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# **BELFAST CITY COUNCIL**

Response

to

**Review of Domestic Rating**

**Rates Deferment Scheme for  
Home Owning Pensioners  
Public Consultation Document**

August 2008

## Introduction

Belfast City Council is pleased to have the opportunity to respond to the public consultation document on the rates deferment scheme for home owning pensioners.

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. However, it recognizes that there will be a category of ratepayers who may not be entitled to any form of benefit or rate relief but whose income and capital are limited - and for whom there is no immediate form of relief from the annual rate burden. A deferment scheme can help to bridge the gap between those who get assistance towards their rate bills and those who can afford to pay from their own resources.

International experience of such schemes leads the City Council to believe that a deferment scheme will not be widely used but could function as an important safety net in helping to ensure that pensioner homeowners are able to retain their homes, especially those with a high rates burden and with no eligibility to other available forms of relief. It is particularly suitable for dealing with the asset rich, income poor group of elderly people.

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 June 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.

### **Section 2: Background to a deferment scheme for pensioners**

*Do you have any comments on the deferment schemes that operate internationally?*

From the information that the City Council has available there is a clear indication that deferment schemes are not widely used nor do they appear to be very popular with taxpayers. The reasons that lie behind this appear to be the fact that taxpayers are reluctant to have a lien placed against their property and they do not, in the long run, provide a true relief from the tax burden rather a temporary respite.

*Are there any elements of the international schemes that you feel should be considered for a scheme here?*

The elements that should be considered are:

- The use of upper and lower equity levels to ensure that the deferred tax does not exceed the ultimate value of the property;
- Interest rate tied to Bank of England rate;
- Whilst the schemes should not be income related there should be an upper savings limit - above which the applicant would not be entitled to defer payment.

### **Section 3: Specific Policy Issues**

#### **Subsection 1: Eligible person and applicable age threshold**

*Do you have any views on how pensionable age should be defined for determining eligibility to defer rates?*

The City Council agrees with the proposal in the consultation document that the pensionable age defined for the purpose of the scheme should be set at 65 but that it should follow the national proposal to gradually increase the state pension age. This will ensure that the scheme is in line with the nationally understood definition of pensionable age.

*Do you agree that this should be set at 65?*

The City Council agrees that the pensionable age should be set at 65.

*Have you any comments on deferment being available where only one owner is of pension age?*

The deferment scheme should be available where only one owner is of pension age but only if the joint owner(s) give written consent and are provided with full information as to the implications of the agreement being entered in to.

*Do you have any views on the handling of a deferment agreement, where there is joint ownership, following the death of the pensioner?*

As part of the written consent given by the joint owner there should be a condition that the outstanding rates and interest will be repaid from the estate of the deceased person or, alternatively, providing the joint owner is eligible under the deferment

scheme the debt shall be transferred to them and a new agreement entered into.

If the joint owner is ineligible and unable to repay there are a number of options -

- the outstanding debt payment could be deferred, with interest accruing, until the subject property is sold but no further annual rate bills are allowed to accrue to the original debt;
- the joint is allowed to repay the outstanding debt by instalments.

### **Subsection 2: Eligible property - sole or main residence, value, equity and debt security**

*Do you agree that rates deferral should only be allowed on a person's sole or main residence?*

The City Council is of the view that the deferment scheme should apply only in circumstances where the ratepayer has one residence - there should be no eligibility in circumstances where the ratepayer has a second home. The ownership of a second home indicates a substantial capital holding held by the ratepayer.

*What criteria do you think should be used to determine sole or main residence of a property?*

The criteria that should be considered in determining sole or main residency are -

- The address at which the individual is registered for electoral purposes;
- The address at which the individual is registered for medical purposes;
- The address at which the person is registered for pension purposes;
- The sole or main residence of the individual's immediate family (i.e. wife, husband, dependant children);
- The address to which utility bills and notices of tax coding etc. are sent in their name;

*Do you have any comments on the proposal that deferment should not be available where savings and capital exceed a certain limit?*

The City Council is of the view that if savings or capital exceeds a particular figure then there should be no eligibility to defer payment of rates. The savings level used could be the same figure as that used for the NI rate relief scheme i.e. currently £50,000.

The annual rates due could be met from such a significant level of savings.

*What are your views on the proposed equity conditions - minimum equity levels and deferred rates not exceeding a proportion of the equity in the property?*

A minimum equity level of 40% would seem a sensible approach to the scheme to ensure that there will be sufficient capital available to pay off the deferred amount.

As proposed in the consultation paper it is also sensible to set a level beyond which the deferred rates cannot exceed a prescribed proportion of the level of equity in the property.

Both these measures will help to avoid administrative problems in relation to negative equity arising.

*What processes should be employed to verify title of a property?*

Verification of title to the subject should be straightforward and as suggested in the consultation paper this can be verified by the applicant's solicitor.

*What processes should be used to determine whether any charges or debt are already secured on the property?*

The applicant should be required to provide details of mortgagees and amounts outstanding. Verification can then be made directly to the mortgagee.

If the applicant states that there are no outstanding mortgages or loans this should be verified by his / her solicitor.

*Do you have any views on deferment being subject to adequate property insurance?*

The City Council agrees that one of the requirements of the scheme is that the applicant holds adequate property insurance.

### **Subsection 3: Statutory charge on the property**

*Do you have any comments on the intention that the deferred sum will take the form of a statutory charge against the property?*

The deferred charge should take the form of a charge against the subject property, as this is the only way of ensuring that the debt will be repaid when the property is sold.

### **Subsection 4: Sum deferred and interest charges**

*Have you any comments on the interest levied and how is this determined?*

*Level of deferred rates*

The City Council agrees that a capital level should be set below which there would be no eligibility to the deferral scheme and that only the full annual rates payment should be eligible for consideration.

The lower capital value level should be set at £50,000 - to go any higher than this would automatically exclude a relatively high proportion of rate payers.

*Level of interest*

The City Council believes that the interest rate should be tied to the Bank of England base rate as this would be an readily understood by the majority of ratepayers and that it should actually be charged at 1% below the base rate which, based, on recent trends will keep the debt broadly in line with inflation.

The rate should be fixed annually to the Bank of England rate on 1<sup>st</sup> April each year and interest charged on a compound basis.

Interest rates charged in other countries is not relevant to the UK situation as interest rates are driven by many local factors and certainly the States mentioned in the consultation paper have little relevance to the UK position.

### **Subsection 5: Termination and repayment**

*Have you any comments on the factors that would trigger repayment of a deferment agreement?*

The City Council has no comment to make on the factors listed as these are all obvious situations that should trigger repayment only to add that the provision of false information should trigger repayment and should be considered an offence.

*On completion of a deferment agreement when should the deferred debt be repaid?*

The deferred debt should be due for repayment immediately following the circumstance that give rise to repayment.

*What factors should determine whether a deferred sum should be paid back in a lump sum or an instalment?*

The factors that should be taken in to account are:-

- The property is sold - the full amount should become payable in one amount;
- The eligible person no longer lives in the property - the circumstances for the move should be considered as well as the applicant's income and available capital;
- The eligible person terminates the agreement - the full amount should become payable in one amount;
- The eligible person dies - the full amount should become payable in one amount unless the debt is transferred to a joint owner;
- Inaccurate or false information is provided by the applicant - the full amount should become payable in one amount;
- The prescribed minimum equity levels are not maintained or the debt is deemed to be inadequately secured - the applicant's income and available capital should be considered before making a decision as to whether repayment should be in full or repayable by instalments;
- the necessary insurance cover is not continued - the reason for discontinuing the property cover and the applicant's income and available capital should be considered before making a decision as to whether repayment should be in full or repayable by instalments.

Essentially, the individual circumstance of each individual and the reason for repayment arising in making a decision as to whether repayment should be in a lump sum or by instalments.

*Do you agree that different repayment arrangements should operate where the department has terminated the deferment agreement?*

The City Council does not agree that different repayment arrangements should apply. The Department should be given a discretion to apply instalments in all cases where it is deemed to be relevant based on the circumstances of the individual who is liable to make the repayment.

*Should the deferment agreement be extended to a surviving spouse or civil partner after the death of the eligible person?*

Yes, providing that person meets the eligibility criteria and was fully aware of the agreement with the original applicant and had given their consent at the time the original agreement was entered in to.

*If not, or the deferred debt is put on hold, what arrangements should be made for repayment of the outstanding amount?*

If no transfer is available as the debt is charge against the property it will continue to apply until the property is sold.

### **Subsection 6: Deferment awareness for pensioners**

The City Council agrees that given the serious nature of the commitment involved in deferring rates, and the substantial debt that could accrue over a prolonged period, it should be compulsory for any potential deferment participant to seek financial advice prior to making a decision on whether to defer rates and for how long.

The advice should be provided independently and may be subject to a charge. The establishment of an agreement should be subject to advice having been provided, with confirmation of this provided to the department.

There should also be an obligation on the department to provide full information, upon initial set up of an agreement, outlining the nature of the commitment, as well as an annual statement of accounts. This should include details of interest charges, interest accrued, and the level of outstanding debt.

*What information should be provided to deferment applicants, both generally and in terms of the financial implications?*

When a ratepayer applies to be included in the deferment scheme he/she, and where appropriate his/her family, should be advised by the department of the implications including an estimate of the impact that the scheme may have on the equity available in the property.

The ratepayer should be informed, on an annual basis, of the debt that has accrued including interest.

*Do you agree that participants need to be made aware of the financial implications of deferment?*

Participants should be made fully aware of the potential financial implications.

*Do you agree that financial advice should be provided independently?*

It would be advisable to have the financial advice provided independently so that the department cannot not be accused of having a conflict of interest as administrator and advisor.

*If so, who do you consider would be best placed to provide this advice?*

The voluntary sector, and particularly the Citizens Advice Bureau should be approached to see if they would participate in the scheme. The CAB would be particularly relevant as they are able to provide wider financial advice than purely in relation to deferment and would consider all options available to the potential applicant, this could then lead to alternatives being explored, e.g. in spite of regular publicity not all pensioners are fully aware of what social security benefits they might be entitled to.

*Should there be a requirement to have obtained independent financial advice prior to entering into a deferment agreement?*

Yes

*If a charge is imposed for the provision of independent advice what level should this be set at?*

The applicant should meet any charge but if the voluntary sector were to be involved it is unlikely that a charge would arise.

### **Subsection 7: Interaction with rating reliefs and the rating of empty homes**

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*Do you have any views on rates being deferred after the award of housing benefit, rate relief and other rating allowances?*

The deferment scheme should be a last resort remedy only considered if the applicant is not entitled to housing benefit or rate relief. If the applicant is entitled to a small amount of benefit or relief then the balance can be considered for deferment but only if the amount exceeds the lower limit that is determined

*What are your views on the proposal that rates may not be deferred where the property is empty (unoccupied & unfurnished), except where residential care / medical treatment is being provided?*

As one of the objectives of the empty property rate is to encourage the alternative use of property they should not be eligible to be included in the deferment scheme with the exception of where residential care / medical treatment is being provided to the liable person.

### **Subsection 8: Information gathering and offences**

*Have you any comments on the range of information that will be required in applying for a deferment agreement?*

No further comment to make as the consultation paper covers the appropriate information requirements.

However, there should be a power that places the responsibility on the applicant to provide the information and to require such subsequent information as may be required.

*What are your views on the onus being placed on the applicant to provide the necessary information?*

As this is a voluntary scheme the burden should be on the applicant to provide the necessary information.

*Have you any comments on the offences associated with the provision of false information and possible termination of the deferment agreement?*

No comment

*Should the current penalties, for giving false information, be strengthened?*

The City Council does not believe that the present powers need to be strengthened as there is an ultimate power to enforce the outstanding debt and interest.

### **Subsection 9: Review of the department's decisions on deferment**

*Do you have any comments on the proposed arrangements to review the department's decisions relating to a deferment application or termination of an agreement?*

The department should have full flexibility in determining whether the deferment scheme should apply to any particular applicant providing the decision to refuse or terminate deferment is made on objective criteria based on the information provided to, or obtained by, the department.

Any appeal within the department should be dealt with by a person other than the person who made the original decision.

### **Section 4: Financial impact**



Do you have any views on the impact of a deferment scheme on revenues raised at a Northern Ireland level?

The City Council, based on its own research, agrees that international experience of deferral schemes shows that the take up level is likely to be relatively low and there appears to be two major reasons for this -

- Deferral schemes do not give homeowners a rate reduction; instead they allow homeowners the option of deferring their property tax bills with interest, and
- Many homeowners do not want a lien on their property and / or a finance charge on the amount of property taxes deferred, so they may be discouraged from participating in the deferral program.

Do you agree that the burden of deferment should rest with regional rather than local government?

On the basis of international experience the take up is likely to be at or even lower than that suggested in the consultation paper. Nevertheless, whatever the take up there is a financial impact and since 74% of the City Council's income comes from rates this scheme will have an impact on the Council's annual revenue budget - even at the lower end of the estimates given in the consultation paper it is in excess of £400,000 per annum.

For this reason the burden should fall on the Regional Government and the City Council should be re-imbursed annually for the amount deferred.

Do you have any comments on the indicative financial examples of deferment, which use various assumptions?

No comment - the City Council recognizes the difficulty of making accurate estimates.

## **Section 5: Preferred approach**

*Do you have any comments on the preferred approach that has been adopted?*

Belfast City Council broadly supports the preferred approach outlined in the consultation paper subject to the detailed comments made in this response.

## **Section 6: Summary of impact assessments**

*Do you have any views on the socio-economic impact of the deferment scheme?*

Given the target group for the deferment scheme the fact that the analysis suggests that the choice of entry into a deferment scheme is more likely to benefit those in less deprived areas comes as no surprise and it is obvious that if the decision was taken to put in place a minimum rate liability for entry into the scheme, this is likely to reinforce this outcome,

*Do you have any views on the impact of the deferment scheme on rural areas?*

No comment

*Do you have any views on the impact of the deferment scheme on persons from different section 75 groups?*

No comment other than that the conclusions are obvious given the target group.

*Do you have any additional evidence that could be used to inform the impact*

*assessment?*

No

**Conclusions**

The proposed deferment scheme is not a form of relief and would not provide taxpayers with a tax reduction but it would allow pensioner homeowners the option of deferring all or part payment of their rate bills, albeit with a charge for interest, until the sale of their property or death providing, of course, there is sufficient equity in the property and that there are reasonable prospects of the growth in property values continuing (in spite of the current financial climate). However, the risks of reducing equity can be offset by the proposal to have lower and upper equity levels in the scheme.

The City Council agrees that any scheme introduced should be targeted at pensioner households because of the cash flow implications of making it widely available to all categories of taxpayer.

We are aware that the cash flow disadvantages of such a scheme could be overcome by using the banking industry to finance the scheme thus ensuring regular payments in respect of the property, however, the City Council is of the view that if the scheme were to be implemented then it should be operated by the Department in order to provide security and confidence for those using the scheme.

The City Council is strongly of the view that regional government should bear the annual loss of income with the City Council being reimbursed annually for the deferred income.

The City Council believes that a deferment scheme will not be widely used but would function as an important safety net in helping to ensure that homeowners are able to retain their homes, especially those with high rates burdens and with no eligibility to other available forms of relief. It is particularly suitable for dealing with the asset rich, income poor group of elderly homeowners.