Northern Ireland Assembly

Implementation of Changes to Domestic Rates in Northern Ireland

18 May 2007

Background

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.

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 in1976 and was based on 1960's rental values. In addition to enabling rate redistribution, the new system is

[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.
Other countries that use a discrete capital values basis include the USA, New Zealand, Australia and Canada. ("Reform of the Domestic Rating System in Northern Ireland – Policy Paper")

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] 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.

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 (these points are summarised as a Line of Questioning Briefing in Appendix 3):

- **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**

[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.

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 overleaf:

	Reviewed	*Increased*	*Decreased*	*No change*
Informal reviews completed (Pre 31/03/07)				
Ballymena	1,513	317	669	527
Bangor	840	127	493	220
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.parlianet.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

[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

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**

[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

- 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, there is an affordability implication therein. This is particularly concerning given that the new system involves plans for revaluation in 2010. A more extreme version of this argument suggests that capital values were intentionally underestimated, to get "*this unfair system in"* and that this will only become *"much more unfair with the next valuation in 2010 when properties probably will be valued more correctly."*[19]

- The fact that NI is classified as the most highly taxed region in the UK (with Wales being the lowest) has also been raised as an argument against the new system.

Further, NI has an average gross weekly wage of only 85% of the UK average[20]. This only serves to exacerbate the effects of comparatively high tax rates.

- 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.

[19] "Appeals successful in rates bills fiasco", Belfast Telegraph, 25 April 2007
[20] "Reform of the Domestic Rating System in Northern Ireland – Policy Paper", p.28