Rating in Northern Ireland

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Northern Ireland does not have a system of council tax but has retained a rating system which, until recently, had remained broadly unchanged for a century and a half. The Northern Ireland Executive initiated a review of rating policy in May 2000 and this was carried forward by Northern Ireland Office ministers after the suspension of the Assembly in 2002. The main reforms which have emerged are revaluation of domestic and non-domestic property, a phased abolition of industrial de-rating and the introduction of a domestic rating system based on the discrete capital value of individual dwellings.

Contents

A. Background

Rate bills in Northern Ireland are made up of two main components:

- Regional rates are levied at a uniform level across Northern Ireland and are decided annually by the Northern Ireland Executive with approval from the Assembly (or, under direct rule, the Secretary of State and Westminster Parliament respectively). Regional rates contribute to the funding of public services at regional level including education, personal social services, roads and planning.
- District rates are determined by individual local councils and provide funding for local council services such as refuse collection and disposal, street cleaning, leisure facilities, and so on. Just over two thirds of district council income derives from this source with the balance made up from specific grants, fees and charges and from general exchequer grant.[1]

Both regional and district rates are collected by the Rate Collection Agency. Property valuations for rating purposes are carried out by the Valuation and Lands Agency (VLA). Until the recent rating reforms, both domestic and non-domestic domestic properties were given a valuation on the basis of their rental value (known as the Net Annual Value, or NAV). Rate bills were calculated by multiplying the assessed NAV of a property by the combined district rate and regional rate poundage.

The domestic sector had last been revalued in 1976 on the basis of rental evidence dating back to the late 1960s. At that time the majority of properties were probably rented whereas today the majority are owner occupied. Thus, not only had the rental values themselves become significantly out-of-date by the time the rating review commenced but it was also argued that rental values in general held little meaning in today's property world.

Properties used for industrial purposes throughout the United Kingdom were once exempt from rates as a result of legislation introduced in 1929.[2] This exemption was known as industrial de-rating and was introduced in response to growing competition in markets for manufactured goods from foreign countries. It was abolished in England and Wales in 1963 and phased out in Scotland by 1995. It was thus unique to Northern Ireland when the Northern Ireland Executive initiated its review in May 2000.

B. Policy review

A review of rating policy had been identified in the Executive's programme for government in 2000 and its scope and terms of reference were agreed in 2001.[3] In May 2002, a public consultation exercise launched by the Executive in conjunction with the Department of Finance and Personnel, sought views on a range of options for reform of domestic and non-

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1 Brian McClure, "New values on the way", *LGC Finance*, April 2006, p10

2 Industrial de-rating was introduced in Northern Ireland by the *Rating and Valuation (Apportionment) Act (Northern Ireland) 1928*

3 See annexes to public consultation document at: http://www.ratingreviewni.gov.uk/index/domestic/domestic-background/pub-2002-cons.htm

domestic rating. When launching the document, the then Minister of Finance and Personnel, Dr Sean Farren, said:

> The Executive decided to embark on this review in recognition of the fact that the present system is unfair, out of date and does not meet our current needs. The subject is not easy to address: it is complex and provokes strong reactions…Any proposals for a local taxation system, which is what the rating system is, will touch the lives of all the households and businesses in Northern Ireland. Therefore, we have been mindful of the consequences of radical change.
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> I have been asked why the Executive cannot be more imaginative in seeking ways of raising local revenue. I have been asked why we have to look to the rates. The answer is that we do not have to restrict ourselves to rating property. However, our options are limited by the Northern Ireland Act 1998 – we cannot readily introduce anything like income tax or VAT.
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> More importantly, international experience tells us that almost all developed countries continue successfully to operate property-value-based local taxes to help pay for local services. The consultation paper focuses on such systems, but other ideas are not ruled out, providing they can be easily administered, are stable, recurring, and fair to all, and do not have undesirable economic, social or environmental effects.[4]

Dr Farren also explained some of the problems with the rating system:

> The present domestic rating system is very hard to defend. In presenting the options in the paper, we have included a dispassionate description of the existing system. However, it is quite difficult to find any defence for the existing domestic system. It does not target social need. On the contrary, in the distribution of the tax burden, it tends to disadvantage the less well off. Although there is a gradual upward curve, the amounts levied flatten out quite markedly for those in more expensive housing.
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> Therefore, ratepayers with low incomes that are just above the housing benefit threshold pay more than they would do under a fairer system. In taxation language, the system is not progressive. The valuation list is relatively flat and discriminates little between market levels and sectors. A revaluation is long overdue.[5]

The consultation paper sought views on a new valuation basis for domestic and non-domestic rates, including modern rental value, discrete capital value[6] (internationally the most widely used system), and banding, as in the case of the council tax. It also asked whether domestic reliefs should be introduced for sole householders, the elderly and the disabled, and whether there should be rating of vacant property. Views were invited on whether industrial de-rating should be removed in the light of government research that the overall economic effect of removing it would be negligible in the medium term and that it had not been a powerful inward investment incentive.

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4 *Northern Ireland Assembly Official Report*, Monday 27 May 2002, available at http://www.niassembly.gov.uk/record/reports/020527.htm#4

5 Ibid

6 Capital value is the value of a property on the assumption that it has been sold on the open market on the basis of an arm's length transaction

Responses to the paper were published in October 2002.[7] There was widespread consensus that the existing rating system was "unfair and anomalous" and strong opinions were expressed in favour of a general revaluation on a capital value basis. There was limited support for continuing the industrial de-rating regime, and significant support for the rating of vacant property.

In October 2002, the Northern Ireland Assembly was suspended. The Secretary of State for Northern Ireland, assisted by a team of Northern Ireland Office ministers, assumed responsibility for the direction and control of the Northern Ireland Departments. In December 2002, Ian Pearson, the then Parliamentary Under-Secretary of State at the Northern Ireland Office with responsibility for finance and personnel, announced the Government's intention to introduce a capital value based system for domestic properties.[8]

As regards the non-domestic sector, the Government stated that the consultation had produced no evidence of a desire to change the existing arrangements, and that because most business people rent property, "there was a better understanding of the principle of basing the assessment on rental values".[9] In April 2003, after a public consultation exercise, the Government announced that industrial de-rating would be phased out in Northern Ireland from 1 April 2005 onwards but that full rates on industrial property would not be payable until 1 April 2011.[10]

The Government commissioned further research into the type of capital value system to be used for domestic property. Subsequently, a policy paper on reform of the domestic rating system was published in July 2004 and issued for public consultation.[11] The paper explained the key areas for reform and set out the Government's intention to proceed with a system based on discrete individual capital assessments rather than the banding system which applies in Great Britain. It said:

> Research and analysis underpinning this policy paper confirmed that importing a council tax type banded system in Northern Ireland is likely to be a regressive step. Analysis on the likely impact of an individual capital value system shows it to be more positive, in terms of New TSN [Targeting Social Need], than banding.
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> …The introduction of individual capital value assessments will result in a fairer system and have a positive redistributive effect. Assuming a revenue neutral position, many people will pay less under the new system than they currently do and some will pay more.[12]

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7 The responses report is available at: http://www.ratingreviewni.gov.uk/index/domestic/domestic-background/pub-2002-cons.htm

8 See DFPNI "The price of a house will be a fairer measurement of rates from 2006 - Pearson", *News release*, 5 December 2002, http://www.nics.gov.uk/press/dfp/021205c-dfp.htm

9 Ibid

10 See DFPNI, "Minister proposes phasing in of rates bills for industry", *News release*, 16 April 2003, http://www.ratingreviewni.gov.xk/press-releases/16_april_2003_minister_proposes_phasing_in_of_rates_bills_for_industry.htm

11 Available at http://www.ratingreviewni.gov.uk/index/domestic/domestic-background/domestic-consultation-2004.htm

12 *Reform of the Domestic Rating System in Northern Ireland – policy paper,* see in particular section 2 "*The Government's Preferred Approach"* available at http://www.nics.gov.uk/ratingpolicy/pdfs/policypaper-30-jul04.pdf

C. Domestic rating reforms

The following list is based largely on the summary of domestic rating reforms given on the Department of Finance and Personnel's website.[13] Further information on each aspect is provided on the website and there is a set of frequently asked questions.

- A **discrete capital value** system to be introduced from April 2007. The capital value of each domestic property to be assessed by the Valuation and Lands Agency "...through a combination of information already held on each property, outdoor visual inspections and sales evidence."

- The next **revaluation** to take place in 2012. "After this, the interval between revaluations will be reduced in order to ensure that the valuation list is kept up-to-date."

- **Transitional arrangements** to be introduced for householders whose bills have increased by more than 33% over and above what they would have been under the old system. Relief to be awarded over three years on a sliding scale with full rates payable from April 2010.[14]

- A **rate relief** scheme will provide relief to low income households who are just above the housing benefit threshold. The Scheme will use the same calculation as is used for HB but will adjust one element of that, the excess income figure, to allow for a more generous figure for the purposes of calculating rate relief.[15]

- **Disabled persons** whose property has been modified because of this will be eligible for a standard 25% reduction in rates.

- Full exemption for those in **full-time education**, 16/17 year olds and young people leaving care.

- The legislation contains an enabling power for a **cap** on payments to be introduced but this is subject to restoration of devolved arrangements under the St Andrews Agreement.

- The appeals system to be revised and a new independent valuation tribunal to be introduced for domestic property.

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[13] http://www.ratingreviewni.gov.uk/index/domestic/domestic-summary.htm
[14] http://www.ratingreviewni.gov.uk/index/domestic/overview_of_domestic_reliefs/transitional_relief.htm
[15] http://www.ratingreviewni.gov.uk/index/domestic/overview_of_domestic_reliefs/rate_relief_scheme.htm

D. Legislation

Reform of domestic rating has been implemented by two draft Orders in Council, both of which contained a number of non-domestic reforms.[16] In introducing the measures, Ministers stressed the **unfairness** of the present system. Lord Rooker said:

> The last revaluation of domestic property in Northern Ireland was in 1976. But the situation is even worse than that, as that revaluation was based on late 1960s rental values, which even then was a declining sector. As a result, the current rating system means very little to ratepayers and is unfair to some people, with some households paying more than they should be and others paying a lot less, given the relative values of their properties. In the interests of all ratepayers in Northern Ireland, we need to put this right sooner rather than later by creating a modern and fairer way of raising local revenue for investment in local public services.[17] [Lord Rooker, HL Deb 2 March 2006 cGC245].

David Hanson made the following estimate of the numbers of **winners and losers**:

> For the benefit of members of the Committee, let me say that if the new system is operational next year, on current bill levels, 55 per cent. of households in Northern Ireland will either see their bill reduced or pay the same as they do now. If the system is operational next year, 68 per cent. of household rate bills will either stay the same, decrease or increase by no more than £1 a week. Many more houses will receive rate relief under the new scheme than under the present scheme: currently, 175,000 properties receive benefit under the rate relief scheme, whereas under the new scheme, 185,000 properties will receive that benefit. To emphasise the point, an extra 30,000 properties in that 175,000 would receive enhanced benefit on rate relief under the new scheme. In total, 40,000 more properties will receive either benefit for the first time or enhanced benefit.[18]

Ministers in both Houses stressed that the reforms were "revenue-neutral" and were not designed to raise more money.[19] Lord Rooker estimated the **cost** of the revaluation exercise (of both domestic and commercial properties) at between £10m and £12m, or about £15 per property.[20] Ministers also confirmed that the Northern Ireland Assembly, once re-established, would be able to change the system if it wished to do so:

> The moment the Assembly returns, which we hope will be on 26 March, it will have full authority on any of these matters. The Assembly could scrap the whole system before us today and replace it with another system. There are logistical, practical and financial considerations to be taken into account in respect of any such matters, but the Assembly can change anything it wants to. In recognition of that, I have put in place in this order varying powers for the future Assembly Finance Minister to make changes which do not need legislative power, but which they can exercise to support changes that they may wish to make later on.[21]

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16 *Draft Rates (Capital Values Etc) (Northern Ireland) Order 2006*; *Draft Rates (Amendment) (Northern Ireland) Order 2006*.

17 HL Deb 2 March 2006 cGC245

18 HC Second Standing Committee on Delegated Legislation, 25 October 2006 c5

19 See, for example, HL Deb 25 October 2006 cGC19; HC Deb 10 July 2006 c1501W

20 HL Deb 2 March 2006 cGC255

21 HC Second Standing Committee on Delegated Legislation, 25 October 2006 c9

E. Political party views

Party views are taken mainly from the debates in Commons and Lords in February and March 2006 on the *Draft Rates (Capital Values Etc) (Northern Ireland) Order 2006*[22] and from debates in both Houses in October and November 2006 on the *Draft Rates (Amendment) (Northern Ireland) Order 2006*.[23]

In opposing the capital values order in the Commons, the **Conservative** Northern Ireland spokesman, Laurence Robertson, accepted that the current system was unfair and outdated but thought that a fundamental review of the role and functions of local government was required before making decisions on its financing. Both he and Lord Glentoran in the Lords Grand Committee, referred to the amount of detailed information on individual properties that would be required and the likely intrusiveness of the methods used to collect it. In the standing committee debate on the rates amendment order, Laurence Robertson said that no political party in Northern Ireland supported the new system. He queried why it was thought necessary to "rush through" an unpopular policy, especially when it was intended to be revenue-neutral. In the Lords, Lord Glentoran spoke of exceptional rate increases faced by some people and "huge erosions of liberty" inherent in the article 38 powers of entry for valuation officers.

David Hanson, Northern Ireland Office Minister, responded as follows to concerns about powers of entry:

> ...the power of entry will only be used exceptionally. The Valuation and Lands Agency and the Rate Collection Agency will first try to use any other means that they can to obtain information on the property. Indeed, the powers to obtain information are strengthened through the order, which will serve to reduce the need for property inspections and will mean less intrusion, not more, for members of the public.[24]

The **Liberal Democrats** opposed both draft orders. Party spokespersons in both Commons and Lords spoke of a "grossly unfair" system which would be particularly hard on elderly people who were asset rich but cash poor. They advocated the merits of a local, or regional, income tax.

Sammy Wilson, speaking on the capital values order on behalf of the **Democratic Unionist Party**, accepted that a system based on rental values, and out-of-date values at that, needed changing. However, he questioned why it was to be replaced with a system with which all parties were unhappy. He did, however, welcome the non-domestic provisions in

22 Commons Fifth Standing Committee on Delegated Legislation, 9 February 2006; HL Deb 2 March 2006 ccGC244-256;

23 Commons Second Standing Committee on Delegated Legislation, 25 October 2006; HL Deb 25 October 2006 ccGC18-34; HL Deb 7 November 2006 cc729-747

24 HC Second Standing Committee on Delegated Legislation, 25 October 2006 cc9-10. Lord Rooker described the detailed information which the Valuation and Lands Agency already holds on properties in Northern Ireland at HL Deb 2 March 2006 cGC254 and 25 October 2006 cGC30. Article 38 of the draft rates amendment order extends the power of entry and requires the householder to give reasonable assistance when rating or valuation information is being gathered. Failure to do so is an offence which may be punishable by a fine. Power of entry was the subject of a Conservative Party press release – "Householders face £1,000 fines for 'not helping' council tax inspectors", 25 October 2006.

the Order especially the exemption from rates of community halls. Nigel Dodds, speaking on the rates amendment order, said that the matter should be left to locally-elected and locally-accountable politicians to decide once the Assembly was reconvened. He added: "...we do not accept that the capital value of a person's home on 1 January 2005 is a sufficiently reliable indicator of ability to pay, and it should not be the entire basis for determining rates."

Ulster Unionist Party spokespersons were emphatic that the matter should be decided by the Assembly after the resumption of devolved government. Sylvia Hermon, speaking on the rates amendment order, said that the proposed system was inherently unfair and opposed by all the main parties in Northern Ireland. Lord Trimble said that the absence of a cap was totally indefensible. The order was being introduced "without a single shred of democratic validity or authority." In response to accusations that the Government was "bulldozing" the reforms through both Houses, David Hanson said:

> We have had at least 39 weeks of formal consultation to date. The reason I answer the hon. Lady in the way that I do is to emphasise that we are not bulldozing the measure through the Committee. A 39-week, four-year consultation period strikes me as being eminently reasonable.[25]

Mark Durkan (**SDLP**), said that, if there were to be local property-related taxes, a discrete capital value system is "probably fairer and more comprehensible in public terms" than the old rental value system. However, as a former Minister of Finance and Personnel, he said that original intention of the rating review when it was first initiated was to reform through an "all-in package". "We would not be hit piecemeal by one measure tending in one direction, and another measure tending in another..." The impact of water charges on households and the effects of council restructuring were unknowns that could have a major effect on the financial burden for households.

Sinn Fein has said:

> Sinn Féin believe that the best way to achieve a fair and equitable rates system is through the establishment of a power-sharing Executive with locally elected and accountable Ministers.
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> "Sinn Féin's preferred option is for the removal of rates altogether and replacement with a system of progressive direct taxation.[26]

F. Industrial de-rating

The *Rates (Amendment) (Northern Ireland) Order 2004* gave effect to the policy of phasing out industrial de-rating and also made provision for rating of unoccupied properties. The draft order was debated in both Houses in the early months of 2004.[27] A parliamentary question in February 2006 gave details of the de-rating programme, as follows:

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25 HC Second Standing Committee on Delegated Legislation, 25 October 2006 c4

26 Sinn Fein, "Sinn Fein publishes rates submission", *News release*, 18 September 2006,

27 Northern Ireland Grand Committee 15 January 2004; HC First Standing Committee on Delegated Legislation 1 March 2004; HL Deb 4 March 2004 ccGC334-344; HL Deb 9 March 2004 cc1125-8

Mr. Pickles: To ask the Secretary of State for Northern Ireland what the Government's plans are for a phasing out of industrial de-rating in Northern Ireland; and what the average expected change in non-domestic rates is for an average industrial business as a consequence of the phasing-out. [49563]

Angela E. Smith: The phasing out of industrial derating, which was fully consulted on as part of the overall Review of Rating Policy, came into operation on 1 April 2005 when businesses entitled to industrial derating became liable for rates at 15 per cent. of their full rate assessment.

The percentage amount of the full rate liability payable in 2006–07 will be 25 per cent., in 2007–08 35 per cent., in 2008–09 50 per cent., 75 per cent. in 2009–10 and in 2010–11 with full rates becoming payable from I April 2011.

As with all new policies the Government will review the phasing out of industrial derating. In this case a reasonable period of time is considered to be two years from the date of implementation.

The average rate bill for properties entitled to industrial derating in 2005–06 is estimated at £2,290. Over the period of phasing out it is projected to be £3,990 in 2006–07, £5,840 in 2007–08, £8,710 in 2008–09, £13,660 in 2009–10, £14,270 in 2010–11 and £19, 890 in 2011–12.[28]

The Northern Ireland Assembly which met following the *Northern Ireland Act 2006*, did not have full legislative powers, but passed the following resolution on industrial rates on 6 June 2006:

That this Assembly, pending the restoration of a fully devolved Assembly and power-sharing Executive:
(a) calls on the Secretary of State to freeze the Industrial Rate at 25%;
(b) agrees with the Northern Ireland Manufacturing Focus Group that the introduction of full Industrial Rates as currently planned by the Government will lead to devastation in the manufacturing sector and the loss of thousand of jobs; and
(c) therefore calls on the Secretary of State to deliver on his undertaking to act upon the agreed position of all the political parties, and cap the Industrial Rate at 25%.

Peter Hain, Secretary of State subsequently received further representations from Amicus and the Northern Ireland Manufacturing Focus Group (NIMFG). In a press statement on 26 July 2006, he explained the problems in public expenditure terms of freezing industrial rates at 25%, but agreed to postpone any further changes until after the November deadline for restoration of the Assembly. This was so that local politicians would have a chance "...to make the final decisions on this policy.[29] Following further discussions, David Hanson, Finance Minister, announced in November 2006 that industrial rates would not rise in 2007-08 to 35% but would be pegged at 30% until after the conclusion of a review commencing in

[28] HC Deb 9 February 2006 c1415W
[29] Northern Ireland Office, "Peter Hain comments on future of industrial derating", *News release*, 26 July 2006,

April 2007.[30] NIMFG expressed disappointment the rates had been frozen at 30% rather than 25% but welcomed the fact that the Government had "started to listen to manufacturing."[31]

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30 DFPNI, "Hanson puts industrial derating on temporary hold at 30%", *News release*, 23 November 2996, http://www.dfpni.gov.uk/news-november-2006-industrial-derating-2

31 NIMFG, "Response to industrial rates freeze at 30%", *News release*, http://www.nimfg.co.uk/