Appendix 1

Department of Finance Consultation on Non-domestic and Domestic rating measures to support budget sustainability by raising additional revenue

Introduction

In September 2023 the Secretary of State for Northern Ireland wrote to Permanent Secretaries of Northern Ireland Departments directing that they launch public consultations on measures to support budget sustainability by raising additional revenue.

On the 11th of October the Department of Finance published a document setting out the financial context for the revenue raising consultations. This was followed on the 7th of November 2023 with the launch of a 14-week consultation on the revenue raising potential associated with the removal of rating measures. The consultation is seeking views from those who may be directly affected and from the wider body of ratepayers. There are seven proposals for changes to rating measures identified by the Secretary of State:

Domestic sector:

- Early Payment Discount,
- Landlords Allowance,
- Maximum Capital Value cap.

Non-domestic sector:

- Non-domestic Vacant Rate relief,
- Industrial Derating,
- Freight Transport relief,
- Halls of Residence exemption.

The closing date for this consultation is the 13th of February 2024

In addition, the Department is seeking views on four questions relating to the overall fiscal position.

- Is there other revenue raising measures that should be considered?
- Are there any services/ programmes that should be stopped or reduced to divert funding to more critical services?
- Are there public services that could be delivered in a different way?
- Are there public services that could be delivered by others (e.g. local government, voluntary and community sector or private sector) or are there are other areas in which greater collaboration could deliver better outcomes?

The consultation document states.

"The answer to the financial challenge government faces in delivering public services will lie in a combination of these solutions and are ultimately political choices. However, the focus of the consultations being launched is to explore revenue raising options".

The consultations are structured around a series of questions. This report outlines the background to each question in italics and responds appropriately. The report also offers a range of additional proposals for consideration in relation to the four additional matters mentioned above.

Domestic Rates

Removal of the maximum capital value cap ("the cap" or "max cap") from the rating system

Domestic rate bills are calculated based on, among other things, the capital value of the property. LPS assesses capital values at a given date, currently 1 January 2005. Occupiers of domestic property with an assessed capital value of more than £400,000 are billed for rates as if the property was valued at £400,000. The cap has a projected 2023/24 cost – in terms of revenue foregone – of approximately £11M, of which £5.4M is a cost to the NI Executive. It applies to around 7,900 domestic properties in Northern Ireland. The majority (65%) of the domestic properties which benefit from the cap are located in the Ards & North Down and Belfast council areas. The properties in these two council areas account for 74% of the cost of the relief.

<u>Question One – Should the maximum capital value cap be removed?</u>

This Council notes that, for ordinary domestic Belfast rate payers, it is a struggle to make ends meet at present, especially with rates reaching 7.99% in 2023/2024. For the better off in society, rates are not such a struggle to pay.

There is a maximum capital value cap on Domestic Rates known as the Max Cap, which is currently set at £400,000, that limits the rates those in more affluent homes are compelled to pay. The Max Cap has not been altered since 2009. It is prescribed in legislation: The Rates (Maximum Capital Value) Regulations (Northern Ireland) 2007, as amended.

A rebalancing of the rates burden needs to take place so that all rate payers pay their fair share. There is no good reason for the poorer to pay more in percentage terms when they are struggling financially.

<u>Question Two - What, in your view, would be the impact of removing this support?</u>

It would create hardship for some ratepayers particularly those who are asset rich and income poor. There would need to be an awareness campaign to reduce the impact of the change.

An income-related rebate scheme is available to rate payers, there is an argument to modify the scheme in the short term to cushion the impact.

The change could prompt a number of value appeals particularly because ratepayers who benefitted from the cap saw no need to challenge their values when capital values were introduced. LPS could find the determination of the "tone" of those values quite difficult because of the passage of time. It is worth recalling that the values were based on the amount a domestic property could reasonably have sold for as a freehold property on the open market on 1 January 2005, which is the date in legislation that is specified as the date of valuation.

Removal of early payment discount from the rating system

If domestic ratepayers make payment in full, in a single amount, by a date specified on the rate bill, then a discount of 4% is applied to the rate bill. This is a longstanding feature of the domestic rating system which was put in place to encourage ratepayers to pay in a single amount early in the rating year as this was administratively less complex and less expensive than managing instalments. Over the years, payment by Direct Debit, which is the most efficient method of collection, has become a more popular payment method among ratepayers. In 2022/23, over 158,000 ratepayers (approximately 20%) availed of the early payment discount. The projected cost in 2023/24 is £7.9M. It is paid for entirely by the NI Executive. The cost of this discount fluctuates from year to year, depending on how many ratepayers take advantage of it.

<u>Question Three – Should the early payment discount be removed?</u>

Yes, it should be removed immediately. Those affected can elect to pay by instalments. (see the response to question four).

<u>Question Four - What, in your view, would be the impact of removing this support?</u>

No significant impact.

In an earlier consultation the DOF expressed the view that the removal of early payment discount would eliminate a major disincentive in the take up of direct debit payment. If that is the case it should result in significant administrative savings for LPS.

It may increase the number of reminder notices and court actions, but the impact will be minimal.

Removal of landlord allowance from the rating system

Landlords who are either responsible, or volunteer, for rates liability for property they rent out can receive an allowance if the full amount is paid by 30th September each year. Since 2015, this allowance has been 10% for both voluntary and compulsory landlord liability. Landlords who pay rates in respect of more than 210,000 properties received the allowance in 2022/23. In this context 'landlords' includes those organisations which manage the entire social housing sector. The landlord allowance *has a projected 2023/24 cost of approximately £14.2M, of which £7.5M is funded by the NI Executive. The remainder is paid for by district councils. The cost of this allowance fluctuates year to year.*

<u>Question Five – Should the landlord allowance of 10% be removed?</u>

Th Council believes this allowance should be retained for the NIHE and Housing Associations, however, it does believe the present schemes are over generous especially compared the early payment discount afforded to domestic ratepayers... As an alternative to complete removal consideration could be given to a reduction to 5% which has been suggested in previous consultations.

<u>Question Six -What, in your view, would be the impact of removing this support?</u>

Some landlords will make tenants liable which will impact on collection and administration. If a landlord adopts this approach their tenants will be more aware of the rate rebate scheme which would undoubtably increase take-up. There has not been any research into the impact of inclusive rents on rate rebates apart from the obvious fact that tenants are less aware of the potential entitlement. There is no doubt the complete removal of the discount will help ensure the rate rebate scheme is properly used.

Non-Domestic Rates

Removal of Industrial Derating from the rating system

Industrial Derating awards a 70% reduction to the normal rate liability for property deemed to be used for manufacturing purposes. Areas within a factory which are not used for manufacturing (such as offices) do not benefit from the relief. The application of Industrial Derating is subject to strict interpretation of the Rates (Northern Ireland) Order 1977 and caselaw established by the Lands Tribunal. The relief is awarded to around 4,500 manufacturing properties, half of which are located in four council areas: Armagh City, Banbridge and Craigavon, Belfast, Mid Ulster and Newry, Mourne & Down. The relief has a projected cost in 2023/24 of £71.5M. The cost of the relief is paid for entirely by the NI Executive, through revenue foregone from the Regional Rate, and annual Derating Grant payments to compensate district councils for the loss to their district rate revenue.

<u>Question One - Should Industrial Derating be removed?</u>

Industrial de-rating should be kept in its present form. The City Council believe it is critical to maintaining the economic health of manufacturing in Northern Ireland and together with changes in corporation tax provide a stable foundation to attract and maintain economic activity in this important sector. It can be also argued that the sector has been hit very hard over the last few years and the relief allows businesses to compete with the mainland UK and the Republic of Ireland.

<u>Question Two - What, in your view, would be the impact of removing this support.</u>

Appendix 1

The City Council believes that there should be a long term commitment to Industrial Derating until 2030 in order to maintain economic stability and encourage new players to Northern Ireland.

The importance of the sector to the wider economy and the impact of any job losses cannot be ignored. Manufacturing is an important sector employing approx. 95k people and generating over £11bn in external sales (i.e. sales outside NI).

It has been argued strongly that higher energy costs and NI's geographic location on the periphery of Europe results in higher transport costs for both inputs and outputs, which places companies at a competitive disadvantage in international markets, therefore retention of the relief is important in creating a level playing field.

Any move to reduce or remove the entitlement should be carefully considered because of the interaction with the rules on Subsidy Control (formerly State Aid). In the current climate any removal of a relief or exemption might be difficult to restore without contravening the rules.

Removal of Non-Domestic Vacant Rate (NDVR) relief of 50% from the rating system

When non-domestic property belonging to a prescribed class becomes vacant, rates are not payable for three months from either the date it becomes vacant or the date LPS determines as a 'Completion Day'. After that, rates liability is set at 50% of the normal "occupied" rate. The 50% level is set out in primary legislation. This proposal is to remove the 50% reduction so that the full occupied rate is charged for these properties, as it is for vacant domestic property. There are currently around 4,700 non-domestic properties in receipt of the relief, 45% of which are located within three council areas: Armagh City, Banbridge and Craigavon, Belfast and Newry, Mourne & Down. This relief has a projected cost of £19.7M in 2023/24. The cost is shared, approx 50/50, by the Northern Ireland Executive and district councils.

<u>Question Three – Should Non-Domestic Vacant Rating relief be removed?</u>

The City Council is of the opinion that the existing property relief system that is in place should be retained. This relief affords business (and occupiers) a period post vacation of the premises to endeavour to get the premises occupied. For longer term vacancies it supports the party liable for the business rates charge during this period of extended void.

Empty property relief should continue at 50% for the time being but it should be kept under review if the economic situation improves. To fully understand the impact of non-domestic vacant rating we believe there should be a detailed study of the yield and the impact of exclusions. This should be considered in the context of the numerous avoidance mechanisms that are being employed in other parts of the United Kingdom. This should also include the potential to restrict the amount of time the relief is available for. The council is of the view the current application of the relief indefinitely needs reviewed.

Question Four - What, in your view, would be the impact of removing this support?

Northern Ireland and particularly the city of Belfast is going through a significant period of change that is likely to last several years. During this period of change there will be new and altered buildings which will be available on the market. During the marketing period landlords should still be able to benefit from the 100% relief for the initial period of vacancy to support any efforts to find tenants. Removal of this relief is not supported by the Council and would damage efforts to achieve timely lettings.

The change of approach to the treatment of vacant properties after the initial void period elapsed will not have a beneficial impact on property development and regeneration. If you do not retain the relief it would fuel the inability of the property owner to pay the rates bill in the absence of rental income and reduce the capital available to the landlord to invest and upgrade their properties.

Removal of Freight Transport relief from the rating system.

Freight Transport relief is a long-standing measure within the Northern Ireland rating system. It provides 75% rate relief to premises that are occupied for the purpose of handling and shipment of goods that are neither owned by, nor intended for the use of, the operator. Freight Transport relief is awarded to 17 properties that are mainly associated with harbours and ferry terminals. It has a projected 2023/24 cost of £2.32M. It is paid for entirely by the NI Executive, through revenue foregone from the Regional Rate loss and annual Derating Grant payments to compensate district councils for the loss to their district rate revenue.

Question Five – Should Freight Transport relief be removed?

No, this relief only accounts for a modest loss of revenue and is only available in very limited circumstances. The DOF have reviewed this relief in the past and it was considered that as the overall sum involved is relatively modest it should remain at 75%. Most of the relief is awarded to ratepayers in the harbour and freight terminal. These operations are an important part of the overall economy, and any disturbance of this key activity should be avoided.

Question Six - What, in your view, would be the impact of removing this support?

The City Council believe the relief should remain, as it is part of the framework that enhances the economy of Northern Ireland. Even though it is a relatively low amount impacting on a small number of ratepayers, this should not diminish its importance. Regard should be had with the interaction with the Subsidy Control rules if it were removed. Any removal of a relief or exemption might be difficult to restore without contravening the rules.

Removal of the student Halls of Residence exemption from the rating system

Appendix 1

Under current NI rating law properties occupied by the two universities here are fully rateable. Although the universities themselves are fully rateable, the 17 halls of residence connected with the universities are currently fully exempt from rates.

• 14 are owned or managed by eligible institutions (i.e., a university or higher education institution).

• 3 are privately operated under appointment by an eligible institution. There are also Purpose-Built Student Accommodation (PBSA) buildings which are occupied by private organisations but these are not eligible for exemption.

In recent years there have been calls from the operators of those buildings for parity with those that are exempt. The proposal to remove exemption would ensure consistency of treatment between university and college-owned halls of residence (which currently receive an exemption) and new Purpose Built Student Accommodation (which is not eligible for exemption). The exemption has a cost of just over £2M in revenue foregone. The cost is shared by the Northern Ireland Executive and district councils.

<u>Question Seven – Should exemption for Halls of Residence owned or managed by universities and colleges be removed?</u>

Yes, the Council supports removal of the exemption.

It should be noted that many full-time students living away from home already pay rates through their rental payments to the landlord of the private rented accommodation.

As stated in the Council's previous response to this question, the Council believes that the current exemption is also unfair to all residents in Belfast that a proportion of occupiers make no contribution to local services irrespective of their personal financial circumstances.

<u>Question Eight - What, in your view, would be the impact of removing this support?</u>

The removal of the exemption would increase the overall tax base for the Council to help offset the additional costs incurred by the Council in providing services to new student accommodation developments in the City.

It is likely that the removal of the exemption would result in an increase in rent to cover the rate element. The current legislation requires the landlord of the exempt residence to pass on to the student tenant the benefit of the exemption.

As things stand, the new private halls built in and around Belfast City Centre are unlikely to qualify for the current exemption unless any of the named educational bodies nominate most persons who are to occupy the accommodation and the saving is passed on to the students.

There is a remote possibility that developers of the PBMSA blocks may be discouraged from investing in future projects in Northern Ireland although there is little evidence of a reduction in this activity.

In terms of “rating harmonisation” it should be noted that in England, Wales and Scotland halls of residence are not included in the non-domestic rating list. They are regarded as domestic properties and are specifically exempted from council tax. Students are also disregarded for council tax and any individual dwelling fully occupied by students is also exempt from council tax.

City Council response to elements of the questions relating to the overall fiscal position.

Is there other revenue raising measures that should be considered?

In reviewing alternatives, the Department must not lose sight of is the intrinsic features of the property tax which make it a desirable fiscal tool. Recent evidence concerning the problems of specific countries in the European Union (i.e. Greece, Portugal, Republic of Ireland, Spain and Cyprus) shows that both the International Monetary Fund and the World Bank regard the property tax as an essential and stable element for financing public services. The City Council would not want to see the role of the property tax diluted to such an extent that it becomes an unreliable source of local authority funding. However, it is important that the property tax keeps pace with the economic and social change for that reason the scope of the tax should be constantly under review. There are elements of the current legislation that have not been considered by this “revenue raising” exercise. It is the view of the City Council that all aspects of the structure of the rating system should be considered and subjected to a “fit for purpose” exercise.

The City Council believes there are a range of options that could be considered to increase the revenue potential in Northern Ireland which are not part of the existing rating system:

Vacant and Derelict Land Levies

Taxing land value as a supplement to rate income could be a significant source of revenue as well as a tool to encourage the use of vacant sites. To deliver a precise land valuation for each individual vacant land parcel in Northern Ireland would be a challenge and could be fraught with complexity; however, as it would be additional to the non-domestic rating system the volume of parcels to be valued would be much lower as one would only be seeking to place a value on vacant sites and derelict land and buildings.

The content of each vacant site record could include digitised elements of the Ordnance Survey map to give context to location and information from the Land Registry. This proposal envisages the formation of a data base that could create comprehensive vacant land maps with zones of value for land based on the most up to date evidence. The map could have overlays recording to the permissions being considered and would facilitate the use of the concept of “highest and best use” which would form the value base for the additional tax.

Appendix 1

The ‘Vacant Land Levy’ (VLL) and the Derelict Land Levy (DLL) are distinct from Land Value Tax as they only place a tax on stalled and derelict sites to prevent the practice of land banking and to bring land into economic use. The levies are designed to tackle the opportunity cost of land, which has been identified for development, remaining undeveloped.

Tourism Taxes

Tourism has the capability to stimulate local economies. It can create employment, earn foreign currency, and attract investment both internally and externally. It adds value locally, regionally, and nationally and generally stimulates economic and social activity.

The economic activity of tourism makes it an attractive opportunity to raise revenue. The rationale for specific tourism-related taxation varies from country to country and by the type of levy imposed. Recent trends provide clear evidence of the expansion of this form of income linked to tourism’s continued growth and outreach. OECD policies for sustainable and inclusive growth recognised tourism’s potential as a driver for sustainable development.

Hotel and accommodation levies are the most common example of specific indirect tourism taxation. It is usually designed as a charge on stays at hotel establishments; it can be an ad valorem tax (with the rate as a percentage of prices) or an ad quantum amount (unit tax) per night.

The Tourist BID is a modification of the conventional BIDs system. A conventional BID covers a geographical area whereas a Tourist BID is applied to the “visitor economy” across a local authority area or a larger area which could be represented by several authorities or a specific region with the aim of devoting revenue to promoting the area to visitors.

A Cruise Ship Levy has been introduced in Scotland. This is additional to any harbour charges that may be made. It has raised significant revenue and is based on a visitor fee based on the total number of passengers on the ship.

Earmarked or assigned proportion of VAT.

The following is an extract from the report of the Fiscal Commission NI in December 2021

“The NI Executive controls most of the spending on public services that happens within Northern Ireland – almost £9 in every £10 of ‘identifiable’ public spending. Other than rates on businesses and households it has no real substantive powers to vary taxes and raises less than £1 in every £20 of Northern Ireland tax revenue. In that it contrasts to the Scottish and Welsh governments which do have some, limited, tax powers. Our interim report, sets out to explore the case for additional powers over taxation. In doing so it considers the economic context, current fiscal powers, the possible reasons for additional devolution, and the potential risks and rewards from such devolution. It goes on to look at the whole array of UK taxes and reaches some preliminary conclusions regarding which taxes might be the best candidates for devolution and, importantly, those which are less suitable at this point in time."

The City Council would encourage the Executive to explore the possibility of earmarking or assigning additional levies of national taxes to directly fund local services. A starting point could be to examine what is happening in Scotland and Wales with devolved taxing powers. Value Added Tax offers the opportunity to create an additional levy which could be earmarked to fund particular activities.

<u>Increase and broaden the range of fees and charges for specific local authority services.</u>

Local authorities have a general power of competence which permits them to raise charges for specific services. This is already a major source of local authority income but has significant potential to raise more providing the source is stable from year to year.

<u>Traffic related charges</u>

There are numerous opportunities to raise income through traffic related management charges. They have been successfully implemented in many parts of the UK and they offer a stable policy related opportunity to raise revenue. Charges in this category are

- Parking, both on street and off street.
- Licences for charging points.
- Business parking levies
- Congestion charging
- Road pricing such as usage and tolls
- Emission levies
- Average speed zones

Are there public services that could be delivered in a different way?

Although not ruling out the potential for local government to deliver new services, such as through transfer of function, councils require both the legal vires to deliver, and the provision of corresponding and negotiated ongoing funding.

Appendix 1

Councils **<u>will not</u>** take on a new function without transfer of agreed levels of accompanying funding, thus negating the potential for cost savings. It is therefore difficult to see how a transfer of delivery would provide a saving for government.

Our experience as a sector is that grant funding can be removed arbitrarily (e.g. animal welfare funding), so this is not a satisfactory arrangement.

A more sustainable system including all costs, would need to be found – to include e.g. maintenance budgets.

Councils are actively involved in working collaboratively with each other, with NDPBs and with government departments to deliver shared outcomes e.g. through community planning, but would observe that there are distinct barriers in terms of sharing/pooling budgets, and movement of money between councils and departments (e.g. to give effect locally using developer contributions). More effective legislation and policy would be helpful to drive change in this regard.