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BELFAST CITY COUNCIL

Response

to

Review of Domestic Rating

Reduction of Maximum Capital Value

Public Consultation Document

June 2008

Introduction

Belfast City Council is pleased to have the opportunity to respond to the public consultation document on the reduction of maximum capital value particularly as the preferred proposal, following the recent rating review and indicated in the public consultation document, has a negative impact on the City Council's budget and, therefore, by definition, its ratepayers.

As the capital of Northern Ireland, Belfast is the economic, transport and political centre of the country and has a direct interest in a fair and equitable rating system and the City Council supported the objectives of the initial review that there should be an equitable distribution of the rate burden on households in Northern Ireland.

The imposition of a cap effectively means that preference is being given to one group of ratepayers regardless of their resources and, therefore, any equitable distribution based on the relative capital values of properties is destroyed and the cost of the rate income foregone is met by other ratepayers or by a reduction in services to all of the City Council's citizens.

The purpose of this response is to set out the City Council's position in relation to the matters identified in the public consultation document published in April 2008 and the City Council will be pleased to expand upon, or provide further information and explanation to, any of the issues raised in this response.

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Belfast City Council Response

This response follows the consultation paper and responds to each of the questions raised in the order in which they appear in the consultation document.

Financial Impact (Section 2)

At the present level of the cap, as the consultation paper indicates, only a relatively small number of taxpayers benefit involving a revenue loss of some £2.5m across Northern Ireland. Increasing the cap nearly doubles the amount of income foregone to some £4.7m.

In relation to the financial impact we would simply make the point that unless the Government compensates local authorities for this loss in revenue the cost of the cap will be met by other ratepayers or by a reduction in services or by a combination of both.

One point that does not appear to be mentioned in the consultation paper is the potential loss of benefit subsidy in relation to those ratepayers above the cap who are in receipt of housing benefit (rate rebate). Whereas this cost was being met by central government it will, under this proposal, have to be met by other ratepayers.

The introduction of the capital value system of rating was intended to address the basic unfairness that had arisen over the years in relation to the incidence of the former rental value system. Having a cap reverses this intention and effectively offsets some of the rates burden from higher value properties to lower value properties.

Impact on District Councils

If the figures quoted in the consultation paper are correct the impact on Belfast City Council ratepayers is significant and means that the district rate revenue loss associated with a £500,000 capital value cap in 2007/08 was £496,300.

The consultation paper estimates that reducing the cap to £400,000 would lead to a further £428,200 reduction (using the same poundage). So the total loss in district rate revenue for Belfast of a £400,000 cap this year would have been £924,500

Without compensation this is a serious loss of income for the City Council to absorb in relation to its commitment to provide a high standard of service delivery and to meet its citizens demands for higher quality of services. The impact will be to either increase the district rate or a reduction in the level of services provided or a combination of both. This is not acceptable to the City Council particularly as it will be accountable to ratepayers for a tax increase that is beyond its control.

It is difficult to see how the suggestion that the growth in the valuation list will “over time protect councils from the adverse effects of the reduction in the cap”. The increase in the tax base does not grow at the rate that this income is lost as a result of the cap and would have occurred whether or not the cap was in place.

Providing subsidy on a transitional basis, whilst better than nothing, does not address the issue of a loss of income or a higher burden on other ratepayers in the medium term but only delays it on an incremental basis for a period of time. The City Council is, therefore, strongly of the opinion that the Government should reimburse the Council, in full, for the loss of revenue.

Summary of Impact Assessments (Section 3)

The conclusions reached in section 3 of the report offer no surprises in that ratepayers in the least deprived wards will benefit most, as they have the highest number of properties valued above £400,000 and comparing the rate bills under both levels of caps, it is obvious that the least deprived decile will benefit from the biggest reduction in their bill (£15) if a £400 000 cap were introduced

In relation to socio-economic groups again, not surprisingly, the results of the analysis suggest that those in the ‘Managerial/Professional’ category are significantly over-represented among those benefiting from the cap, representing nearly 70%, compared to 23% of the overall NI population.

The results of the impact assessments would appear to suggest that the “asset rich, income poor” are not necessarily a high proportion of those ratepayers occupying the high value properties that will be eligible for relief since 70% of the socio-economic group are in the ‘Managerial/Professional’ category.

If the “asset rich, income poor” are a feature of the class of properties affected by the cap it should be borne in mind that there is the rate relief scheme that could provide them with greater assistance, based on their resources, than is available, individually, under the capping scheme.

Equality Impact Assessment (EQIA)

The City Council has no comment to make on the results of the equality impact analysis

Conclusions

A property tax that is based on capital values assists in ensuring a degree of vertical and horizontal equity in that similar properties in different locations are taxed similarly and different properties are taxed in a way that reflects their differences. It also approximates to the taxpayer’s ability to pay, although it is clearly not a perfect measure. The introduction of a cap diminishes the vertical and horizontal equity of the rating system and is further eroded by increasing the level of the cap.

In its response to the Rating Review the City Council stated that it did not support the retention of the cap in the longer term but did support it in the short term as a mechanism to recognise that a switch from a rental value based system to a capital value based system can have a negative financial impact on those living in high value properties some of whom are considered to be “asset rich, income poor.” It considers that the cap should be phased out and not reduced.

The impact assessment indicates that the cap provides relief to those who, generally, are in the high income socio-economic group and not in the “asset rich, income poor” category. That said there will be, undoubtedly, some ratepayers who fall in to this category but who could be better targeted directly through the rate relief scheme. Using a cap is little more than a crude and indiscriminate use of scarce resources.

No assessment appears to have been taken of the loss of housing benefit subsidy as a result of this proposal and the cost to the Northern Ireland ratepayers.

Neither does any account appear to have been taken of the impact on revaluation. The principle being the lower the cap together taken together with property inflation will make revaluation a farce and will damage the buoyancy of the property tax.

The City Council does not support a reduction in the cap and believes that if the Government is to go ahead with the reduction then it should compensate the City Council for the revenue foregone so that the burden does not fall directly on other ratepayers or on a reduced level of service provision.

The City Council urges the Government to give further consideration to the above points before coming to a final decision.