Draft NILGA response to DFP Consultation on Review of Public Administration – Managing Convergence of District Rates

The following draft response has been prepared, after drawing upon a considerable quantity and diversity of views, to assist councils and shadow councils respond to the **consultation paper on managing convergence of district rates** and to facilitate them to contribute to the development of a consensus response from the local government sector, insofar as that is practicable. A finalised version of this paper, incorporating views from Councils and shadow councils will be submitted to the Department by 19th August 2014, further to consideration by the NILGA Executive on 15th August 2014.

It would be extremely helpful if councils and shadow councils could forward any comments they may have in relation to the consultation and in particular, any alternative proposals, to Karen Smyth at the NILGA Offices k.smyth@nilga.org or (028) 9079 8972 **before 5th August 2014 if possible.**

Derek McCallan
Chief Executive
9th July 2014

Introduction

NILGA welcomes the opportunity to respond to the Department of Finance & Personnel's consultation paper on the operation of a rate convergence relief scheme. It has long been evident that local government reform would lead to substantial issues related to the convergence of rates, and NILGA, along with the local government sector, has consistently argued for adequate relief for affected ratepayers. In February 2013, the Northern Ireland Executive allocated funding of up to £30m specifically to address rate convergence, and this was strongly welcomed across the sector.

This consultation seeks views on how a rate convergence relief scheme would operate, and identifies the three key variables – namely the threshold (if any) before relief is applied, the overall duration of the scheme, and how the relief would be phased during the life of the scheme.

This response addresses all questions identified in the consultation paper and has been submitted following approval from NILGA's Executive.

Key Issues

NILGA believes that there must be a transitional relief scheme, and that the final option chosen should be simple for ratepayers to understand, and, generally, should be applicable uniformly to all affected ratepayers. NILGA prefers a scheme which would last for at least the full term of the incoming councils, ie a minimum of 4 years up to 31st March 2019. Issues related to the phasing of relief during the life of the scheme, and the imposition of a threshold, if any, are discussed below.

Question 1

Do you agree that transitional relief should be provided to ratepayers adversely affected by the convergence of rates that will arise from the merging of councils as a result of local government reform?

NILGA strongly supports the provision of relief to affected ratepayers. It is clear from information provided over the past number of years that many ratepayers in Northern Ireland will suffer adverse consequences of the merger with neighbouring council areas through increased district rates. Ratepayers living in the districts of existing councils who have maintained lower rates than those councils with whom they will merge should not be penalised due to reform which was initiated by central government, and it is entirely appropriate that central government should adequately compensate such persons.

Question 2

Do you consider there to be an “acceptable” rates increase the ratepayer should bear before relief is applied?

NILGA recognises that the key variables of the scheme will interact and are interdependent on each other in relation to utilisation of the maximum amount of relief. As such, the introduction of a threshold would mean that whilst all ratepayers would lose to some extent, more of the £30m budget would be available to assist in, perhaps, a scheme of longer duration or improved phasing.

There is no particularly evident case for setting a threshold at any specific level, say an acceptable rate increase of 1% or 2%. Given the relatively arbitrary nature of any figure being used as a threshold, it may be more appropriate to provide relief to all ratepayers adversely affected. Additionally, the imposition of a threshold would further penalise those ratepayers worst affected by removing a portion of the increase which they will suffer from being eligible for relief.

However, if a small increase of no more than 1%, which would (on average) lead to a 0.5% rise in an overall rate bill, were to provide a significantly improved scheme, then such a small threshold would be worthy of consideration. For instance, if a 1% threshold were to enable a scheme to be provided over a four year period, with levels of relief at 100%, 80%, 50% and 30% over the term, then this would ease the burden of achieving substantial savings quickly for the worst affected councils in early years and provide enhanced levels of relief to affected ratepayers.

Question 3

How long do you believe any transitional relief scheme should last?

NILGA notes that the options provided in the consultation paper are two, three or four years, along with “other”. The new councils will have to aim to achieve sufficient savings and efficiencies as relief is gradually removed during the life of the scheme in order to ensure that affected ratepayers continue to have any potential reform-related increases mitigated. It would be more difficult for councils to achieve such savings if the life of the scheme was shorter, especially since some of the reform costs which may have been capitalised would still be being written off. It would be especially difficult and unreasonable for those councils where the rate convergence issue is most stark to be expected to achieve the necessary level of savings quickly.

NILGA would therefore support a rate convergence relief scheme which lasts for at least the first full term of the new councils after they “go live” ie a four year period up to 31 March 2019.

Question 4

Based on the models provided in the document, what level of relief do you think is acceptable over each year of the phasing in?

As noted above, NILGA favours a scheme duration of at least four years. Whilst it would naturally be ideal to provide full relief to all affected ratepayers in the first year, NILGA notes from the consultation paper and associated technical annexes that the total amount of relief available to each affected council area is very similar using a 3 year 100/66/33% model and a four year 80/60/40/20% model (based on table 3 of the technical annex which covers domestic ratepayers only).

Therefore, NILGA would again support a four year model with relief applied at 80% in year one, falling to 60%, 40% and 20% in years two to four respectively. Should this model not utilise the full £30m allocation, then additional relief should be provided in year one over and above the 80% level. Alternatively, as outlined above, NILGA would support a 1% threshold if phasing could be provided at levels of 100%, 80%, 50% and 30% over a four year period.

Question 5

Do you have any suggestions for how the scheme could be improved within the Executive's £30m budget?

At the present time, data available along with the consultation paper covers domestic district rates and ratepayers only, as a consequence of the current review of non-domestic property valuations. Clearly, the scheme will also apply to non-domestic ratepayers, and it is hard to make final comments on the various matters related to the scheme without knowledge of the impact of non-domestic properties on the figures.

A further issue which has been taken into account, so far as this scheme is concerned, is the impact of amalgamations on the distribution of the resources element of the general grant. Two councils will lose significant amounts of this grant as a result of merging with councils who get substantially smaller grant or indeed no grant at all. This is clearly a reform convergence issue, and the Department of Finance and Personnel has confirmed that this has taken into account in this scheme, but NILGA would prefer that separate discussions and ultimately funding be provided by the Department of the Environment to address this matter more fully, as outlined in our response to question 10 below.

NILGA also assumes that separate relief will be provided to non-domestic ratepayers in relation to any adverse changes related to an upwards revaluation of their property via the current review. This may be through a separate transitional relief, as has been the case in prior revaluations, or through an extension of the current small business relief scheme. Should this not be the case, then the rate convergence scheme would need to take account of any such valuation changes.

Question 6

Do you think relief should be provided to all ratepayers affected by the scheme or just to those significantly affected? Or should there be a two tier scheme (a longer one for ratepayers in areas most affected)?

It is clear that there is a wide variation in the level of impact the council merger will have in terms of rate convergence. Some of the affected existing council areas face substantial increases in their ratepayers' bills; others moderate rises, and some more modest rises. Additionally, there is no information available in terms of any potential differential impact across the various groups identified in s.75 of the Northern Ireland Act 1998.

The creation of a scheme which phases relief to affected ratepayers will, by default, provide those council areas affected with a greater share of the £30m budget. As outlined above in relation to a potential threshold, NILGA does not feel that there should be any relatively arbitrary judgement made as to what would constitute “significant”.

Similarly, the creation of any two tier scheme would require a judgement to be made regarding which council areas should benefit from the additional relief. Whilst it may be clear which areas are worst and least affected, any decision on which areas would benefit between these extremes would be likely to be taken by reference to utilisation of the full £30m budget, rather than on grounds of need, impact assessment etc.

NILGA therefore would prefer a single scheme which would be simple to explain to ratepayers. If any consideration was to be given to a two tier scheme, additional relief should only be provided to those council areas where the burden of rate convergence is at its most extreme.

Question 7

Do you consider that any additional support should be provided for ratepayers detrimentally affected by the boundary changes as described in paragraph 21?

The consultation paper indicates that any proposed scheme will take account of those ratepayers who, through boundary changes, are moving to a completely new council area in the same manner as those who are merging with another existing council.

In accordance with our comments above, these ratepayers will be compensated in an equitable manner alongside all other ratepayers, and hence NILGA would not favour any separate support for such ratepayers.

Questions 8 & 9

Do you have any views on the differential impact of implementing the scheme? Do you have any additional evidence on the differential impact the scheme may have?

NILGA notes the comments made in Annex 5 of the consultation document in relation to equality impacts, rural proofing and deprivation analysis. It is recognised that it is difficult to quantify the nature or extent of any adverse impact. As a result, therefore, NILGA would suggest that this inability to analyse impact in more detail should lead to a simple, clear scheme which is applicable equally to all affected ratepayers.

Question 10

Have you any other views on the issues covered in this document?

(a) General Grant Allocation

The aim of the scheme is to mitigate sudden and excessive increases in district rates arising as a result of local government reform. The proposed scheme takes fully into account the differential between district rates of merging councils for the 2014/15 financial year, and account has also been taken of potential changes to the distribution of the resources element of the general grant which, similarly, arise from reform.

It is clear, however, that any such changes, where material, would have an impact on the differential between the current district rates of merging councils, and thus any significant loss of general grant will impact negatively on ratepayers going forward. This matter requires full consideration to assess the additional burden on affected Councils.

The Department of Finance & Personnel will adjust this scheme to reflect changes in the allocation of grant, but NILGA is of the view that the grant is administered and paid to councils by the Department of the Environment, and the latter Department should be responsible for the separate provision of transitional relief directly to those councils whose loss is significant. Such relief was paid to affected councils on a previous occasion when a review of the general grant led to material alterations in allocations to individual councils.

NILGA believes that it is unfair to compensate ratepayers for reform-related increases without first providing formal transitional relief to councils whose loss of general grant will materially affect the rate to be struck post-reform. Failure to compensate councils in this regard would mitigate against the successful introduction of a rate convergence relief scheme in affected areas.

NILGA would therefore seek that the Department of the Environment provide transitional relief to compensate councils for any material loss of general grant for a period of time similar to the duration of the rate convergence scheme.

Additionally, NILGA would seek assurances from the Department of the Environment that the overall amount of grant (£18.3m in 2014/15) will be maintained. Any cut for the incoming financial year would not only add to the issues faced by those councils who lose grant, but would also have a negative impact on those who gain, and those for whom the general grant is a significant part of their overall income.

(b) Council Borrowing

One of the main reasons why many districts currently have differential rates is the significant variation in the amount of borrowing carried out by the existing councils and the resources required to pay off government and other long term loans.

Whilst appreciating that this matter has been raised with the Department of Finance & Personnel previously, NILGA would again ask that serious consideration be given to permitting councils to refinance government loans without penalty. The burden of paying off loans which were taken out at hugely higher interest rates than those currently in force adds considerably to district rates and has, in part, contributed to the disparity which gives rise to the need for a rate convergence relief scheme. Having the facility to refinance loans without penalty would greatly assist in permitting the new councils to make savings quickly enough to ensure that affected ratepayers do not see future increases in rates when the rate convergence relief scheme is phased out.

(c) Review of Rate Convergence Relief Scheme

The Local Government Act (Northern Ireland) 2014 provides for a review of the scheme within two years. Such a review must include an assessment of likely or actual increases in district rates due to the withdrawal of the scheme, along with consideration of further mitigating measures. NILGA believes that this review will provide a good opportunity to assess whether the scheme is delivering appropriate benefits to affected ratepayers and whether further funds are necessary to achieve the aims of the scheme. Along with the new councils, NILGA looks forward to active participation in the review in due course.