asset Rich – Cash Poor

"Need to look carefully at the ability to pay and the case for houses which have been family owned for generations – need to take account of asset rich, cash poor rural dwellers."

'Access to, Usage of and Quality of Services'

"Rural rates should be lower than in urban areas given the travel issues and distance to facilities – e.g. leisure centres."

"We have less access to services and yet pay the same."

"We do not have street lighting, or mains sewerage and have poor public transport system."

"There is a lack of public transport and lack of local medical clinics."

"Comfortable living in a rural area depends on car ownership so therefore less disposable income. I am pension age myself and £71 per week is taxed and I work 20 hours per week."

"We have a lack of equivalent services to urban residents. I.e. poor roads, no footpaths, no street lighting, litter not collected."

"If we already pay for our water in our rates, why do we now have to pay water tax?"

"Rural people are paying additional rates on practically everything as the infrastructure is so poor."

"Rural dwellers have extra charges for most services and yet less opportunity to use those services. Personal transport is an essential cost to most rural dwellers to give them a chance of accessing services."

"Maintenance and servicing of rural roads and rural drainage together with winter road treatments should merit more spending."

"Rural dwellers should pay less because they are not close to any facilities – e.g. shops, doctors, leisure centres."

"Rates could be reduced the further away from amenities and services you live. Therefore rural dwellers should only pay for services that are brought to them not services provided by local authorities that they cannot easily access."

"There should be a commitment to supporting rural community projects with organising and delivering services which will regenerate rural areas and rebuild the centre of our communities."

'Farming'

"There needs to be more awareness that many people in rural areas are in poverty traps – e.g. small farms are a liability. Income can be seriously affected by such things as the weather, large fluctuations in market prices."

"There are implications of cost of farm buildings in the future."

'Second Homes'

"I do not approve the introduction of rating on vacant domestic properties. This hits people with second homes."

"Long time residents with low incomes living in areas where property values are high because of demand for holiday/second homes. The high domestic rates are unfair for those long time residents."

4.4 Final Comments

The final question allowed people to suggest any further improvements to the current rating system for rural dwellers. There seems to be a tension between those suggesting a 'rural rebate' based on poorer services and those suggesting some creative ways of addressing specific rural issues which would require using the money we pay more intelligently. There is also a degree of support for a 'pay as you go' system based on paying for the services you use and that are available. There are few comments suggesting increasing

accountability of local Councils and central government to improve rural service provision, perhaps signalling a degree of apathy, and disbelief that this would change anything.

'Rural Rebate'

'Rates should be lowered. Urban dwellers should be paying more. The system does not take into account those on low incomes – ie working tax credits. Rates should include water and sewerage charges and there should not be a separate bill.'

'Those who have most access to public services should pay a greater share. Urban dwellers should therefore bear a greater proportion.'

'There should be another look at capping rates within 'scenic' rural areas to avoid excessive charges due to the desirability of the location to protect long term residents of tourist areas.'

'Should have discount because they install their own outside lights, sewerage system etc.. I think when I pay over £1500 it is enough. There are lots of people on benefits but work full time just to avoid paying bills like I do for rates.'

'Reduce the rates in line with distance from the nearest town.'

'We believe you should be charged according to where you are living – ie availability of public amenities. At present, people in the countryside are facing cut backs, no services such as public transport, poor quality roads, no public lighting, next to no health services, no public sewers, yet we are expected to pay more or less the same to facilitate these facilities. We are happy to pay tax to ensure there is a quality of service but at present we are not benefiting from this. It is fair that one pays tax within their means but who is benefiting from this – the civil service or the public?'

'All people should have access to water and sewerage system.'

'Increasing accountability'

'Local councils need to be more accountable for service provision.'

'Pay as you go'

'Pay for what you use. Remove basing rates on capital value to a fairer system.'

'Levy according to services each rate payer can access.'

'Services used – bins (weight of each collection), water (metered), road (access and condition), transport (level of availability).

'Pay for public services used.'

'System is ok as it is'

'Rates are important and need to be paid. Time to pay may be required. Are people thinking of rates when they build big houses.'

'The system of rates under the value of property is probably reasonable fair.'

'Leave rates as they are.'

'Personalised system'

'I feel that there should not be one stop fit all approach. Several factors should be taken into account and assessed individually.'

'Based on levels of disadvantage'

'Rates should not only be based on property values but also on level of public service and status of the area – ie: low income, high income, low unemployed, high unemployed etc..'

'Creative Approaches'

"More incentives for recycling paper, waste, cans. More bins at key junctions which are regularly emptied to encourage cleaner countryside. More education for children and adults on the value of good waste management."

"Rural transport should be available to facilitate shopping and banking in the town as services are withdrawn from villages."

5.0 Conclusions

A rural proofing analysis of the domestic rating reform was conducted in 2005 by the government based on sales data from 1998-2002 using a sample of 46 407 properties in Northern Ireland, around 7% of all Northern Ireland properties at that time.

Within the limitations identified above in terms of sample size and the age of the data, the report concluded that in general a move to capital valuation would benefit rural areas in that under the old rating system, there is evidence that rural areas paid significantly more. The report stated that *the move from the current NAV (net annual value) system to a discrete capital value system reduces the average rural bill by £24 and increases the average urban bill by £10. Rural areas would, on average benefit from a move to a discrete capital value system. However, it also stated that although the difference between the average rate bills for urban and rural areas has declined, rural areas will continue to face higher absolute average rate bills.* The reason for the overall averages being higher in rural areas is due mainly due to the profile of housing dominated by the most expensive types housing: detached dwellings, representing 53% of rural properties as compared with 27% of all urban properties.

The rural proofing analysis was conducted before the sharp rise of house prices in Northern Ireland over the last few years. This is of significant concern under the present capital valuation system as reflected by respondents to this survey and to a greater or lesser extent underpinning the sense of unfairness: 'house prices have risen but our income hasn't'. Recent research completed by the Halifax for Great Britain concluded that on average rural house prices are 14% higher than in towns. Indeed Chief Economist, Martin Ellis, was quoted as saying that those living in rural areas are facing particularly tough housing market conditions. In general, higher average property prices together with lower earnings mean that housing is less affordable than in urban areas. The latest quarterly survey from the Bank of Ireland and the University of Ulster shows that prices have risen by 51% or £200 a day in the past year. Recent research from the New Policy Institute (NPI) has demonstrated that a £5 per week increase in housing costs in NI would result in a rise of poverty levels of 1.5-2%. These figures are based on 2005-6 figures, pre our massive increase in house prices and rising rates bills.

The NPI research also shows that there is a higher proportion of disadvantaged people in western more rural districts. Key trends conforming to the west-east pattern include the proportions in receipt of out-of-work benefits or guarantee part of Pension Credit as well as those with a limiting long-term illness. The risk of low pay is also higher in western districts.

The current capital valuation system takes no account of households that might be asset rich but are income poor, a significant issue in rural areas. Respondents to this survey particularly identified the need to focus targeted assistance on people with disabilities or long term illness, carers, and retired people and that those on low incomes generally need supported. There is evidence however that there is lower uptake of benefits in rural areas as an RCN research report highlighted using the case study of the Cookstown Benefits Uptake campaign.

"The case study of Cookstown Benefits Uptake highlights that in one council area, there were some £2.3 million pounds worth of unclaimed benefits, while hundreds of people are living on or below the poverty line."

The low uptake of benefits in rural areas needs considered in any development of rates relief, it is interesting that 96% of respondents to this survey had not accessed rates relief. We would welcome an annual analysis from the Land and Property Services on the uptake of rates relief on a geographic basis linked to an analysis of low income earners within enumeration districts. We would also welcome a regular rural proofing report on the impact of rates on rural areas compared with urban areas.

Throughout the survey, a strong and consistent theme has been 'what are we paying for as rural dwellers' shaped by many people's experiences of the difficulties of accessing quality services in rural areas. Different

¹ Monitoring poverty and social exclusion in Northern Ireland 2006 Nov 2006
Peter Kenway, Tom MacInnes, Aileen Kelly and Guy Palmer

options were offered as to whether there should be a 'rural rebate', a 'pay as you go' system or whether those responsible for planning and delivering services should be more imaginative and creative as to how services might be delivered in rural areas.

Finally, it is vital that all District Council and other bodies funded through the rates should give full and accurate information on their income and expenditure and how they have used our money. This would contribute to greater accountability and ensure that 'the local tax encourages and strengthens local democracy'.

John Simpson

NI Assembly DFP committee

Review of domestic rates – Options for change

A discussion paper by John Simpson

1. Domestic rates are essentially a property tax where the revenue raised is not hypothecated directly, although for the District Council Rate there is a link with the Council's own spending. The Regional Rate contributes, indirectly, to the range of public services falling within the devolved responsibilities of the Northern Ireland Executive.
2. The assessment of charges for Domestic Rates cannot, therefore, be linked to a formula which asks whether the charges are fairly linked to the benefits of individual households. Efforts to treat Domestic Rates as a hybrid tax, with a charge for services rendered and a property wealth charge, attempt to open the door to a mathematical formula where service charges enter the

equation. This is a complex idea but, more significantly, it is usually argued with implicit adjustments that would make Domestic Rates less 'progressive' in nature.

3. The Executive is seeking revenue where payments are linked, very approximately, to a 'fair' contribution according to the relative 'means' of each household (not the services received). This can be seen as approximating to 'ability to pay' but the concept of ability to pay is easier to state than to define since many factors should be taken into account. No single form of taxation represents an ideal formula fairly reflecting ability to pay. Income tax, on employees, comes close. However, for the self-employed or substantial property owners, income tax may be a poorer indicator. Ability to pay is, in various marginal ways, a subjective measurement.

4. Whatever the merits of a local property tax, as a proxy for ability to pay supplementing other sources of revenue (e.g income tax, VAT etc), the Executive has inherited a system of domestic rates, as an essential part of Exchequer and Council revenues, where some allowances, discretionary deductions and personal circumstances moderate the impact of a basic formula of a standard levy on the capital value of domestic property.

5. Domestic rates are the key source of revenue for local authorities. They are also a source of revenue for the Executive which has responsibility for some services that fall to local government in England. As a result, the total revenue from District Council and Regional Rates can be compared, as a cost per household (or per person), to the charges levied by Council tax in England. This comparison is illustrative in examining the relative charges per household in NI and England. Council Tax makes no contribution to water charges where households pay the charges to separate water companies.

6. Suffice to conclude that the Northern Ireland Exchequer would argue that the rates levy in Northern Ireland cannot be significantly reduced if parity of impact of the general burden of taxation is the criterion.

7. The base for domestic rates, the capital value of houses [SCV] in 2005, replaced an outdated NAV baseline. There was an understandable public suspicion that, changing the base and setting new relativities between properties, was itself a method of raising total revenue from domestic rates. Technically, the new system did not necessarily increase the total bill. However, as an Exchequer adjustment, the total bill increased, as it might have done even under an unchanged baseline.

8. The system as introduced in April 2006 also contained a number of marginal adjustments to give a greater degree of social equity, or reduce excessive inequities. Broadly, the adjustments are linked to 'ability to pay' and are in the direction parallel to proposals for TSN (targeting social need) indicators. Possible changes in the adjustments are examined below.

9. The comments in the sections which follow are, therefore, based on the working assumption that domestic rates are a necessary feature of public sector revenue (until a better alternative is devised) and that a discussion of options for change is essentially expected to be revenue neutral: any reductions/increases should be offset by other changes to maintain the revenue base.

10. Comments on the several options assume, in general, that particular changes or concessions will be offset by a redistribution of the costs/revenue on all ratepayers.

Strand 1A:

Possible changes that could be made for implementation in April 2008

11. Changes to the level of the maximum cap

To constrain the highest level of domestic rates charges so that the highest bills are similar to those in England (set by a maximum in the highest band) property with a SCV of over £500,000 is levied only for the first £500,000. This eases the bill for 2,300 ratepayers and cost about £2.5m.pa.

Given the recent changes in the SCV, this compromise constrains the maximum at about the same level as in England. To reduce the cap further would move the domestic rates bill in a slightly regressive way, increase the costs (or reallocation) more than proportionately and would more noticeably affect all other ratepayers.

The present cap should be retained. A capital value of £500,000 is less than three times the overall average and cuts the charge for about 0.5% of households.

12. Rating of vacant domestic property

If occupied property is rateable because it represents a valuable asset, then the principle of extending the rates bill to unoccupied property should be followed. Allowing for ownership changes, a break in the charge, based on the time that would normally elapse from old to new tenants, or owners, should be allowed. This can only be a rough average.

Vacant domestic property should be rated. This should extend to property in need of repair. A transitory rate free period of six months would be appropriate with a further six months at half the full rate bill.

13. Changes to the rate relief scheme

The rate relief scheme provisions were a response to the problem of households whose income was just high enough for them to be ineligible for housing benefit. The existing 'taper' provisions are, de facto, a means tested reduction in rates for these low income households.

Another relief provision enhances the allowances for single pensioner householders and for pensioners living with a partner. These allowances are justified by equity considerations, because pensioners are more likely to hold property purchased during a working life but now retain the property although on a lower income. There is a case to argue that households with only pension incomes below a determined level (and with no significant employment earnings from [say] younger adults) might be given a significant discount on the rates bill. The discount might also take account of unearned income from capital.

The maximum savings allowance before savings enter the means test for low income households, or pensioner households, might be (again on equity grounds) raised to a figure of [say] £30,000. The Lyons review in England posed a suggestion of £50,000.

14. Possible revision of provision for rates relief for students: education and training relief.

This relief is unpopular with other ratepayers, partly because of questions about the merits of the idea and partly because it is administered through landlords. The latter issue is difficult because there is no evidence of the final impact of the relief: lower combined rent and rates bills OR rents that effectively pass the relief to landlords.

If student tenants became liable for domestic rates the cost of collection would be high (changing tenancies) and the default rate might also be high.

The continuation of this relief, and the passive role of landlords, may be justified as cost effective rather than a social priority.

15. Deferred payment scheme for pensioners

The current scheme is not likely to be widely used since pensioners will wish to pass on property unencumbered with deferred charges and will be deterred by the legal documentation needed. The scheme is a safety device for reassurance more than for attraction to potential users.

This deferred payment scheme should not be altered.

16. Early payment discount

The present discounts for early single payment of the annual charge should be retained.

17. Re-profiling the existing Transitional Relief Scheme

Next April, 2008, domestic rates bills will only earn a one-third remission of the increase in charges compared to what they would have been under the NAV system. This three year adjustment is relatively short and might have been originally extended over a longer period.

The case for any re-profiling depends on a judgement about whether the speed of adjustment is causing any undue hardship where bills have increased most. This calls for a Ministerial judgement. Since water charges were delayed, the Minister might consider that the case for extended relief is weak. Alternatively, if water charges commence in April 2008, an extended relief period might be argued as a small offset to the combined impact.

Strand 1B: Options for change that would take longer to implement (ie would not be implemented for April 2008)

18. A graduated tax system: a rising, or falling, rates charge related to the capital value of the property.

The argument for a graduated charge can be

either

that the charge per unit of capital value might be marginally lower for more expensive properties which is an alternative way of avoiding large (allegedly excessive) charges

or

that the charge per unit of capital value might start at a somewhat lower level and rise as the property became more valuable, which is a way of making the charges more progressive and easing the cost on less expensive property.

As is clear, these alternatives meet entirely different objectives and are inconsistent one with another. The concept may therefore attract support for opposing reasons. To maintain a total

revenue income similar to the present system, there would be vocal winners and losers depending on which graduated system was applied.

If the rates system is judged to contain socially inequitable outcomes, then the second option might be considered.

19. Single person discount

Domestic rates are essentially a tax on property used to provide a range of public services in an un-hypothecated manner. The case for a discount related in some way to the number of residents, or number of adult residents or income earners is, at best, an argument about ability to pay.

Logically, this points to a means tested discount system (as already exists in principle for low income households). Why should a wealthy single person household get a discount where a poorer two person household pays the full bill? The argument that a single person household gets less service from the local authority or public services in general rests on the view that, in part, rates are a hybrid tax.

Apparently the English Council tax system accepts council tax as a hybrid tax and this justifies a 25% discount for a single person household. Such a change in Northern Ireland would transfer part of the rates bill from single person households to all others.

There seems little justification for this concept.

20. Single pensioner discount

Domestic rates are assessed on the capital value of the residential property. There are existing rate relief arrangements for low income households.

Arguably, with an increase in the savings disregard, low income pensioner households already qualify for partial relief. A conspicuous group, because increases in pension incomes are inclined to lag behind other changes, including average earnings, are pensioners whose standard of living in retirement is likely to be eroded..

For pensioner households, without other adult earners in the same house, there is an issue in terms of ability to pay. This can be more pronounced where a single pensioner lives on his/her own but might be extended to a household with more than one pensioner. The existing 15% relief for single pensioners is modest and might be broadened to include a pensioner household. A higher rate could be justified perhaps phased to 35% for pensioners over 75 and a full exemption for those over 85. This group of pensioner relief's would not be means tested.

21. Automatic pensioner discount

This concept is developed in the previous paragraph.

22. Broadening the scope of the Disabled Persons Allowance

The rationale for this allowance seems originally to have been the costs of adaptations of property to adjust for any physical disability. A possible extension is argued to recognise that there are other forms of disability other than physical handicaps. This implicitly extends the justification into issues related to ability to pay and extra items in the cost of living.

Logically, allowances of this generic nature are more a question for social security benefits. Any extension of the allowance base would need a clear qualification test.

23. Circuit breakers (or a cap on rates as a proportion of personal income)

This concept appeals as a safety net for unexpectedly high rates bills as a proportion of household income.

However, in the absence of case studies where existing reliefs and benefits leave people at a serious disadvantage, there is no immediate case for an extra and complicated adjustment to the regulations.

24. Extended discount for farmers

Farm houses are valued currently with a reduction of around 20% compared to other houses not used by active farmers. If a change is needed, equity would suggest that farm houses should be valued at market rates and then the domestic rates might be discounted directly by an agreed figure: 20% or 25%. This would reflect the restrictions on use now imposed by agricultural planning rules.

25. Discount for owner occupiers

This topic introduces a wide debate on a range of policies and social objectives (such as holiday homes). There is no pressing case for a discount for owner occupiers and there is no consensus on whether, and how, second homes (or holiday homes) should be treated either for higher rates because an owner has two or more properties or for lower rates because of limited occupancy.

On an ability to pay argument, there is a case to treat all residential properties on the same base until a justification for variations can be made persuasive.

26. Rates credits (for environmental enhancements to property)

Proposals of this type are consistent with active climate change policies. The form and scale of such credits has not yet been fully explored but should now be on the agenda of Government.

Strand 2: wider options for reform, to replace or supplement the new SCV system

27. Banding of capital values (as in the English Council tax system)

Banding would have the effect of increasing the domestic rates bill for households with the lowest property values and decrease it for those with the highest property values. The current Northern Ireland system gives a wider spread and also avoids the tensions of band boundaries. No change is commended.

28. Local income tax

A local supplement to income tax, as an alternative to part of the domestic rates, has attractions. The circumstances where it might be expedient are if the level of domestic rates (on property values) is considered too high and generating objections as being inequitable or insufficiently progressive.

A possible format might be that domestic rates remained as the main source of income for local government, as reshaped under the RPA, and an income tax supplement would accrue to the Executive. This would allow a single standard rate of income tax supplement to be applied and would avoid a need to attribute the supplement to local authorities.

There may be definitional questions to set the most practical boundary between incomes of self-employed people (with farmers, who should be included) and smaller businesses which are unincorporated and similar to other people who are self-employed.

This option merits further study. Of course, the income tax supplement would be a significant sum. For simplicity, the format might be a percentage add-on to current tax deductions. Other discretionary formulae would be complex.

29. Income tax varying powers

This parallels the discussion in the previous paragraph.

30. Road charging

Charging for access to town centres and use of new roads and bridges must be on the agenda if this access is to be manageable. The present planning policy for Belfast is to reduce the access for cars by denying planning permission for car parks. This blunt deterrent is of questionable effect since it will tend to deflect people in different ways: some will use public transport, if it exists; others (may be most) will go elsewhere to suburban venues.

Retailers should be permitted to judge the economics of building car parks and Government, in co-operation with local authorities, should develop counter congestion policies. Extra revenue might be allocated in part to the local authorities.

Further ideas are needed on how congestion charges, or access charges, might be levied.

31. Green taxes (as recommended in the Lyons Report)

Essentially this idea is, at present, a debate about charging for waste collection and disposal. This is a growing problem where the policy makers have a dilemma in devising a charging mechanism that does not become an incentive to 'fly-tip' or cheat. Further analysis of possible options is needed.

32. Land Value Taxation

The association promoting the concept of replacing capital values as a base for rates has submitted an analytical paper which is on the web site of the rates options. It is at www.ratingreviewni.gov.uk The concept is worthy of further study. It would be a radically different approach to defining the valuation base for rates.

33. Derelict land taxation (as recommended in the Lyons Report)

Logically, land which has become derelict should be rated at, at least, the capital value of the site.

A related question links this issue with the possibility of placing a rate demand on land which has been zoned for development but is being held without action. Land zoned and with planning

approval for residential development should be rated on its enhanced capital value with 'use it or lose it' approaches to planning permission.

5.10.07

**Economic Research Institute
of Northern Ireland**

OPTIONS IN THE REVIEW OF DOMESTIC RATING

COMMENTS BY THE ECONOMIC RESEARCH INSTITUTE OF NORTHERN IRELAND

Introduction

On 12 June 2007 the Minister of Finance and Personnel, Peter Robinson, launched a consultation on the review of domestic rating in Northern Ireland. A summary of the comments received on the review was published on 25 September 2007. The review considered the possibility for change in two strands. Strand 1 focused on what could be done within the framework of the existing capital values based system in both the short term (Strand 1A), which means via the use of subordinate legislation, and in the longer term (Strand 1B) which would require new primary legislation. Strand 2 of the review was concerned with options outside the framework of the existing rating system.

This short paper provides a brief analysis of the strengths and weaknesses of the many options identified under both Strands.

Strand 1A

The Level of maximum Cap

The present cap on capital value of a property that is taken into account for rates is £500,000. This means that one ratepayer in Northern Ireland is liable to pay more than the highest Council Tax payer in Great Britain which is a fairly rough and ready form of inter regional equity. The cap benefits about 2300 people and the revenue which its removal would bring is approximately £2.5 million. On average therefore those who now benefit from the cap would pay about £1000 more per year if it were removed, though this masks the fact that some would pay very much more than this and some less. If the loss of revenue is taken as rates foregone public expenditure would be less by the equivalent of less than £1.50 per person. If the revenue is made up from other domestic ratepayers bills would rise on average by about £4 per year.

Though removal of maximum caps is generally argued on 'ability to pay' principles the correlation between house value and income is by no means absolute. There is also a 'benefit' principle in taxation that argues there should be some relationship between what people are asked to pay and the value of the services they get in return.

A Minimum Payment or 'Floor'

This simply means that everyone should make some meaningful payment towards the cost of the local services they consume. Thus everyone would be deemed to live in

property of some minimum capital value even if the actual capital value was less and the deemed minimum would be the base on which rates started. A presumption in the review is that the poor would be supported in this situation through the housing benefit system and the local rate relief scheme. However, by artificially skewing the rate burden towards the lower part of the income distribution more housing benefit would be required to cover rates than before. Since this is a benefit that is paid by the UK taxpayer and does not come out of the NI public expenditure block behaving in this way would normally need Treasury approval. For those who believe that a local rate relief system should take the strain but should be paid for out of the block it must be remembered that this spreads the cost over everyone in the form of fewer public services of which the greatest beneficiaries are, of course, the poor.

Rating of Vacant Domestic Property

This is a long overdue reform and the system used in Great Britain seems a reasonable model. The main benefit, apart from additional rate income, is that there is a clear incentive not to allow assets such as houses to remain idle. The measure is also a partial counter to speculation in the housing market which the capital gains tax reforms proposed by the Chancellor seem likely to encourage further.

Amendments to the Rate Relief Scheme

The rate relief scheme is a local form of assistance additional to housing benefit and paid for out of the block. Taking both support measures together Northern Ireland already has a more generous level of support than is available elsewhere in the UK. There is an important issue behind these reliefs that is rarely mentioned. It goes back to the principle of parity which has linked the public finances in Northern Ireland to those in Great Britain for more than half a century. That principle states that if a deficit occurs in the Northern Ireland budget that is neither the result of a higher level of expenditure or a lower degree of taxation than in Britain then means would be found to finance the deficit and maintain services in Northern Ireland on a par with the rest of the UK. Now it is the case that very large deficits are indeed incurred in the Northern Ireland budget and as the principle suggests these are routinely financed by tax payers in Great Britain. But implicit in this deal is that the burden put on British tax payers should not be added to by local schemes that are more generous than available elsewhere.

Education and Training Relief

This is a controversial relief since it provides a benefit to students who on average will earn at least £150,000 more over their lifetimes than some of those who are paying for the relief. A further complication is that in many instances it is the landlord who pays the rates and it expected to pass the benefit on in the form of lower rents to students. Although the legislation provides for proof of pass on to be provided by landlords policing capitalisation effects such as this is notoriously difficult. Both in principle and in practice this seems a crude form of support with high potential for deadweight and distortion.

Deferment Scheme for Home Owning Pensioners

The idea with a scheme of this type is to allow pensioners who fall outside the scope of existing relief schemes to defer paying some of all of their rates bill until their property is sold. In essence the government would be giving a loan secured on the property to such people and there would of course have to be an interest element to compensate for having to wait for repayment.

In principle such a scheme does not have to have any government involvement since a secured loan can be taken with a bank in a private transaction with capital and interest paid on sale of the home. In this case the rates bills can be paid as they occur from the proceeds of the loan. This is simply a form of equity release for the specific purpose of paying the rates.

Drawing down the value of assets early does, of course, mean that the net estate is eventually reduced so less can be passed on to families. In addition where property has to be sold to pay for nursing care in later life this will be funded for a smaller time until the full burden passes back to government. Balancing all of these factors would require a careful analysis.

Early Payment Discount

This is an incentive for early payment of rate bills. At 4% it is quite generous and represents a revenue foregone of about £8 million if everyone paid early. The alternative might be to impose a penalty for paying by instalment as commonly occurs with motor insurance policies in the private sector.

Extension of Transitional Relief

Transitional relief is particularly important where the introduction of a capital charge rate system produces very large increases to bills. Generally we should try to avoid major financial shocks to any group in society because the consequences are damaging both for individuals and the economy as a whole. On the other hand transitional relief has to be paid for either by passing the burden for a period to other rate payers or foregoing revenue and trimming public services. A relief period of not more than 5 years would allow ample time for household budgets to adjust.

Strand 1B

Graduated Tax System

The graduated tax system simply breaks capital values into bands (the simplest case being two bands) and applies a different tax rate to each band. If the rate rises with the bands the tax is likely to be progressive and if it falls regressive. However, this assumes that there is a clear link between income and the capital value of property. Applying a lower rate to successive bands is one way of bringing together the ability to pay approach to taxation with the benefits received approach. The maximum cap approach is a variant of a graduated tax system with one rate up to the cap and a zero rate thereafter. The comments made on the maximum cap therefore also apply.

Single Person Discount

Single person discounts are an attempt to bring a personal responsibility element to the rates system which is purely based on house values regardless of the number of occupants and their incomes. There is quite a compelling natural justice argument that fairness requires some account to be taken of the resources attaching to a property from which rates have to be paid. However, a blanket discount to single people will have an element of deadweight (and fraud) and there may be a more targeted solution to resolving this issue (see below). The same applies to the argument for a single pensioner discount.

Automatic Pensioner Discount

Any automatic scheme assumes that everyone in the group that benefits needs the assistance. That is simply not the case for pensioners, many of whom have substantial assets (including second homes) and incomes. As a general principle automatic tax reliefs should be avoided.

Disabled Persons Allowance

Currently properties with facilities for disabled persons qualify for a rate discount. Note that this relief attaches to the property not to the disabled person on the assumption that modifications to the property to facilitate the disabled make it more valuable than an unmodified property of similar character. It is questionable that this represents value for money and the cost of the scheme might be better channelled through a specific enhancement to the low income relief scheme for the disabled.

Circuit Breakers

Circuit breakers are a means of introducing income as a specific criterion for paying a property tax such as the rates. Just as there is a concept of water poverty if water and sewerage costs exceeds a proportion of household income (usually 3-5%) a there is also a concept of property poverty if property taxes exceed some proportion of income. While

this is fine in theory the policing difficulties are formidable and fraud is a major problem with such schemes.

Enhanced Discount for Farmers

Farmhouses are valued in relation to other farmhouses rather than the stock of housing because they are considered to be encumbered because of the attachment of the farm and hence worth less on the open market.

Agriculture is already very highly subsidised so proposals for further subsidies need to be looked at very carefully. Indeed there is a case for considerably widening the local tax base by extending rating or some other tax form to land in general and agricultural land in particular.

Discount for Owner Occupiers

When people purchase a house they acquire an asset the value of which has historically grown over time in the great majority of cases. Much of this increase in value has nothing to do with inflation or improvements to the property but reflects other market forces which are independent of house holders efforts. Providing a discount to owner occupiers adds to the capital value of the property if applied indiscriminately. Arguing that owner occupiers but not second home owners in selected areas should get a subsidy when they are the primary beneficiaries of local services might be considered somewhat strange.

Rates Credit

When the rates are used to induce changes in behaviour or investment in property for particular functions there should be a market failure argument in favour of the intervention and evidence that this is the most cost effective way of achieving the desired objective. Promoting energy savings in this way may or may not be the best way of proceeding it will depend on a detailed analysis of the issue and the alternatives.

Strand 2

Banding of Capital Values

Banding is a feature of the Council Tax in Great Britain and is a way of making everyone feel that they are contributing to the cost of local services. It also narrows the range of maximum and minimum payments so avoiding extremes in the distribution of the rates burden.

At present Northern Ireland has a dual system with individual capital values and hence rate liabilities up to £500,000 and a zero rate band thereafter. This means that until the £500,000 barrier is reached households with property of different capital value pay a different amount for the same services. The range of the rates burden is therefore much more extreme in Northern Ireland than anywhere else in the UK. Ultimately this is a political issue about equity but as with any tax the uncomfortable truth is that people of high net worth who are extremely valuable to the community and the economy can and will adjust their affairs, including residency, when marginal tax rates become punitive.

Local Income Tax

Local income taxes shift the focus of the tax base from property to income and are thus regarded as in principle fairer since taxes have to be paid out of income. It has wide support mostly because people think it will lower their local tax bill or be particularly beneficial to the poor. In practice it may do neither. Virtually all taxes have disincentive effects that can be hard to comprehend. A tax on capital values is a disincentive to acquire larger houses. Taxes on income are a disincentive to work. The worker may be encouraged to work less hours or try to pass on the tax to the employer in demands for higher wages. If they are successful there will then be less jobs, including jobs for those among the poor trying to get employment. To put it simply those to whom a tax is applied may not be those who end up paying it. This is why property taxes are popular. Houses don't tend to move and it is difficult to shift the rates onto others.

Consider what would be needed to implement a shift to a local income tax. Primary (Whitehall) legislation would be required since there is no provision in the NI Acts for such a power. Without such legislation the local Executive could not compel HMRC to do anything on their behalf nor could they compel local businesses to collect a tax from employees.

Decisions would then be needed on the level of variation of the income tax rates and whether they would be confined to basic rate or extended to higher rate. There would also be issues over allowances. Most importantly since there would (in the extreme case) no longer be a property tax then there could not be a housing benefit element related to rates so unless rents fell on a £ for £ basis with rate decreases the poor would be hit.

In general the change would shift the tax burden from those who are relatively income rich but property value poor to those who are property value rich but comparatively

income poor. The former might be single people or young working families while the latter would be dominated by pensioners.

The Scottish National Party Coalition have announced that they intend to introduce a capped local income tax by 2010 in Scotland so there will shortly be a test bed for this policy near to home. Rather than rushing into a fundamental change in the absence of evidence the Executive might wish to wait and see what happens.

Income Tax Varying Powers

The arguments here are similar to those for a general local income tax power. However, it is worth noting that the 3p variation in the basic rate available to Scotland would fall well short of replacing the revenue lost from removing Council Tax.

Local Sales Tax

Sales taxes are widely used to help finance local government throughout the world but they are generally a modest supplement to other sources of finance. The main difficulties are those of policing the system and preventing leakages in cross border transactions. Like most expenditure taxes sales taxes are regressive in that they fall most heavily on those least able to pay unless they are confined to luxury goods in which case the tax base is minimal.

Poll Tax

Although there is an argument for each voter to carry some of the cost of the services they enjoy the Poll Tax is a very difficult tax to apply in an era when people can and do move around. The 1989-92 experiment with a form of Poll Tax (the Community Charge) in Great Britain is generally regarded as a major political failure.

Tourist Tax

Tourist taxes such as accommodation taxes on hotels work best when demand for access by tourists is little affected by price. Whether the tourist market in Northern Ireland has reached this point is a matter of opinion and this is a question that requires further study before adding to tourism costs. One issue that needs consideration is whether the tax would be localised, in which case District Councils with advantages in tourist attractions would benefit most or alternatively should the tax be at the regional level with proceeds distributed by some mechanism (population, for example) to District Councils.

Road Charging

Road charging refers to a number of different schemes including congestion charging and toll roads. The common theme is that road space is in limited supply and is therefore a valuable commodity that needs to be rationed to obtain the maximum value. Congestion charges recognise that the demand for road access varies across the day and hence so

does its price. Toll roads can have variable tariffs for time of day or time of year. All of these mechanisms are expensive to police and this is a factor that has to be taken into account in calculating the net benefit. Northern Ireland has no experience with either mechanism.

Land value taxation

Land Value taxation has a long pedigree and is most often associated with Henry George. The basic idea is that the quantity of land is broadly fixed and so taxation can have no effect on its supply. LVT is therefore a tax on the undeveloped market value of land. It ignores the value of property situated on the land and instead captures for the community the increased value of land that the community rather than the owner of the land creates (for example through the building of roads or schools in the vicinity). In theory this is a very efficient tax since it does not distort behaviour unlike say an income tax. It is also very difficult to evade (land can't be put in a Swiss bank account) and because it applies to all land developed or otherwise it cannot be avoided by keeping land unused.

There are many examples of LVT being used to finance local government especially in Australia and New Zealand and all property taxes that take some account of land value are a form of LVT.

Perhaps the main reason why LVT has not been adopted more widely is that it represents a very major shift in the burden of local taxation from those who own property to those who own land. It is also very difficult for people to accept that the likes of a farmer working land inefficiently should be taxed more than someone who is highly productive (and hence richer) but who uses land very sparingly.

If LVT were to be introduced it would be a gradual process working in tandem with a property tax. LVT automatically act against the retention of derelict land.

Northern Ireland Fair Rates Campaign

Important Information in Respect New Rate Relief Scheme Uptake etc...

Dear Members

I have obtained permission from the Freedom of Information Office to disclose the following matters relating to the New Rate Relief Scheme.

You may be aware of the current state of play regarding claims for Housing Benefit/Rate Rebate made by the owner-occupiers under the New Rates Relief Scheme. If not, I think that you will find the following information somewhat disturbing in light of the promises made by David

Hanson following his reform of the rates last year. [Article 14 of the Rates (Amendment)(Northern Ireland) Order 2006 refers]

I list below a truncated version of the information that I received from The Freedom of Information Office at the beginning of this week.

1. The **total number of claims received** at the Land and Property Services Office from 1st April 2007 = **7,700**.
2. An **additional 2,233** such claims were made prior to 1st April 2007 and carried forward to the current 2007/8 rating year, making **the total number of claims made under the "New Rate Relief Scheme to date: 9,933** [David Hanson stated that 44,000** ratepayers would benefit under this new scheme - I think he was slightly out in his calculations]
3. Of the 9,933 claims made, **4,720 have been assessed** and cleared, at 22 10 07.
4. The **average amount awarded per claimant so far is £123.00 per year**. [David Hanson said the average award would be £270.00 per year -Totally wrong again!]
5. At 22nd. October 2007 some **5200 owner-occupier claims have still to be assessed** by the Land & Property Services; more than half of the claims received to date.
6. Of the **£4 million additional relief** (for pensioner owner-occupiers on low incomes) as **agreed at St Andrews, only £500,000 has been paid out to date**.
7. The remaining £3.5 million will be only be available until the end of the current rating year, 31st March 2008. **No provision has been made to "carry over" any part of this £3.5 million to the 2008/9 rating year, if it has not been "fully paid out by 31st March 2008"**.
8. The time taken to assess the first 4720 claims would indicate that (assuming no further claims are made) **the outstanding 5200 claims may not be assessed before the start of the new 2008/9 rating year**. This could result in owner-occupier claimants who may well be entitled to Housing Benefit/Rate Relief for the 2007/8 year, being **issued with inaccurate rate arrears demands** when the new 2007/8 bills are released next February/March.

It is my assumption that David Hanson included those ratepayers already on Housing Benefit/Rate Rebate (HB/RB) in his figure of 44,000 "winners" under the New Rate Relief Scheme. It therefore follows if only 9,933 new claims have been made, 34,000 approx. ratepayers already in receipt of HB/RB would not gain financially from a reduction in their rates, **but the Exchequer most certainly will**, as the "benefits bill" element of the block grant would be significantly reduced.

I believe this is why a decision was taken to spread the St Andrews £4 Million across the personal allowances element of the rate rebate assessment.

Sir Michael Lyons explains this much better than I do; at SECTION 7; Page 232; Para; 7.37 of his Inquiry into Local Government - FINAL REPORT MARCH 2007.

Sir Michael warns:

"Significant numbers of households who would, in principle, enjoy lower bills might not feel a change in practice since their bills are already paid wholly or partially by CTB*. In that case some

of the benefit from a reduction in bills would accrue to the Government, rather than to the taxpayer”

* Sir Michael is referring here to Council Tax Benefit which equates to our Housing Benefit/Rate Rebate.

The above statistics give rise to grave doubts as to the effectiveness of the Department’s “drive” to increase HB/RB uptake among pensioners. The so called “simplified” Housing Benefit/Rate Rebate claim form (FIA 11/06) still runs to eight pages of intrusive, in depth, personal and financial questions, which we all know “old folk” are either too confused to complete or too frightened to divulge their personal details.

While quite a few wealthy pensioners would benefit, a method of rate relief must be devised that will give “blanket benefit” to **all** pensioners regardless of their financial status. This will only be achieved if the intrusive claim form is scrapped and a relief mechanism is built into the system that **automatically** provides relief to females over 60 year and males over 65 years.

One possible method would be to introduce a “PENSIONERS MAXIMUM CAP OF SAY £200,000 single capital valuation, regardless of where the person lives.

[Assuming that we are “stuck” with the single capital value method of calculating domestic rates]

This would go quite a way to alleviating the question of “uptake” among the owner-occupier pensioners who currently fall outside the benefit relief schemes.

We look forward to the Minister’s budget announcements on Thursday 25 10 07.

Michael Kelly

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On behalf of the Fair Rates Campaign

Appendix 5

Memoranda and Papers from Department of Finance and Personnel

Letter from Minister (26.09.07)



Department of
**Finance and
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Mitchell McLaughlin MLA
Chairperson, Committee for
Finance and Personnel
Room 419
Parliament Buildings
Stormont

Our ref: SUB 396/07

21 September 2007

Dear Chairman,

**EXECUTIVE REVIEW OF DOMESTIC RATING – CONSULTATION
REPORT**

I am writing to provide you with a copy of the consultation report on the Executive Review of Domestic Rating in advance of publication on 25 September. As you know, the consultation was launched on 11 June on the same day as the publication of the Terms of Reference for the review and ended on 31 August. The report summarises the views expressed during the consultation and also sets out the next steps for the review.

As you will see, a total of 119 responses were received of which 42 were from organisations and 77 from individuals. The key issues raised included single person discount, the merits or otherwise of the new capital value system, ability to pay, student relief, local income tax, disabled persons allowance, minimum payment. In addition, other issues that featured in the responses include the pensioner discount scheme, deferred rates payment scheme and water charging.

I understand the Committee wishes to examine the report and look at the evidence that lies behind some of the suggestions made. Your Committee intends spending a month considering this most complex and difficult of issues. My officials are available to assist you in this process and will share any relevant analysis they have available. You will also be interested to note that all of the consultation responses will be published on the Rating reform web site at <http://www.ratingreviewni.gov.uk/>; which will allow your Committee to delve deeper into the issues than the outline presented in the consultation report.



Given the need to put some measures in place in time for next years bills, options will have to be put to the Executive Committee in November, so that the necessary subordinate legislation can be drafted and passed through the Assembly. This is why I have moved swiftly to finalise the consultation report, to give your Committee a slightly earlier start than previously indicated. Nevertheless, we face a significant challenge in keeping this on track.

I look forward to hearing from you.



**RT HON PETER D ROBINSON MP MLA
MINISTER OF FINANCE AND PERSONNEL**



**Update from
Departmental Assembly Liaison Officer**



Assembly Section

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Dear Shane 5 October 2007

I refer to your various requests for information on the rating review.

I thought it would be useful to update you as much as possible on the issues while noting that 12 October is the required date for submission of evidence for the Committee's consideration.

In respect of the UU research the Department has not received a report yet on land valuation taxation and at the meeting on Wednesday the University researchers will be only able to answer questions on their approach and on key considerations.

Phase 1 of that work is nearly complete, which is a literature review (i.e. drawing on existing research) of the whole subject of land value taxation. Phase 2 is a pilot study of Belfast area of the possible impact of a vacant land taxation system -what sort of land areas it would cover, what it could raise, how it would work - very high level but enough for the Minister(s) to gauge whether it is worth pursuing as a policy option and examining in greater detail next year (which would have to include full consultation and impact assessment). The UU work on this preliminary research is at early stages.

In terms of their work on vacant homes, they have completed phase 1, which identifies where the properties are and the broad characteristics of those properties (age, type etc). We are expecting UU to provide an initial report today, which the Department will assess and pass to the Minister on Monday. Phase 2 is due to begin, which will try to identify the various causes of those vacancies.

In respect of the main analysis for the further review of domestic rating the Department has virtually completed its work on the main options which emerged from the consultation. However, we are dependent on the provision of both additional data (for example from LPS and NIHE regarding rebate and relief applications made this year so far) and additional analysis from DSD, using the Family Resources Survey and from NISRA, using the census. These 'orders' for further analysis could only be placed once the outcome of the consultation was known. Nevertheless, the Department's officials are equipped with sufficient analysis to answer most questions on virtually all options within strand one and many strand 2 ones too. Any matters that cannot be answered on the spot can be readily followed up after the meeting on the 17th.

The Committee has asked for information on when EQIAs would be carried out on the various options. A full EQIA process was undertaken and published in respect of the impact of a capital value system. Monitoring continues and it is worth noting that following publication of the new values, NISRA undertook a major study by matching the capital values to census information at individual household level. This study is available on the Rating Reform Web site. To our knowledge no other property based taxation system in the world has been the subject of such a comprehensive study before and that includes both the Lyons and Burt Inquiries.

The Department considers that most of the Strand 1a and many of the Strand 1b issues fall into the category of mitigating measures and therefore will not be subjected to the full 7 stage EQIA process. Nevertheless, as noted above, the Department has considered or is actively considering all measures in the light of likely differential impact on Section 75 groups.

Other proposals which are not in the nature of mitigating measures (all the Strand 2's) must be subjected to full EQIA before any legislation can be presented to the Assembly.

I can confirm that information on the take up of the new relief scheme should be available for the meeting on 17 October.

I hope this information is helpful in the meantime.

Norman Irwin

**Update from
Departmental Assembly Liaison Officer**



Assembly Section

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Dear Shane 19 October 2007

Executive Review of Domestic Rating

Further to the closed evidence session on Wednesday, 17 October, I set out below the Department's response to the queries raised by members during Wednesday's rating session.

Benefit take up

Detailed information on the level of take up of rate rebate / rate relief in Northern Ireland is not readily available. Some analysis has been carried out as part of the rating review by DSD statisticians using the Family Resources Survey. This looked only at those in the owner occupied sector (where we know the main problem lies) and suggested that the overall take up rate was around 42%. Research carried out by IRRV as part of an earlier review of rate reliefs in Northern Ireland suggested that the Northern Ireland Housing Executive achieved almost total coverage in terms of their tenants, with application rates for relief of around 95%. Data is not available for the private rented sector.

More detailed evidence is available on the levels of take up in relation to Council Tax Benefit in GB. Recent statistics^[1], for example, again point to a level of take up among owner occupiers of between 38 and 43%. For local authority tenants, take up rates ranged between 86 and 92%, while for private tenants the rate was 79 to 86%. The overall rate of take up was given as between 62 and 68%.

Among pensioners, the level of take up of council tax benefit in 2005/06 was estimated at between 54 and 60%. In fact, around 75% of those not claiming were pensioners and we have no reason to believe the position is significantly different in Northern Ireland.

The Committee also asked about levels of unclaimed rebate or relief, so as to distinguish between those who are missing out on substantial support and those who may not be inclined to claim because they consider they may only be entitled to trivial amounts. Unfortunately this information is not available to us. It had been requested but due to pressure of time was not produced alongside the other analysis. A new data request can be made but it would be a couple of more weeks before this could be made available. Again, data on council tax benefit is available and this did suggest that there is a relationship between the level of award available and the tendency to take up this relief. The DWP analysis showed, for example, that while 80% of those claiming council tax benefit were eligible for full relief, just 42% of non-claimants were entitled to the full amount.

Rating of vacant domestic property

The question was raised whether it would be possible to phase in the rating of vacant domestic property using capital value thresholds under the existing legislation. I can confirm that the enabling powers in the primary legislation do not inhibit such an approach. Having said that, the timing of its introduction will be affected by other factors, not least the need to undertake impact assessments and further consultation.

Members also raised a query about the number of NIHE properties within the figures quoted by UJJ in their draft report. The property information used by UJJ in their study was provided by LPS. While this did not identify the ownership details of each individual property, it did indicate whether each dwelling was privately built or publicly built. This showed that 14% of the properties were publicly built. However, given the ongoing sale of dwellings to tenants under the right-to-buy scheme, it can be assumed that many of these are now owner occupied. Thus, it is likely that no more than 10% of these vacant dwellings are owned by the NIHE. As was explained in the meeting NIHE pay a global rate bill to LPS, which includes a discount to allow for vacancies and administration. This may give rise to some inaccuracy in the data held by them. In itself this does not present a problem because NIHE housing would presumably continue to be treated in this way, so any missing vacancies of NIHE properties would not add to potential revenue figures.

Deferment Scheme for pensioners

In relation to the deferment scheme, the Department was asked to confirm whether the power in the primary legislation to enable such a scheme to be introduced would permit private financial involvement in the administration of the scheme. On inspection of both the instructions to Counsel at the time of drafting and the terms of the legislative provision itself, it is clear that the intention was that the scheme would be Government run. Involvement of a third party such as a private finance company was considered but ruled out for a number of reasons including the fact that it would involve entering into the realms of financial services which is a reserved matter under the Northern Ireland Act 1998. Any proposal to involve a third party would therefore require new primary legislation.

Disabled Persons Allowance

The Committee asked for clarification of the definition of disability for the purposes of the Disabled Persons Allowance Scheme. The definition is contained in Article 2(2A) of the Rates (Northern Ireland) Order 1977 which states that "a person has a disability if he is substantially and permanently disabled (whether by illness, injury, congenital deformity or otherwise) or suffers from a mental disorder within the meaning of the Mental Health (Northern Ireland) Order 1986." It largely mirrors that used for the purposes of Council Tax but goes further by including those with a mental disorder. To pick up on the point raised during the Committee session, the blind would also be covered by this definition.

As explained during the Committee session, it is important to note that the purpose of this particular scheme is not to provide a blanket relief to those who are disabled. Other parts of the rating system cater for this group as a whole, for example the low income rate relief scheme which is discussed further below. The rationale for DPA, however, is to ensure that those who have modified their property because of their disability are not penalised by any increase in value associated with the modifications. The scheme therefore focuses on those disabilities that give rise to the need for the physical adaptation of a property or the use of an additional room. This was the position under the scheme that existed prior to April 2007 and was carried over into the new scheme introduced in April this year that aimed to simplify the procedures associated with it and take account of the move to capital values.

As mentioned above, there are other elements of the rating system that cater for those with a disability such as the low income rate relief scheme. One of premiums which form part of the “applicable amount” under the scheme relates to those with a disability. One of the options under Strand 1A is to increase this premium (and/or the others that apply). The cost of increasing this by 10% would be £0.32m with 350 benefiting. Increasing it by 20% would double the cost and increase the number benefiting to 750.

A query was raised around the figures provided in terms of the numbers eligible for higher rate DLA. This showed that if a disability relief was awarded to all those on the higher rate care element of DLA, this would lead to around 30,000 eligible recipients. This figure was arrived at through adding the number receiving higher rate care only (approximately 2,300)^[2] to the number in receipt of higher rate care and mobility (28,000). Similarly, the estimate of the number who would be eligible if the relief was awarded to those on the higher rate mobility element was arrived at through adding the number receiving higher rate mobility (11,400) to the combined total.

I hope this provides the Committee with the additional clarification required following the Committee session to enable Members to arrive at their conclusions on the Review. Please do not hesitate to contact us if there is anything further your Committee requires.

We look forward to taking receipt of the Committee’s report on this matter in due course.

Norman Irwin

[1] Income-related benefits: estimates of take-up 2005/06 (DWP)

[2] Source: Disability Living Allowance: Summary of Statistics February 2007 (DSD)

Land Value Taxation: An International Overview

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School of the Built Environment
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2 November 2007

Executive summary

- The three principle bases for the property tax tend to be capital improved value, annual rental value and land value. There are some instances where a country or jurisdiction may apply more than one basis at the same time. For example, in Northern Ireland residential property is valued on its capital improved value whilst commercial property on annual rental value. There are a number of jurisdictions in the United States that value land and buildings separately for the purposes of applying different tax rates (several jurisdictions in Pennsylvania[1]).
- From an international perspective, given the choice of property tax basis, land value tends to be the least used. It is a conceptually sound system but with limited international application.
- There is a quite noticeable trend for countries and jurisdictions (where they have a choice of tax basis) to move away from land value. Very good examples of this are to be found in Australia, New Zealand and South Africa.
- A system of land value taxation should ideally be based upon the concept of highest and best use. This creates difficulties when considering the value of historic and heritage property located on extremely valuable sites. A system of 'value' relief would have to be considered in order to protect such buildings. Equally, there are other instances where highest and best use should not apply, for example, agricultural land used for farming but under developmental pressures.
- Under a land value system all land is normally included in the tax base including agricultural land. However, special consideration has to be given to land devoted to agriculture; this is normally applied through the valuation process where values are based on existing use rather than highest and best use.
- The planning/land use zoning system would need to give clarity and certainty as to the actual permitted use for all land. The current planning system falls considerably short of being able to achieve this due in a large part to the lack of current development plans.
- Overall, introducing a system of land value taxation to replace the current domestic and non-domestic systems would be difficult and not in line with international trends.

Introduction

The purpose of this brief research report is to provide some empirical evidence as to the international use of land value taxation as a system for the raising of revenue for local government services. Land value taxation is not a new concept, it is conceptually sound but has from an international perspective limited application. The application of land value taxation in its pure form is used only in a few countries for such purposes. These countries include Australia, Fiji, Jamaica, Kenya, New Zealand and South Africa. In many respects these countries have several factors in common including relatively large land masses, but possibly and more importantly, at the time of the introduction of their system of land value taxation they were largely undeveloped countries. As Holland (1969) put it, developing countries perhaps more than others experience considerable speculative holding of land which causes significant piecemeal ad hoc development.

There are a number of other smaller countries that currently use some form of land value taxes either as a state tax or as a local tax. Belize[2] uses land value for rural property only i.e. property outside of the towns and cities. Taiwan[3] utilises the Land Value Increment Tax as a means to curb land speculation. It is somewhat similar to the capital gains tax with the trigger for the tax being a sale or other disposal. The property tax in Barbados[4] originally was based on the annual rental value however, following the publication of a research report by the United Nations the system was changed to one based on land values (1972). The basis was then extended to include improvements in 1975.

In Korea^[5] the Aggregate Land Tax (ALT) could be described as a form of wealth tax in terms of land asset holdings. It is levied annually on the individual landholding value across the whole country. The ALT, is not specifically a local tax, but centrally administered with the revenue being transferred to local budgets.

In terms of international usage land value taxation is not as extensively used, as for example, annual rental value or capital improved value. In fact, when we look specifically at recent developments in Australia, New Zealand and South Africa we see that the trend is to move away from land value based systems to the more popular capital improved value. In Australia and New Zealand where municipalities have a choice as to which rating basis to use the trend has been for municipalities to change to capital improved values (for further details see Annex 1). The most dramatic change has recently occurred in South Africa where all municipalities now must adopt capital improved value as the basis.

The Lyons Inquiry into Local Government (2007) as a matter of course briefly examined land taxation. It noted that several proposals (mainly historic) for such a tax in Britain have been put forward but with little success^[6]. On the matter, Lyons did suggest that in general, taxes should be as broad based (land and improvements) as possible to reduce distortions and tax rates. On the matter of administration NERA (2005) suggested that costs would be relatively high given that all land would have to be surveyed and valued, a task made all the more difficult as there is currently no national register of land ownership.

Advantages of land value taxation

- Some arguments for land value taxation can be made on the grounds of equity, efficiency and environmental protection. The equity argument asserts that because the value of land is, for the large part, a result of society efforts rather than efforts on the part of the owner, society should reap the benefit of increased land values through taxing this enhanced value (Lichfield and Connellan, 1997).
- Land value taxes are efficient in that they remove a market disincentive, which discourages people from building or making improvements to their property because of the fear of increased taxes. Under a land value system improvements are essentially exempt.
- From an environmental perspective land value taxation encourages compact city centre development, which would reduce urban/suburban sprawl. The concept is one of efficiency of use and developing greater intensity of use in urban areas.
- Administrative simplicity is an important advantage of land taxation. Difficulties in factoring out land values from sparse transactions is to a certain extent offset by other administrative advantages including not having to maintain an inventory of improvements.
- By excluding improvements the assessment/valuation process is less constrained and demanding, as it requires fewer property inspections.
- Land values are easily determined as the valuation process requires less variables to be reflected.
- Land value is in accord with the benefit principle of taxation. The value of land is the market value of the location, it is essentially what someone would be prepared to pay for the benefits which are available at that site in terms of accessibility, amenities etc.

There are however a number of distinct disadvantages of land value taxation

- It provides the taxing authority with a restricted tax base, excluding a substantial degree of wealth, especially in well-developed areas and can only produce sufficient revenue at high tax rates. Buildings contain an appreciable degree of value, particularly in central business districts, which under land value taxation escapes taxation. The exclusion of improvements also means that the tax base has considerably less flexibility than under improved value systems (Bahl, 1998; McCluskey and Williams, 1999).
- Whilst not impossible it is difficult to separate the value of the land from the value of the improved property, problems do arise when such derived values have to be defended before a valuation tribunal. The use of extrapolation methods to blanket cover an area or region based upon sparse data is divorcing an ad valorem tax from the market.
- Valuing land in a built-up environment with no or few transactions, necessitating the extraction of land values from improved value sales makes the process a more subjective and cumbersome exercise (Bahl, 1998; McCluskey and Williams, 1999).
- Explaining the system to ratepayers who are generally intuitively aware of the improved values of their properties.
- A system of land value does not require the collection of data on improvements. Introducing such a system would have significant problems if at some time in the future a change to improved value was contemplated as the cost of data collection would be extremely expensive.
- It does not reflect ability to pay as well as a capital improved value system (Marten, 1999; Doves and Hargreaves, 1999).
- It penalises the holding of accommodation land when a change of use is not yet economic (Risden, 1979).
- It would tend to bring about development in peripheral areas and increase pressure on urban fringe land.
- It can create undesirable development particularly where the planning system is not operating efficiently.

Incidence of the land tax

Economic theory would tend to show that under the assumption of perfect markets, a tax on any good with perfectly inelastic supply and no elasticity of demand will be borne entirely by the supplier of the good. The tax cannot be shifted to its user because any increase in the price would lead to an excess supply of the good. Therefore, a tax on land has to be paid in full by the owner of the land.

Valuation assumptions

Highest and Best use

It is a general assumption of valuation under land value systems that the concept of highest and best use is adopted. Many of the countries that use land value make specific reference in their legislation to empower this concept, for example in the state of Victoria, the Valuation of Land Act 1960 (s.5A) states that in determining the value of land account shall be taken of the existing use and the highest and best use which the land might reasonably be expected to be put. In Jamaica, legislation permits the taking into account of any other purpose for which the land could be used (Land Valuation Act 1957).

A fundamental aspect to be considered in the assessment of site value is the concept of highest and best use. Fisher (1930) defined the concept as:

'Highest and best use is that kind of utilisation of land which will enable it to produce, over a period of time, the highest net income.'

Highest and best use as defined by Boyce and Kinnard (1984) is that reasonable and probable use that supports the highest present value, as defined, as of the effective date of the appraisal. The highest and best use in context of market value is the most probable use. These definitions imply that the determination of highest and best use results from the valuer's judgement and analytical skill, i.e. that the use determined from analysis represents an opinion, not a fact to be found. Highest and best use must be reasonable, probable, and proximate (likely to occur soon, if not immediately). It is not speculative or conjectural. It may or may not be the present use of either the site or the improved property.

Highest and best use can change over time as external market forces change. These forces include effective demand and all its components, public tastes and standards, land use regulations (especially zoning), and competition. In addition, the character of the subject property itself may change, thereby changing its highest and best use. This is why highest and best use is always estimated as of the valuation date. In some instances, highest and best use may anticipate the market, provided the conclusion is reasonable, probable, and proximate.

Sites are always valued as if vacant and available to be put to its highest and best use, when market value is to be estimated. In the analysis of highest and best use, valuers must consider not only the suitability of the site for existing or proposed use but also its suitability for alternative uses. They must discover that use which is most probable from the point of view of the typically informed buyer on the market. This is the use that will produce the highest present worth of the site.

The current or present use of the property may differ from highest and best use of the site. The existing use will continue, however, unless and until land value in its highest and best use exceeds the total value of the property in its existing use. Therefore, the present use of an improved property is presumed to be its highest and best use unless it can be demonstrated that change is imminent through the impact of market demand or legal (land use control) forces^[7].

The highest and best use of a parcel of land is normally a question of fact and usually presents little difficulty in its determination. In most rural areas, residential and industrial locations the highest use of the land is a relatively straightforward issue. However, in transitional areas where the predominant land use is slowly changing e.g. a residential suburb seeing an influx of commercial activities, or part of the commercial inner city witnessing a decline in fortunes. In these cases some certainty of land use needs to be given within the system so as to remove issues surrounding values and potential litigation.

Exceptions to highest and best use

Related to the identification of the highest and best use of a parcel is the need to protect certain existing uses that would not be considered as the highest and best use. This is particularly important where the values pertaining to existing use and highest and best use are significantly different. No system of property taxation including land value is universally applicable in all situations, resulting in measures of relief to be instituted to protect certain classes of property and occupiers. As an example, in older established residential areas caught up in changing use to commercial/offices, it may be found that the taxes on residential property are excessive if assessed on the basis of these higher and potentially more 'profitable' uses. To preserve the original land use from an early demise, various schemes of relief are utilised, some relating to the valuation process as such (e.g. differentials of discounting the actual value to a lower level), and others operating outside the realm of assessment (e.g. property categorisation or zoning coupled with differential rates).

A number of these exceptions will now be considered.

Heritage buildings

Buildings of historical or architectural importance are often valued on the basis that the current use is the only permitted use. This is notwithstanding that historic buildings, particular those situated in CBD areas, are often used for uses different to which they were originally designed and built. But it does protect them from the highest and best use concept which could incorporate a density assumption which would in normal situations require the demolition of the building and the redevelopment of the site.^[8]

Relief through special valuations

In this case property tax relief is available to the owners or occupiers of land where the use of the land is different from that permitted by its zoning, and where the value based on existing use is higher or lower in value than that based on the zoning. The use of special values can then be considered. Examples of this type would tend to relate to industrial or commercial land located in rural or residential areas or residential land located in predominantly commercial or industrial areas. The special values reflect the value of the property in its existing use as opposed to any higher or more intensive use. The following are typical categories of property to which special values could be applied:

- SVs of industrial or commercial land in residential or rural areas;
- SVs of residential land located in commercial or industrial areas;
- SVs of single or double unit dwellings where values are influenced by demand for multi-unit housing;
- SVs for existing use properties;
- SVs of land subject to special preservation/historic conditions.

Relief through tax postponement

One other approach to protect certain land uses is to apply tax postponement. Under this approach there is the power to postpone the property tax on farmland of which the value is in some way attributable to the potential use to which the land may be put for residential, commercial, industrial or other non-farming use. The postponement value of any land excludes any potential value at the date of valuation so as to preserve uniformity and equitable relativity with comparable parcels of farmland the valuations of which do not contain any potential value. Where farmland value has a value higher than existing use value then two valuations are required, one for the existing use and the other for the highest and best use. The difference between the tax assessed on the lower and higher values is postponed.

Agricultural land

In those countries that apply land value taxation agricultural land normally forms part of the tax base. Whilst very few countries completely exempt agricultural land it is usually given a certain degree of preferential treatment. In most cases land that is de facto agricultural is valued on an existing use basis as opposed to highest and best use. In New Zealand and Australia farmland is taxed and rated for the municipal property tax. However, in both countries recognition is made of the potential differences that can exist between current use value and highest and best use value where other competing uses to farmland may apply^[9].

Planning Issues

For a land value system to work effectively it is important that the planning/land use zoning system is also efficient (McGill and Plimmer, 2004). As sites have to be valued at their highest and best use it is essential that there is clarity and certainty with the land use zoning. Under the current planning system there is considerable degree of uncertainty in terms of the likely allowable uses of land. This is to an extent due to the lack of a comprehensive and up to date set of development plans covering all areas. This has occurred for a variety of reasons including resource issues and the protracted nature of the Plan introduction and appeal procedure. It is also to an extent due to the fact that such plans and associated planning policies are subject to interpretation and legal challenge. In any case the plans would tend to be quite general in terms of issues such as density of development allowable or quantity of affordable housing required and may in fact zone some land as white land; i.e. difficult sites where any economic use would be considered. Developments are subject to approval in line with the Development Plan and other planning policies and in many cases this may have a considerable effect on the land value.

As Litchfield and Connellan (1995) commented, 'the current development/planning process, and the recent attempts at recouping of development value in Britain bring out the potential conflict that arises when land/site taxation is administered alongside a planning system in which development rights are not derived from the plan itself but rather from the planning permit administered under the system. Therefore, given the flexibility and discretion inherent in the planning system there must be uncertainty in the future land use/land value of particular parcels.'

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Annex 1: Examples of international land value tax systems

Australia

Property taxes in Australia principally comprise the state land tax and municipal rates. The former provides revenue for the state with no direct reimbursement to local government whereas the latter is the primary source of revenue to local government. The land tax was introduced at the national level in 1910 (Taeuber, 1966) and remains a state tax in all states including the Capital Territory but with the exception of the Northern Territory. Municipal rates are levied on a variety of tax bases the main ones being:

- • unimproved land value: the amount which the fee simple of the land might be expected to realize if sold, assuming any improvements had not been made.
- • land value or site value: similar to unimproved value except that improvements such as clearing, excavating, or grading are not disregarded in determining value.
- • improved value of land and buildings: is the market value which the property might be expected to realize if sold.
- • rental value of land and buildings: gross or net annual rental value that the land and buildings might realize if leased.

Table 1: Basis of property tax in Australian states and territories

State/territory	State land Tax	Municipal rates	
NSW	Land Value	Land Value	
VIC	Land Value	CIV/Land Value/ARV	72 councils use CIV; 1 LV and 6ARV

State/territory	State land Tax	Municipal rates	
QLD	Unimproved value	Unimproved value	
SA	Land Value	CIV/LV and ARV	50 councils use CIV; 13 LV; 1 ARV; and 4 combination of CIV and LV
WA	Land Value	ARV and LV	ARV for urban property and LV for rural property
TAS	Land Value	ARV	
ACT	Land Value	LV	
NT	None	LV	

As can be seen from Table 1 land value is the only basis used to determine assessed land values for the state land tax. For municipal rates the picture is more diverse however, the pattern would tend to suggest that each of the main basis are widely used. However, if one examines the trends in those states that allow municipalities the choice of which basis to use then we see an interesting picture. In South Australia and Victoria where municipalities have the choice, the trend is towards capital improved value with a move away from land value.

Fiji

Before independence Fiji was under British rule (1874 - 1970) and shared in some significant aspects of a common colonial heritage with its neighbouring countries Australia and New Zealand. Thus the basis for assessing local government rates in Fiji on the unimproved capital value System (UCV) was inherited from these two countries. Municipalities in Fiji are self-financing authorities with a significant part of their operations funded by revenue from the land value property tax.

In the case of Fiji, with the exception of one preliminary government review (Narayan, 1999), no empirical research has been undertaken on the rating system. Research by Hassan and Boydell (2003) indicates some significant problems with the land value system in Fiji. In particular, there are problems with equity and the proffered solution is for the government to consider changing the system to one based on capital improved value. However, to date no governmental changes have been made to the system.

Jamaica

Land Value taxation was first introduced in Jamaica in 1957 following a number of research reports into the most appropriate form of property taxation (Hicks and Hicks, 1954; Murray, 1956). From a study of the proceedings of the House of Representative as recorded in the Jamaica Hansard (Session 1956 - 57 No.3), the following was the major objective in introducing the Land Valuation Bill (Lyons and McCluskey, 1999). It was considered desirable to introduce a tax base which:

- did not tax a person in the efforts he put into the land;
- provided a means of taxing values created by the community at large; and
- discouraged the withholding of land from use.

Since its introduction in 1957 the land value system has been generally working well. Two recent research reports indicated a number of changes to the tax structure but principally, that the basis of the tax should remain as land value (McCluskey, 2002; Sjoquist, 2004).

New Zealand

At present in New Zealand local authorities have the choice of three alternative systems on which the real property tax or rates may be levied. These systems are firstly, the total value of land, buildings and other improvements (capital value); secondly, the site value only (unimproved value); and thirdly, the annual value. During the first decade of British colonization in the 1840s, annual value was the most extensively used basis for rating, which was in effect an adoption of the 'English system' of rates. The unimproved value system interestingly was rejected by central government in 1893, however, its popularity had been on the increase since the depression of the 1880s. After 1896, with the advent of three recognised systems of rating available to local authorities, there was a steady move away from annual value and capital value rating to unimproved value rating.

The proportion of territorial local authorities using unimproved values increased from 64.2 per cent in 1956 to 76.1 per cent in 1966, while the proportion rating on capital and annual value, declined from 29.5 per cent to 19.3 per cent and 6.3 per cent to 4.6 per cent respectively. Clearly, over the last fifty years land value based rating has been the dominant system. However, since 1985 there has been a noticeable swing back towards the use of capital value.

Territorial local authorities (TLAs) in New Zealand have always had the legislative right to choose the basis upon which to levy property taxes. In relation to the levying of general rates, of the 74 TLAs, twenty three adopt capital value, fifty use land value with only one employing annual value (Auckland City) (McCluskey et al, 2002). In this regard, New Zealand is to some extent unique in granting each entity of local government the power to choose its own rating system. Most other countries generally prescribe a national/state uniform system of property taxation, with local government having no authority to opt for a different approach (Bird and Slack, 2004; McCluskey, 1999). Given the ability of TLAs to choose their rating system there has been over time a gradual swing away from land value towards capital value (McCluskey and Franzsen, 2004). The precise reasons for this movement are as yet unclear but could well be linked to a number of interrelated aspects such as better reflection of ability to pay, volatility of the property market, assessment difficulties and rating incidence (McCluskey and Franzsen, 2004).

Clearly over the last fifty years land value based rating has been the dominant system however, since 1985 there has been a noticeable swing back towards the use of capital value. This tends to be more evident within the larger urban areas. Since 1989 a number of territorial authorities (TAs) have switched to capital value rating, they include Dunedin (1989), Tasman (1991), Banks Peninsula (1992), South Waikato (1993), Invercargill (1994), South Taranaki (1994), Otorohanga (1996), Lower Hutt (1997) and Franklin (1999).

Early attempts to establish a uniform basis of rating in New Zealand were negated as early as 1896 when the freedom to choose between annual value, capital value and unimproved value was clearly established. The Officials Co-ordinating Committee Report (1988) drew attention to the various ways that the property valuation focus had been shifted, by bringing in differentials and uniform annual charges. The report suggested the introduction of capital value rating would reduce some of the pressures giving rise to the use of differential rating. Mainly for reasons of local autonomy there has been a perception that a choice of systems was needed. It is claimed either capital value rating or land value rating may be more appropriate for an individual authority because of the character of the district. It could be argued that land value rating is better for rural areas and capital value rating is more appropriate for cities. The report concluded that there were good reasons for having one form of rating system nation-wide, but if

government had no clear preference, then there should be access to both land and capital value rating systems. The 1988 Committee indicated the following:

- capital values are readily established by reference to direct market data whilst land values are more difficult to demonstrate and are consequently less readily understood;
- capital values will continue to be required for other purposes;
- there is more correlation between ability to pay and capital values than is the case with land values;
- many local authorities ostensibly rating on land value nevertheless derive a significant proportion of their rating income from capital value levies.

As the capital value system is better understood it is likely that there would be less time spent in advising ratepayers about the system than is the case with those districts where land value rating is used. Land value as a system is not well understood by ratepayers particularly with respect to the development improvements and structural improvements. While the land value rating system has been a valued system in the past, its benefits are increasingly being questioned. Even if one accepts that its strength is the encouragement that it brings to develop property it is questionable whether New Zealand is in a developing mode. In addition, land use planning through the rating system is not the most efficient mechanism to attain proper land use controls.

South Africa

Historically land-related taxation in South Africa can be traced as far back as 1677, when the Dutch East India Company introduced an agricultural tithe on small-scale farmers who had been settling down in the fledgling colony located at the Cape of Good Hope. The Dutch introduced recognition fees on farms in 1714 and the British (after annexing the colony in 1806) introduced quitrent, hut taxes, various forms of land taxes and eventually property rates in the Cape colony (and their various other colonies in southern Africa). Introduced in the Cape Colony in terms of the Municipal Ordinance in 1836, rates on property have been a source of revenue for primarily urban municipalities in South Africa ever since.

Rates on property, as an annual tax payable by the owner on the market value of property situated within municipal boundaries, is levied in terms of one of the following three systems:

- a site rating system (i.e. taxing only the land, excluding improvements);
- a flat rating system (i.e. taxing the improved value of the land); or
- a composite rating system (i.e. taxing both the land and the improvements, but at separate tax rates)

At the time when the reform of the local government sphere commenced in earnest in 1994, the use of the three rating system was rather evenly spread amongst municipalities throughout the country, i.e. a third each. The distribution within former provinces however indicate a general preference for one or at most two out of the three systems, as indicated in Table 2.

Table 2: Rating systems used by pre-1994 municipalities in 1993-1994

Province	Site Rating		Flat Rating		Composite Rating		Total
	No.	%	No.	%	No.	%	
Cape	4	2.4	89	54.0	72	43.6	165

Province	Site Rating		Flat Rating		Composite Rating		Total
	No.	%	No.	%	No.	%	
Natal	34	50.7	1	1.5	32	47.8	67
Orange Free State	10	19.6	8	15.7	33	64.7	51
Transvaal	78	88.6	2	2.3	8	9.1	88
Total/ Percentage	126	34.0	100	27.0	145	39.1	371

Source: Bell and Bowman, 2002

The White Paper, published in March 1998, also proposed material changes to the manner in which local government is to be financed, citing certain features of the property rates dispensation that required reform. And indeed the White Paper (i.e. government policy advisors) suggested a simpler and uniform valuation system with regards to tax base is one of the key policy objectives of a future rating dispensation. It is, however, also stated that a 'key decision that needs to be taken is whether there should be uniform national system, or whether there should continue to be local choice in this matter'. Each of the Provinces were able to determine their own property tax basis, but with the passing of the Local Government Municipal Property Rates Act (2004) the national government has prescribed that one uniform system for the whole country should be applied i.e. capital improved value (McCluskey and Franzsen, 2004; Franzsen and McCluskey, 2000).

Kenya

The introduction of property taxation, commonly referred to as rating in Kenya is a relatively recent phenomenon. It was not until the beginning of the last century that it was introduced by the British colonial rule when local governments were created. In an attempt to enable the created local authorities to meet the challenges, the British colonial administration tried any policy on land management that had worked elsewhere. According to Hicks (1961), the campaign for taxing land spread from South Africa into Rhodesia and later to the three British East African territories of Kenya, Uganda and Tanganyika (Tanzania).

Land taxation was introduced in Kenya in 1900, when the first system was applied in Mombasa on an annual rental value basis under street cleaning and regulations. The following year, the same was applied in Nairobi. In 1923, annual value rating was, however, found wanting as only a few properties had been developed. The desire was thus to widen the base of the tax and it was not until 1928 that the recommendations of the District Committee to apply unimproved site value rating was introduced. In Nairobi, however, this had been introduced in 1920 in conformity with the systems then existing in Australia, New Zealand and Western Canada. This was a departure from the English system that was found unsuitable in new growing townships. The introduction of site value was to a great extent influenced by Henry George's ideas of a single land tax system.

The Valuation for Rating Act provides for three systems of rating namely: area rating, unimproved site value rating and improvement rating. Unimproved site value rating and improvement rating apply to urban areas whereas area rating was to be applied to agricultural land. Urban authorities are allowed by law to use either unimproved site rating or improvement rating or both methods. However, unimproved site value rating has proved to be more attractive to local authorities because of its amenability to mass appraisal and simplicity in comparison to other methods. In applying site value rating, rates are based on the market value of the unimproved bare land, and where the land is developed, the improvements are ignored.

Improvement rating, however, was only tried in Mombasa but was abandoned after a short period of time due to defects in the law (Aritho-Gitonga, 1980). The system never succeeded due to its influence on development and also to the fact that by then, many Kenyan towns had low levels of development, for instance, buildings which could not be valued with any certainty as they were constructed of mud, tin and paper, and the local authority by laws regarded such developments as illegal.

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[3] Shen, S-K. (1966), *Land Taxation as related to the Land Reform Program in Taiwan* in *Land Taxation, Land Tenure and Land Reform in Developing Countries*, A.M. Woodruff, J.R. Brown and S. Lim (eds), University of Hartford

[4] *Land Valuation Act*, chapter 229A, 1985

[5] Younghoon, R. (2002), Introduction to Property Tax System, Korea Institute of Public Finance

[6] 1909 and 1931, see Connellan, O. (2004), Land Value Taxation in Britain: Experience and Opportunities.

[7] The principle has received judicial approval in a number of Australian cases including *Spicer v Valuer-General* [1963] 10 LGRA 319 where the court said;

'The law is quite plain that under the Valuation of Land Act 1916 (NSW) the unimproved value of land must be based upon the best or most profitable potential use.'

[8] (see Victoria's Valuation of Land Act 1960).

[9] Victoria, Valuation of Land Act 1960
New Zealand, Rating Valuations Act 1998

Study into Vacant Domestic Property

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DRAFT REPORT 1

Introduction

There are two strands to this research project. Phase 1 of the study involves an initial analysis of the raw data obtained from the Land and Property Services (LPS). Before any meaningful execution of the data can be undertaken, the files were checked and cleaned for any anomalies. This report is based on the findings of the desktop analysis, which essentially is an overview of the stock of the vacant domestic property by district council and ward levels, and by property type and age. It also gives an estimation on the potential rates revenue that could be raised through when a 100% or 50% vacant rate is imposed. However, in order to give confidence as to whether a property is vacant, Phase 2 of the study involves some external physical inspection of the properties for a number of local government districts. It will consist of a statistically representative samples to verify the overall condition of the house and to establish whether there are any obvious causes of vacancy on the basis of geographical location, social, economic and political circumstances and identify, where possible, any other major reasons for the property becoming vacant and/or remaining vacant.

Data

The data file received from LPS contained a total of 50,522 properties. The properties were valued as of 1 January 2005. On initial review the data required some cleaning as a number of properties were found to have missing or blank fields, such as having no NAV recorded, inexplicably high NAVs and / or capital values or included other property types such as commercial properties. Also, properties with a capital value of less than £10,000 were removed and this left a total usable sample of 48,362 (Table 1). It should be noted that the data was

based on information drawn from two data sources. The first comprised vacancy information at the property level from the Rates Collection Agency. This was then enhanced by property attribute data provided by the Valuation and Lands Agency. There are a number of caveats with respect to this data including the following;

- As each property has not been individually inspected, there may be instances where the property is in fact occupied. In addition such data can only ever represent the position at a specific point in time and unless refreshed regularly currency may become an issue, given the dynamic nature of the property market.
- Public bodies often take advantage of the Landlords Discount – which prevents them from claiming vacancy – this may result in public sector vacancy being under represented, perhaps to a significant degree. However, as they are not considered to be vacant for rating purposes and indeed are currently subject to rating, they would not represent a potential addition to the tax base given the introduction of vacant rating.
- This analysis does not reflect the state of repair of vacant properties. Due to the lack of information on the condition of dwellings, it would be a reasonable assumption to make that a number of vacant properties may be considered as incapable of occupation or derelict. Under the previous rating system those properties would have been attributed a nil NAV (not capable of beneficial occupation). However, under the present capital value system, they could still attract a capital value (on the assumption of average internal repair) if the disrepair was internal. Of course, properties with significant external disrepair would be attributed a nil capital value assessment.
- The analysis takes into consideration the current cap on chargeable capital value of £500,000. It does not take account of any initial introductory rate free period, such as the three month period under non domestic vacant rating. The revenue potential is based upon the current tax rates of regional rate plus individual tax rate for each District Council area.

Table 1: Total Property Sample

	No. of prop
Total number of dwellings	50,522
Cases removed	2,190
Total useable	48,362

Table 2 shows the distribution of vacant properties in each district council before and cleaning the data. As expected, Belfast has the highest number of vacant properties (9,795) followed by Newry & Mourne at just under 3,000 vacant properties.

Table 2: Distribution of properties in each District Council before and after cleaning the data

	No of prop (Before)	No of prop (After)	Percent
Antrim	976	933	1.9
Ards	1,820	1,735	3.6
Armagh	1,998	1,943	4.0
Ballymena	1,259	1,203	2.5
Ballymoney	674	657	1.4

	No of prop (Before)	No of prop (After)	Percent
Banbridge	1,490	1,443	3.0
Belfast	10,429	9,795	20.3
Carrickfergus	740	718	1.5
Castlereagh	1,055	1,029	2.1
Coleraine	2,121	2,057	4.3
Cookstown	1,195	1,119	2.3
Craigavon	2,545	2,484	5.1
Derry	2,575	2,481	5.1
Down	1,920	1,853	3.8
Dungannon & South Tyrone	2,129	2,012	4.2
Fermanagh	2,367	2,236	4.6
Larne	882	842	1.7
Limavady	845	832	1.7
Lisburn	2,365	2,292	4.7
Magherafelt	1,036	1,016	2.1
Moyle	676	650	1.3
Newry And Mourne	2,963	2,848	5.9
Newtownabbey	1,534	1,453	3.0
North Down	1,946	1,839	3.8
Omagh	1,741	1,664	3.4
Strabane	1,271	1,228	2.5
Total	50,552	48,362	100

Table 3: Distribution of properties by type

	Frequency	Percent
111 – Private Built Dwellings	41,363	85.5
121 – Public Built Dwellings	6,907	14.3
199	92	0.2
Total	48,362	100

Table 3 indicates that over 85% of vacant dwellings are in the private sector.

Table 4: Distribution of properties by sub class

	Frequency	Percent
APC – Converted Apartments	3,325	6.9
APP – Purpose Built Apartment	4,293	8.9
No of Apartments	7,618	
DET01 – Detached pre 1919	7,855	16.2

	Frequency	Percent
DET02 – Detached Interwar	1,209	2.5
DET03 – Detached 1946-65	1,529	3.2
DET04 – Detached 1966-1990	2,332	4.8
DET05 – Detached post 1990	3,193	6.6
No of Detached Houses	16,118	
SDT01 – Semi Detached pre 1919	1,037	2.1
SDT02 – Semi Detached Interwar	1,561	3.2
SDT03 – Semi Detached 1946-65	1,594	3.3
SDT04 – Semi Detached 1966-1990	1,393	2.9
SDT05 – Semi Detached post 1990	3,865	8.0
No of Semi Detached Houses	9,450	
TER01 – Terrace pre 1919	6,002	12.4
TER02 – Terrace Interwar	2,530	5.2
TER03 – Terrace 1946-65	1,975	4.1
TER04 – Terrace 1966-1990	2,206	4.6
TER05 – Terrace post 1990	2,463	5.1
No of Terrace Houses	15,176	
Total	48,362	

Table 5: Distributions of Houses by Age

	Frequency	Percent
Pre 1919	14,894	30.8
Interwar	5,300	11.0
1946-65	5,098	10.5
1966-90	5,931	12.3
Post 1990	9,521	19.7
Apartments	7,618#	15.8
Total	48,362	100

Apartments do not have age category

Table 6: Overall Revenue Potential (£)

	NAV	Capital Value	Total Rates (100% Charge Rate)	Total Rates (50% Charge Rate)
Mean	155	102,432	636	318
Minimum	0	10,000	56	28
Maximum	1,390	1,400,000	3,502	1,751
Sum	7,502,316	4,953,835,400	30,758,516	15,379,258

Analysis by Deprivation Decile

The following figures depict the results of analysis of the vacant property in line with the Income Deprivation Domain of the Northern Ireland Deprivation Measures 2005. Key attributes of the vacant properties have been aggregated at ward level and the Income Domain score for each Ward has been attached. The Wards have then been assigned to deciles according to their relative levels of income deprivation. The key property data has then been aggregated to the deprivation decile level. Given that there are 582 Wards, each decile contains an initial 58 Wards, with the two remaining Wards added to deciles five and six.

It was then possible to analyse the vacant property according to the relative levels of deprivation. Figure 1 depicts the overall number of vacant properties in each of the deciles. Whilst not a perfectly correlated relationship, there is a distinct trend suggesting that as the level of income deprivation increases, the level of vacancy also increases. This would intuitively suggest that in more deprived areas there will be lower property values, less demand for properties and a generally weaker market. Such areas are likely to feature higher numbers of older, lower quality property with more cases of property in a poor state of repair – all issues likely to result in a property falling vacant. Also, the most deprived Wards in NI have witnessed considerable social and political instability with associated depopulation, particularly in interface areas.

Figure 1: Number of Vacant Properties by Deprivation Decile

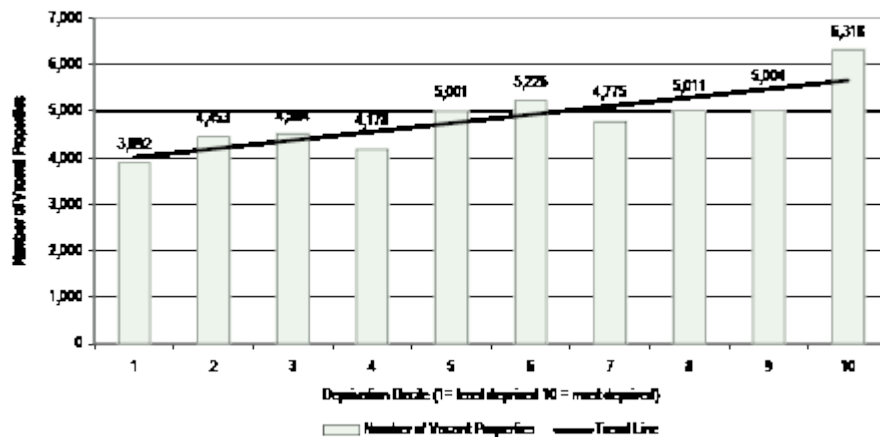
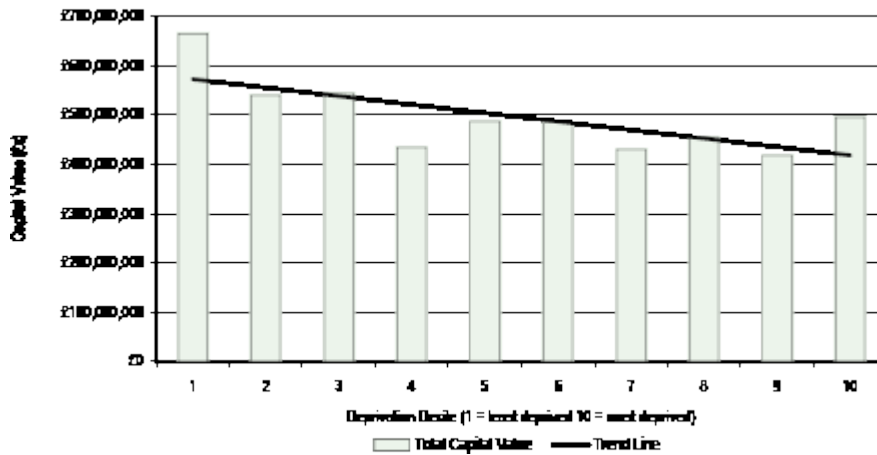


Figure 2 depicts the total Capital Value of vacant properties in each decile. The results do appear to correspond with the previous chart. Despite the trend of rising occurrence of vacancy as deprivation increases, there is a trend towards falling total capital values and thus average values as deprivation increases. Therefore it appears that as deprivation rises, vacancy also rises, yet the value of those vacant properties falls.

It is also clear that the vacant properties in the low deprivation Wards are, on the whole, relatively high value properties which may be more likely to be vacant by a conscious choice of the owner. At the other end of the spectrum very deprived Wards witness larger numbers of lower value properties, often due to market, social and political difficulties. These properties are perhaps more likely to be vacant not by design, but by necessity.

Figure 2: Total Capital Value by Deprivation Decile



These results have some significance with regard to the feasibility of introducing vacant rating. It could be argued that these results suggest that such a policy would be TSN positive, in that the incidence generally falls heavier on the more prosperous Wards. This is, to an extent, countered by the fact that in the poorer wards more properties are affected, and in fact the most deprived decile contributes significantly – largely due to the overall numbers of vacant properties within it.

It is clear that the higher numbers of property are in the lower value ranges, presenting tax efficiency problems – i.e. the cost of collection as a percentage of revenue raised will be lowered. Therefore if a concerted effort is made to collect all the vacant rates due, efficiency will be affected. On the other hand, it is clear that the tax base is quite skewed towards the higher value properties. This means that if a pragmatic approach to enforcement were adopted, with collection effort concentrated in the wealthier areas and higher valued properties, efficiency could be improved.

This analysis is borne out by Figure 3 which depicts the yield from vacant rating at deprivation decile level under to scenarios, charging at 100% of occupied level and also at 50% of occupied level.

Figure 3: Potential Revenue at 100% & 50% Charging Rate

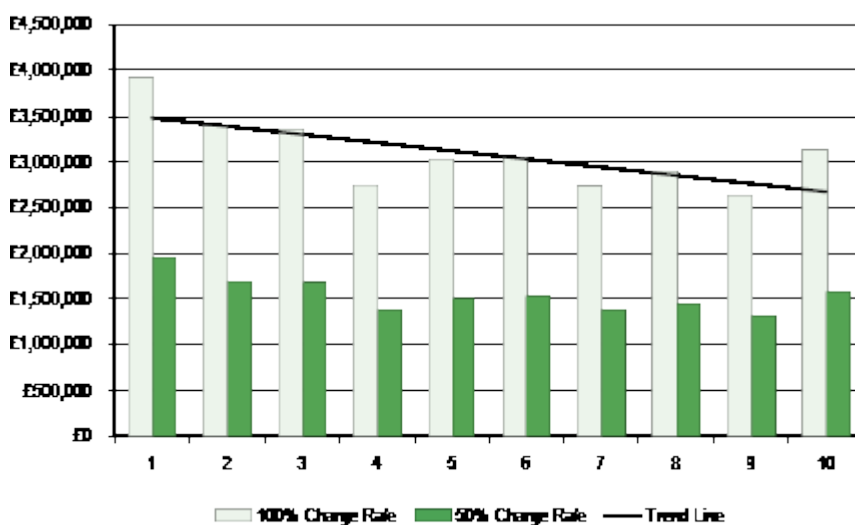


Figure 3 indicates the revenue potential of each decile. It is again fairly clear that as the level of income deprivation rises, the potential yield from vacant rating falls, as would be expected. It would appear that introduction would follow the law of diminishing returns in terms of enforcing vacant rating in more deprived areas, particularly at the 50% level. However given a pragmatic

approach to collection enforcement and introduction at the 100% level, it could provide a significant contribution to the public purse.

Caravans and Garages

Table 7: Distribution of Caravans and Garages in each District Council

	Frequency	Percent
Antrim	32	2.0
Ards	55	3.5
Armagh	33	2.1
Ballymena	40	2.5
Ballymoney	8	0.5
Banbridge	34	2.2
Belfast	510	32.4
Carrickfergus	19	1.2
Castlereagh	21	1.3
Coleraine	37	2.4
Cookstown	36	2.3
Craigavon	45	2.9
Derry	74	4.7
Down	49	3.1
Dungannon & South Tyrone	70	4.5
Fermanagh	78	5.0
Larne	30	1.9
Limavady	7	0.4
Lisburn	57	3.6
Magherafelt	4	0.3
Moyle	14	0.9
Newry And Mourne	92	5.8
Newtownabbey	68	4.3
North Down	87	5.5
Omagh	41	2.6
Strabane	32	2.0
Total	1,573	100.0

	Frequency	Percent
Caravans	339	21.6
Garages	1,234	78.4
Total	1,573	100.0

	Frequency	Percent
111 – Private Built Dwellings	1,323	84.1
121 – Public Built Dwellings	234	14.9
199 –	16	1.0
Total	1,573	100.0

Table 8: Overall Revenue Potential for Caravan and Garages

	NAV	Capital Value	Total Rates (100% Payable)	Total Rates (50% Payable)
Mean	20	3,757	23	12
Median	13	2,250	15	7
Minimum	0	0	0	0
Maximum	1,345	100,000	584	292
Sum	31,714	5,910,200	36,531	18,266

Analysis by District Council

DISTRICT = ANTRIM

CLASS^a

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	621	66.6	66.6	66.6
121	312	33.4	33.4	100.0
Total	933	100.0	100.0	

a. DISTRICT = ANTRIM

TYPE^a

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Apartment	154	16.5	16.5	16.5
Detached	334	35.8	35.8	52.3
Semi Detached	139	14.9	14.9	67.2
Terrace	306	32.8	32.8	100.0
Total	933	100.0	100.0	

a. DISTRICT = ANTRIM

AGE^a

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Pre 1919	222	23.8	28.5	28.5
Interwar	29	3.1	3.7	32.2
1946-65	94	10.1	12.1	44.3
1966-90	279	29.9	35.8	80.1
Post 1990	155	16.6	19.9	100.0
Total	779	83.5	100.0	
Missing System	154	16.5		
Total	933	100.0		

a. DISTRICT = ANTRIM

*** Missing System refers to Apartments as they do not have age category**

Statistics^b

	NAV	Capital Value	100% Charge Rate	50% Charge Rate
N	933	933	933	933
Valid	933	933	933	933
Missing	0	0	0	0
Mean	165.71	98531.19	638.7777	319.3889
Median	150.00	90000.00	583.4700	291.7350
Mode	160	49000 ^a	317.67 ^a	158.83 ^a
Std. Deviation	87.111	55048.178	356.87734	178.43867
Minimum	22	15000	97.25	48.62
Maximum	650	400000	2593.20	1296.60
Sum	154610	91929600	595979.60	297989.80

a. Multiple modes exist. The smallest value is shown

b. DISTRICT = ANTRIM

DISTRICT = ARDS

CLASS*

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	111	1470	84.7	84.7
	121	265	15.3	100.0
Total	1735	100.0	100.0	

a. DISTRICT = ARDS

TYPE*

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Apartment	157	9.0	9.0	9.0
Detached	653	37.6	37.6	46.7
Semi Detached	292	16.8	16.8	63.5
Terrace	633	36.5	36.5	100.0
Total	1735	100.0	100.0	

a. DISTRICT = ARDS

AGE*

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Pre 1919	642	37.0	40.7	40.7
Interwar	186	10.7	11.8	52.5
1946-65	208	12.0	13.2	65.7
1966-90	279	16.1	17.7	83.3
Post 1990	263	15.2	16.7	100.0
Total	1578	91.0	100.0	
Missing System	157	9.0		
Total	1735	100.0		

a. DISTRICT = ARDS

* Missing System refers to Apartments as they do not have age category

Statistics*

	NAV	Capital Value	100% Charge Rate	50% Charge Rate
N	1735	1735	1735	1735
Mean	153.94	118787.12	707.5460	353.7730
Median	134.00	97750.00	588.1618	294.0809
Mode	190	70000	421.19	210.60
Std. Deviation	105.420	77356.038	406.35316	203.17658
Minimum	0	17000	102.29	51.14
Maximum	1205	1200000	3008.50	1504.25
Sum	267093	206095650	1227592.25	613796.13

a. DISTRICT = ARDS

DISTRICT = ARMAGH

CLASS^a

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	111	1695	87.2	87.2
	121	246	12.7	99.9
	199	2	.1	100.0
Total	1943	100.0	100.0	

a. DISTRICT = ARMAGH

TYPE^a

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Apartment	166	8.5	8.5	8.5
Detached	930	47.9	47.9	56.4
Semi Detached	365	18.8	18.8	75.2
Terrace	482	24.8	24.8	100.0
Total	1943	100.0	100.0	

a. DISTRICT = ARMAGH

AGE^a

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Pre 1919	604	41.4	45.2	45.2
Interwar	88	4.5	5.0	50.2
1946-65	123	6.3	6.9	57.1
1966-90	287	14.8	16.2	73.3
Post 1990	475	24.4	26.7	100.0
Total	1777	91.5	100.0	
Missing System	166	8.5		
Total	1943	100.0		

a. DISTRICT = ARMAGH

Missing System refers to Apartments as they do not have age category

Statistics^a

	NAV	Capital Value	100% Charge Rate	50% Charge Rate
N	1943	1943	1943	1943
	Valid	1943	1943	1943
	Missing	0	0	0
Mean	148.59	90600.67	614.4537	307.2269
Median	130.00	80000.00	542.5600	271.2800
Mode	190	100000	678.20	339.10
Std. Deviation	85.732	47270.474	320.58836	160.29418
Minimum	0	15000	101.73	50.87
Maximum	1090	360000	2441.52	1220.76
Sum	288718	176037100	1193883.61	596941.81

a. DISTRICT = ARMAGH

DISTRICT = BALLYMENA

CLASS^a

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	111	1015	84.4	84.4
	121	184	15.3	99.7
	199	4	.3	100.0
Total	1203	100.0	100.0	

a. DISTRICT = BALLYMENA

TYPE^a

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Apartment	99	8.2	8.2	8.2
Detached	527	43.8	43.8	52.0
Semi Detached	213	17.7	17.7	69.7
Terrace	364	30.3	30.3	100.0
Total	1203	100.0	100.0	

a. DISTRICT = BALLYMENA

AGE^a

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Pre 1919	507	42.1	45.9	45.9
Interwar	95	7.9	8.6	54.5
1946-65	125	10.4	11.3	65.9
1966-90	186	15.5	16.8	82.7
Post 1990	191	15.9	17.3	100.0
Total	1104	91.8	100.0	
Missing System	99	8.2		
Total	1203	100.0		

a. DISTRICT = BALLYMENA

Missing System refers to Apartments as they do not have age category

Statistics^a

	NAV	Capital Value	100% Charge Rate	50% Charge Rate
N	Valid 1203	1203	1203	1203
	Missing 0	0	0	0
Mean	156.61	95649.04	619.9971	309.9986
Median	136.00	88000.00	570.4160	285.2080
Mode	110	120000	777.84	388.92
Std. Deviation	92.205	48070.744	311.59456	155.79728
Minimum	0	16000	103.71	51.86
Maximum	670	500000	3241.00	1620.50
Sum	188403	115065800	745856.52	372928.26

a. DISTRICT = BALLYMENA

DISTRICT = BALLYMONEY

CLASS^a

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	111	576	87.7	87.7
	121	81	12.3	100.0
Total	657	657	100.0	100.0

a. DISTRICT = BALLYMONEY

TYPE^a

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Apartment	44	6.7	6.7	6.7
Detached	325	49.5	49.5	56.2
Semi Detached	178	27.1	27.1	83.3
Terrace	110	16.7	16.7	100.0
Total	657	100.0	100.0	100.0

a. DISTRICT = BALLYMONEY

AGE^a

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Pre 1919	231	35.2	37.7	37.7
Interwar	25	3.8	4.1	41.8
1946-65	64	9.7	10.4	52.2
1966-90	75	11.4	12.2	64.4
Post 1990	218	33.2	35.6	100.0
Total	613	93.3	100.0	100.0
Missing System	44	6.7		
Total	657	100.0		

a. DISTRICT = BALLYMONEY

*** Missing System refers to Apartments as they do not have age category**

Statistics^a

	NAV	Capital Value	100% Charge Rate	50% Charge Rate
N	657	657	657	657
Valid	657	657	657	657
Missing	0	0	0	0
Mean	172.19	97332.42	620.5915	310.2958
Median	170.00	95000.00	605.7200	302.8600
Mode	200	100000	637.60	318.80
Std. Deviation	88.060	41213.836	262.77942	131.38971
Minimum	0	22000	140.27	70.14
Maximum	600	430000	2741.68	1370.84
Sum	113131	63947400	407728.62	203864.31

a. DISTRICT = BALLYMONEY

DISTRICT = BANBRIDGE

CLASS^a

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1222	84.7	84.7	84.7
121	180	12.5	12.5	97.2
199	41	2.8	2.8	100.0
Total	1443	100.0	100.0	

a. DISTRICT = BANBRIDGE

TYPE^a

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Apartment	92	6.4	6.4	6.4
Detached	579	40.1	40.1	46.5
Semi Detached	224	15.5	15.5	62.0
Terrace	548	38.0	38.0	100.0
Total	1443	100.0	100.0	

a. DISTRICT = BANBRIDGE

AGE^a

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Pre 1919	561	38.9	41.5	41.5
Interwar	72	5.0	5.3	46.9
1946-65	101	7.0	7.5	54.3
1966-90	174	12.1	12.9	67.2
Post 1990	443	30.7	32.8	100.0
Total	1351	93.6	100.0	
Missing System	92	6.4		
Total	1443	100.0		

a. DISTRICT = BANBRIDGE

Missing System refers to Apartments as they do not have age category

Statistics^a

	NAV	Capital Value	100% Charge Rate	50% Charge Rate
N	1443	1443	1443	1443
Valid				
Missing	0	0	0	0
Mean	144.59	86792.58	571.4951	285.7475
Median	130.00	77500.00	512.3525	256.1763
Mode	155	80000	528.88	264.44
Std. Deviation	97.433	49521.295	295.08446	147.54223
Minimum	0	15000	99.17	49.58
Maximum	1245	1000000	3305.50	1652.75
Sum	208637	125241700	824667.38	412333.69

a. DISTRICT = BANBRIDGE

DISTRICT = BELFAST

CLASS^a

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	111	8501	86.8	86.8
	121	1282	13.1	99.9
	199	12	.1	100.0
Total	9795	100.0	100.0	

a. DISTRICT = BELFAST

TYPE^a

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Apartment	2925	29.9	29.9	29.9
Detached	554	5.7	5.7	35.5
Semi Detached	1670	17.0	17.0	52.6
Terrace	4646	47.4	47.4	100.0
Total	9795	100.0	100.0	

a. DISTRICT = BELFAST

AGE^a

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Pre 1919	2369	24.2	34.5	34.5
Interwar	2492	25.4	36.3	70.8
1946-65	701	7.2	10.2	81.0
1966-90	397	4.1	5.8	86.7
Post 1990	911	9.3	13.3	100.0
Total	6870	70.1	100.0	
Missing System	2925	29.9		
Total	9795	100.0		

a. DISTRICT = BELFAST

Missing System refers to Apartments as they do not have age category

Statistics^a

	NAV	Capital Value	100% Charge Rate	50% Charge Rate
N	9795	9795	9795	9795
Mean	144.65	109262.58	650.6165	325.3083
Median	126.00	90000.00	542.7900	271.3950
Mode	100	85000	512.64	256.32
Std. Deviation	82.676	82734.658	431.62952	215.81476
Minimum	0	15000	90.47	45.23
Maximum	1230	1400000	3015.50	1507.75
Sum	1416849	1070227000	6372788.83	3186394.42

a. DISTRICT = BELFAST

DISTRICT = CARRICKFERGUS

CLASS^a

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	111	48.3	67.3	67.3
121	233	32.5	32.5	99.7
199	2	.3	.3	100.0
Total	718	100.0	100.0	

a. DISTRICT = CARRICKFERGUS

TYPE^a

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Apartment	153	21.3	21.3	21.3
Detached	173	24.1	24.1	45.4
Semi Detached	116	16.2	16.2	61.6
Terrace	276	38.4	38.4	100.0
Total	718	100.0	100.0	

a. DISTRICT = CARRICKFERGUS

AGE^a

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Pre 1919	81	11.3	14.3	14.3
Interwar	131	18.2	23.2	37.5
1946-65	100	13.9	17.7	55.2
1966-90	180	25.1	31.9	87.1
Post 1990	73	10.2	12.9	100.0
Total	565	78.7	100.0	
Missing System	153	21.3		
Total	718	100.0		

a. DISTRICT = CARRICKFERGUS

Missing System refers to Apartments as they do not have age category

Statistics^a

	NAV	Capital Value	100% Charge Rate	50% Charge Rate
N	718	718	718	718
Mean	155.30	90995.13	598.6443	299.3221
Median	136.00	77500.00	511.0350	255.5175
Mode	134	65000	428.61	214.31
Std. Deviation	99.990	57045.233	364.26120	182.13060
Minimum	0	15000	98.91	49.46
Maximum	1220	650000	3297.00	1648.50
Sum	111507	65334500	429826.59	214913.30

a. DISTRICT = CARRICKFERGUS

DISTRICT = CASTLEREAGH

CLASS^a

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	111	8.3	8.3	8.3
	121	19.7	19.7	100.0
Total	1029	100.0	100.0	

a. DISTRICT = CASTLEREAGH

TYPE^a

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Apartment	169	16.4	16.4	16.4
Detached	298	29.0	29.0	45.4
Semi Detached	359	34.9	34.9	80.3
Terrace	203	19.7	19.7	100.0
Total	1029	100.0	100.0	

a. DISTRICT = CASTLEREAGH

AGE^a

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Pre 1919	66	6.4	7.7	7.7
Interwar	143	13.9	16.6	24.3
1946-65	353	34.3	41.0	65.3
1966-90	155	15.1	18.0	83.4
Post 1990	143	13.9	16.6	100.0
Total	860	83.6	100.0	
Missing System	169	16.4		
Total	1029	100.0		

a. DISTRICT = CASTLEREAGH

Missing System refers to Apartments as they do not have age category

Statistics^a

	NAV	Capital Value	100% Charge Rate	50% Charge Rate
N	1029	1029	1029	1029
Mean	190.26	138232.75	757.1643	378.5821
Median	180.00	130000.00	712.2700	356.1350
Mode	115	140000	767.06	383.53
Std. Deviation	85.144	69237.232	378.17339	189.08670
Minimum	31	35000	191.77	95.88
Maximum	935	540000	2739.50	1369.75
Sum	195776	142241500	779122.02	389561.01

a. DISTRICT = CASTLEREAGH

DISTRICT = COLERAINE

CLASS^a

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	111	1677	91.2	91.2
	121	177	8.6	99.9
	199	3	.1	100.0
Total	2057	100.0	100.0	

a. DISTRICT = COLERAINE

TYPE^a

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Apartment	449	21.8	21.8	21.8
Detached	708	34.4	34.4	56.2
Semi Detached	379	18.4	18.4	74.7
Terrace	521	25.3	25.3	100.0
Total	2057	100.0	100.0	

a. DISTRICT = COLERAINE

AGE^a

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Pre 1919	510	24.8	31.7	31.7
Interwar	203	9.9	12.6	44.3
1946-65	197	9.6	12.3	56.6
1966-90	248	12.1	15.4	72.0
Post 1990	450	21.9	28.0	100.0
Total	1608	78.2	100.0	
Missing System	449	21.8		
Total	2057	100.0		

a. DISTRICT = COLERAINE

Missing System refers to Apartments as they do not have age category

Statistics^b

	NAV	Capital Value	100% Charge Rate	50% Charge Rate
N	2057	2057	2057	2057
Mean	192.03	123244.68	751.1550	375.5775
Median	185.00	110000.00	672.5400	336.2700
Mode	205	110000 ^a	672.54 ^a	336.27 ^a
Std. Deviation	98.150	68372.300	400.07415	200.03708
Minimum	0	20000	122.28	61.14
Maximum	1350	875000	3057.00	1528.50
Sum	395010	253514300	1545125.80	772562.90

a. Multiple modes exist. The smallest value is shown

b. DISTRICT = COLERAINE

DISTRICT = COOKSTOWN

CLASS*

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	111	1030	92.0	92.0
	121	89	8.0	100.0
Total	1119	100.0	100.0	

a. DISTRICT = COOKSTOWN

TYPE*

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Apartment	72	6.4	6.4	6.4
Detached	645	57.6	57.6	64.1
Semi Detached	189	16.9	16.9	81.0
Terrace	213	19.0	19.0	100.0
Total	1119	100.0	100.0	

a. DISTRICT = COOKSTOWN

AGE*

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Pre 1919	529	47.3	50.5	50.5
Interwar	48	4.3	4.6	55.1
1946-65	105	9.4	10.0	65.1
1966-90	115	10.3	11.0	76.1
Post 1990	250	22.3	23.9	100.0
Total	1047	93.6	100.0	
Missing System	72	6.4		
Total	1119	100.0		

a. DISTRICT = COOKSTOWN

* Missing System refers to Apartments as they do not have age category

Statistics*

	NAV	Capital Value	100% Charge Rate	50% Charge Rate
N	1119	1119	1119	1119
Valid				
Missing	0	0	0	0
Mean	135.66	90672.03	548.7471	274.3736
Median	120.00	85000.00	514.4200	257.2100
Mode	180	110000	665.72	332.86
Std. Deviation	91.543	50378.833	304.89269	152.44635
Minimum	10	10000	60.52	30.26
Maximum	915	400000	2420.80	1210.40
Sum	151808	101462000	614048.02	307024.01

a. DISTRICT = COOKSTOWN

DISTRICT = DOWN

CLASS^a

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1648	88.9	88.9	88.9
121	195	10.5	10.5	99.5
199	10	.5	.5	100.0
Total	1853	100.0	100.0	

a. DISTRICT = DOWN

TYPE^a

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Apartment	239	12.9	12.9	12.9
Detached	839	45.3	45.3	58.2
Semi Detached	327	17.6	17.6	75.8
Terrace	448	24.2	24.2	100.0
Total	1853	100.0	100.0	

a. DISTRICT = DOWN

AGE^a

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Pre 1919	732	39.5	45.4	45.4
Interwar	117	6.3	7.2	52.6
1946-65	177	9.6	11.0	63.6
1966-90	230	12.4	14.3	77.8
Post 1990	358	19.3	22.2	100.0
Total	1614	87.1	100.0	
Missing System	239	12.9		
Total	1853	100.0		

a. DISTRICT = DOWN

Missing System refers to Apartments as they do not have age category

Statistics^a

	NAV	Capital Value	100% Charge Rate	50% Charge Rate
N	1853	1853	1853	1853
Valid	1853	1853	1853	1853
Missing	0	0	0	0
Mean	148.53	102117.81	661.6157	330.8078
Median	132.00	92500.00	599.4925	299.7462
Mode	180	110000	712.91	356.46
Std. Deviation	102.226	55454.912	357.77948	178.88974
Minimum	0	10000	64.81	32.41
Maximum	1195	560000	3240.50	1620.25
Sum	275217	189224300	1225973.83	612986.91

a. DISTRICT = DOWN

DISTRICT = DUNGANNON & SOUTH TYRONE

CLASS*

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	111	1740	86.5	86.5
	121	272	13.5	100.0
Total	2012	100.0	100.0	

a. DISTRICT = DUNGANNON & SOUTH TYRONE

TYPE*

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Apartment	139	6.9	6.9	6.9
Detached	1110	55.2	55.2	62.1
Semi Detached	394	19.6	19.6	81.7
Terrace	369	18.3	18.3	100.0
Total	2012	100.0	100.0	

a. DISTRICT = DUNGANNON & SOUTH TYRONE

AGE*

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Pre 1919	873	43.4	46.6	46.6
Interwar	159	7.9	8.5	55.1
1946-65	226	11.2	12.1	67.2
1966-90	199	9.9	10.6	77.8
Post 1990	416	20.7	22.2	100.0
Total	1873	93.1	100.0	
Missing System	139	6.9		
Total	2012	100.0		

a. DISTRICT = DUNGANNON & SOUTH TYRONE

* Missing System refers to Apartments as they do not have age category

Statistics*

	NAV	Capital Value	100% Charge Rate	50% Charge Rate
N	2012	2012	2012	2012
Valid				
Missing	0	0	0	0
Mean	127.91	87497.84	515.5373	257.7686
Median	113.50	80000.00	471.3600	235.6800
Mode	195	110000	648.12	324.06
Std. Deviation	92.954	52153.953	307.29109	153.64555
Minimum	0	12000	70.70	35.35
Maximum	910	500000	2946.00	1473.00
Sum	257353	176045650	1037260.97	518630.48

a. DISTRICT = DUNGANNON & SOUTH TYRONE

DISTRICT = FERMANAGH

CLASS*

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	111	2033	90.9	90.9
	121	203	9.1	100.0
Total	2236	100.0	100.0	

a. DISTRICT = FERMANAGH

TYPE*

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Apartment	230	10.3	10.3	10.3
Detached	1435	64.2	64.2	74.5
Semi Detached	263	11.8	11.8	86.2
Terrace	308	13.8	13.8	100.0
Total	2236	100.0	100.0	

a. DISTRICT = FERMANAGH

AGE*

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Pre 1919	1005	44.9	50.1	50.1
Interwar	60	2.7	3.0	53.1
1946-65	187	8.4	9.3	62.4
1966-90	304	13.6	15.2	77.6
Post 1990	450	20.1	22.4	100.0
Total	2006	89.7	100.0	
Missing System	230	10.3		
Total	2236	100.0		

a. DISTRICT = FERMANAGH

* Missing System refers to Apartments as they do not have age category

Statistics*

	NAV	Capital Value	100% Charge Rate	50% Charge Rate
N	2236	2236	2236	2236
Mean	131.45	87421.96	491.9878	245.9939
Median	118.00	80000.00	451.2000	225.6000
Mode	135	100000	564.00	282.00
Std. Deviation	88.265	52705.604	286.24949	143.12475
Minimum	5	10000	56.40	28.20
Maximum	910	800000	2820.00	1410.00
Sum	293932	195475500	1100084.82	550042.41

a. DISTRICT = FERMANAGH

DISTRICT = LARNE

CLASS^a

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	704	83.6	83.6	83.6
121	138	16.4	16.4	100.0
Total	842	100.0	100.0	

a. DISTRICT = LARNE

TYPE^a

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Apartment	60	7.1	7.1	7.1
Detached	279	33.1	33.1	40.3
Semi Detached	141	16.7	16.7	57.0
Terrace	362	43.0	43.0	100.0
Total	842	100.0	100.0	

a. DISTRICT = LARNE

AGE^a

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Pre 1919	343	40.7	43.9	43.9
Interwar	111	13.2	14.2	58.1
1946-65	146	17.3	18.7	76.7
1966-90	56	6.7	7.2	83.9
Post 1990	126	15.0	16.1	100.0
Total	782	92.9	100.0	
Missing System	60	7.1		
Total	842	100.0		

a. DISTRICT = LARNE

*** Missing System refers to Apartments as they do not have age category**

Statistics^a

	NAV	Capital Value	100% Charge Rate	50% Charge Rate
N	842	842	842	842
Valid	842	842	842	842
Missing	0	0	0	0
Mean	136.03	83555.11	571.8512	285.9256
Median	124.50	75000.00	513.3000	256.6500
Mode	135	85000	581.74	290.87
Std. Deviation	83.955	43894.086	300.41113	150.20556
Minimum	0	13000	88.97	44.49
Maximum	560	400000	2737.60	1368.80
Sum	114535	70353400	481498.67	240749.33

a. DISTRICT = LARNE

DISTRICT = LIMAVADY

CLASS^a

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	111	678	81.5	81.5
	121	154	18.5	100.0
Total	832	100.0	100.0	

a. DISTRICT = LIMAVADY

TYPE^a

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Apartment	96	11.5	11.5	11.5
Detached	353	42.4	42.4	54.0
Semi Detached	205	24.6	24.6	78.6
Terrace	178	21.4	21.4	100.0
Total	832	100.0	100.0	

a. DISTRICT = LIMAVADY

AGE^a

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Pre 1919	262	31.5	35.6	35.6
Interwar	22	2.6	3.0	38.6
1946-65	62	7.5	8.4	47.0
1966-90	137	16.5	18.6	65.6
Post 1990	253	30.4	34.4	100.0
Total	736	88.5	100.0	
Missing System	96	11.5		
Total	832	100.0		

a. DISTRICT = LIMAVADY

*** Missing System refers to Apartments as they do not have age category**

Statistics^a

	NAV	Capital Value	100% Charge Rate	50% Charge Rate
N	832	832	832	832
Valid	832	832	832	832
Missing	0	0	0	0
Mean	157.21	90718.27	629.8569	314.9285
Median	140.00	87500.00	607.5125	303.7563
Mode	135	105000	729.02	364.51
Std. Deviation	86.704	40200.084	279.10919	139.55459
Minimum	15	15000	104.15	52.07
Maximum	550	340000	2360.62	1180.31
Sum	130797	75477600	524040.98	262020.49

a. DISTRICT = LIMAVADY

DISTRICT = LISBURN

CLASS^a

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1844	80.5	80.5	80.5
121	440	19.2	19.2	99.7
199	8	.3	.3	100.0
Total	2292	100.0	100.0	

a. DISTRICT = LISBURN

TYPE^a

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Apartment	250	10.9	10.9	10.9
Detached	876	38.2	38.2	49.1
Semi Detached	567	24.7	24.7	73.9
Terrace	599	26.1	26.1	100.0
Total	2292	100.0	100.0	

a. DISTRICT = LISBURN

AGE^a

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Pre 1919	558	24.3	27.3	27.3
Interwar	173	7.5	8.5	35.8
1946-65	280	12.2	13.7	49.5
1966-90	414	18.1	20.3	69.8
Post 1990	617	26.9	30.2	100.0
Total	2042	89.1	100.0	
Missing System	250	10.9		
Total	2292	100.0		

a. DISTRICT = LISBURN

Missing System refers to Apartments as they do not have age category

Statistics^a

	NAV	Capital Value	100% Charge Rate	50% Charge Rate
N	2292	2292	2292	2292
Mean	190.41	126255.72	739.0945	369.5472
Median	170.00	105000.00	617.7150	308.8575
Mode	180	65000	382.40	191.20
Std. Deviation	116.722	73856.274	407.67546	203.83773
Minimum	0	16000	94.13	47.06
Maximum	1370	900000	2941.50	1470.75
Sum	436415	289378100	1694004.56	847002.28

a. DISTRICT = LISBURN

DISTRICT = MAGHERAFELT

CLASS*

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	111	88.1	86.7	86.7
121	135	13.3	13.3	100.0
Total	1016	100.0	100.0	

a. DISTRICT = MAGHERAFELT

TYPE*

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Apartment	49	4.8	4.8	4.8
Detached	539	53.1	53.1	57.9
Semi Detached	233	22.9	22.9	80.8
Terrace	195	19.2	19.2	100.0
Total	1016	100.0	100.0	

a. DISTRICT = MAGHERAFELT

AGE*

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Pre 1919	434	42.7	44.9	44.9
Interwar	33	3.2	3.4	48.3
1946-65	120	11.8	12.4	60.7
1966-90	109	10.7	11.3	72.0
Post 1990	271	26.7	28.0	100.0
Total	967	95.2	100.0	
Missing System	49	4.8		
Total	1016	100.0		

a. DISTRICT = MAGHERAFELT

* Missing System refers to Apartments as they do not have age category

Statistics*

	NAV	Capital Value	100% Charge Rate	50% Charge Rate
N	1016	1016	1016	1016
Mean	156.13	95237.89	554.4750	277.2375
Median	135.00	90000.00	523.9800	261.9900
Mode	205	105000	611.31	305.65
Std. Deviation	100.093	46977.553	273.50332	136.75166
Minimum	15	18400	107.12	53.56
Maximum	1185	410000	2387.02	1193.51
Sum	158623	96761700	563346.62	281673.31

a. DISTRICT = MAGHERAFELT

DISTRICT = MOYLE

CLASS^a

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	596	91.7	91.7	91.7
111	54	8.3	8.3	100.0
Total	650	100.0	100.0	

a. DISTRICT = MOYLE

TYPE^a

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	81	12.5	12.5	12.5
Apartment	326	50.2	50.2	62.6
Detached	115	17.7	17.7	80.3
Semi Detached	128	19.7	19.7	100.0
Terrace	650	100.0	100.0	
Total				

a. DISTRICT = MOYLE

AGE^a

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	273	42.0	48.0	48.0
Pre 1919	50	7.7	8.8	56.8
Interwar	39	6.0	6.9	63.6
1946-65	49	7.5	8.6	72.2
1966-90	158	24.3	27.8	100.0
Post 1990	569	87.5	100.0	
Total	81	12.5		
Missing				
System	650	100.0		
Total				

a. DISTRICT = MOYLE

*** Missing System refers to Apartments as they do not have age category**

Statistics^b

	NAV	Capital Value	100% Charge Rate	50% Charge Rate
N	650	650	650	650
Valid	0	0	0	0
Missing				
Mean	157.01	106203.69	726.7596	363.3798
Median	140.00	95000.00	651.0350	325.5175
Mode	130 ^a	120000	822.36	411.18
Std. Deviation	91.503	56151.883	376.36930	188.18465
Minimum	6	15000	102.80	51.40
Maximum	850	600000	3426.50	1713.25
Sum	102058	69032400	472393.74	236196.87

a. Multiple modes exist. The smallest value is shown

b. DISTRICT = MOYLE

DISTRICT = NEWRY AND MOURNE

CLASS^a

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2429	85.3	85.3	85.3
121	412	14.5	14.5	99.8
199	7	.2	.2	100.0
Total	2848	100.0	100.0	

a. DISTRICT = NEWRY AND MOURNE

TYPE^a

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Apartment	356	12.5	12.5	12.5
Detached	1205	42.3	42.3	54.8
Semi Detached	642	22.5	22.5	77.4
Terrace	645	22.6	22.6	100.0
Total	2848	100.0	100.0	

a. DISTRICT = NEWRY AND MOURNE

AGE^a

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Pre 1919	1069	37.5	42.9	42.9
Interwar	140	4.9	5.6	48.5
1946-65	378	13.3	15.2	63.7
1966-90	269	9.4	10.8	74.5
Post 1990	636	22.3	25.5	100.0
Total	2492	87.5	100.0	
Missing System	356	12.5		
Total	2848	100.0		

a. DISTRICT = NEWRY AND MOURNE

Missing System refers to Apartments as they do not have age category

Statistics^a

	NAV	Capital Value	100% Charge Rate	50% Charge Rate
N	2848	2848	2848	2848
Mean	148.82	104191.33	653.0867	326.5434
Median	133.00	92500.00	580.9000	290.4500
Mode	130	110000	690.80	345.40
Std. Deviation	85.412	57144.942	347.97352	173.98676
Minimum	0	12000	75.36	37.68
Maximum	665	760000	3140.00	1570.00
Sum	423826	296736900	1859990.93	929995.47

a. DISTRICT = NEWRY AND MOURNE

DISTRICT = NEWTOWNABBEY

CLASS^a

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1117	81.7	81.7	81.7
121	266	18.3	18.3	100.0
Total	1453	100.0	100.0	

a. DISTRICT = NEWTOWNABBEY

TYPE^a

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	189	13.0	13.0	13.0
Apartment	372	25.6	25.6	38.6
Detached	384	26.4	26.4	65.0
Semi Detached	508	35.0	35.0	100.0
Terrace	1453	100.0	100.0	
Total				

a. DISTRICT = NEWTOWNABBEY

AGE^a

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	224	15.4	17.7	17.7
Pre 1919	133	9.2	10.5	28.2
Interwar	353	24.3	27.9	56.2
1946-65	288	19.8	22.8	79.0
1966-90	266	18.3	21.0	100.0
Post 1990	1264	87.0	100.0	
Total	189	13.0		
Missing	System			
Total	1453	100.0		

a. DISTRICT = NEWTOWNABBEY

*** Missing System refers to Apartments as they do not have age category**

Statistics^a

	NAV	Capital Value	100% Charge Rate	50% Charge Rate
N	1453	1453	1453	1453
Valid	0	0	0	0
Missing				
Mean	174.28	104065.38	669.8486	334.9243
Median	156.00	92500.00	595.7000	297.8500
Mode	170	75000	483.00	241.50
Std. Deviation	86.031	54785.380	350.17608	175.08804
Minimum	0	30000	193.20	96.60
Maximum	680	575000	3220.00	1610.00
Sum	253225	151207000	973290.08	486645.04

a. DISTRICT = NEWTOWNABBEY

DISTRICT = NORTH DOWN

CLASS*

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1701	92.5	92.5	92.5
121	138	7.5	7.5	100.0
Total	1839	100.0	100.0	

a. DISTRICT = NORTH DOWN

TYPE*

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Apartment	438	23.8	23.8	23.8
Detached	470	25.6	25.6	49.4
Semi Detached	424	23.1	23.1	72.4
Terrace	507	27.6	27.6	100.0
Total	1839	100.0	100.0	

a. DISTRICT = NORTH DOWN

AGE*

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Pre 1919	282	15.3	20.1	20.1
Interwar	267	14.5	19.1	39.2
1946-65	262	14.2	18.7	57.9
1966-90	306	16.6	21.8	79.7
Post 1990	284	15.4	20.3	100.0
Total	1401	76.2	100.0	
Missing System	438	23.8		
Total	1839	100.0		

a. DISTRICT = NORTH DOWN

* Missing System refers to Apartments as they do not have age category

Statistics*

	NAV	Capital Value	100% Charge Rate	50% Charge Rate
N	1839	1839	1839	1839
Valid				
Missing	0	0	0	0
Mean	200.81	151588.09	859.8345	429.9172
Median	178.00	110000.00	642.7300	321.3650
Mode	190	100000	584.30	292.15
Std. Deviation	118.733	119768.647	565.17054	282.58527
Minimum	10	30000	175.29	87.65
Maximum	1390	1350000	2921.50	1460.75
Sum	369292	278770500	1581235.58	790617.79

a. DISTRICT = NORTH DOWN

DISTRICT = OMAGH

CLASS^a

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	111	1466	88.1	88.1
	121	198	11.9	100.0
Total	1664	100.0	100.0	

a. DISTRICT = OMAGH

TYPE^a

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Apartment	153	9.2	9.2	9.2
Detached	992	59.6	59.6	68.8
Semi Detached	227	13.6	13.6	82.5
Terrace	292	17.5	17.5	100.0
Total	1664	100.0	100.0	

a. DISTRICT = OMAGH

AGE^a

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Pre 1919	731	43.9	48.4	48.4
Interwar	54	3.2	3.6	52.0
1946-65	207	12.4	13.7	65.7
1966-90	223	13.4	14.8	80.4
Post 1990	296	17.8	19.6	100.0
Total	1511	90.8	100.0	
Missing System	153	9.2		
Total	1664	100.0		

a. DISTRICT = OMAGH

*** Missing System refers to Apartments as they do not have age category**

Statistics^b

	NAV	Capital Value	100% Charge Rate	50% Charge Rate
N	1664	1664	1664	1664
Valid	1664	1664	1664	1664
Missing	0	0	0	0
Mean	135.83	78623.38	538.1341	269.0671
Median	120.00	72500.00	496.6975	248.3488
Mode	100 ^a	105000	719.36	359.68
Std. Deviation	91.695	45123.366	303.56742	151.78371
Minimum	1	10000	68.51	34.26
Maximum	1245	625000	3425.50	1712.75
Sum	226026	130829300	895455.16	447727.58

a. Multiple modes exist. The smallest value is shown

b. DISTRICT = OMAGH

DISTRICT = STRABANE

CLASS^a

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	111	1029	83.8	83.8
	121	197	16.0	99.8
	199	2	.2	100.0
Total	1228	100.0	100.0	

a. DISTRICT = STRABANE

TYPE^a

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Apartment	155	12.6	12.6	12.6
Detached	500	40.7	40.7	53.3
Semi Detached	287	23.4	23.4	76.7
Terrace	286	23.3	23.3	100.0
Total	1228	100.0	100.0	

a. DISTRICT = STRABANE

AGE^a

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Pre 1919	365	29.7	34.0	34.0
Interwar	35	2.9	3.3	37.3
1946-65	91	7.4	8.5	45.8
1966-90	162	13.2	15.1	60.9
Post 1990	420	34.2	39.1	100.0
Total	1073	87.4	100.0	
Missing System	155	12.6		
Total	1228	100.0		

a. DISTRICT = STRABANE

Missing System refers to Apartments as they do not have age category

Statistics^a

	NAV	Capital Value	100% Charge Rate	50% Charge Rate
N	1228	1228	1228	1228
Mean	143.63	74021.42	484.4702	242.2351
Median	132.00	72500.00	474.5125	237.2563
Mode	195	85000	556.32	278.16
Std. Deviation	78.928	35186.332	230.29454	115.14727
Minimum	0	14000	91.63	45.82
Maximum	600	370000	2421.65	1210.82
Sum	176380	90898300	594929.37	297464.69

a. DISTRICT = STRABANE

Response to Northern Ireland Fair Rates Campaign figures



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26 October 2007

Dear Shane

Response to CFP on NIFRC Paper on the Rate Relief Scheme

The Northern Ireland Fair Rates Campaign (NIFRC) submitted a note to the Committee for Finance and Personnel on 24 October 2007. The Committee has referred the note to the Department for comment.

The note makes several claims around the number of ratepayers claiming rate relief and the amounts awarded through this scheme. It focuses in particular on the figures relating to the enhanced rate relief for pensioners agreed as part of the St. Andrews measures.

The points raised by the NIFRC in their note contain several errors.

Firstly, the figures shown in terms of the number of claims received for rate relief do not include those that were in receipt of partial housing benefit before the introduction of the new rate relief scheme and who were automatically assessed for rate relief without the need for an application. Therefore, these recipients are not counted among the application totals presented in the note.

A further problem with the figures provided by NIFRC is that they do not include those from the social and private rented sectors who are in receipt of rate relief. The housing benefit and rate relief schemes are administered by two different Government agencies. Land and Property Services (LPS) administer the schemes on behalf of the owner occupied sector. The Northern Ireland Housing Executive (NIHE) administers the schemes for those in the social and private rented sectors. The figures given in the note relate only to those administered by LPS.

The total number of claimants is therefore incorrect and they are wrong to suggest, therefore, that approximately 34,000 of the 44,000 ratepayers who were estimated to benefit from the scheme will not do so.

The NIFRC appear to suggest that if claims for relief are not made or processed within a particular financial year, then this revenue is lost to the claimant and would instead be reclaimed by the Exchequer.

Awards of housing benefit and rate relief, if eligible, are awarded from the time of application. If applications are not processed within the financial year they are made, the applicant does not lose out. In addition, pensioners who apply for housing benefit / rate relief can be backdated payments up to 1 year prior to an application. Other ratepayers may also receive backdated payments where there are mitigating circumstances to support this.

Furthermore, the rate relief scheme is funded locally through DEL and therefore has no impact on the "benefits bill element of the block grant".

The NIFRC suggest in their note that the discrepancy between those estimated to benefit and those who actually do is the reason why the £4m set aside for the enhanced pensioner rate relief was distributed through the personal allowance element of the rate relief scheme.

This was not the case. The preferred mechanism for allocating this additional relief (increasing the pensioner personal allowances in the scheme) was decided upon following the recommendations of a working group established by the Department and which included representatives of Age Concern and Help the Aged, as well as Professor Eileen Evason who is a highly regarded expert in the benefits field. This option was viewed as the best approach to ensure that those in most need, particularly single pensioners, received greatest support.

The note does raise important issues around the problem of take up among some groups, particularly pensioners in the owner occupied sector. The Committee will be aware that the Department has acknowledged this as a key issue which must be addressed as part of this further review.

The Department has listened carefully to the views of the Fair Rates Campaign throughout the review process and I have brought these to the attention of the Committee. Their concerns are taken seriously and the positive contribution they have made to this review through the Department's consultation is appreciated.

Norman Irwin

Appendix 6

Assembly Research Papers

Implementation of Changes to Domestic Rates in Northern Ireland

18 May 2007

Research Briefing for Department of Finance and Personnel Committee

**Jodie Carson
Research Officer
Research and Library Services**

The recent change in the domestic rating system, from rental to capital basis, has attracted significant media coverage. There have been various criticisms of the new system. This briefing outlines the details of, and rationale for, the new system and documents the key issues highlighted in the media to date.

Research Papers are compiled for the benefit of Members of The Assembly and their personal staff.

Authors are available to discuss the contents of these papers with Members and their staff but cannot advise members of the general public.

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3. Determination of Capital Value rates

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4. Recent events / media coverage

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4.4 Relief Available

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1. Introduction

Recent changes to the domestic rating system in Northern Ireland (NI) have attracted considerable media coverage. Criticisms have arisen in respect of the new Capital Value (CV) based system, and particularly following the reported miscalculations in this respect. Other concerns relate to the level, and take-up, of available reliefs. This paper outlines the changes to the rating system, concerns highlighted in the media, and the procedures / outcomes of the appeals process.

2. Background

The domestic rating system in Northern Ireland has recently been amended. Having previously been based upon rental values, rates are now calculated on the basis of capital values, using a revaluation date of 1 January 2005^[1]. Unlike Great Britain, the new system in NI values properties 'individually', rather than by grouping similarly priced 'bands'. This decision was considered to be favourable in ensuring an equitable system.^[2]

The changes have been introduced to address the perceived unfairness of the old system, and to redistribute rate liability. They are a result of the consultation outcomes of the Review of Rating Policy in NI in 2000. The Executive commissioned this, arguably overdue, review; the last one was conducted in 1976 and was based on 1960's rental values. In addition to enabling rate redistribution, the new system is argued to better reflect the changing structure of the current property market – namely, increasing owner-occupancy.^[3]

3. How are Capital Value rates calculated?

"Capital Value" (CV) is defined as the amount for which the property could reasonably have sold on the open market.^[4] In the determination of rate liability, a cap of £500,000 has been

enforced. This means that for homeowners with a property worth in excess of this, their rates are calculated on the basis of the £500,000 cap, not the actual value. The rateable capital value is then multiplied by an area-specific factor, which is the combination of the domestic regional rate and the domestic district rate^[5]. The various district rates are outlined in Appendix 1. The CV system means that domestic rate liability broadly equates to about £60 for every £10,000 of capital value^[6]. Average domestic rate bills, by region, are generally higher under the new system – details are attached in Appendix 2.

3.1. Rate Relief Scheme

To ensure an ‘ability to pay’ basis, relief will be provided to low-income households, who are just beyond the thresholds of the statutory Housing Benefit Scheme or who are in receipt of partial Housing Benefit. For those currently in receipt of Housing Benefit, the relief will be automatic – otherwise application is necessary. It is estimated that 40,000 households could receive assistance under the new scheme, with an average of £270 being awarded.

3.2. Disabled Persons Allowance (DPA)

Relief will apply to properties that have been modified to meet the disability needs of a homeowner. Upon (approved) application, a standard 25% reduction will be enforced.^[7]

3.3. Full Time Training & Education Allowance

Having been identified as an important stage in young peoples’ development, relief will apply to those in full time training / education. Where a property is occupied solely by: those in full time education; 16/17 year olds; and young people leaving care, no rate will be payable. This allowance will also extend to people in full time training and education, including degree courses, teacher training, nursing, etc^[8]. Applicable individuals can apply for this relief whether they own or rent their accommodation. Alternatively, a landlord can apply for relief in respect of tenants. However, the landlord must prove that the benefits will be passed on to the tenants – for example, through reduced rental cost.

3.4. Transitional Relief

For some homeowners, transition to the CV system will have resulted in a significant rate increase. Transitional relief is available for the ratepayers who are most affected. Ratepayers facing an increase of more than 33% will automatically be eligible for three years of relief, (application is not required), as follows:^[9]

- Year 1 (1 April 2007 – 31 March 2008) – relief is provided on the full amount over the 33% threshold;
- Year 2 (1 April 2008 – 31 March 2009) – relief is provided on two-thirds of the amount over the 33% threshold;
- Year 3 (1 April 2009 – 31 March 2010) – relief is provided on one-third of the amount over the 33% threshold. Thereafter, ratepayers will be liable for the full amount.

It is estimated that 100,000 households will receive transitional relief, with an average award of £178 in 2007/8.

4. Recent events / media coverage

In July and August 2006, notification letters were distributed, advising homeowners as to the capital value of their property, and the associated (future) rate liability. Capital values were also published on the Department of Finance & Personnel (DFP) website at this stage, to enable local comparisons.

In April 2007, homeowners received confirmation of the amount for which they were liable. Numerous households have since disputed these bills, resulting in extensive media coverage of the claimed miscalculations, and other associated criticisms. Specific, post-implementation issues that have arisen are as follows:

4.1. Leaflet Error

The first criticisms occurred in relation to an error on the explanatory leaflet, 'Information about your Rates Bill', which was sent out with the bills in April 2007. The leaflet mistakenly omitted the phrase 'would have' from the following sentence:

"if your rate bill has increased by more than 33 per cent above the amount you would have paid in rates for this property under the old NAV system, transitional relief will be provided automatically over a three year period".

As a result, the level of available relief was misinterpreted, with people overestimating their entitlement. Some 14,000 phone calls were made in the next three days^[10]. The media reported this "massive error" as having "left many people, who budgeted according to information given on their leaflet, out of pocket."^[11] However, a Land and Property Services (LPS) spokesman disputed the validity of this claim, pointing out that the leaflets had been "sent out alongside the bills and could not have been the basis of long-term budgets".

4.2. Accuracy of initial bills

Concerns have arisen because a significant number of the bills were disputed on the basis of the capital valuation applied. Involving some 700,000 properties, the revaluation exercise was a considerable undertaking.^[12] However, the incidence of reported inaccuracies has nonetheless been described as 'alarming'^[13]. Officials say 56,000 people queried their property valuations, half of which requested a review.^[14]

A 'review' is the first step of the three-stage appeals process:

- The first stage involves a review by a District Valuer, from Land and Property Services. Applications are at this stage considered 'informal';
- The second stage involves an appeal to the Commissioner of Valuation. From this stage the process is defined as a 'formal' one, (the term 'review' is replaced with 'appeal');
- Thirdly, an (formal) appeal is made to an independent Valuation Tribunal, which will be under the auspices of the Northern Ireland Court Service.

On 15 April 2007, approximately 15,000 reviews had been conducted; the outcomes are summarised below:

Informal reviews completed (Pre 31/03/07)	Reviewed	Increased	Decreased	No change
Ballymena	1,513	317	669	527
Bangor	840	127	493	220

Informal reviews completed (Pre 31/03/07)	Reviewed	Increased	Decreased	No change
Belfast	3,548	382	1,777	1,389
Craigavon	1,789	237	911	641
Lisburn	2,868	461	1,515	892
Londonderry	2,668	667	1,076	925
Omagh	1,693	252	728	713
Total	14,919	2,443 (16%)	7,169 (48%)	5,307 (36%)

Source: www.publications.parliamet.uk

Fourteen formal appeals had also been completed by this date; 13 of which resulted in a reduction in the rate payable. Thus, of the 14,933 informal / formal re- assessments conducted thus far, almost 64% have been confirmed inaccurate. However, Land and Property Services has defended the appeal outcomes, describing it as 'reasonable' that less than 2% of the 700,000 revaluations have resulted in correction.^[15]

4.3. Appeals Process

The effectiveness of the appeals process has been debated. On 25 April 2007, it was estimated that 13,000 households were still awaiting a visit from the surveyor. This delay in the first stage of the appeal process has been criticised, since homeowners must continue to fund the proposed over-payment until the backlog is cleared.

Furthermore, it is claimed that large numbers of homeowners were unable to establish initial contact with the domestic rates help line (to enable appeal). However, LPS claim to have substantially increased the number of phone lines, the number of staff available to answer calls, and have introduced a new call handling system. The agency answered over 27,000 calls during the week commencing 16 April 2007, and the Government have deemed this response "sufficient".^[16]

4.4. Relief Available

Domestic rate reliefs have been criticised in terms of both extent and take-up:

Absence of Single Person Relief: The new system has been described as 'discriminatory' based on the lack of a relief for homeowners living alone. A 'single person's' relief of 25% exists in the rest of the UK. The absence of this concession is particularly controversial in the context of pensioners. Help the Aged and Age Concern suggest, in a joint submission, that a rates charging system should be based on ability to pay and not the capital value of the property. They argue strongly for 25% discount for single person / pensioner households.^[17]

Cap Level: The Northern Ireland Fair Rights Campaign (NIFRC) argues that the maximum capital value cap should be set at £300,000, rather than £500,000. They propose this on the basis of caps elsewhere in the UK: Scotland £212k; Wales £425k; England £320k.

Student Relief: The proposed student relief is also criticised on the basis that it will benefit landlords rather than students. However, the new system has allowed for this contingency: in order for a landlord to be entitled to this form of relief, he/she must prove that the benefits will

be passed on to students (for example via reduced rental cost). Thus this relief does offer an (indirect) benefit to students.

Disability Relief: The NIFRC suggests that a 25% discount should be applicable for all people with disabilities, and not just to those with housing adaptations, as is currently the case. However, it is worth noting that approximately 234,000 individuals can be deemed to be disabled, based on those in receipt of Disability Living Allowance / Attendance Allowance.^[18]

Relief Take-Up: Exact figures as to the take-up of reliefs are not yet available. However, Help the Aged and Age Concern have both expressed concerns about the level of take-up and advocate a targeted communication strategy, together with comprehensive monitoring of take-up levels.

4.5. Other criticisms

- It has been suggested that a system based on capital values is inappropriate given the current conditions in the NI property market. Rapidly increasing property prices have led to concerns about the implications of this upon future rate liabilities. Since income levels are not rising at the same pace as local house prices, it is argued that there is an affordability implication therein. Further, there is a belief that the system will become “much more unfair with the next valuation in 2010 when properties probably will be valued more correctly.”^[19] However, it should be noted that the implications of rising property values are frequently misunderstood; the determination of rate liabilities post revaluation might be on a revenue neutral basis.
- The ongoing debate regarding corporation tax is relevant by association – the argument there is that differential tax rates may not be permissible within the UK. Why then should this be different for rates, also a form of tax? However, rates, (unlike corporation tax), are a devolved matter.

[1] The review was constrained by the Northern Ireland Act 1998, under which most taxation issues are outside the powers of local administration.

“Proposal for a Draft Order in council”, The Rates (Amendment) (Northern Ireland) Order 2006, 27 July 2006

[2] The University of Ulster carried out a specially commissioned study in this regard: ‘Examination of Options for a Capital Value System’ (2003). This was done as part of the Rating Review.

[3] Over 70% of houses are now owner-occupied
 (“Proposal for a Draft Order in council”, The Rates (Amendment) (Northern Ireland) Order 2006, 27 July 2006)

[4] It is assumed that properties have the same standard of kitchen and bathroom for their age, type and location.

[5] Regional Rate - contributes to regional public services provided by departments, approved by the Assembly.

District Rate - contributes towards local services provided by district councils.

[6] “Rates demands cut for thousands”, Belfast Telegraph, 25 April 2007

[7] Existing DPA recipients receiving less than 25% will receive the 25% reduction. Those currently entitled to more than this will retain their entitlement (until / unless their circumstances should change).

[8] Full exemption from rates will also be provided on University Halls of Residence.

[9] The basis for comparison is the amount which would have been payable in the current period, under the old system

[10] "Apology issued over rates error", Irish News, 19 April 2007

[11] Naomi Long, of the Alliance Party, made this assertion on the BBC Ulster's Nolan Show.

[12] The cost of this exercise was estimated at £7.5 million ("Proposal for a Draft Order in council", The Rates (Amendment) (Northern Ireland) Order 2006, 27 July 2006).

[13] "Rates rebate time bomb starts ticking", Belfast Telegraph, 26 April 2007

[14] "Rates demands cut for thousands", Belfast Telegraph, 25 April 2007

[15] "Rates rebate time bomb starts ticking", Belfast Telegraph, 26 April 2007

[16] www.publications.parliament.uk

[17] "Report on Comprehensive Spending Review and Programme for Government; Rates Charges; and Water Reform", Committee on the Programme for Government, Fourth Report, 2006/2007

[18] 2006 figures

[19] "Appeals successful in rates bills fiasco", Belfast Telegraph, 25 April 2007

Long Term Alternatives to Domestic Rates



**Research Paper
19/06/07**

Long-Term Alternatives to Domestic rates

Jodie Carson

Research Officer

Research Papers are compiled for the benefit of Members of The Assembly and their personal staff.

Authors are available to discuss the contents of these papers with Members and their staff but cannot advise members of the general public.

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1. Introduction

In view of the forthcoming Rating Review, this paper considers the feasibility of various long-term alternatives to domestic rates for implementation in Northern Ireland (NI). Previous studies of local authority funding are considered, and the implications for Northern Ireland summarised in each case. The paper focuses on those options which have previously been considered viable in a UK context, namely taxes on property and income. It emerges that much of the recent evidence supports the existing rating system of "individual capital valuation".

2. Background

The new system of domestic rating, introduced in April 2007, has been heavily criticised^[1]. The majority of criticism relates to the perceived unfairness of the system. Specific concerns include what is considered to be the lack of reliefs available (there have been calls for a single person relief) and the professed shortcomings / take-up of those that are on offer (student relief and disability relief).^[2] Other criticisms have focused on the claimed inaccuracy of valuations and the related appeals process. It has also been argued that a property-based tax system is ineffective in the context of the pressurised local housing market. These issues have resulted in the recent announcement of a formal Rating Review.^[3]

3. Context

The review will be a two-fold one, and will be concerned with:

- i. Identifying ways of improving the new system that can be implemented in April 2008; and
- ii. Examining alternatives to the new system as a means of identifying options for longer term change.

This paper is concerned with the latter consideration, and will examine the following options for local taxation:

- 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
- Land value taxation
- Derelict land taxation (as recommended in the Lyons report)

The previously undefined possibility of a local 'MOT charge' (an additional charge on the cost of MOT), as advocated by the Director of the Economic Research Institute of Northern Ireland (ERINI), Victor Hewitt, is considered under "Green taxes".

4. Legislative Implications

Under the Northern Ireland Act 1998, most issues of taxation are beyond the powers of a local administration and there can be no interference with, or duplication of, the national taxation system. The issues under consideration in this paper would therefore require new primary legislation and, in some cases (e.g. in relation to income tax and sales tax), a change to the original Act.

However, the current legislation does not represent a barrier to the implementation of any new 'charges' which don't involve the introduction or modification of any existing national tax. In 2003, the Local Government Act conferred charging powers which means that local authorities have a variety of powers to charge for different services. Consequently, the 'MOT tax' option, which is discussed in Section 7.8, is a legislative exception in that no amendment would be required.^[4]

5. Previous Studies of Alternative Tax Options

Many of the options listed in Section 3 have been the subject of previous studies. The main UK-based studies on the alternative options for local funding include:

5.1 The Layfield Committee, 1976

Although published in 1976, the Layfield Report remains an influential document; researchers still refer to it in related studies. Described as "a benchmark for subsequent studies^[5]" (into alternative local tax systems), this committee was formed in response to adverse reaction to inflationary rate rises in Britain in the early 1970s.^[6] Reporting in 1976, the majority of the committee favoured a local authority system with greater financial autonomy. Layfield regarded local income tax as the only serious candidate for a new source of local revenue.^[7] However, no reform took place; the post-1979 Conservative Government published a Green Paper in 1981, which again considered alternatives to domestic rates, as follows:

5.2 "Alternatives to Domestic Rates", 1981 Green Paper

A 1981 Green Paper dealt with the rating situation in England, Scotland and Wales, and considered the ways in which domestic rating might be improved / substituted. The study focused on three possible new forms of taxation:^[8]

- a local sales tax;
- a local income tax; and
- a poll tax.

5.3 "Paying for Local Government" 1986 Green Paper

This Green Paper paved the way for the introduction of the Community Charge (the "poll tax") in 1989. The poll tax was introduced in Scotland in 1989, one year earlier than in England and Wales, following the abolition of domestic rates. The community charge was very unpopular and by January 1990, 421,400 cases of non-payment were being pursued.^[9] Council tax was therefore introduced in the 1990s, in response to a 1991 Consultation Paper.

5.4 “A Fairer Way”, Local Government Finance Review Committee, 2006

In their “review (of) different forms of local taxation” in 2006, the Scottish Government Finance Review Committee (the Committee) considered a variety of domestic tax options, which fell under the following four broad categories:

- Taxes on income (e.g. local income tax)
- Taxes on wealth, including land and property (e.g. domestic rates, land value tax)
- Taxes on people, usually at a flat rate (poll taxes)
- Taxes on transactions and products (e.g. local sales tax, specific additional taxes on fuel, tourism, chewing gum, alcohol)

The Committee concluded that only taxes on income and property were worthy of a more detailed consideration.

5.5 Lyons Inquiry into Local Government, March 2007

The terms of reference of this recently published inquiry, included: recommendations on the reform of council tax; consideration of shifting the balance of funding; and an analysis of other options for local taxation, including local income tax; non-domestic rates; and other local taxes and charges. Lyons made a series of recommendations (listed at Appendix 1) on various systems, which will be outlined in the appropriate sub-sections.

6. General Considerations in Assessing Different Tax Systems

A model of important criteria for a local taxation system has been provided in the Terms of Reference for the current Rating Review (refer last weeks pack). However, these do not directly equate with those identified as important in previous studies. The 2006 study “A Fairer Way” was required to “review the different forms of taxation....against criteria set by the Executive^[10]”. However the study identified other important factors which were not set out in the original criteria; they differentiated between the resultant criteria on the basis of importance; ranking them as ‘high’, ‘medium’ or ‘lower’. The report identified the following factors as being of ‘high importance’^[11]:

- **Size of the Tax Base:** The size of the tax base (the number of people / households who would be liable) is important in ensuring that the burden of tax is spread as evenly as possible.
- **Fairness:** This emerged as by far the most important criterion amongst the Scottish public in their satisfaction, or otherwise, with council tax systems. Whilst clearly a highly subjective concept, a number of interpretations of ‘fairness’ were identified. ‘Ability to pay’ was the most common^[12]. Other indicators included: ‘effect on pensioners’; ‘relationship between property value and rate liability’ (the public indicating that this should be positive); and ‘reliefs available for poor people’.
- **Relationship to Benefits System:** A tax model’s ‘relationship to the Benefits System’, and its reliance thereon, was identified as a vital consideration in providing a degree of fairness. For example, in Great Britain, Council Tax Benefit is considered crucial to the present council tax system; benefit is paid to those who are eligible for payment and deducted from their council tax bills by local authorities.
- **Ease of Assessment, Collection and Payment:** The “collectability” of different types of tax was identified by the Executive as an important issue. The ease of payment, for

the taxpayer, was also considered noteworthy. For example, it has been argued that offering taxpayers more flexible payment terms can make a tax more affordable.

- **Stability and Predictability:** Tax revenue must be both predictable and stable; authorities must be assured of the funding they require to deliver services and to enable expenditure planning. Predictability is also important from the point of view of the taxpayer, enabling a reasonably clear expectation of tax liability.
- **Transitional Issues:** It is also important to consider how best to bring an “old system” to a close, and start a “new” one. For example, it might be considered whether a new system should temporarily run parallel to the old one, or should transitional arrangements be applied.

The Scottish study also identified a number of other considerations, which were classified as being of either medium or lower importance. Appendix 2 categorises the entire criteria by relative importance.

7. Comparative Analysis of Alternative Options

This section considers the various long-term alternatives to domestic rates, as summarised in Section 3. It will include the previously unspecified alternative of an ‘MOT tax’, as suggested by Victor Hewitt, Director of the Economic Research Institute of Northern Ireland, (ERINI)[13].

7.1 A Reformed Domestic Rating System: Banding of House Values

The current domestic rating system in NI incorporates an ‘individual’ (or ‘discrete’) assessment approach to capital valuation, (property values are assessed individually). This was selected in NI in preference to the alternative ‘banding’ methodology, despite the fact that banding is used in the council tax system in Great Britain. This section considers the arguments for changing the local rating system from an individual assessment basis, to a banded one.

The Rationale for Individual Capital Assessment in NI

It is suggested that individual assessment results in a more accurate and equitable outcome than banding, and that this explains its prevalence in various international countries[14]. In the NI case, the adoption of individual assessment was on the basis of a specially commissioned study. In March 2003, the Government commissioned work by the University of Ulster entitled ‘Examination of Options for a Capital Value System’. The study analysed house sales data in NI over the period 1998-2002, adjusted to a common valuation date of 1 April 1999, (selling price was used as a proxy for capital value). The dataset contained 46,407 properties, representing approximately 7% of dwellings in NI. The study found that an individual approach was more progressive than a banded one, hence its implementation[15].

It is worth noting that there is a potentially debatable aspect to the decision to introduce ‘discrete capital assessment’ for NI. The study was undertaken in 2003, under very different property market conditions, using associated estimates of capital values. The applicability of this model to the current environment might be debated. Specifically, the analysis suggests that occupants of lower value properties (below £149,000) would be more likely to have lower rates bills – hence the assumption that it was more ‘progressive’[16]. However, the entire distribution of property values has changed since the study. A survey by the University of Ulster in 2007 showed that the average house price in Northern Ireland is £215,590[17]. This is compared with the results of the same survey in 2003, in which the average value was reported at £105,779[18]. Substantially fewer properties would now fall within the ‘below £149,000’ range, within which a fall in rates was anticipated. This factor might be considered in the forthcoming review and in any re-assessment of the individual vs. banding approaches.

The Arguments For/Against a Banded Approach

The council tax system in Great Britain is a banded property tax. It was introduced in 1993 to replace the community charge (poll tax)^[19]. Council tax involves allocating each residential property to one of eight bands, according to value. The band to which a property is assigned determines the basic bill for each household. There is a range of discounts, such as single person allowance, which has the effect of reducing tax liability by 25% for single adult households. The 'charge application ratio' is also enforced, which ensures that those in the top value band pay exactly 3 times the amount of those in the bottom value band (all other things being equal) – this avoids any disproportionately high tax bills.

In March 2007, the Lyons Inquiry, in its review of the existing system, recommended that: "council tax should be retained as a source of revenue for local government", thus endorsing its relative effectiveness on the basis of various criteria. However, this was inconsistent with the 2006 study "A Fairer Way", which recommended the abolishment of council tax in favour of an individual assessment property system. The Scottish study found that banding was less progressive, and less "fair". Lyons has also acknowledged the regressive nature of Council Tax. He acknowledges that the current system of Council Tax Benefit, whilst designed to offset this effect, does not "noticeably alter" this "regressiveness"^[20]. However, to address this issue, he does not recommend individual assessment, rather the introduction of additional 'bands'. His argument for doing so is the considerable upheaval which would be associated with valuing individual properties.

For Northern Ireland, a key advantage of 'banding' over individual assessment, namely avoiding the need for (and cost / time implications of) individual valuations, is not applicable. Since the valuation process has already been carried out, there would therefore appear to be no benefit to moving to a 'banded' methodology, (however, upon revaluation in 2010 this would become a relevant consideration). An important aspect of council tax, which might be noteworthy for NI is the 'single persons relief'. The lack of this relief in NI has been the subject of significant criticism.

Summary Implications for Northern Ireland

- Changing distribution of property values might question robustness of original decision to introduce individual assessment;
- Benefits of property based tax system apply equally to individual / banded approaches (i.e. difficult to evade, reasonably simple and inexpensive to collect, provides a stable and predictable yield);
- The evidence is split: one study recommended the abolition of council tax, the other its retention;
- A banded approach is generally considered to be comparatively less progressive^[21];
- Single Person's Relief might improve the perceived "fairness" of local system;

7.2 Local Income Tax

The previous UK-based studies have reported relatively favourably on the prospect of a local income tax; however none have actually recommended its implementation. In terms of the practicalities of enforcing a local income tax, the financial implications of full and partial income tax replacement (of council tax) are as follows^[22]:

- **Full replacement:** To fully replace revenue earned from council tax (£22 billion) with an income tax would have involved an additional 7.7 pence on the basic rate of income tax in 2006-07;

- **Partial replacement:** To replace approximately half of council tax would require an average local rate of 3.9 pence on the basic rate of income tax[23].

The Layfield Committee gave qualified approval to one form of local income tax as a supplement to domestic rates, but not as a substitute. It concluded that this was “the only feasible major new source of revenue” for local authorities[24]. However, the Committee recognised the likelihood of problems and that the associated cost would be substantial. The 1981 Green Paper also defined income tax as amongst the potentially feasible options for England, Scotland and Wales. The most straightforward means of implementing a local income tax was identified as being integration with the present national income tax system. However, it was suggested that this would be a complicated undertaking, and that there would be difficulties arising from central and local government sharing the same tax base.

The Scottish study, 2006, also short-listed income tax as worthy of further consideration. Further, it revealed that there were higher levels of public satisfaction and lower levels of dissatisfaction (37% and 35% respectively) with income tax than with council tax, (21% and 60% respectively). The analysis found that any local income tax system, for practical reasons, would need to operate in parallel with the UK tax system[25]. This implied the use of the same allowances and tax bands, and assessment and collection procedures. It was concluded that a nationally set local income tax would be less complex and cheaper to apply than a locally set one.

However, in comparison with a property tax, the authors of “A Fairer Way” (2006) favoured property, suggesting that it was more difficult to evade and could be collected locally. It concluded that a local income tax should not be introduced, either as a replacement for council tax, or as a supplementary tax. Similarly, in March 2007, the Lyons review did not recommend the implementation of a local income tax in Britain in the short or medium term. Lyons highlighted that the public underestimated the impact that a move to income tax would have on tax liability. He explains that moving away from property-based taxation towards income tax would result in a significant redistribution of the tax burden, away from retired households, and onto the working age population. Nonetheless, Lyons did acknowledge that it was a theoretically feasible option for Britain, and that it remained a choice for future.

Summary Implications for Northern Ireland

- Some support for this type of tax, primarily based on the perception that it is “fair”;
- Would be more progressive to overall income than council tax[26];
- Might be a feasible option for NI, however it has not been recommended by previous studies;
- Would result in significant redistribution of tax burden, away from retired households, onto working age population;
- Its use may be restricted to a supplementary role, rather than a direct substitute;
- Previous studies suggest that it would be best operated in conjunction with the national income tax system;
- The cost of implementation would be substantial;
- Amendment to primary legislation would be required.

7.3 Income Tax Varying Powers

Scotland is a region with devolved powers in respect of income tax; the Scottish Parliament holds limited power to vary the rate. This only applies to income earned at the basic rate; the

Parliament can vary tax at this rate (upwards or downwards) by up to 3 pence in the pound. If raised by the full 3 pence, this would raise around 40% of the taxable income currently collected through income tax (an estimated £810 million in 2004-05)[27].

“A Fairer Way” found that in order to be “fair”, an income tax must apply to all taxable income. On this basis, local income tax varying powers, such as those held in Scotland, (and which only apply to income earned at the basic rate), would be considered less “fair”, and therefore might not be recommended.

Summary Implications for NI

- Powers would need to be devolved with respect to income tax;
- Assuming a similar system to that in Scotland, likely to be perceived as less “fair” than a property tax

7.4 Local Sales Tax

International comparisons show that sales taxes are used, although generally in combination with other taxes. 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 (typically 25-40% and around 50% for USA), but considerably less for local government, (nil for Australia; less than 10% for Canada and Germany; 20-30% for Austria and USA)[28].

The possibility of a local sales tax has been considered in previous UK based rating policy reviews. It was analysed, in particular, by the Layfield Committee, which identified a number of strong arguments against it. A subsequent assessment was carried out by the Government in the 1981 Green Paper[29]. However, it was deemed unsuitable as a sole replacement for domestic rates, and potentially problematic as a supplement[30]. The 2006 study also eliminated sales tax as an option for Scotland.

“A Fairer Way” (2006) reported a mixed reaction from the Scottish public regarding a local sales tax. Whilst there was some support for this alternative, most was conditional. Key amongst these considerations were that the rate be set nationally to avoid cross-local authority boundary shopping, that basic goods should be exempted from the tax, as with VAT, and that it should only be used to supplement other taxes. The authors concluded (on the basis of evaluation against their criteria) that a sales tax should be ruled out as an option for Scotland.

One important issue raised in the Scottish study was the question as to whether a sales tax in addition to VAT would comply with EU law. The committee sought legal advice on the matter, which indicated that the legality of the tax would depend to a great extent on its structure. The more distinctive the tax appears to VAT, the greater the chance of compliance. For Scotland, it was considered likely that a separate rate of VAT would be incompatible with EU law, as it does not permit differential tax rates within states. This would clearly present a similar issue for Northern Ireland.

Summary Implications for Northern Ireland

- Eliminated as a long term option by all three previous studies;
- Considerable practical difficulties would be anticipated;
- Would require amendment to primary legislation;
- May be incompatible with EU rules.

7.5 Poll Tax

A fixed annual charge could be levied on individuals living in a local authority area as a contribution to the cost of providing local services – i.e. a 'poll tax'. This concept operated in Scotland from 1989 to 1993, and similar charges have been used in the past in both the UK and other countries. According to "A Fairer Way", 2006, poll taxes (as they are generally defined) are no longer used as a significant source of revenue by any major countries. The Scottish study also revealed significant public and official opposition to the notion of a poll tax.

In summary, the study found no justification for considering a poll tax as a possible replacement for a council tax. Although it does offer some potential advantages (it could be stable and predictable, assuming high levels of compliance), the lack of any link with 'ability to pay' was considered to be likely to make it extremely unpopular. Furthermore, it would only be feasible in conjunction with an extensive benefits system and the costs associated with this would be likely to consume a very large proportion of the tax proceeds^[31].

Summary Implications for NI

- Historical evidence suggests significant difficulties in collection;
- Not favoured by previous studies;
- Little relationship with 'ability to pay';
- May not be financially viable.

7.6 Tourist Tax

'Bed taxes' and other types of tourism tax (e.g. airport departure fees and taxes) are often used in other cities and countries, and are used in particular to assist the promotion and development of tourism locally^[32].

"A Fairer Way" found, (from responses to the consultation paper), that a local tourist tax would be very unpopular amongst the Scottish public. Most local authorities were also against the concept. The British Hospitality Association (Scotland), a tourism industry body, made a submission strongly opposing tourism tax.

However, the Lyons report viewed a tourism tax more favourably; it recommended:

"that the Government should consult on the costs and benefits of providing a permissive power for local authorities to levy taxes on tourism, including a possible tax on accommodation, and whether local authorities would use such a power"^[33]

Nonetheless, Lyons stressed that a local accommodation tax would only be appropriate under certain circumstances. Specifically, a local authority must be able to demonstrate that there is robust evidence that the local economy could support the tax, existing alternatives have been fully considered, there is local support for the tax, and that the scheme has been developed in partnership with local businesses and residents. He suggests that a tourism tax could have very little impact on tourist numbers in one location, but could be very damaging in another^[34].

Summary Implications for NI

- Ability of local economy to support a tourism tax should be considered;
- Might be argued that tourism industry should be developed further to ensure robustness.

7.7 Road Charging

Congestion charging and road pricing were raised by a number of submissions to the Lyons Inquiry as a possible source of revenue for local authorities. Powers to operate congestion charging schemes were introduced for authorities outside London in the Transport Act 2000, in instances where charging would support the Local Transport Plan. These are relatively new powers and remain largely untested, with the notable exception of London's congestion charge. Lyons therefore suggested that the Government should consider removing restrictions on the use of road pricing revenues.

Summary Implications for NI

- Possible source of local revenue;
- Environmentally friendly

7.8 Green Taxes

The Director of the Economic Research Institute of Northern Ireland (ERINI), Victor Hewitt, has proposed a number of other revenue raising alternatives. His recommendations focus on the wide latitude that exists around introducing 'charges' which do not represent the modification / introduction of a tax resembling an existing national tax. He highlights the fact that such 'new' charges do not require amendment to primary legislation, but that they need to be assigned to specific areas.

Specifically, Victor Hewitt proposes an additional charge on MOT costs, to which it might be possible to attach an environmental surcharge. He suggests that this would generate revenue which could be spent on environmental issues associated with road transport. There are a number of advantages of this option, as follows:

- Perhaps most importantly, an 'MOT charge' would not require amendment to primary legislation, since it does not represent a modification of an existing national tax;
- MOT income goes to the local service centres; an associated tax might therefore produce revenue which could be retained locally;
- It would be an environmentally friendly tax;
- The revenue stream would be quite stable and certain;
- It would be difficult to evade and quite enforceable.

However, potential disadvantages include:

- Properties are more fixed than vehicles, thus the tax base would be less stable and revenue less predictable;
- There may be issues around fairness, and specifically 'ability to pay'. There is already an argument about how well domestic rates distribute the rates burden, since they are only payable by homeowners (thus excluding the contribution of some members of the public). This perception is likely to be exacerbated if the tax only applies to vehicle-owners. There might also be a fairness issue around the fact that MOTs only apply to cars of a certain age – this could be perceived as regressive.

Victor Hewitt has indicated that this type of tax system presents a viable means of at least supplementing local taxation revenue. However, he suggests that it would be most applicable for funding borrowing, rather than expenditure (due to unpredictable nature)^[35].

Summary Implications for NI

- No amendment to legislation required;
- Potential issues around 'fairness' / perception as 'regressive';

7.9 Land Value Taxation

Land-value tax (also known as "site value tax") has two key features. The first is that the tax applies to the value of the land and not the value of any buildings on the land. The second is that it is the owner of the land, rather than the occupier, who pays the tax. The basic rationale of land value tax is that it encourages optimal use of the land, as the tax liability will be the same whether the land is left derelict or is fully utilised. Its supporters argue that standard property taxes create a disincentive to developing land and improving properties, since those developments result in tax.

According to "A Fairer Way", more than 700 cities worldwide apply a land value tax in some form, including cities in Australia, eastern Europe and the US State of Pennsylvania. The study reported that, despite considerable evidence, there is no "ideal" model in operation, making an assessment of the effect of land value taxation difficult. The authors conferred with the Layfield Committee in their elimination of land-value tax as an option, instead favouring a property system based on capital values.

Summary Implications for NI

- May have specific applicability to shortage of housing in Northern Ireland, since it could avoid developers 'sitting' on land / promote development;
- The positive features of a land-tax are consistent with the general progressiveness of a property based system;
- Collection could be difficult; owners (unlike properties) can move and it might be difficult to pursue payment from some landlords;
- Public may find it difficult to accept considerable upheaval involved in reform of this nature;
- Previous studies found that a capital value based property system was preferable.

7.10 Derelict Land Taxation

Measures that were introduced in the 1970s to provide better incentives for the re-use of empty property have not been entirely successful. It has been argued that, when faced with penal rates of tax, owners often found it easier to make the property derelict rather than bringing it back into use^[36]. Lyons suggests that this is an important lesson and that a tax on previously developed land would present a possible solution to this problem.

Specifically, this tax would relate to derelict property and brownfield land. However, Lyons acknowledges a number of potential stumbling blocks in the implementation of this tax: defining, identifying and valuing the land would be a significant task. Furthermore, resultant revenue may not be very substantial, since most derelict land is worth comparatively little. Nonetheless, the purpose of the tax would primarily be the creation of proper incentives for re-use of land, not revenue creation. The Lyons Inquiry therefore recommends that the Government should:

"develop proposals for the taxation of derelict property and brownfield land and consult on those with stakeholders"

Summary Implications for NI

- As with land value taxation, could help address housing shortage;
- Revenue implications would be limited.

Appendix 1: Lyon's Inquiry – Summary Recommendations

Chapter 7 – Household Taxation and Local Charges

7.1 Council tax should be retained as a source of revenue for local government. The option of change in the longer term to shift the balance towards other taxes and changes remains open.

7.2 While not the most urgent priority, the Government should conduct a revaluation of all domestic properties for council tax. Transitional arrangements to ensure households do not face steep tax increases from one year to the next should be considered at the point of revaluation.

7.3 Subsequent revaluations should take place regularly and automatically at intervals of no more than five years.

7.4 At the revaluation the Government should introduce new property bands at the top and bottom of the current structure. It could also consider the introduction of separate bands for Inner London to reflect the unique shape of the property market in that region and to reduce turbulence there.

7.5 The Government should ensure the grant system reflects realistic data on the number of student households exempt from council tax in their areas. This should be done in time to inform the forthcoming negotiations on three-year settlements.

7.6 Council tax benefit should be recognised as a rebate rather than a benefit, and re-named 'council tax rebate', to properly reflect its main purpose: adjusting households' liability to council tax.

7.7 The Government should build on recent efforts to streamline delivery of council tax rebates by adapting IT systems so that the Pension Service can act as a portal to rebates for all callers, regardless of Pension Credit eligibility.

7.8 Further improvements to the claims process should be pursued to allow the Pension Service to liaise directly with local authorities in processing rebate claims.

7.9 Ministers should examine the scope for data sharing between agencies to proactively deliver council tax rebates to those who are entitled, with a view to achieving a step-change in the take-up of council tax benefit.

7.10 The Government should increase the savings limits on council tax rebate eligibility to £50,000 for pensioners.

7.11 The Government should, over time, abolish the savings limit in council tax benefit for pensioners, so aligning council tax rebate thresholds with the criteria for eligibility to the Pension Credit.

7.12 The powers to trade and charge conferred on 'best value' authorities in the Local Government Act 2003 should be extended to all local authorities.

7.13 The Government should carefully consider the wider framework of charging powers for statutory and discretionary services, including in the light of the Audit Commission's work when published later this year.

7.14 The Government should take new powers to allow local authorities to charge for domestic waste collection, developed in close consultation with residents and other key stakeholders.

Chapter 8 – Business Taxation

8.1 The RPI cap on the national level of business rates should be retained.

8.2 The existing national arrangements for business rates should be retained at present, but a new local flexibility to set a supplement on the current national business rate should be introduced.

8.3 Local supplementary powers should be designed in a way which can gain credibility with business and the wider community. The key issues to be considered are:

- the appropriate scale of the supplement. At the upper end, some Business Improvement Districts have levied supplements as high as four pence. A lower limit would provide less revenue and less flexibility, but might enable confidence in new arrangements to develop more gradually. In that situation, there might be a case for allowing a higher limit in some cases, subject to more stringent approval mechanisms;
- retention of revenue, where I believe all revenues should be retained locally;
- the right form of accountability to business taxpayers. The most obvious options are some form of voted approval or a statutory consultation process. On balance, I propose that there should be a requirement to consult local businesses, and the wider community, before introducing a supplement, with a clear proposal and timetable. Revenues from a supplement should be hypothecated to the purposes agreed through consultation;
- how to ensure that supplements contribute to, rather than detract from, the local economy. I propose that authorities should be required to make an assessment of the impact of the supplement on the local economy, and the potential economic benefits of the spending they propose to finance from the revenues generated;
- the authority by which supplements should be levied. I recommend that supplements should be levied by unitary authorities and metropolitan districts, and in London and areas with two-tier local government, a single rate should be set through agreement between the relevant authorities, with a joint plan for the use of revenues. Where arrangements develop for collaborative working between authorities elsewhere in the country, this could usefully include cooperating around supplements. Powers to introduce Business Improvement Districts should remain with shire districts and the London boroughs;
- whether authorities should have a degree of further flexibility over which sizes of business pay the levy, which I would support; and
- whether there should be a threshold below which small businesses do not pay the supplement.

8.4 The Government should reform and reduce the empty property relief by:

- retaining the existing 100 per cent relief for short-term empty property (up to three months);
- reducing the rate of empty property relief thereafter; and
- providing factories and warehouses with the same level of relief as other properties.

8.5 The Government should develop proposals for the taxation of derelict property and brownfield land and consult on those with stakeholders.

8.6 The Government should conduct a review of exemptions and reliefs to consider the scope for removing inappropriate subsidies and distortions, and to simplify the system.

8.7 If the Planning-gain Supplement is introduced, the Government should:

- design it primarily as a local revenue source, with a regional share of an appropriate scale, not as a national source which may or may not be allocated to authorities. It is imperative that a transparent and predictable link between local development and local resourcing exists if development is to take place, or incentive effects are to be realised; and
- consider whether in two-tier areas, it could be managed through plans jointly developed and implemented by county and district councils.

8.8 The Government should consult on the costs and benefits of providing a permissive power for local authorities to levy taxes on tourism, including a possible tax on accommodation, and whether local authorities would use such a power. It should use the results of that consultation to examine the case for extension of such powers to local authorities.

Appendix 2:

Criteria Identified by “A Fairer Way”, 2006

Category	High Importance	Medium Importance	Lower Importance
Macro-economic	Economic effects		
Fairness	Relationship to benefits system	Comprehensibility; transparency	
Assessment / Collection	Ease of assessment, collection and payment	Cost of assessment and collection	
Yield-related	Stability and predictability		Buoyancy
Accountability	Size of tax base	Identifiability as local tax	Balance of funding
Implementation	Transitional issues		

Source: “A Fairer Way”, Report by the Local Government Finance Review Committee, Edinburgh, 2006, p.68

Appendix 3:

The Two Basic Single Stage Models considered by the 1981 Green Paper

Two basic, single-stage models were considered:

- Model 1: A single stage tax administered / collected in conjunction with VAT on behalf of local authorities. This would apply to all transactions subject to VAT, but local authorities would be given freedom to set the rate of tax (possibly within pre-defined limits).
- Model 2: A single stage tax with an entirely separate system of collection administered / set by local authorities themselves. The eligibility of goods / services might be decided either centrally or locally.

[1] Bills were not issued to customer until April 2007, however, notification letters were distributed in July/August 2006 indicating future rate liability – the first criticisms arose at this stage.

[2] Specifically, the student relief has been criticised on the basis that it will benefit landlords, not students (however, the scheme allows for this and requires proof that any savings are passed on to students via reduced rental costs). Disabled persons relief only applies to those individuals whose houses have been adapted because of disability – it has been suggested that this should instead apply to all disabled persons.

[3] Peter Robinson announcement 15 May 2007 <http://www.ratingreviewni.gov.uk/>

[4] Lyons Inquiry, "Household taxation and local charges", March 2007

[5] Bennett, Central Grants to Local Authorities, 1982

[6] Inflation in the early 1970s pushed local taxation up to high levels; in 1974, the average increase exceeded 30% (<http://www.publications.parliament.uk/pa/cm200304/cmselect/cmodpm/402/40203.htm>)

[7] "A Fairer Way", Report by the Local Government Finance Review Committee, Edinburgh, 2006

[8] A range of other taxes was considered, but it was decided that they were not worthy of further consideration. Those rejected included: local duties on petrol, alcohol or tobacco; local vehicle excise duty; charges for licences for the sale of alcohol or petrol; and local payroll tax

[9] "A Fairer Way", Report by the Local Government Finance Review Committee, Edinburgh, 2006

[10] "A Fairer Way", Report by the Local Government Finance Review Committee, Edinburgh, 2006

[11] "A Fairer Way", Report by the Local Government Finance Review Committee, Edinburgh, 2006

[12] The committee recommended that 'ability to pay' be considered in both relative (it should be a progressive tax system) and absolute (individual bills should be affordable) terms.

[13] Private communication: Victor Hewitt and Assembly researcher

[14] The USA, New Zealand, Australia, Canada, the Netherlands and South Africa have all adopted a discrete capital value approach.

- [15] "Examination of Options for a Capital Value System", University of Ulster, 2003
- [16] A tax system is defined as 'progressive' if lower-income households pay a lower proportion of their incomes in tax, whereas it is 'regressive' if highest-income households are liable for the lowest proportion of their income
- [17] "Average house cost over £215,000", BBC News, 1 June 2007
http://news.bbc.co.uk/1/hi/northern_ireland/6712089.stm
- [18] <http://news.ulster.ac.uk/releases/2003/990.html>
- [19] The poll tax replaced the domestic rating system in Great Britain in 1990 and in Scotland in 1989
("Reform of the Domestic Rating System in Northern Ireland – Policy Paper")
- [20] Lyons Inquiry, "Household taxation and local charges", March 2007
- [21] A tax system is defined as 'progressive' if lower-income households pay a lower proportion of their incomes in tax, whereas it is 'regressive' if highest-income households are liable for the lowest proportion of their income
(Lyons Inquiry, "Household Taxation and local charges", March 2007)
- [22] Lyons Inquiry, "Household taxation and local charges", March 2007
- [23] This option would also involve allowing band D council tax to be reduced to an average of £629 (£1,268 in 2006-7)
- [24] Lyons Inquiry, "Household taxation and local charges", March 2007
- [25] "A Fairer Way", Report by the Local Government Finance Review Committee, Edinburgh, 2006
- [26] Lyons Inquiry, "Household taxation and local charges", March 2007
- [27] "A Fairer Way", Report by the Local Government Finance Review Committee, Edinburgh, 2006
- [28] "A Fairer Way", Report by the Local Government Finance Review Committee, Edinburgh, 2006
- [29] The 1981 Green Paper looked at the possibility of either a single-stage sales tax or a multi-stage tax, akin to VAT (Value Added Tax). Whilst theoretically, a local sales tax could take the form of a full-scale VAT, levied on all the transactions currently subject to national VAT, this was deemed too complicated. The Government therefore concluded that any potential local sales tax would be of the single-stage variety. The two basic single stage models which were considered by the Government are outlined in Appendix 3
- [30] Anticipated problems included; financial control problems, unpredictability of yield, distinguishing between domestic and business transactions, high costs of compliance, and questions of accountability and perceptibility.

[31] "A Fairer Way", Report by the Local Government Finance Review Committee, Edinburgh, 2006

[32] "A Fairer Way", Report by the Local Government Finance Review Committee, Edinburgh, 2006

[33] "Lyons Inquiry into Local Government – Final Report", March 2007

[34] "Lyons Inquiry into Local Government – Final Report", March 2007

[35] Other similarly novel suggestions offered by Victor Hewitt include a charge on satellite dishes or a licence for selling chewing gum to help with the clean up costs. However, he acknowledges that the latter suggestion would be conducive to problems with smuggling.

[36] "Lyons Inquiry into Local Government – Final Report", March 2007

Queries raised at Committee for Finance and Personnel: 20/06/07

Long-Term Alternatives to Domestic Rates

1. Re: land taxation - international experience of protecting environmentally important land

- The key objectives of land tax are: (i) to encourage the expeditious development of sites, where planning permission has been granted or is a realistic proposition; and (ii) where planning permission is less likely to be granted, or is at least uncertain, land tax may discourage the long-term retention of land by a developer with purely speculative intention;
- The main impediment to development would continue to be planning permission; whilst a move away from property tax to land tax may serve to expedite the development of sites, or deter speculative 'land banking' this would only apply where permission has been, or has the potential of being, granted;
- It may not therefore be appropriate for land, considered to be of environmental significance or protected from development, to attract this type of taxation;
- Important sites might therefore continue to be protected by planning regulations and/or exemption from land-tax liability;
- Campaigners for land value tax suggest that conservation areas / green sites might, in fact, be protected under land taxation; they argue that more efficient use of urban land could reduce pressure on environmentally important sites^[1] (refer Annex 1);
- No international evidence has been found of specific practices being enforced to protect conservation areas / green sites.

2. Re: land taxation - legislative requirements

- Annex 2 outlines the Terms of Reference of the 2007 Executive Review of Long Term Alternatives to Domestic Rates
- These terms indicate that land taxation would probably require primary legislation

3. Cost of replacing council tax with income tax (7.7p on basic rate) – source?

- This information was taken from the Lyons Inquiry, Chapter 7 “Household taxation and local charges”, p. 266, March 2007;

4. Similar cost statistic (refer point 3.) for other options

- Lyons did not provide comparative figures for other tax alternatives^[2].
- It has proven difficult to obtain recent cost per head statistics for the alternative options, however Annex 3 provides (outdated) figures for comparative purposes.

ANNEX 1

<http://www.landvaluetax.org/fplanng.htm>

8 Urban and Rural Conservation

8.1 LVT would be of value in assisting conservation, both in urban and in rural areas. This may be seen by considering how LVT would operate in relation to Conservation Areas. Local planning authorities have a statutory duty to identify and designate as Conservation Areas those locations which it is considered should be preserved and enhanced. Within Conservation Areas, consent is required for demolition, and planning applications for new development are submitted to specialist advisory committees.

8.2 Unfortunately, legislation has had only limited success in preventing the destruction of historic or beautiful areas, and the erection of harmful developments. This has happened for a number of reasons. In some cases, owners of listed buildings have neglected them to the point where demolition has become the only option, and have then exerted pressure on local authorities for consent to redevelop and intensify the use of their sites. In other cases, pressures for relaxing conservation provisions have built up because land values were approaching a peak in the boom-slump cycle.

8.3 LVT would increase the protection given to Conservation Areas, because it would reduce the pressure for development within them. Valuations would reflect the advantages and restrictions of Conservation Area status, and because the tax would be payable regardless of whether the building was in use or not, the neglect of listed buildings mentioned in the previous paragraph would become uneconomic.

8.4 In rural areas, the designation of Sites of Special Scientific Interest (SSSIs) and Ancient Monuments, such as prehistoric burial sites, and the operation of Tree Preservation Orders, produce effects analogous to those applying in Conservation Areas. Designation restricts what can be done with the land, and therefore tends to hold down land values. A system of LVT would therefore automatically compensate for any economic disadvantages from having to protect particular trees, or wildlife habitats, or sites of archaeological importance; with LVT at a sufficiently high rate, owners would have no incentive to overturn the protected status of their land.

ANNEX 2

2007 EXECUTIVE REVIEW OF DOMESTIC RATING REFORM

TERMS OF REFERENCE

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)

ANNEX 3

The 1981 Green Paper calculated the rates of income tax, sales tax and polls tax, to the nearest ½ p, ½ per cent and £1 per head, respectively, per annum. For 1981-82, the rates at which the taxes would have had to been levied to approach revenue neutrality were^[3]:

	Wales	Scotland	London & SE	GB(ave)
Local income tax	4½ p	5½ p	5 p	5p
Local sales tax	5½ %	7%	7%	7%
Poll tax	£77 p.a.	£117 p.a.	£118 p.a.	£120 p.a

[1] http://www.fig.net/pub/athens/papers/ts27/TS27_5_McGill_Plimmer.pdf

[2] The Inquiry focussed on property and income tax options – other alternatives were not explored to the same extent

[3] 1981 Green Paper, "Alternatives to Domestic Rates", p.73

An International Comparison of Local Government Taxation



Research Paper
08/10/07

**An international comparison
of local Government taxation**

Jodie Carson

Research Officer

Research Papers are compiled for the benefit of Members of The Assembly and their personal staff.

Authors are available to discuss the contents of these papers with Members and their staff but cannot advise members of the general public.

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Annex 1

1. Introduction

Recent changes to domestic rating in Northern Ireland were met with considerable criticism, resulting in the announcement of a Rating Review. This ongoing review is a twofold one; it is

considering ways in which the existing system might be improved in the short to medium-term, and the feasibility of longer-term tax alternatives and/or supplements. This paper refers to the international experience of local government taxation and seeks to identify any potentially relevant considerations for NI.

2. Context

The review is divided into two 'strands'; strand 1 is reviewing specific details of the existing property-based tax system, and is sub-divided into 1A and 1B:

Strand 1A covers amendments which could be made in the short-term^[11], including:

- Changes to the level of the maximum cap
- Introduction of Minimum Payment
- Introduction of Rating of Vacant Domestic Property
- Amendments to the Rate Relief Scheme
- Revision of the Existing Provision for Education and Training Relief
- Introduction of the Deferment Scheme for home owning pensioners
- Revision of the Early Payment Discount
- Re-profiling the Transitional Relief Scheme

Strand 1B is similarly concerned with changes to the existing scheme; however, these are medium-term options, in that they would require primary legislation:

- 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
- Discount for owner occupiers
- Rates credit

Strand 2 encompasses the wider issue of whether the existing system of domestic rates is fiscally optimal. Longer-term (replacement and/or supplementary) options, some of which would require amendment to the Northern Ireland Act 1998, are being considered in this regard, including:

- Banding of Capital Values
- Local Income Tax
- Income Tax Varying Powers
- Local Sales Tax'
- Poll Tax
- Tourist Tax

- Road Charging
- Green Taxes
- Land Value Taxation
- Derelict Land Taxation

3. Outline

The paper begins by presenting a comparative overview of differential regimes of local taxation, focusing on the international prevalence (or otherwise) of property based systems. The following section considers the international experience of property taxation and attempts to identify specific practices and/or lessons which might be applicable to Strand 1 considerations. The subsequent section considers alternative tax sources which are employed internationally; and any implications for Strand 2. The final section identifies any additional issues which have emerged.

4. Overview: Comparative Regimes of Local Taxation

Countries' systems of local taxation tend to fall into two broad categories; those primarily reliant on income tax, and those dependent upon property tax. Generally, within the EU, income taxes dominate. In Belgium, Denmark, Finland, Germany, Iceland, Luxembourg, Norway, Sweden, and Switzerland, more than 80 percent of tax revenues are derived from personal and/or corporate income tax. On the other hand, property taxes contribute more than 80 per cent of local tax revenues in Australia, Canada, Ireland, the Netherlands, New Zealand, the U.K and the U.S.A. Other countries which employ a local property tax, albeit to a lesser degree, include Austria, Finland, Germany, Portugal, Spain, Belgium, Denmark and France.

However, a number of countries use a combination of both taxes. The table below shows that property taxation is frequently used in conjunction with income, and other, taxes.

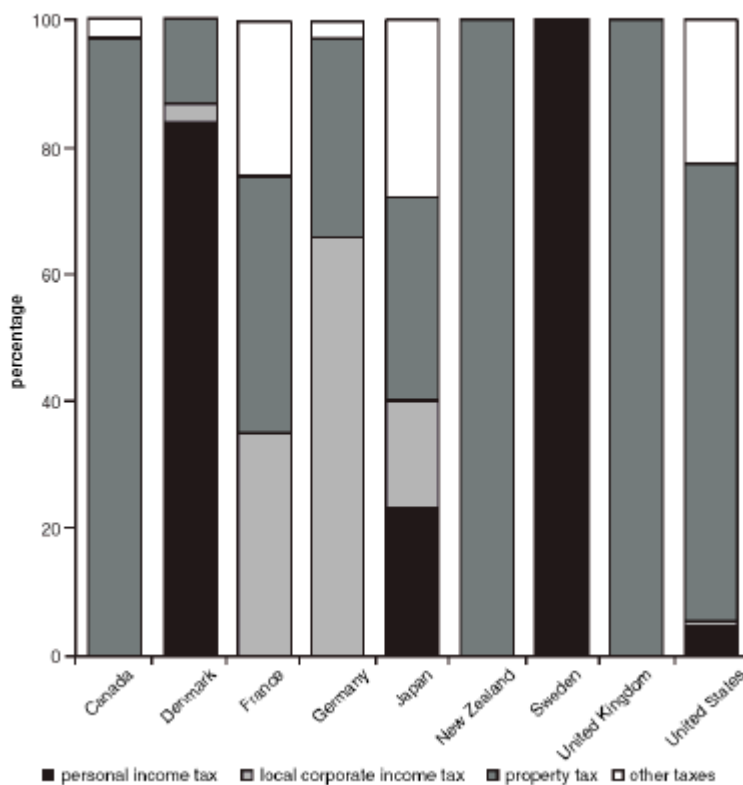
Table 1: Local Authority Taxation[2]

Country	Local Authorities Taxes
U.S.A	Property tax
	Sales tax
Canada	Property tax
Australia	Property tax
Germany	Property tax
	Business tax
U.K.	Property tax
France	Property tax
	Business tax
	Residents' income tax
Belgium	Personal income tax surcharge
	Property tax
Switzerland	Personal income tax surcharge
	Corporate income tax surcharge

Country	Local Authorities Taxes
	Property tax
Norway	Personal income tax
	Property tax
Denmark	Personal income tax
	Property tax

Austria, France, Greece, Italy, Portugal and Spain are unusually fiscally diversified; they rely on a mixture of local tax sources[3]. On the other hand, as indicated above and illustrated bellow, the U.K. is somewhat unusual in its exclusive reliance upon property taxation:

Figure 1: Composition of Local Tax Revenues by Country (2001)



Source: <http://siteresources.worldbank.org/PSGLP/Resources/LocalGovernanceinIndustrial.pdf>

5. Strand 1: International Experiences of Property Taxation

5.1 Why use a local Property Tax?

It is largely accepted that property tax is best suited to generating revenue to finance local government infrastructure investment and the provision of local services[4]. Furthermore, due to visibility and immobility, property tax is hard to avoid, stable, and is easily enforceable.

5.2 Comparative International Regimes of Local Property Tax

By way of comparative analysis, this section considers a selection of international property taxation systems^[5]. In particular, any features relevant to Strand 1 options are outlined.

USA

In the U.S, property taxes are the principal revenue source of local governments. As in NI, a capital value system is used; however, some states define the taxable value as a fraction of market value. These percentages differ between states, depending on the type of the property^[6].

Various reliefs (depending on the State) are offered to certain taxpayers or types of property. These include owner-occupiers, pensioners, veterans, disabled, etc. Many states also place upper limits on tax rates. In California, there is a limit on both actual rate liability and on future increases. In an attempt to ensure affordability, 'Proposition 13' was passed in 1978, stating that the tax rate on any property can not exceed 1% of its assessed value (based on 1975-6 values). Furthermore, the assessed value of a property can not increase by more than 2% per year, (or inflation – whichever is less) except when there is a change of ownership, or when value-adding improvements have been made^[7]. During the 1980s, many other states followed this example and imposed similar tax limits.

A similar scheme of rate limitation was introduced in Florida, known as "Save Our Homes". This seeks to assist pensioners and low-income families and is based upon the assumption that these individuals have considerably less mobility (i.e. they move house less) than other taxpayers. In the same way as Proposition 13, this amendment provides that the growth in the assessed value of an owner-occupied property can not exceed 3% per annum or the percentage change in the Consumer Price Index (whichever is lower).

It should be noted that 'Proposition 13'-type schemes have had what is referred to as a 'lock in' effect, whereby homeowners became reluctant to move house (and to invest in improvements). The scheme created a disincentive to move (and/or improve), distorting the workings of the property market – an outcome which is economically unfavourable. In attempt to alleviate this an extension to Proposition 13 was approved in 1986, whereby residents aged 55 and older are entitled to carry the benefit with them when moving within participating counties, and to a property of equal or lesser value.

New Zealand

Rates on property are also the most important single source of revenue for local government in New Zealand. The property rate is levied on land and property, and is relatively complex in that municipal councils can choose from among various rate-levying methodologies. They can choose between levying rates on the capital value of land, or on the annual land value; in practice, 50 Territorial Local Authorities (TLAs) use land value, 23 TLAs use capital value, and a single TLA imposes actual rental value. In terms of exemptions, the Local Government (Rating) Act 2002 excludes various categories of land from rates, including land used for charitable, educational, religious purposes, and Crown land and national parks.

Canada

Property and related taxes are the main source (about 63% overall) of own source revenues in Canada. Real property taxes (taxes on land and improvements) provide, on average 41.9% of total revenues – the remainder is attributable to business taxes, payments in lieu of taxes from other governments / agencies, lot levies, and special assessments. The property tax base includes land, buildings and structures, and in some provinces machinery and equipment attached to the property are included.

The assessment of property in Canada is based on market value, but special consideration is given to agricultural land, forests and mining property. Assessments also favour residential property, especially that pertaining to owner-occupiers. Rates vary widely among municipalities; however, a property tax equivalent to 1 to 2 per cent of market value would be typical for residential property.

Europe

European local governments have some leeway over the property tax, with the exception of Danish countries, where the rate is centrally determined. As is the case in the UK, local governments in Germany, Ireland and Belgium have the discretion to set the rate. However, the Belgian regions can temporarily put a ceiling on the rate. In Spain and Finland, local governments can set the rates between limits.

In Finland, property taxation was introduced in 1993 as part of the income tax reform. The rate applies to land and buildings, with farmland and forest exempted; municipalities are free to set their own rate, within limits set by law. In France, property tax is also paid on buildings and land, however, the assessment basis is the rental value of the property. In the Netherlands, property tax is based upon the value of the property, which is re-evaluated every four years. The rate can be set at the discretion of municipalities, however limits apply. For example, the tax rate applicable to owner-occupiers must not exceed 1.25 times that applied to tenants.

Summary Comparative Property Tax Systems:

The table overleaf summarises some of the comparative characteristics of the aforementioned property tax regimes:

Country	Rate Applies to:	Valuation Basis:	Limits/Caps:	Exemptions/Reliefs:
USA	<ul style="list-style-type: none"> ▪ Property ▪ Some states impose higher rates on land than improvements 	Capital Value Or Percentage of Capital Value	<ul style="list-style-type: none"> ▪ Limits in most states. ▪ In California a rate increase limited to 2%p.a*. ▪ In Florida rate increase limited to 3%pa 	<ul style="list-style-type: none"> ▪ owner-occupiers ▪ military ▪ elderly ▪ disabled ▪ agricultural land credit ▪ family farm credit
New Zealand	<ul style="list-style-type: none"> ▪ Land and property 	Capital Value/ Land Value/ Rental Value		<ul style="list-style-type: none"> ▪ certain categories of land

Country	Rate Applies to:	Valuation Basis:	Limits/Caps:	Exemptions/Reliefs:
Canada	<ul style="list-style-type: none"> ▪ Land, building and structures ▪ In some cases, machinery and equipment 	Market Value		<ul style="list-style-type: none"> ▪ owner-occupiers ▪ certain categories of land
Finland	Land, buildings		<ul style="list-style-type: none"> ▪ Limits set 	<ul style="list-style-type: none"> ▪ farmland ▪ forest
France	Land, buildings	Rental Value		
Netherlands	Property	Capital value	<ul style="list-style-type: none"> ▪ Rate applicable to owner-occupiers most not exceed 1.25 times that of tenants 	<ul style="list-style-type: none"> ▪

* Unless the property is sold.

5.3 Other Strand 1 Considerations

In addition to the comparative characteristics identified above, the following specific considerations are relevant to Strand 1:

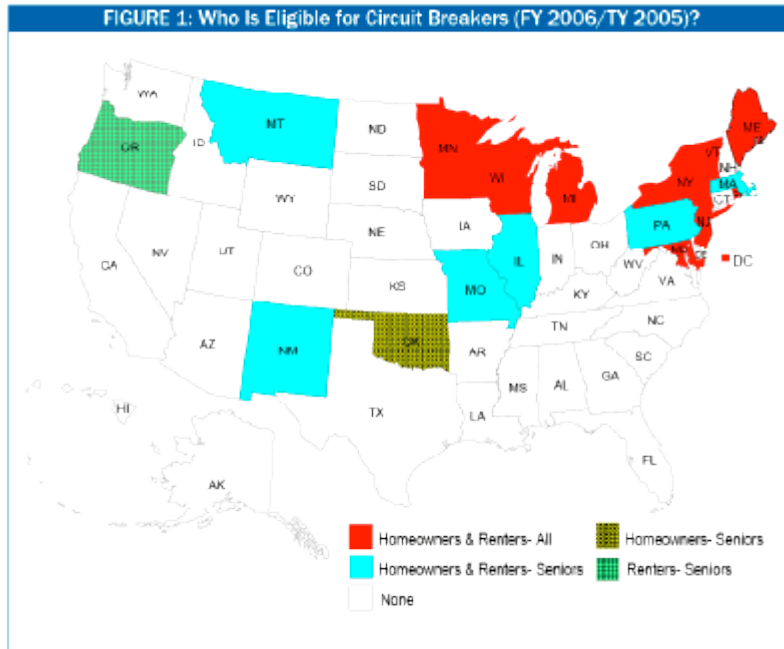
Circuit Breakers

Many of the perceived shortcomings of the existing domestic rates system are due to the fact that property taxes are inherently 'regressive', (they represent a larger burden for low-income taxpayers), resulting in the perception that they are 'unfair' and not linked with 'ability to pay'^[8]. Circuit Breakers can be used to alleviate some of these inherent shortcomings. The idea behind circuit breakers is to introduce sensitivity to ratepayers' 'ability to pay'. In practice, they would give relief to tax-payers earning below a certain income level when their rates bill exceeds a certain percentage of their income. Specific design can vary considerably; however, there are two basic types:

- **Threshold** – defines an 'acceptable' property tax level, as a given percentage of income, and grants relief when this is exceeded. E.g. if the acceptable threshold is defined as 4%, relief is granted when rate liability is in excess of £400 if income is £10,000, £800 if income is £20,000, etc. The relief offered may be 100% of the excess liability, or a proportion thereof. Some states use multiple threshold percentages that increase with income, targeting relief at lower income tax-payers.
- **Sliding Scale** – this methodology defines several income 'bands' and specifies a property tax relief percentage for each. E.g. the proportion of property tax relief may be

95% if income is £5,000 or less; 90% if £5,001-£10,000; 75% if £10,001-£20,000.....zero if income exceeds £30,000[9].

The international experience of circuit breakers is considerable; they were initially pioneered in Wisconsin over forty years ago and are now extensively used in the US[10]. The diagram below illustrates the incidence of, and groups targeted by, US circuit breakers.



Source: "The Property Tax Circuit Breaker", Center on Budget and Policy Priorities, Washington, 21 March 2007

Annex 1 provides further details on the specifics of each of these schemes, including who is eligible, the household income ceilings, and levels of maximum benefits:

Potential Considerations for NI

- Circuit Breakers are an alternative to 'caps';
- They enable a more 'targeted', as opposed to 'blanket', relief – for example, they are often designed to benefit pensioners and those on fixed incomes;
- This targeted approach can make them less costly than general caps;
- They introduce some of the advantages of income tax (over property tax), without the associated shortcomings (as identified in Section 5).

Introduction of the Deferral Scheme for home owning pensioners

Many U.S. jurisdictions have recently adopted property tax deferral programs. In the U.S., it is typical for interest to accumulate on the deferred portion of the property tax. It is important to note that if the market rate of interest is applied, the deferral is a loan rather than a subsidy. The US experience is that specific reliefs or limits, rather than deferrals, are preferred since ratepayers obviously favour 'gifts' over 'loans'[11].

It is worth considering whether a scheme such as this would have a similar side-effect as that of Proposition 13 in California, i.e. 'locking-in' homeowners, by creating a disincentive to sell.

Potential Considerations for NI

- If interest is levied on deferred amount, may be unpopular, and possibly perceived as 'regressive', since this would add to the actual (long-term) burden for pensioners;
- Many pensioners may not wish to go back into debt for a home that has been paid for over a working lifetime;
- May also act as a disincentive to sell (if liability is realised upon sale of property). This could have implications for the property market; restricting supply could cause price increases.
- Given the potential side-effects, the consistency of this scheme with policy on addressing housing shortages may be questionable.

Introduction of Discount for Owner Occupiers

A number of U.S. States offer discount to owner-occupiers, often known as 'Homestead Exemption'. For example, the District of Columbia exempts \$60,000 of value for owner-occupied residences. Virginia offers a similar relief, however to qualify for this, ratepayers must meet income and net worth limits, as set by the state^[12].

Potential Considerations for NI

- Unless means tested (as in example above), might be perceived as 'unfair', since favours (potentially wealthy) home-owners;
- Could be perceived as 'regressive' if it penalises those who can not afford to buy.

5.4 Summary Strand 1 Findings

Option	International Experience	Potential Lessons for NI
Strand 1 Options		
Limits/Caps	<p>Proposition 13 in California:</p> <p>Rate can not increase by more than 2% (or the rate of inflation) in any year – unless the property has been improved or is sold.</p>	<p>Proposition 13 created a horizontal inequity, i.e. an unequal tax burden between ratepayers. It placed a higher burden on new buyers, (since the rate can increase when the property is sold) as opposed to existing owners.</p> <p>It has also had the result that virtually identical properties have significantly different tax bills – another feature which could lead to questions of "fairness".</p> <p>Additionally, since this tax is essentially one on 'mobility' it would act as a disincentive to sell (and improvements) – a factor which could have implications for property prices.</p>
Circuit Breakers	Extensively used in US, first implemented 40 years ago.	<ul style="list-style-type: none"> ▪ Ongoing use in US indicates effectiveness

Option	International Experience	Potential Lessons for NI
		<ul style="list-style-type: none"> More targeted approach to relief Can be less costly (than blanket caps) since limited to certain groups
Introduction of deferment scheme	In operation in U.S.	<ul style="list-style-type: none"> If interest is applied (as is typical in US) may be unpopular in cases where homeowners (e.g. pensioners) have paid off mortgages, and begin to accrue debt, once again, on their property. <p>It might also act as a disincentive to sell a property, potentially adversely affecting the property market.</p>
Discount for Owner-Occupiers	Used in a number of states, including the Districts of Columbia and Virginia	<ul style="list-style-type: none"> May be perceived as unfair, favouring home-owners and penalising (potentially less wealthy) renters

6. Strand 2: International Experiences of Alternative Taxation

This section considers the international usage of alternative (i.e. non-property based) tax sources. In accordance with the results of recent UK based studies into the feasibility of various alternative taxes, it focuses on what are arguably the most viable options; namely income and (derelict) land tax.

6.1 Why Consider Alternatives to Property Tax?

It has been shown that the UK is unusual in its exclusive reliance on property taxation^[13]. This is potentially disadvantageous in that property taxes are not as buoyant as other tax alternatives; associated revenues may stagnate due to lags in revaluation. The revaluation process can be difficult and costly to administer, particularly in a market where property prices are rapidly changing – as in NI – since this creates scope for discretion and disagreement^[14].

Secondly, as has already been stated, (and per the consultation outcomes), property tax can be regressive in nature, resulting in a disproportionate burden being placed upon low or fixed income ratepayers. Recently, criticism of property tax has prompted many U.S. states to limit property tax revenues. Local governments have been increasingly relying on other broad-based taxes to finance local spending; income taxes and retail sales taxes have been used in this regard.

Thirdly, a local authority's choice of tax is an important one for another reason; fiscal policy also creates incentives and can cause tax competition between regions. This is an important consideration in assessing alternative tax options. In introducing local taxes; it is important to choose / adapt the tax base so as to minimise economic distortions. Resident based taxes (such as those on land, labour and capital) are generally preferable to source based taxes (those on goods and services) in minimising tax-induced distortions, in that they reduce the scope for tax exporting^[15].

6.2 Alternative Taxation: International Examples

Local Income Tax:

International Experience

Six EU countries – Belgium, Denmark, Finland, Italy, Spain and Sweden have local income taxes which account for a significant source of revenue for their local government. In the case of Sweden, income tax is in fact the only source of locally-raised revenue. In general, local income tax rates are levied at a flat, locally established rate on the same base as the national income tax and collected by central government. However, in Belgium and Switzerland, the tax is levied as a percentage of the national tax liability (i.e. as a percentage of local tax receipts), rather than on the national income tax base.

In the US, property tax provides the primary source of local government revenue, however, in some states this is supplemented by local income taxes. In 11 U.S. states, local governments are given the option of imposing additional local taxes on incomes. These states are Delaware, Indiana, Iowa, Kentucky, Maryland, Michigan, Missouri, New Jersey, New York, Ohio, and Pennsylvania. Rates of income tax are generally low and quite simple. For example, in Maryland, the flat rates across counties vary from 1.25% to 3.10% of taxable income. However, in New York tax rates are progressive, with a maximum marginal rate of 4.25% on incomes above \$150,000 for married couples, and \$100,000 for individuals.

Potential considerations for NI

- Whilst less regressive than property tax and better linked with 'ability to pay', a specific criticism of local income tax is based upon the 'Tiebout hypothesis'. This states that an individual chooses where he/she wants to live, at least in part, by weighing costs (taxes) against associated benefits (public services) – known as "voting with feet". The validity of this hypothesis will depend upon the extent of mobility within a particular region; assuming a mobile population, a local income tax might result in taxpayers moving out of a region. This may be a particularly important consideration for NI, given the land border with ROI. This is perhaps especially noteworthy, given the existing inter-regional (corporation) tax competition;
- Some studies find that this is an issue faced by US states in determining tax policy. If states levy a higher personal income tax than its neighbouring jurisdictions, there is evidence that its mobile citizens emigrate (or move their capital there) to enjoy a lower tax burden^[16];
- Denmark provides another example; despite having no official limits on local income tax rates, in practice, the freedom to vary these are restricted by mobility levels in a country which is small and has a strong political culture of striving for equity and fairness^[17];
- However, it should also be noted that there is some evidence which refutes this theory. Evidence from other OECD countries does not support the hypothesis that small tax differentials could lead to significant movements in population. In this sense, it might be argued that the United States is different from European states, including the U.K., in terms of social mobility.
- International cases of local income tax are generally associated with local governments with considerable service responsibilities, (e.g. Denmark). Northern Ireland does not have this level of local responsibility;
- Some of the European countries which have introduced local income tax have encountered problems of excessive taxation;
- The international experience presents another potential problem with the implementation of a local income tax: the reluctance of central government to share this tax base with local government^[18].

- The yield from a local income tax would be compromised during periods of economic downturn.

Income Tax Varying Powers

International Experience

The Scottish Executive has the power to adjust income tax by a maximum of 3p, which they have never enforced^[19]. However, this only applies to income earned at the basic rate; a factor which has implications for perceived “fairness” and “ability to pay”. Earnings beyond the ‘basic rate’ are effectively protected from local tax – a characteristic of the system which has been widely criticised, and may explain (at least in part), why the power has never been enforced.

In Spain, similar powers are in held by local governments; the autonomous communities get 33 per cent of the income tax and they have discretion over setting the rate – within limits of more or less than 20 per cent of the state rate. Similarly, local governments in Italy can, within certain limits, levy an additional tax on top of the state rates^[20].

Potential considerations for NI

- Potential (dis)/advantages per local income tax
- A system such as that in Scotland would be likely to be perceived as ‘unfair’ and ‘regressive’, given restriction to the ‘basic rate’

Local Sales Tax

International Experience

International comparisons show that sales taxes are frequently used in combination with other taxes. 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 (typically 25-40% and around 50% for USA), but considerably less for local government, (nil for Australia; less than 10% for Canada and Germany; 20-30% for Austria and USA)^[21]. This tendency is perhaps largely due to the argument that sales tax (or more generally, consumption taxes) is not appropriate at local level, because inter-regional mobility leads to cross-border shopping or tax exporting^[22].

Potential Considerations for NI

- International evidence indicates prevalence at ‘state’, rather than local, level;
- Likely to motivate cross-border shopping / tax exporting;
- The Burt review raised the question as to whether a local sales tax would comply with EU law. For Scotland, it was considered likely that a separate rate of VAT would be incompatible with EU law, as it does not permit differential tax rates within states^[23]. A similar issue could exist for Northern Ireland.

(Derelict) Land Value Taxation

Rationale

The general idea behind land-value tax (LVT, also known as “site value tax”) is that it applies to the value of land, rather than that of any buildings, and is payable by the owner, not the occupier. The rationale is that it encourages optimal use of the land, as the tax liability will be the same whether the land is left derelict or is fully utilised. In terms of ‘Derelict’ Land Taxation specifically, it has been argued that, when faced with penal rates of tax, owners often found it easier to make the property derelict rather than bringing it back into use[24]. This tax would specifically relate to derelict property and brownfield land.

Proponents argue that existing property taxes create a disincentive to developing land and improving properties, since those developments result in tax. One study suggested that current UK fiscal policy is actively undermining attempts to increase the supply of housing. Specifically, it argued that the current UK taxes[25]:

- Frustrate development and infrastructure funding
- Weaken, rather than promote, macroeconomic stability
- Impose arbitrary burdens on certain taxpayers

International Experience

There were four previous instances of land taxation in the UK, none of which were significantly successful[26]. They were known at the time as ‘development taxes’ and were as follows:

- 1947-1953 Development Land Tax: levy on 100% of value uplift in land value due to granting of planning permission;
- 1967-1971 Betterment Levy: levy on 40%, rising over time;
- 1974 Development Gains Tax: interim tax on capital gains from disposal of land / buildings with development value / potential

Internationally, more than 700 cities worldwide apply land tax, including cities in Australia, Eastern Europe and the US State of Pennsylvania. Advocates of LVT have, in the past, frequently referred to Denmark and New Zealand as examples of its potential success. However, both countries have recently removed the major forms of LVT. It has been suggested that the system was discontinued in New Zealand for practical and political reasons[27]. Nonetheless, proponents suggest that this option should not be dismissed, quoting its ongoing success in South Africa, some Caribbean states and Western Canada.

Pittsburgh provides an interesting example of a seemingly successful regime. Fifteen Pennsylvania cities now use a two rate approach to property tax; the tax on buildings is decreased, thereby providing an incentive to build and improve properties; the levy on land is increased, thus discouraging land speculation and encouraging development. The table below outlines the various rates used:

Table 1

Two-Rate split date	Land tax rate %	Buildg tax %	One -Rate tax %	% of tax on land	Revenue from buildg in 1990 ^a	Popu- lation
Aliquippa schools '93	16.3	1.1	4.4	85.5	2,125	13,374
Aliquippa '88	7.9	0.7	3.5	78.9	1,061	13,374
Chalfont '89	10.0	2.1	3.7	53.7	100	2,655
Coatsville '91	5.3	2.5	3.0	33.9	70	11,038
Coonelsville '92	11.3	1.7	3.0	55.1	10+	2,229
DuBois '91	5.1	1.3	1.9	43.0	31	3,256
Duquesne '85	8.0	3.8	4.6	34.0	120	3,843
Harrisburg '76	3.2	1.1	1.4	38.0	2,533	52,376
Lock Haven '91	3.1	1.	1.7	81.8	117	9,230
McKeesport '86	10.0	1.9	3.6	59.0	868	26,015
New Castle '82	8.7	1.2	3.4	46.6	1,192	20,334
Oil City '89	8.5	2.7	3.8	42.5	478	11,540
Pittsburgh '83 ^b	18.4	3.3	6.1	57.4	73,739	369,379
Scranton '13 ^c	8.6	1.2	2.6	85.8	2,987	81,885
Tatamsville '86	61.3	1.5	2.0	32.9	228	6,434
Washington '86	12.3	1.8	4.8	38.4	1,188	16,701

Total amount of taxes received from buildings: \$88,767,810

^aOne-Rate refers to the tax rate if there were no rate differentiation between land and buildings with the tax yield unchanged. SCRANTON and PITTSBURGH had a land tax to building tax ratio of 2 to 1 FROM 1913 UNTIL 1979 when both cities expanded land tax rates beyond that ratio.

Please note: PA PROPERTY TAX RATES ARE EXPRESSED IN MILLS.

^ce.g. Aliquippa: 16.3% = 163 mills
Source: Center for the Study of Economics, 2600 Century Plaza, Suite 216, Columbia, MD, 21044

Source: "Pennsylvania's Success with Local Property Tax Reform: The Split Rate Tax", American Journal of Economics and Sociology, Vol. 56, April 1997

Following the introduction of this system of land taxation in Pittsburgh, there has been a considerable expansion in building activity[28]. Furthermore, 85 per cent of homeowners pay less with this policy than they do with the traditional approach; those who do pay more tend to be the wealthier homeowners.

Harrisburg has enjoyed a particularly favourable outcome from this tax policy. Once considered amongst the most distressed cities in the nation, it has sustained an impressive economic resurgence. It taxes land value at three times the rate of buildings, and (arguably resultantly) boasts the following improvements[29]:

- The number of vacant structures, over 4200 in 1982, is today less than 500;
- With a resident population of 53,000, there are 4,700 more residents employed today (than in 1982);
- The crime rate has dropped 22.5% since 1981.
- The fire rate has dropped 51% since 1982.

However, it should be noted that this scheme of land value based local finance has not been without its mistakes. For example, the City of Uniontown reverted back to a flat rate system after an initial experience proved unsuccessful. Having introduced the two-rate system in conjunction with an overall tax increase in the same year, a number of irate residents had the policy rescinded. This provides a valuable lesson; should a two rate system be introduced, it should only ever be done so while maintaining a revenue neutral tax base – at least initially. A generally accepted guideline is that a maximum of 20% should be shifted off buildings and onto land each year, for a period of 5 years, or 10% each year for a period of 10 years[30].

Potential Considerations for NI

- May have specific applicability to shortage of housing in Northern Ireland, could motivate development. Pittsburgh case indicates success in this area;
- There could be issues regarding fluctuations in land values and interactions with the planning system. For example, would speculators be awarded a Land Value credit if the value of their land fell?

- Could result in redistribution of the tax burden, away from residential ratepayers, towards commercial and/or agricultural;
- Appropriate exemptions would be required to protect conservation areas etc.
- Could affect pensioners with very low incomes but valuable property; those with considerable land could be worse off under land value taxation;
- Essential that this be introduced on a phased, and revenue neutral, basis.

6.3 Summary Strand 2 Considerations

Local Income Tax	<p>Previous UK studies reported favourably</p> <p>Used in numerous U.S. states to supplement local property tax</p> <p>Maryland, Indiana, Michigan, etc levy low and simple rates.</p> <p>Rates in New York are progressive (more burdensome for high-earners)</p>	<ul style="list-style-type: none"> ▪ Previous studies have identified this as a potentially suitable as supplement / alternative to domestic rates. <p>However, it has been suggested that it could be expensive and difficult to administer.</p> <ul style="list-style-type: none"> ▪ The applicability of Tiebout’s hypothesis of ‘voting with feet’ should be borne in mind for NI. High levels of taxation might act as a disincentive for (particularly professional / managerial) taxpayers to live and work in NI. <p>Accordingly, high comparatively high levels of income tax could compromise economic growth in NI.</p> <p>(New York represents a unique exception to this in that it is effectively a monopoly economy– the risk of residents relocating is unusually low.)</p> <ul style="list-style-type: none"> ▪ Additionally, on the issue of predictability and buoyancy, the yield from a local income tax could be compromised during periods of economic downturn. ▪ In some countries where a local income tax has been adopted, there have been problems with excessive taxation. ▪ The international experience presents another potential problem with the implementation of a local income tax: the reluctance of central government to share this tax base with local government*.
Income Tax Varying Powers	3p Tax Varying Power exists in Scotland – has never been used.	<ul style="list-style-type: none"> ▪ Assuming the implementation of a system similar to the Scottish one, this would be likely to be perceived as regressive.
Local Sales Tax	Used by numerous U.S. states; second most important source of local government revenue	<ul style="list-style-type: none"> ▪ Typically used at state level; involves high administrative and compliance costs.

		<ul style="list-style-type: none"> ▪ Proximity with ROI is an issue since problems might arise with cross-border shopping / tax exporting. ▪ Potential problems with EU compliance.
(Derelict) Land Value Taxation	<p>Various unsuccessful.</p> <p>Pittsburgh appears to offer example of successful land value taxation</p>	<ul style="list-style-type: none"> ▪ Could 'marry' well with the current strategy to relieve housing shortages in NI, by encouraging development Pittsburgh provides evidence of potential success in this regard. ▪ Could be issues with fluctuations in land value – should a credit be awarded if value falls? ▪ Could redistribute tax burden towards commercial / agricultural (appropriate exemptions would be required to protect certain land / ratepayers) ▪ Economic theory suggests that taxing scarce resources results in improved efficiency; implies that a local land tax could be beneficial (unlike some other taxes) for the local economy. ▪ Could affect pensioners with very low incomes but valuable property; those with considerable land could be worse off under land value taxation ▪ Essential to be phased in and revenue neutral.
<p>* "Options for Reforming Local Government Funding to Increase Local Streams of Funding: International Comparisons", Prepared for the Lyons Inquiry into Local Government Funding, Loughlin and Martin, Cardiff University.</p>		

6.4 Additional Considerations

- A generally important point is that recent improvements in assessment methods, (for example, more frequent assessments and the use of computer-based comparisons) have significantly enhanced Canadian property taxation, notably in Ontario.
- A "Transport Tax" is employed in France. About 150 transport "organising authorities" in urban areas have the power to levy a tax, versement transport. The tax is actually a wage tax, paid by all enterprises with more than 10 employees and is based on wages – it is known as a transport tax because the proceeds are earmarked for public transportation.
- A "Property Registration Tax" also exists in France; departments levy droits d'enregistrement on sales of all buildings in the jurisdiction.
- 'User Charges': Some countries raise a significant proportion of revenue from this source – for example, in New Zealand user charges account for 20 per cent of local government finance^[31]. An advantage of user charges, and the associated concept (paying for services used), is that they are in line with the principle of 'fiscal equivalence' (that your tax burden represent the amount you use). Specific international examples include^[32];
- Italy has a municipal tax on advertising and billboards, and one on household waste linked to the cost of collection;

- France has a tax on household waste disposal, based on the rental value of the property. It also has one on electricity.
- The Netherlands has a sewerage tax linked to the volume of water used or the level of water pollution.
- In March 2002, the Republic of Ireland (ROI) became the first country to introduce a "Plastic Bag Tax". Local authorities are central to the enforcement of the levy on the ground, the revenues of which contribute to the Environment Fund^[33].
- Municipalities in Finland can levy a 'Dog Tax'.

Annex 1

TABLE 5. SUMMARY OF PROPERTY TAX CIRCUIT BREAKER PROGRAMS FOR 2006 (TY 2005)							
Note: (h) refers to homeowners and (r) refers to renters							
State	Program Name	Renters Eligible?	Eligibility	Household Income Ceiling (single/ joint file)	Maximum Benefit	Type of Rebate	Rebates as a % of Property Tax Collections (2004)
DC	Individual Income Property Tax Credit	Yes	All	\$20,000	\$750	Income tax credit (filers) or rebate check (nonfilers)	0.94%
IL	Circuit Breaker	Yes	Age 65 and older, 16 and older and disabled, or surviving spouse 63 or older	\$21,218 (1 person household); \$28,480 (2 person household); \$35,740 (3 person household)	\$700	Rebate check	0.77%
ME	Maine Residents Property Tax and Rent "Circuit Breaker" Refund	Yes	All	\$77,000/\$102,000	\$2,000	Rebate check	1.11%
MD	Homeowners' Property Tax Credit Program/Renters' Tax Credit Program	Yes	All	\$60,000 & \$200,000 net worth (excluding home) (h); \$38,659 (renters under 60 in 9 person household); \$30,000 (renters over 60)	Amount by which property taxes (based on no more than \$300,000 of assessment) exceed established "Tax Limits" (h); \$600 (r)	Property tax credit (h); rebate check (r)	0.71%
MA	Real Estate Tax Credit for Persons 65 and Older (Circuit Breaker Credit)	Yes	Age 65 and older	\$45,000 (\$58,000 if head of household)/\$67,000; assessed value of principal residence cannot exceed \$600,000	\$640	Income tax credit	0.22%
MI	Homestead Property Tax Credit	Yes	All	\$82,650	\$1,200	Income tax credit (filers) or rebate check (nonfilers)	6.52%
MN	Property Tax Refund	Yes	All	\$87,780 (h); \$47,350 (r)	\$1,640 (h); \$1,350 (r)	Rebate check	6.03%

TABLE 5. SUMMARY OF PROPERTY TAX CIRCUIT BREAKER PROGRAMS FOR 2006 (TY 2005) - Continued							
State	Program Name	Renters Eligible?	Eligibility	Household Income Ceiling (single/ joint file)	Maximum Benefit	Type of Rebate	Cost as % of Prop Tax Collections (2004)
MO	Property Tax Credit Claim	Yes	Age 65 and older, disabled, or age 60 and older receiving surviving, spousal Social Security	\$25,000/\$27,000	\$750 (h); lesser of 20% rent paid or \$750 (r)	Rebate check	2.22%
MT	Elderly Homeowner/Renter Credit	Yes	Age 62 and older	\$45,000	\$1,000	Income tax credit (filers) or rebate check (nonfilers)	1.27%
NJ	FAIR Rebate	Yes	All (h); age 65 or older (r)	\$200,000 (h); \$100,000 (r)	\$1,200 (h); \$825 (r)	Rebate check	3.64%
NM	Property Tax Rebate	Yes	Age 65 and older	\$16,000	\$250	Income tax credit	0.46%
NY	Real Property Tax Credit for Homeowners and Renters	Yes- average monthly rent must be \$420 or less	All	\$18,000; market value of home must not exceed \$85,000	\$375 (age 65 and older); \$75 (under 65)	Income tax credit (filers) or rebate check (nonfilers)	0.09%
OK	Property Tax Refund	No	Age 65 and older or disabled	\$12,000	\$200	Rebate check	0.02%
OR	Elderly Rental Assistance Program	Yes- must have paid more than 20% of income for rent, fuel, and utilities	Renters only, age 58 and older	\$10,000; asset limit of \$2,000 if under age 65, no limit if over 65	\$2,100	Rebate check	0.06%
PA	Property Tax/Rent Rebate Program	Yes	Age 65 and older, spouse age 65 or older, disabled, or widow age 50 and older	\$15,000	\$500	Rebate check	0.99%

TABLE 5. SUMMARY OF PROPERTY TAX CIRCUIT BREAKER PROGRAMS FOR 2006 (TY 2005) - Continued							
State	Program Name	Renters Eligible?	Eligibility	Household Income Ceiling (single/ joint filer)	Maximum Benefit	Type of Rebate	Cost as % of Prop Tax Collections (2004)
RI	Property Tax Relief Credit	Yes	All	\$30,000	\$250	Income tax credit (filers) or rebate check (nonfilers)	.34%
VT	Property Tax Rebate	Yes	All	\$47,000	None- state rebates the difference between a maximum percentage of income claimant expected to pay in property taxes (3.5% -3.0%, depending on income) and the amount of property taxes actually owed	Income tax credit (filers) or rebate check (nonfilers)	3.30%
	Education Property Tax Payment ("Prebate")	No	All	\$110,000	None- state rebates difference between maximum percentage of income claimant is expected to pay in school property taxes (2.0-4.5%, depending on income) and the projected amount of school property taxes owed (State provides \$15,000 homestead exemption for lower-income)	Rebate Check	8.00%
WI	Homestead Credit	Yes	All	\$24,500	\$1,160	Income tax credit (filers) or rebate check (nonfilers)	1.69%

[1] Changes that could be made by April 2008

[2] "State and Local Taxation", Feld, L. Economics Working Paper, Austria 2000-2005
www.econ.jku.at/papers/2000/wp0005.pdf

[3] "Local Governance in Industrialised Countries", The World Bank, 2006
<http://siteresources.worldbank.org/PSGLP/Resources/LocalGovernanceinIndustrial.pdf>

[4] Per Bird (1990), Dillinger (1991), Keith (1993) and Kelly (1998)

[5] "Local Governance in Industrialised Countries", The World Bank, 2006

[6] i.e. whether residential, commercial or agricultural. Furthermore, in most states the same rate is applied to the assessed value of all properties, however in Pennsylvania, higher rates are imposed on the assessed value of land than on that of improvements.

[7] At this stage the value is reassessed

[8] Low income ratepayers pay more of their income in tax than wealthier ratepayers.

[9] A practical problem which arises when few income brackets are defined is that a £1 difference in income can have significant implications for rate liability

[10] "Property Tax Policy Responses to Rapidly Rising Home Values", National Tax Journal, September 2006

[11] "Property Tax Policy Responses to Rapidly Rising Home Values", National Tax Journal, September 2006

[12] "Property Tax Policy Responses to Rapidly Rising Home Values", National Tax Journal, September 2006

[13] "Options for Reforming Local Government Funding to Increase Local Streams of Funding: International Comparisons", Prepared for the Lyons Inquiry into Local Government Funding, Cardiff University

[14] This has been apparent in the criticisms of the recent revaluation process, with numerous appeals having been made re: assessed capital value.

[15] "Options for Reforming Local Government Funding to Increase Local Streams of Funding: International Comparisons", Prepared for the Lyons Inquiry into Local Government Funding, Cardiff University

[16] "State and Local Taxation", Economics Working Paper, Austria 200-2005

[17] Options for Reforming Local Government Funding to Increase Local Streams of Funding: International Comparisons", Prepared for the Lyons Inquiry into Local Government Funding, Cardiff University

[18] "Options for Reforming Local Government Funding to Increase Local Streams of Funding: International Comparisons", Prepared for the Lyons Inquiry into Local Government Funding, Loughlin and Martin, Cardiff University.

[19] "Local Government Taskforce Finance Sub-Group", Final Report, July 2006

[20] "Local Governance in Industrialised Countries", The World Bank, 2006
<http://siteresources.worldbank.org/PSGLP/Resources/LocalGovernanceinIndustrial.pdf>

[21] "A Fairer Way", Report by the Local Government Finance Review Committee, Edinburgh, 2006

[22] "State and Local Taxation", Economics Working Paper, Austria 200-2005

[23] "A Fairer Way", Report by the Local Government Finance Review Committee, Edinburgh, 2006

[24] "Lyons Inquiry into Local Government – Final Report", March 2007

[25] For example, stamp duty reduces the incentive to move.

[26] In 2003, Kate Barker a business economist and member of the Monetary Policy Committee of the Bank of England was commissioned by the then Chancellor Gordon Brown to report on the stickiness fo the housing market in the UK and to propose remedies.

[27] "Time for Land Value Tax?" Department of Politics and International Relations, Maxwell and Vigor

[28] "Options for Reforming Local Government Funding to Increase Local Streams of Funding: International Comparisons", Prepared for the Lyons Inquiry into Local Government Funding, Cardiff University

[29] "Pennsylvania's Success with Local Property Tax Reform: The Split Rate Tax", American Journal of Economics and Sociology, Vol. 56, April 1997

[30] "Pennsylvania's Success with Local Property Tax Reform: The Split Rate Tax", American Journal of Economics and Sociology, Vol. 56, April 1997

[31] "Local Governance in Industrialised Countries", The World Bank, 2006

[32] "Options for Reforming Local Government Funding to Increase Local Streams of Funding: International Comparisons", Prepared for the Lyons Inquiry into Local Government Funding, Loughlin and Martin, Cardiff University

[33] "Local Government Taskforce Finance Sub-Group", Final Report, July 2006
www.doeni.gov.uk/lgrt_fin_recommendations_to_thetaskforce.pdf

Follow up to Committee Meeting 10/10/07

Is there any international evidence to suggest that the choice of local government taxation (property vs. income) is related to the degree of home ownership?

- The table below shows the proportion of home ownership for countries in rank order, and the main source of local taxation revenue associated with each;
- There appears to be some evidence of an association between high degrees of home ownership and the use of local property taxation.
- However, Italy, Finland, Belgium and Sweden are all countries where homeowners are in the majority, yet they use local income taxation. Additionally, countries with a comparative 'rental' culture, such as France and the Netherlands, use local property taxation.

Rank	Country	Proportion of Homeowners ¹	Main Local Tax Source
1	Ireland	83%	Property
2	Italy	78%	Income
3	Australia	69%	Property
4	UK	69%	Property
5	Finland	67%	Income
6	Canada	67%	Property
7	US	65%	Property
8	Belgium	65%	Income
9	Japan	60%	Mixture
10	Sweden	60%	Income
11	France	54%	Property
12	Denmark	53%	Income
13	Netherlands	49%	Property
14	Germany	43%	Income

1. The figures are based upon home ownership as a percentage of all households, using data for 2000.

Source of home ownership data: Economist, 30 March 2002 & Euromonitor via NationMaster
www.nationmaster.com/red/graph/peo_hom_own-people-home-ownership&b_p

Scottish National Party Proposal for Scottish Local Income Tax



Background Briefing

SNP Proposal for Scottish Local Income Tax

- As part of their agenda to create "a wealthier and fairer Scotland^[1]", the Scottish National Party (SNP) has set out proposals for replacing council tax (and council tax benefit) with a local income tax;
- The idea behind this is to introduce a regime which is based intrinsically on ability to pay.
- The local income tax (LIT) would apply at the starting, basic and higher rates, to all taxable income except savings income, and would be capped at 3%;
- The SNP would continue to levy a property tax on second and empty homes.
- They are also proposing a 'freeze' on council tax rates in the short term, to avoid interim increases.

Financial Implications:

- Council tax in Scotland is forecasted to raise £2,131 million in 2006-07, of which around £45 million comes from second and/or empty homes. Council tax benefit is forecasted to cost £381 million;
- The Institute of Fiscal Studies (IFS) has estimated that, if the LIT were in place in 2006-07 and was set at its maximum level by all local authorities, it would raise around £1,250 million^[2];
- The reform would therefore constitute (at best) a £450 million tax cut and leave a corresponding revenue shortfall^[3];
- The SNP argue that this £450 million reduction in local authority spending could be absorbed with no loss of quality in public services, if councils make efficiency savings of 1½% p.a. for 3 years. However, precedent suggests this could be difficult, particularly since this would be in addition to any efficiency savings already implied for the UK^[4].

Net Income Implications:

The table below quantifies the estimated average effects upon net income, by income decile group (individuals are categorised into ten groups on the basis of income levels – 1 is the Poorest, 10 is the Richest).

Effect across the Scottish income distribution of replacing council tax with a 3% local income tax, 2006–07

Income decile group	Average change in net weekly income	% change in net income
Poorest	£0.83	1.23%
2 nd	£4.18	2.48%
3 rd	£6.72	3.05%
4 th	£6.84	2.82%
5 th	£6.38	2.26%
6 th	£6.83	2.07%
7 th	£5.57	1.42%
8 th	£4.97	1.04%
9 th	£2.19	0.37%
Richest	-£8.71	-0.95%
Overall, modelled	£3.58	0.97%
Overall, best estimate	£3.20	n/a

Note: Policy as described in the text: council tax abolished for main homes only, savings income excluded from LIT. The “best estimate” overall change (£3.20) is below the “modelled” overall change (£3.58) because the data on which our model is based under-record top incomes and our model therefore understates the losses from a local income tax. The average change shown for each decile group is therefore overestimated by an average of 38%, but this is concentrated in the higher income groups whose incomes are under-recorded. Income decile groups are derived by dividing all families in Scotland into 10 equal-sized groups according to income adjusted for family size using the McClements equivalence scale.

Source: Authors’ calculations using the IFS tax and benefit model, TAXBEN, run on updated data from the 2004–05 Family Resources Survey.

Source: Institute for Fiscal Studies, March 2007

One of the potential shortcomings of a local income tax is that families (with multiple-earners) could be comparatively worse off. The next table quantifies net income effects, by ‘family type’:

Effect for different family types of replacing council tax with a 3% local income tax in Scotland, 2006–07

Family type	Average change in net weekly income	% change in net income
Single, not working	£1.07	0.98%
Single, working	£0.07	0.03%
Lone parent, not working	£0.50	0.21%
Lone parent, working	£7.63	2.16%
Non-working couple without children	£7.54	2.27%
Non-working couple with children	£8.34	2.55%
One-earner couple without children	£7.31	1.60%
One-earner couple with children	£6.04	1.11%
Two-earner couple without children	£1.63	0.25%
Two-earner couple with children	£2.79	0.40%
Single pensioner	£5.87	2.64%
Pensioner couple	£10.37	2.61%
Overall, modelled	£3.58	0.97%
Overall, best estimate	£3.20	n/a

Note: Policy as described in the text: council tax abolished for main homes only, savings income excluded from LIT. The “best estimate” overall change (£3.20) is below the “modelled” overall change (£3.58) because the data on which our model is based under-record top incomes and our model therefore understates the losses from a local income tax. The average change shown for each family type is therefore overestimated, particularly for higher income groups.

Source: Authors’ calculations using the IFS tax and benefit model, TAXBEN, run on updated data from the 2004–05 Family Resources Survey.

Source: Institute for Fiscal Studies, March 2007

Some Criticisms of Proposed LIT

The exclusion of savings income

The proposed LIT has been criticised on the basis that savings income is excluded, and the implications of this for “fairness”. For example, a wealthy, retired investor who earns dividend income would not be required to contribute under this system. However, savings income is excluded due to the enormous administrative costs which would be associated with charging investment income^[5].

Would reduce the importance of local government

It is argued that local authorities’ reduced ability to raise revenue would constitute a significant reduction in the importance of local government within Scotland. Levels of local spending would

be almost entirely determined by the level of grant received from the Scottish Executive, since local authorities would lose the ability to increase local taxes to fund expenditure. There are concerns that this could result in the accountability and efficiency of local government being undermined^[6].

Burden on Employers

The proposed LIT could represent a considerable additional administrative burden on local employers.

Effect on families

As mentioned above, it is argued that families consisting of multiple incomes would be comparatively worse-off under a LIT.

High Earners may leave Scotland

It is argued that the introduction of a LIT would result in the economy suffering the flight of high earners. High earners are typically highly mobile; they often have more control over their terms and locations of work. They are also adept at arranging their tax affairs to maximum advantage.

Large companies may relocate

Large UK companies with a presence on both sides of the border may recruit senior staff to offices outside Scotland if this tax is imposed. This argument implies that the tax could damage the economy doubly – by driving wealth creators away and diverting business to other parts of the UK.

Implications for Housing Market

The current system of council tax provides some incentive to live in relatively smaller (low-value) properties. This alleviates some degree of pressure on the local housing market. This effect would be removed by the proposed LIT^[7].

[1] "Abolition of council tax – public domain statements by the Scottish Executive", FMQs 7 June 2007

[2] This assumes that individuals' behaviour did not change in response to the reform.

[3] This estimate assumes that the savings from not having to pay council tax benefit (which would accrue) centrally, would be returned to the Scottish local authorities – if this was not the case, the tax cut would be £830 million.

[4] "Analysis of the SNP proposal for a capped local income tax", Institute for Fiscal Studies, March 07

[5] "Abolition of council tax – public domain statements by the Scottish Executive", FMQs 31 May 2007

[6] "Local Income Tax Would be Holyrood's Biggest Mistake", Policy Institute Website, 20/09/07

[7] "Why a local income tax would prove disastrous for Scotland", Policy Institute Website, 25/09/2007