

**Statement by the Rt Hon Peter D Robinson MP MLA  
Minister for Finance and Personnel  
To the  
Northern Ireland Assembly**

27 November 2007

**Review of the Domestic Rating System in Northern Ireland**

Mr Speaker, today I am making an announcement about the outcome of the Executive's Review of the domestic rating system that was introduced in April this year under Direct Rule. This fulfils a commitment I made to the Assembly in June when publishing the Terms of Reference for the Review.

Today's announcement, taken together with other recent announcements in the draft Budget, will demonstrate further our commitment to making a real difference for householders in Northern Ireland.

We must remember that what really matters to people at the end of the day is the level of rates they have to pay, so any changes we make need to have this proviso: annual rate increases must be kept to a minimum otherwise the whole system becomes discredited.

I set about this task even before taking office by ensuring, along with others, that the link with the Reinvestment and Reform Initiative was broken in advance of restoration. This link was ill conceived and simply created the conditions where there was no incentive to save money and higher rates became an end in itself.

Let's not forget that the regional rate went up by 62% over the past 5 years, under the previous administration. My recent announcement on the draft Budget to freeze the domestic regional rate over the CSR period confirms my intentions in this regard. That regional rates freeze and this further relief package are in addition to the commitment we have given that households will see the benefit of the contribution they already make to the cost of water through their rates – an average of £160 per rate bill.

It is against this background that I present these proposals to Assembly today.

Mr Speaker, it is only 195 days since I commissioned this Review and in that short time, we have covered a lot of ground, generated much debate, consulted broadly and ultimately have had to make difficult choices.

I am confident that the package of proposals I intend to announce today is a balanced one that will lead to a more acceptable system and a better distribution of the rating burden amongst householders in Northern Ireland.

However, I cannot pretend that it has been an easy task, particularly given the timetable to which we were working – a timetable driven by the desire to make changes in time for next year's bills. No one expected that it would be straightforward, as will be found with any review that seeks to satisfy competing interests.

In addition, this process has confirmed that we have to be realistic and recognise that if we had been starting from square one, things may have been different.

Radical change now will only lead to a different set of winners and losers and while I would be the first to recognise the limitations of any property tax system, I do believe that with the right checks and balances the current system based on capital values can be made fairer.

Getting the right checks and balances is therefore what I have focused on and is what I believe we have achieved through the package of proposals I am presenting to the Assembly today.

Before I outline those proposals, I would like to record my gratitude to the 119 individuals and organisations that responded during the 12 week consultation which ended on 31 August. Their informative and considered responses have undoubtedly helped to shape the outcomes of this Review and I have certainly made it my business to ensure that the key messages conveyed through this process have been addressed.

The Committee for Finance and Personnel also made a massive contribution to the process. Its thorough and efficient approach was critical to the Review timetable remaining on track and I am particularly grateful to the Chairman and Members for giving us advance sight of their report for this purpose. I am even more pleased to report that the Committee's contribution can be clearly seen in the outcome of this Review with many of our recommendations aligning.

Turning now to the proposals: members will recall from my earlier statements that the Review was to be taken forward in two strands in line with the Terms of Reference.

Strand 1 involved a thorough examination of the options for change that could be delivered within the scope of the existing primary legislation in time for next year's rates bills. Under this strand, we also looked at ways in which that legislation could be changed to further improve the system in the medium term.

Strand 2 concentrated on longer term options for raising revenue through local taxation, either as alternatives or supplements to the domestic rating system.

This approach has led to the preparation of a number of proposals which are presented to the Assembly as a cohesive package. In my view, they complement one another well, providing the right balance between protecting those most affected by the previous reforms and those most in need (namely our pensioners) and also attending to wider policy objectives.

In summary, the package includes:

- proposals for a 20% single pensioner discount for those ratepayers aged 70 and over living alone;
- an increase in the savings threshold from £16,000 to £50,000 for pensioners under the existing lower income relief scheme;
- measures to improve the take up of reliefs;
- the introduction of a deferment scheme as a choice for pensioners who own their homes;

- a reduction in the maximum capital value;
- the rating of empty homes;
- rebates to encourage the provision of energy efficiency measures for homes;
- further evaluation and consultation on student rate relief and possible alternatives with a view to abolishing it; and lastly
- further work on the option of introducing a derelict land tax in Northern Ireland.

Breaking these down, the key changes for next year are the introduction of a single pensioner discount for those ratepayers aged 70 and over living alone set at 20% and the proposed increase in the savings limit applied under the low income rate relief scheme from £16,000 to £50,000 for pensioners.

These are targeted measures that I believe will have an immediate and positive impact for a relatively modest cost. This cost will be borne by the regional rate rather than other ratepayers. Both can also be provided for through subordinate legislation, subject of course to the approval of the Assembly.

The increase in the current savings limit is to ensure that pensioners who have saved for their retirement do not find themselves ineligible for rate relief and is in line with the 'first step' recommendations of the Lyons report and also reflects the considerable support for such a change during

the consultation. The measure is also supported by the Committee for Finance and Personnel.

However, in addition to this and the extra reliefs for pensioners secured during the St Andrews negotiations, I want to address the difficulties facing single pensioners in particular as a result of the reforms introduced under Direct Rule. The responses received during the consultation - many from single pensioners - would seem to support this.

Furthermore, analysis undertaken with the help of experts within DSD, highlights the low take-up levels of existing reliefs among this group as a major shortcoming.

This is why I am also proposing the introduction of a lone pensioner discount for those over 70 years of age from April 2008.

I am not however in favour of extending this discount to all single households as in my view such a widespread discount would be difficult to justify in terms of cost, need and vulnerability to fraud.

Mr Speaker, there was much talk in the media last week about a single person discount and claims that Northern Ireland was being unfairly treated by not harmonising with the arrangements that apply under the council tax in GB.

It is important that people fully understand that a discount given to any one particular group, whether deserving or undeserving, in the long run has to be paid for by other ratepayers paying more. In the case of single

person households, this is of the magnitude of around £30 million per year.

It is difficult to argue that single person households represent a vulnerable group which requires such a level of support. Indeed, I would pose the question, is it right that young families struggling with large mortgages should be required to pay a supplement to fund those who are affluent but live alone?

I would like to make two further points about the proposal for a single pensioner discount. In its report, the Committee for Finance and Personnel supported the introduction of such a discount for those over 75. However, my view is that the age threshold should be 70 on the basis that it would have a much greater impact, particularly in terms of assisting with the major issue of take-up.

I will continue to review whether any even lower age can be justified in the future but at present evidence shows that people who have just retired from employment are in a better position to pay their rates bill and to avail of rate rebate or low income relief.

The average weekly income of recently retired single pensioners is 30% higher than that of single pensioners as a whole according to the Family Resources Survey.

The Survey also shows that, in terms of single female pensioners (who make up the vast majority of single pensioners) the average income of those aged 70 to 74 is around 28% lower than that for those in the 60 to 64 age range and 15% lower than those in the 75 to 79 bracket.

In terms of the amount of discount, I am proposing that this is set at 20%. In my view, this, along with the other support measures being proposed such as the increase in the savings limit, will provide an adequate level of support.

The discount will be applied after the award of other reliefs including transitional relief so that the target group will effectively get, and clearly see, the benefit of a 20% reduction in their bill.

Before moving on to the proposals for April 2009 and beyond, I should deal with the very important issue of the low level of take-up of reliefs in Northern Ireland.

This is not an issue that is unique to Northern Ireland as the Lyons Report into Local Government funding in England shows. But it is clear that it requires urgent action here, particularly in the owner occupier sector where take up of the new lower income rate relief scheme is estimated to be 42% of those eligible.

As I have already mentioned, pensioners in particular are one of the main groups not taking up this relief.

A review of good practice elsewhere in terms of benefit take-up has highlighted a number of broad actions that could be taken in order to improve take-up of rate relief in Northern Ireland.

The Committee has recommended that these should be pursued vigorously and in light of this I am proposing as a matter of urgency to commission a study led by the voluntary/community sector to bring

forward actions that could be taken to support Government awareness and take-up strategies next year.

The possibility of new legislation giving increased data sharing powers to relevant agencies will also be examined as a matter of urgency. This will be subject to the completion of a privacy impact assessment to protect the interests of our citizens and ensure that the data is safeguarded.

As well as the proposals for next year, I am also pleased to present to the Assembly a number of further proposals that will take slightly longer to implement but will in my view provide further checks and balances to ensure the overall system is as fair as it can be.

Staying on the theme of pensioners, the first of these is the introduction of a voluntary deferment scheme for home owning pensioners.

Mr Speaker, this will essentially involve rolling up rate payments at a concessionary rate of interest until the sale of the house, and securing the debt by creating a charge on the property.

Such schemes are not uncommon in other jurisdictions and although take-up is usually very low because of inheritance considerations, it nevertheless is a scheme that can suit some better-off pensioners, who are beyond the income limits of the lower income relief scheme.

Such a scheme would require subordinate legislation to be passed which could be achieved by April 2008 subject to the approval of the Assembly. However, there are complex administrative arrangements that need to be developed before it could be fully implemented.

Further consultation on the detailed mechanics would also be desirable. Therefore, April 2009 has been set as the earliest date for the introduction of a deferment scheme.

Looking more widely, another successful outcome of the St Andrews negotiations last year was the introduction of a maximum cap set at properties with a capital value of £500,000 or more. It is clear that this move helped to allay some of the public fear around the excessive impact of the new system. But is it set at the right level?

My view is that it is not and I am attracted to a lower level of £400,000. While the number of households that would directly benefit from such a move would be fairly low (about 5,000 in total), it would bring the highest bills under the rating system in Northern Ireland into line with the average bills within the highest band under the Council Tax system.

I believe this is a fairer comparator than the absolute highest Council Tax Bill which was the rationale behind the initial cap level.

I shall, of course, consult further on this issue as I am keen also take account of developments on water charging and in particular what cap, if any, will be proposed there.

Bearing this in mind, I am therefore proposing to reduce the cap in April 2009 with final confirmation of its level to be made following consultation.

Mr Speaker, I have dealt so far with what I would call some of the necessary “checks” that the rating system must have if it is to be fair. However, what about the “balances”?

A popular measure both during the consultation exercise and with the Committee for Finance and Personnel was the rating of vacant domestic property, not least because of the potential net revenue gain that it could yield.

Taking account of exemptions and assuming that Land and Property Services, which is the DFP agency responsible for rate collection, is fully equipped and resourced to implement the policy, this could be in the region of £15-20m per annum.

However, as a policy, it is more than a device for raising revenue; it can also assist with wider policy objectives such as housing affordability. This was the subject of the recent Semple Report which is being taken forward by the Department for Social Development.

Given its clear benefits, I am proposing that this measure is introduced at the earliest possible opportunity, most likely April 2009, at a rate of 100%. This later date will give us time to consider the outcomes of the work currently being undertaken by the University of Ulster, the Northern Ireland Housing Executive and the Department for Social Development’s Working Group on Housing Affordability.

It will also allow us to further assess and consult on the issue before taking decisions on matters such as any exemptions or indeed exempt periods that might need to be applied.

Mr Speaker, this review also looked at the longer term and considered options as alternatives or supplements to the current rate system. One such option that I believe should be carefully considered is the taxing of derelict or vacant land. This would be a complementary measure to the taxing of vacant houses. It proved popular during the consultation exercise and the Committee for Finance and Personnel has recommended that it should be given serious consideration.

While this measure could bring in much needed additional revenue to help fund our public services, it could also help satisfy other wider policy considerations, such as ensuring that there is a sufficient supply of development land available, thus assisting two policy aims: that of affordable housing and economic growth.

In announcing our intention to examine this in greater detail, I would emphasise that today is merely a first step. We need to consider carefully the positive and negative effects such a taxation measure could cause.

A delicate balance has to be drawn to ensure that it frees up land for development by providing a disincentive to holding it back but at the same time does not cause such an imposition on developers that it affects the viability of urban development.

We will have to examine this whole matter in greater detail and consult with those likely to be affected by such a measure before we can make any decisions about putting this into legislation.

In taking this proposal forward I will therefore be working closely with other Departments, in particular the Department for Social Development and the Department of the Environment given its role in planning.

Depending on the outcome of these considerations, the introduction of a tax on derelict land may simply be an extension of the existing non-domestic rating system or it may be a new local tax in which case it may require changes to the Northern Ireland Act.

Moving on, Mr Speaker, some of the responses to the consultation considered that local taxation should be used in a positive way by serving as an incentive to act in a more environmentally responsible fashion. This aligns with my Department's wider commitment to promote sustainable development and therefore, I can wholeheartedly support this aspiration, providing it can be directed in a cost effective way.

Having considered the matter in light of the consultation responses and the Committee's report, I intend to take forward the option of providing rate rebates that offer the potential to improve the energy efficiency of our housing stock.

There are two measures that I am proposing. Firstly, I wish to provide a rate rebate to existing homes that make energy efficiency improvements, such as cavity wall and loft insulation .

There are similar schemes which already operate in some local authorities in England. These are part funded by schemes set up and supported by the energy generators there.

This proposal was put forward during the consultation by the World Wide Fund for Nature and my officials are examining it in some detail along with DETI and other stakeholders.

Secondly, I am proposing an initial rate exemption for the first purchase of new homes which are zero carbon rated.

There are, however, some issues of definition, funding and alignment with other initiatives to be worked through in relation to these measures. I intend, therefore, to ask my Department, working with the Committee for Finance and Personnel, other Departments such as DETI and stakeholders such as NIE, to bring forward detailed proposals, with a view to introducing new primary legislation to be implemented in April 2009.

The review also looked critically at some of the new reliefs introduced in April this year. One of these was the rate relief scheme for those in full-time education and training.

The scheme attracted much criticism during the consultation process in that many of the respondents thought that the benefit of the relief was going into the pockets of landlords rather than students. Others questioned the effectiveness of the relief and a number questioned whether this particular group was a priority in terms of the provision of rate relief.

The review also considered the number of applications for this relief received so far this year which is less than 500. This in itself draws into question the effectiveness of the policy.

I am therefore minded to revoke the scheme, providing we can reasonably protect those who have already applied. However, before doing so I think an evaluation of the policy and consultation with key stakeholders on the outcome of that evaluation is necessary.

Mr Speaker, so far I have described what I would like to do with the consent of this Assembly. Now I think I should outline some of the longer term options that I propose not to pursue.

First of all, let me deal with the issue of banding. Whilst the system of individual capital values has the merit of being easier to understand than banding, I can see advantages with having a system like the council tax for Northern Ireland.

It is 'restrained' in that those at the top end pay no more than three times those at the bottom end, and this makes it more like a charge for services than the rates.

Notwithstanding the increasing sensitivity surrounding council tax in GB - which I believe has more to do with overloading the system - we could design our own version.

However, I recognise that we are not starting from square one and another fundamental change in the way local revenues are distributed amongst householders in Northern Ireland would not only cause more confusion and upheaval but would also create a new set of winners and losers.

Winners tend to stay quiet, losers do the opposite and the political consequences of changing the order of things again should not be

underestimated. This, in itself, is not a reason to show a faint heart. Those who know me cannot accuse me of that.

I cannot ignore, however, that there was no significant support for banding emerging from the consultation exercise, nor from any witnesses to the Committee for Finance and Personnel, nor indeed from Committee members themselves.

I will not therefore be taking this option forward, though, I have agreed to provide the departmental Committee with an update of the analysis that was undertaken on banding when direct rule Ministers decided to proceed with individual capital values.

Another major issue which I propose not to take forward at this time is the question of a local income tax. This was favoured by many ratepayers who responded to the consultation, although the majority of organisations were against. It has its attractions, in that it offers the prospect of aligning liability more closely with the ability to pay. Public perception is, therefore, understandable and mirrors that in England, where during the Lyons Review the overwhelming majority of those surveyed thought they would be a lot better off being subject to local income tax rather than the existing council tax.

However, the reality is somewhat different. It is estimated that it would add about 7p in the pound to income tax payers here, if we wanted to raise the same amount of money as domestic rates. I also think it is a 'tax on work' and, therefore, not in keeping with this Executive's priority of economic growth.

Finally, there are serious concerns about the ability and willingness of Her Majesty's Revenue and Customs to help support the introduction and administration of such a scheme.

That said, I do not think we need to close the door on it entirely at this stage, in that we can learn the lessons from elsewhere and in particular, from Scotland, where the Scottish Government has recently decided to abolish council tax and replace it with a local income tax.

I understand that this is to be the subject of a public consultation in the coming months. As Scotland is proceeding at pace with this, it is my view, shared by the Committee for Finance and Personnel, that it may be best to maintain a watching brief on developments there for the time being, rather than commission further work of our own into local income tax.

Mr Speaker, one other issue that was examined during the review was the question of circuit breakers. This is a curious title given to relief schemes found in some parts of North America, where there is a limit placed on the percentage of income that defined groups, be they pensioners or ex-service personnel etc, are required to pay under property tax.

At first sight, this seems to be an attractive option; however, there are several factors which effectively rule it out as a realistic option for consideration in the Northern Ireland context.

Research shows that where circuit breakers exist there tends not to be the safety net of other reliefs available for the poorest households, such as those which currently exist here through the UK funded housing benefits system.

Introducing circuit breakers here would therefore cause major complications in working alongside housing benefit and potentially could shift the funding of support to vulnerable groups from AME to DEL.

Introducing a circuit breaker type system would also be administratively complex given the need to gather detailed information on the income of all rate-paying households. It would also be vulnerable to fraud. I am therefore proposing not to pursue this option further.

Mr Speaker, I would now like to say something more about the developments I touched on earlier concerning water charging.

On 15<sup>th</sup> May, I told the Assembly that I agreed 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 intends to address the funding of water in Northern Ireland.

Since then, we have had the first report from the Independent Water Review Panel. The Panel recommended that a single bill should be issued to households with rates and water charges separately identified.

The Executive has agreed that this proposal should be examined by both DRD and DFP, working together to determine whether and how this might be done. This work is now happening and at this stage there are no conclusions to report to the Assembly.

However, what I would say is that I am anxious that any of the rating reforms that I have announced today are not put in jeopardy by the

substantial work on IT systems and possibly legislative change that may be required to provide a single bill for water and rates.

There are many difficult issues to be addressed, not least the fact that the panel is still working on recommendations for a new Affordability Tariff Scheme, the outcome of which could have a major bearing on the ease with which a single bill can be delivered.

Also, as I mentioned earlier, I have signalled recently that people will not be asked to pay twice for water and that there will be an offsetting arrangement with domestic rates. Work on this is proceeding.

I will provide the Assembly with further information on this proposal as soon as possible, after the Minister for Regional Development and I report back to the Ministerial sub-group and the Executive in the New Year.

Mr Speaker, in terms of next steps, I will be publishing a paper later this week that will set out the outcomes of the rating Review in detail - including the options considered and those not recommended.

There are also a number of immediate actions that will need to be progressed over the coming months in order to implement these proposals.

Firstly, in order to advance the recommendations on single pensioner discount, I will need to engage in a targeted consultation exercise, taking on board the views of all interested parties, prior to introducing subordinate legislation for April 2008. At the same time, I will also be

progressing subordinate legislation to raise the savings limit for pensioners to £50,000 from April 2008.

After that I will begin work on the pre-legislative tasks, such as the integrated impact assessments and consultation required to introduce the proposals for the rating of vacant domestic property, the proposed deferment scheme for pensioners, an agreed revision to the maximum capital value, and any legislation that is required on the rate relief for those in full-time education and training.

At the same time, I will engage in preparatory work associated with the primary legislation required to introduce the new rate rebate for energy efficiency and zero carbon housing. Work will also be required on the legislative implications of the longer term changes such as Derelict Land Taxation, and improved data sharing to facilitate relief take-up. This will require considerable research and discussion with some of my Ministerial colleagues.

I have outlined today a package of measures to improve the rating system in Northern Ireland. In my view, it is a cohesive range of measures that will help both, those most adversely affected or most in need and also assist in fulfilling broader policy aims.

What I have learnt through this review is that reform of the rating system does not operate in isolation. Every new concession has a cost, either to other ratepayers or in terms of the public purse. This is devolved taxation and shortfalls are not made up from government subventions.

We need to ensure, therefore, that we adopt a measured and proportionate approach to how we change the system through targeting support where it is required.

I will therefore be keeping these measures under review and if we are successful in raising more money from rating empty homes and derelict land this could afford us the opportunity to further enhance some reliefs, for instance extending the scope of the single pensioner discount.

No matter what we do, however, reform cannot possibly satisfy everyone and we should not try to do that by over-engineering the system - or it can have unforeseen consequences.

It needs to be remembered that the rating system's influence can be wide in terms of other important policy areas such housing affordability, sustainable development and water reform.

As I said at the outset, I firmly believe that what really matters is what people are asked to pay. I believe that the proposals being announced today will make a real and beneficial difference for many ratepayers and, taken together with the Budget proposals, will offer many households much needed relief.

Much work remains to be done to see this process through to its conclusion but in making these changes we are returning the faith that people demonstrated in sending us here.

I commend this package of measures to the Assembly.

