nipsa

February 2024

Response to "Consultation on Domestic and Non-Domestic Rating Measures to Support Budget Sustainability by Raising Additional Revenue"

Biedlin Public Services
Heftin' Waarkers in the Public Airt

Protecting Public Services
Supporting Public Servants

Ag Cosaint Seirbhísí Poiblí
Ag Tacú le Seirbhísigh Phoiblí

Introduction

1. NIPSA is the largest Trade Union in Northern Ireland representing over 43,000 members, employed across the whole of the public service, in organisations such as the Northern Ireland Civil Service and its Agencies, Local Government, Education, Health and Social Care, the Northern Ireland Housing Executive as well as a host of Non-Departmental Public Bodies (NDBPs). NIPSA also represents a significant number of members in the community and voluntary sector.

2. In September 2023 Chris Heaton-Harris, the Secretary of State for Northern Ireland wrote to NI Departments' Permanent Secretaries to "launch public consultations on measures to support budget sustainability and raise additional revenue, under his powers in the NI Interim Arrangements Act consultations."[1] A few weeks later the Department of Finance provided an accompanying document and opened a consultation on the "Financial context for revenue raising consultations."[2] This is the NIPSA response to the former as it relates to the "Consultation on Domestic and Non-Domestic rating measures to support budget sustainability by raising additional revenue".[3]

3. These reviews, of possible revenue raising measures, pre-date the publication of the "financial package"[4] that is to accompany the restoration of devolution, that will in turn inform the full budget that the new Executive will set. As a consequence, consultees are being invited to comment on the specifics of altering one strand of the Executive's future budget – with no knowledge of the proportion this might represent of its quantum, its priorities etc. Notwithstanding the speed with which the Executive will need to act – this gives the process a certain abstract quality and inevitably leads to broad brush responses.

4. Indeed, the de-contextualised nature of this process is recognised in the consultation documents themselves when they state that "further consultative and policy work will need to be done should such measures proceed to

---

[1] https://www.finance-ni.gov.uk/articles/revenue-raising-ni-consultations

[2] https://www.finance-ni.gov.uk/sites/default/files/consultations/dfp/Financial%20context%20for%20revenue%20raising%20consultations%20-%2 0approved-published.pdf p.2, 11/10/23.

[3] https://consultations2.nidirect.gov.uk/dof/consultation-on-rating-measures-to-support-budget/

[4] https://www.bbc.co.uk/news/uk-northern-ireland-67968994 15/1/24.

implementation, particularly in relation to the further analysis of any impacts and mitigation measures that may accompany that implementation or that have been brought to the Department's attention during the consultation process."

Realism needed on rating reform

5. The limited nature of the potential to raise revenue via the rating system is stated by the NI Fiscal Council:

> The Executive only has one major fiscal lever at present, and that is the revenue raised through the rating system each year, to be spent on central public services and supporting citizens. However, this is equivalent to less than £1 in every £20 of tax revenue estimated to be raised here.[5]

6. In this way while of course it is important to examine current revenue generating mechanisms, we should not over-estimate the scale of the rates "harvest" or its potential ability, if expanded significantly, to transform the funding of public services. The quantum itself is not huge (£1.73bn) and this reinforces the realism from NERI that while "we should seek to have a fair and progressive rates system for both local government and the Executive…imagining that this is a silver bullet for the Northern Ireland public finances would be a grave error."[6]

7. In addition, within the mainstream debate, the comparison is traditionally made with what the "average rate payer" (usually in England) pays for goods and services through their equivalent systems (e.g. for Council Tax and Water charges) and "how much less" this is compared to an average domestic rates bill in Northern Ireland. The comparison is not a valid one however in that "local government in Northern Ireland provides significantly less services than their equivalents in Great Britain. Councils there provide services related to transport, housing, education and most importantly social care."[7] More importantly, when we look to these English policy models they should be treated as a warning not an example, in that they represent the long-term mission of central government to off-load many of its former responsibilities onto local government. This was and

[5] https://www.nifiscalcouncil.org/files/nifiscalcouncil/documents/2022-10/NI%20Fiscal%20Council%20-%20Sustainability%20Report%202022%20September%202022%20amended%2020.10.22-%20web%20version_0.pdf p.2.
[6] https://www.nerinstitute.net/blog/we-need-change-westminster-we-solve-northern-irelands-troubled-public-finances 8/6/23.
[7] https://www.nerinstitute.net/blog/perils-revenue-raising 22/1/20.

is an abdication of responsibility, a cost-cutting exercise involving overt and stealth privatisation. It is the search for profit from former public service/utilities and the political opportunism of *local* government politicians taking the flak for unpopular decisions ultimately shaped by central budgetary decisions. The current structural crises in English local government shows us what happens when underfunded local government is "left to get on with it". [8]

The broader themes underlying rating 'reform'

8. Before looking at some of the specific questions raised in the two consultations on the rating system (domestic/non-domestic) there are some broader principles that should inform such a process. For example, it is stated that of "the total revenue raised through both domestic and non-domestic rates" 45% of it is raised by the former. This begs the question, of whether this is the correct balance and does it suggest that, in terms of real resources, the domestic rates may be doing a disproportionately heavier lift than the forces representing corporate/industrial/property portfolio holders?

9. Similarly, given the framing that "providing any rate relief means either foregoing revenue or charging other ratepayers more…an exemption or relief is often viewed from the perspective of who it benefits" the question that arises is: how do we ensure that at a corporate/industrial level we do not doubly reward those who already benefit from other tax loopholes by not charging them appropriately within the rating system?

10. In addition, taking up the point that is made within the consultations that "every pound raised through the rating system in Northern Ireland stays here as a resource to help pay for hospitals, schools, and other essential regional services" we need to explore how, even allowing for the acknowledged limitations of the rating system, what elements of it could be refined for a wider, progressive purpose? For example, as we'll comment below, vacant listed properties currently have a zero rating on them with no protective obligations (beyond "no build") on the landlord for maintenance.

[8] https://www.theguardian.com/society/2023/dec/06/english-town-halls-face-unprecedented-rise-in-bankruptcies-council-leaders-warn 6/12/23.

11. Similarly, in terms of policy coherence, beyond the debate about fiscal devolution there are wider responsibilities that could be both "policed" by, and offer a benefit to, *local* government. This might include, for example, as opposed to current practice,[9] guaranteeing the true purpose/efficiency of landfill schemes, changing the current disincentives/punishments (including within the rating system) for pollution and ensuring such punishments properly deal with industrial/agricultural negligence especially after years of delay in relation to Environmental Protection legislation.

Specific Consultation Questions

Domestic rating

12. In relation to the proposed removal of the early payment discount[10] it would be helpful if there was a fuller explanation of why the process of "managing installments" is administratively more complex. Such an appraisal could also cost whether the Executive subsidising a rates cut for those who can afford the lump sum is of greater value than a possible fix to these "managing installments" problems, one that might offer more general benefits to all ratepayers/taxpayers.

- The maximum capital value cap.[11]

13. While the initial, obvious progressive impulse is to update the capital value rating it would also be useful to both encourage research into the full implications of this as it affects the group referred to as "asset rich, income poor", a situation exacerbated

---

[9] See the Audit Office - Landfill tax incentivises illegal waste disposal, says National Audit Office | Energy from Waste Network (efwconference.com) 16/2/21.

[10] "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."

[11] "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."

by the volatility of an unregulated housing market inflated by the longstanding failure of public housing provision. The consultation acknowledges that:

> the Low-Income Rate Relief scheme was implemented as a top-up to Housing Benefit in anticipation of a capital value system of rating with no maximum capital value; [however] Housing Benefit and Low-Income Rate Relief are being phased out for working age welfare claimants and replaced by Universal Credit and a new Rate Rebate scheme and Housing Benefit and Low-Income Rate Relief are still available to pensioners who are not in receipt of Universal Credit.

Given the possible effect of such changes on the "income poor" and the vagaries of the Universal Credit system, a more comprehensive discussion of their *guaranteed* protection would be useful.

14. The earlier point about not exaggerating the scale of "return" (£11m) on this reform in the context of the huge investment public services actually need is reinforced if we look at the small number of houses (7,900) that are affected by lifting the cap with 65% of them in the Ards/N. Down or Belfast areas.[12] If targeting such "households" in a progressive manner is the real aim, for this to have a significant effect, it would need action at both regional (to correct housing market inflation via the mass supply of public housing) and a "national" level (to fully, progressively tax, those both asset *and* cash rich).

- The landlords' allowance.[13]

15. As we referenced above, in terms of the landlords' allowance, what registering/monitoring/regulation and sanction on landlord performance is in place for such a reward? In other words, while the organisations including "the entire social housing sector" have at least some potential scrutiny via the public bodies that notionally oversee them – what of the rest – i.e. what are their obligations as

[12] https://www.belfasttelegraph.co.uk/business/northern-ireland/most-valuable-ni-homes-face-a-huge-bill-if-the-domestic-rates-cap-abolished/a1366846488.html 9/2/24.

[13] "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."

landlords that balance this rates reward or threatens it in any way if they don't fulfil their duties?

Non-domestic rating

16. The removal of non-domestic rating support schemes is proposed including:

- Non-domestic vacant property relief.[14]

  It would be useful to have further information of what was and is the rationale for this rates relief? It seems a clear financial incentive for property *holding* rather than disposal – but one, again that is facilitated by the rate/taxpayer. It also has to be asked what contribution this relief is making to the fact that there are one hundred plus "properties and pieces of land owned by the government…sitting unused, vacant or derelict" (costing over £1m a year to secure/maintain)[15] or that "nearly twice as much public money is put into the pockets of private landlords as is spent on new public housing".[16]

- Industrial derating[17].

17. As referred to above, who is doing the heaving lifting in rates terms and who isn't as regards this exemption? Is there also a question to be explored in terms of whether there's a duplication of subsidy in that a manufacturing firm may be (financially) incentivised to locate in Northern Ireland by Invest NI for example and then subsequently benefit from this further relief on arrival. This may be even more

[14] 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.

[15] https://www.belfastlive.co.uk/news/northern-ireland/vacant-properties-owned-stormont-lying-24070737 26 May 2022.

[16] Update: New Build Social Housing Spent Vs. Housing Benefit Payments to Private Landlords | Freedom of Information Archive | PPR (nlb.ie) 1/7/22

[17] "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.

pertinent in the context of the tax questions raised by the proposal to brand Northern Ireland in its entirety an Enterprise Zone (EZ),[18] despite the fact that this latest "magic bullet" has previously been oversold and has cost ratepayers money.[19]

- Freight transport relief[20]

18. The prospect of EZ status and post Brexit trading arrangements also comes into play in relation to this relief. As above, does such relief allow extremely profitable enterprises to avoid paying into the state built/operated facilitates that their business is, literally, facilitated by?

- Exemption for student halls of residence[21]

19. At this stage there is insufficient evidence to explore the *impetus* for the removal of this exemption or impact of its removal – again to raise the relatively small amount of £2m. Is taking the exemption away *altogether* merely to quieten the calls from the privately occupied Purpose Built Student Accommodation (PBSA) buildings for exemption on a par with the Universities/Higher Education Institutions?

---

[18] https://www.bbc.co.uk/news/uk-northern-ireland-68149130 31/1/24.

[19] https://www.bbc.co.uk/news/uk-northern-ireland-foyle-west-59034314 26/10/21.

[20] "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. Parity Removal of Freight Transport Relief will bring the position in Northern Ireland into line with rating policy in all other parts of the UK where Freight Transport relief is not available."

[21] 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

Conclusion

20. The most important question about this and all the consultations on revenue raising is where they now sit in the new Executive's plans. At the close of this consultation (13/2/24) the answer is we do not know. We should not, however, carry on as if, the promised "new money/new plans" do not affect this agenda. Similarly, we should not ride roughshod over the appropriate timescales and due process of consultation on the "what next?" i.e. pretend, if the Executive do visit these ideas, that consultation will already have been carried out.

21. Finally as we stated in our response to the NI Affairs Committee's examination of "the funding and delivery of public services in Northern Ireland"[22] good or better "housekeeping" via local revenue raising can only scratch the surface of Northern Ireland's key strategic problems. While we can discuss devolved financial management, ultimately "debates about the proper funding of NI public services are a discussion best directed at UK revenue and expenditure levels."[23] The key debate on funding, therefore, is not one on how "efficiently" our finances (at local/devolved government level might be administered), it is about how we establish a new relationship between the NI Executive and the Treasury in order to rebuild a post-conflict society.

[22] https://committees.parliament.uk/work/7313/the-funding-and-delivery-of-public-services-in-northern-ireland/
[23] https://www.nerinstitute.net/sites/default/files/research/2020/NI%20Fiscal%20WP%2026-08.pdf p.17.