

Local Government rates comparisons

Is it reasonable to compare NI domestic rates bills with Council Tax bills in GB?

January 2024



Introduction



Background



In recent years there have been a number of comparisons made between the level of local government rates paid by NI households and domestic Council Tax bills paid in GB. This is set in the context of public finance constraints faced by Central Government and the potential to increase revenue (through a higher regional rate) to alleviate some of this pressure.

However, it is important to note this is not a like-for-like comparison.

This short paper considers:

- the differences in the two systems.
- similar features of local government taxation in GB and NI.
- the approaches to calculate the “average” bill in both NI and GB differ.
- weighting of NI domestic rates base.
- making a comparison based on other economic measures.



Differences in the two systems



Differences in the two systems



The two systems, although seen as equivalents, are different and this is summarised below:

- Hybrid personal and property tax (Council Tax) vs property tax (NI Rates) – the GB system is based on a *property tax* component (based on the capital value of the property), an *individual* component (e.g. provision made for fewer than two adults, a disable person occupying the property or student occupation) and an *income* component (a means-tested system of rebates which provides financial support for those on low incomes). In contrast, NI domestic rates is based solely on the capital value of the property (with support and rebates for those on lower incomes).
- Banded system vs discrete values – the rates bill in GB is based on the capital value “band” in which an individual property sits (see Annex A). NI bills are based on the discrete (individual) value of the property. Previous analysis from Ulster University indicated that a discrete capital value system (as used in NI) is more progressive in terms of reducing the liability for lower value properties compared to a banded system. Separately, both systems have an effective “cap” on higher value properties with the highest level band in GB and a £400k cap in NI.
- Different valuation dates – the dates at which capital valuations were undertaken varies across the UK and therefore comparisons of the capital values across the nations would not be reliable or insightful.

Importantly, the differences between these two systems do not render a comparison of domestic rates/ council tax bills irrelevant – they are simply two different systems for raising revenue at a local government level.

Differences in the two systems



Summary of differences between the two systems.

<p>ENGLAND</p> <p>Antecedent valuation date (AVD) 1 April 1991.</p> <p>Came into effect on 1 April 1993.</p> <p>WALES</p> <p>Antecedent valuation date (AVD) 1 April 2003.</p> <p>Came into effect on 1 April 2005</p> <p>SCOTLAND</p> <p>Antecedent valuation date (AVD) 1 April 1991.</p> <p>Came into effect on 1 April 1993.</p>	<p>Banded system</p> <p>See Annex A for more information on bands in England, Scotland and Wales.</p>	<p>Hybrid personal and property tax</p>
<p>NORTHERN IRELAND</p> <p>Antecedent valuation date (AVD) 1 January 2005.</p> <p>Came into effect on 1 April 2007.</p>	<p>Discrete values</p>	<p>Property tax only</p>



Similarities in the two systems



Similarities in the two systems



Although the systems in GB and NI have differences, they share common characteristics. In particular, they both use property values as a proxy for ability to pay and both have a cap on the maximum value and hence rates liability:

- Property value as a proxy for ability to pay – capital values are broadly linked to household’s economic resources. The price that purchasers can afford to pay will be governed by their ability to obtain mortgage finance and therefore their income (RICS, 1986). In addition, the value of a property also reflects government expenditure, for example on infrastructure, urban regeneration and streetscaping.
- Maximum value cap – this has been the subject of significant debate, where across all parts the UK, those in a very high value house (e.g. £5 million) would pay the same rates bill as those with a £400k value in NI or over £320k value in England (based on its 1991 valuation). This is seen as unfair by many with lower value properties, in effect, subsidising higher value properties. However, others have argued that domestic rates are used to fund public services and residents in higher value properties do not consume significantly higher quantities of those public services and therefore a cap is justified.

It is not the purpose of this paper to take a view, either way, on the strength of the arguments made on both the principles of ability to pay and the maximum value cap.



**Approaches to calculate the “average bill”
differs in GB from NI**



Approach to calculate the “average” bill differs in GB from NI

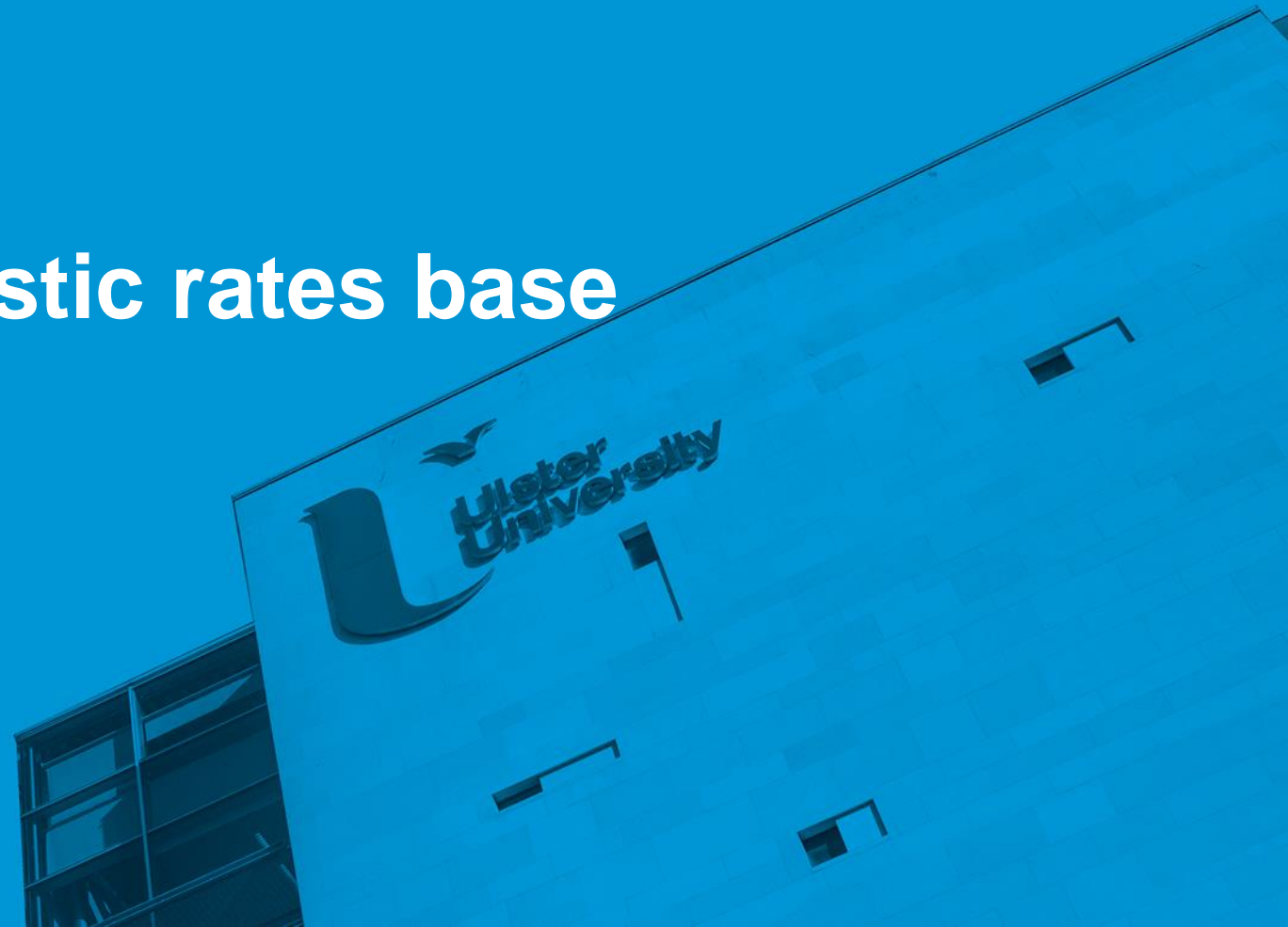


The approach to calculating the “average” rates/ council tax bill differs in GB from NI and therefore a direct like-for-like comparison is not appropriate. These approaches are set out below:

- GB calculation approach– the ‘average Council Tax per dwelling’ figure published for GB is calculated as the total council tax payable in an area (England, Scotland or Wales) divided by the total number of chargeable dwellings in the area.
- NI calculation approach – this methodology was developed by statisticians and policy officials within LPS to provide per dwelling average rates bills for the specific purposes of the Department for Communities annual report on Housing Statistics. The approach is as follows:
 - Average Capital Value in each Council area – all properties over £400k are assumed to have a value of £400k and all properties with a capital value below £20k are excluded. The total capital value is divided by the number of domestic properties liable for rates.
 - Average Rates Bill in each Council area – the Average Capital Value of properties liable for rates in each Council area is multiplied by the total domestic poundage in each Council area.
 - The NI Average Rates bill – is calculated as the sum of the individual council Average Rates Bills multiplied by the proportion of the Total Capital Values in each council in Northern Ireland.



Weighting of NI domestic rates base



Weighting of NI domestic rates base



Analysis of the domestic tax base within the NI rating system shows a significant weighting of the tax base towards lower value properties.

Capital Value (£)	% of properties	% of collectable rates
0-100,000	51.40%	29.90%
100,001-200,000	36.83%	45.31%
200,001-300,000	9.00%	17.02%
300,001-400,000	1.78%	4.73%
400,001-500,000	0.55%	1.69%
500,001-600,000	0.21%	0.66%
Over 600,000	0.23%	0.69%
	100.00%	100.00%

Source: DoF, 2022

- Although a progressive tax (lower value properties make up a larger share of total properties than share of rates collectable) approx. 75% of rates income is generated from properties with a valuation of £200k or below. Therefore, increasing the rates poundage would significantly increase the burden on those in lower value properties.
- Only 1% of properties have a value in excess of £400k (i.e. above the current cap) and they represent approx. 3% of total rates collectable. As a result, abolishing the cap would **not** result in a significant increase in rates revenue.



Other economic measures



Other economic measures



Comparing rates revenue raised in NI relative to GB must also be considered in the context of NI's performance in other economic measures relative to GB. In particular, the following key measures are assessed:

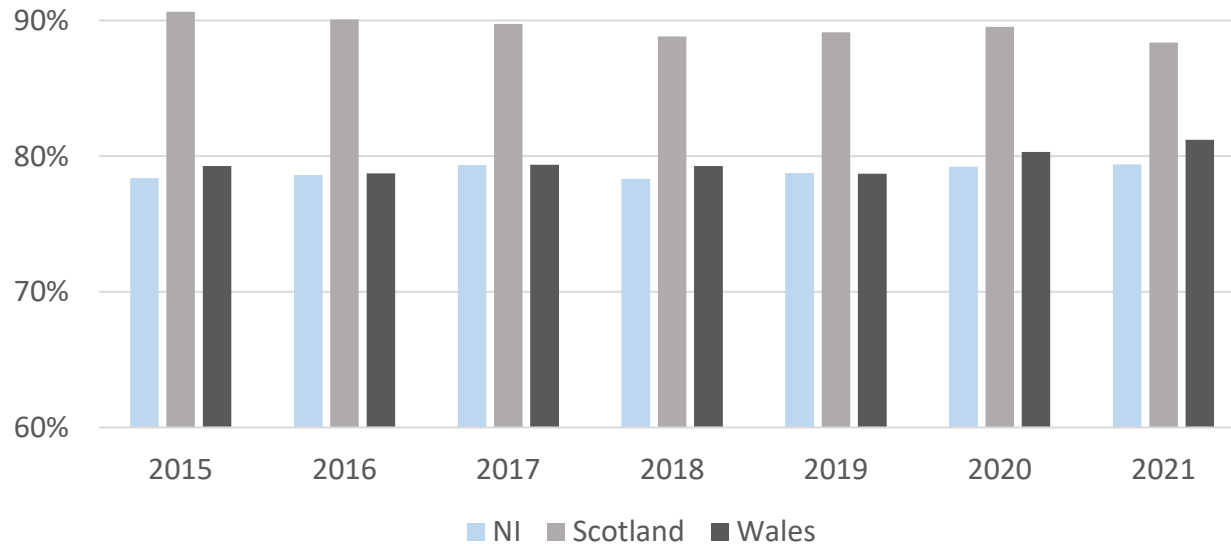
- Gross Domestic Household Income (GDHI¹) per capita – GDHI in NI and Wales is approx. 80% of the level in England. Scotland is higher but still only 90% of English levels.
- Median wage – NI and Welsh levels broadly similar at 90% of English levels. Scottish median wage is broadly similar to England.
- Income tax raised per capita – NI is approx. half of the level in England, Wales is marginally higher at approx. 55% of English levels and Scotland is significantly higher but still only approx. 80% of the level in England.
- Average house prices – NI is approx. 55% of the level in England. Wales is higher than Scotland at 70% and 62% of English levels respectively.
- Domestic rates/ Council Tax revenue per capita.

¹ GDHI is the amount of money that all individuals in the household sector have available for spending or saving after taxes, social contributions and benefits

Gross Domestic Household Income (GDHI)



GDHI per capita - NI, Scot & Wales as % of Eng



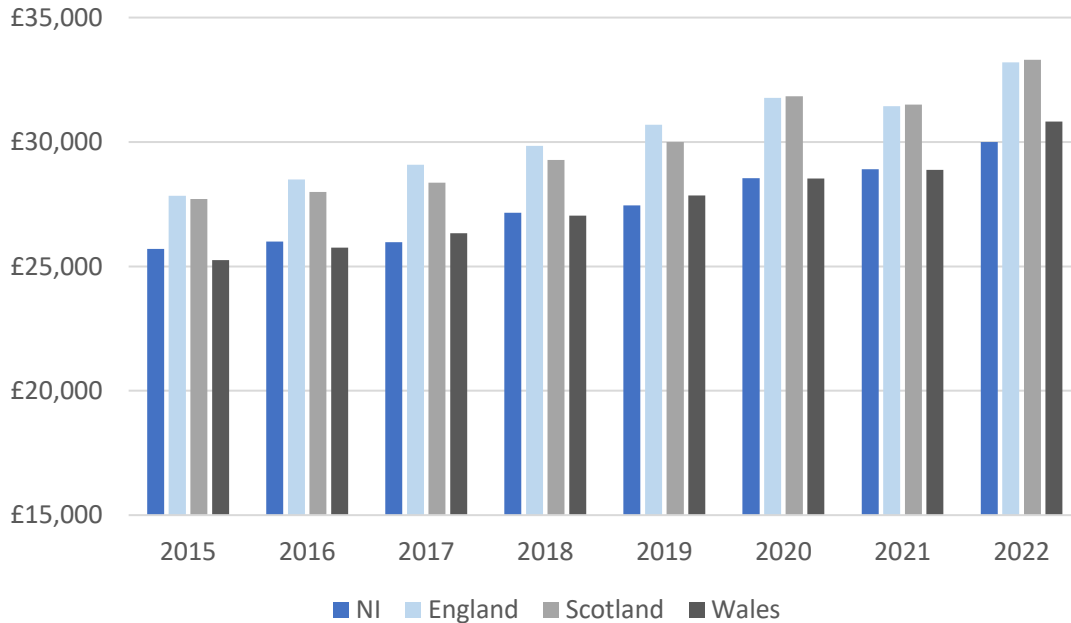
Source: ONS

GDHI is the amount of money that all individuals in the household sector have available for spending or saving after taxes, social contributions and benefits.

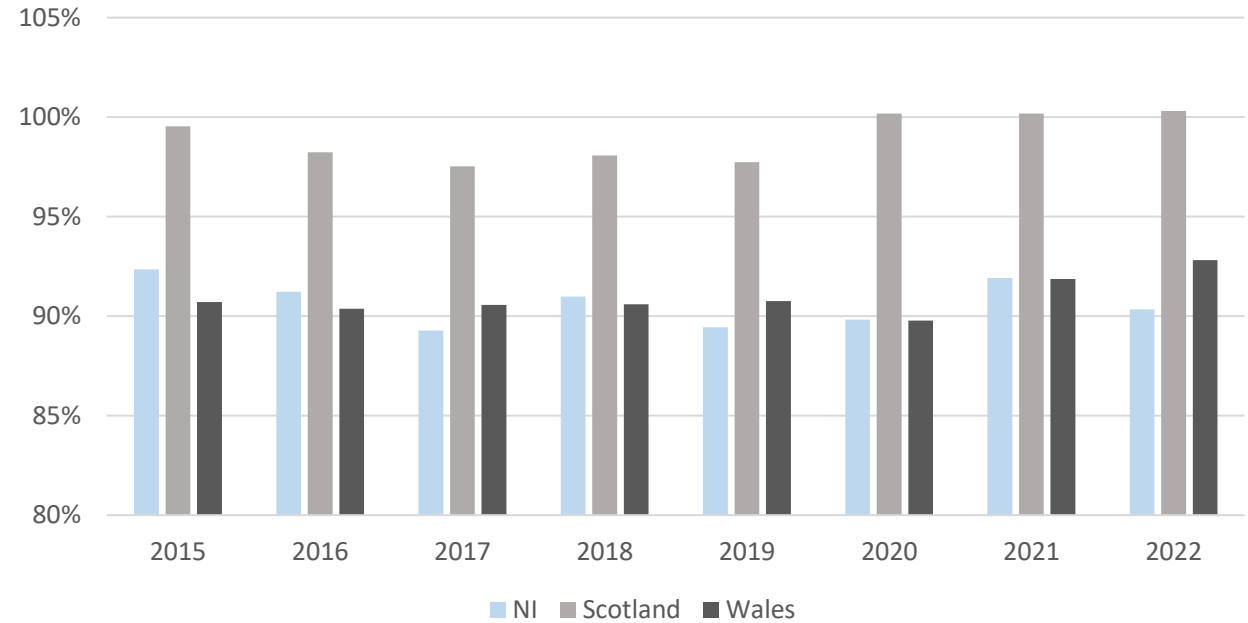
- Overall, the GDHI per capita comparisons with England, Scotland and Wales are broadly steady over the 2015 to 2021 period.
- Relative to England, on a per capita basis:
 - Levels in NI and Wales are broadly equivalent and approx. 80% of the level in England.
 - Scotland is higher at approx. 90% of the level in England.

Median wage

Median Wage



Median Wage - NI, Scot & Wales as % of Eng

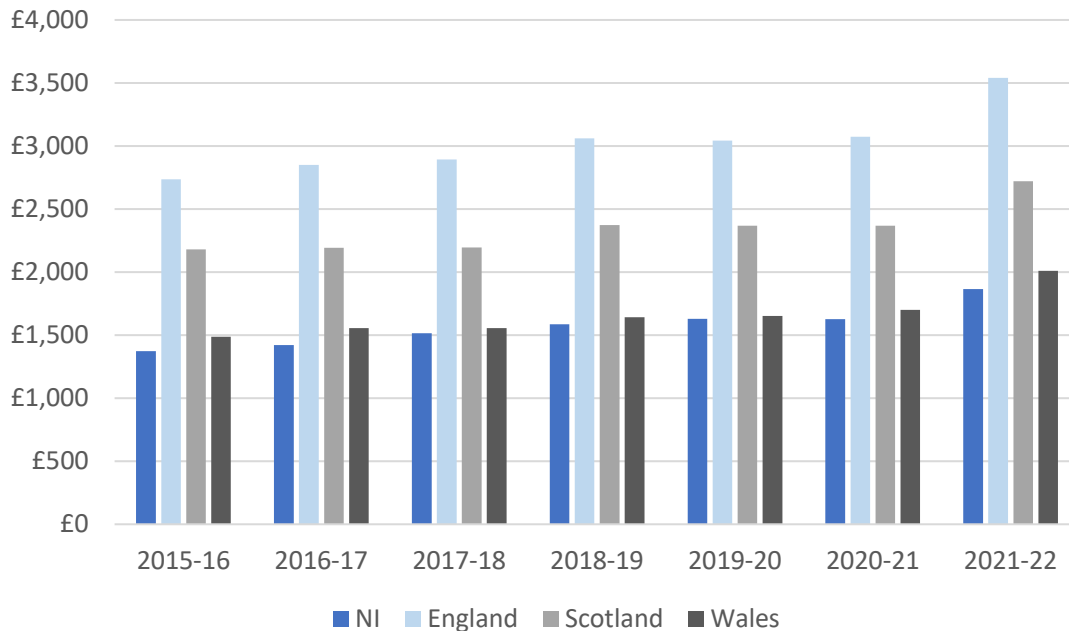


Source: ASHE, Full Time Workers

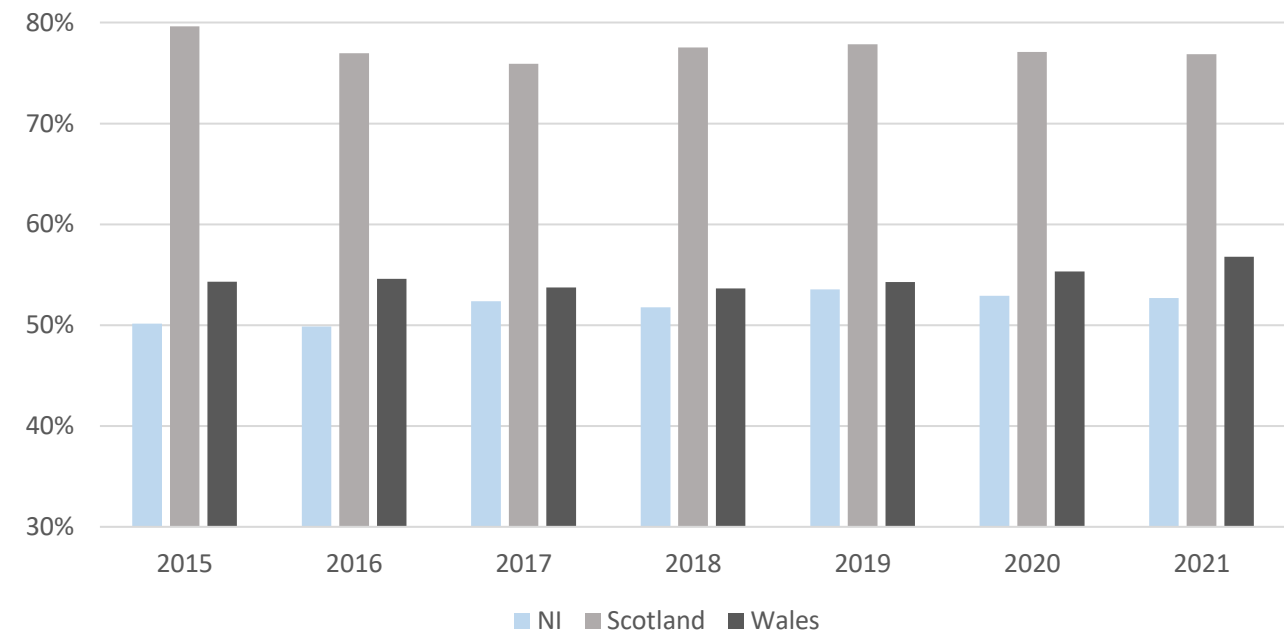
- Median wage levels in England and Scotland are broadly similar and levels in Wales and NI are broadly similar.
- NI median wage is approx. 90% of English and Scottish levels.

Income tax raised per capita

Income Tax raised per capita



Income Tax raised per capita – NI, Scot & Wales as % of Eng

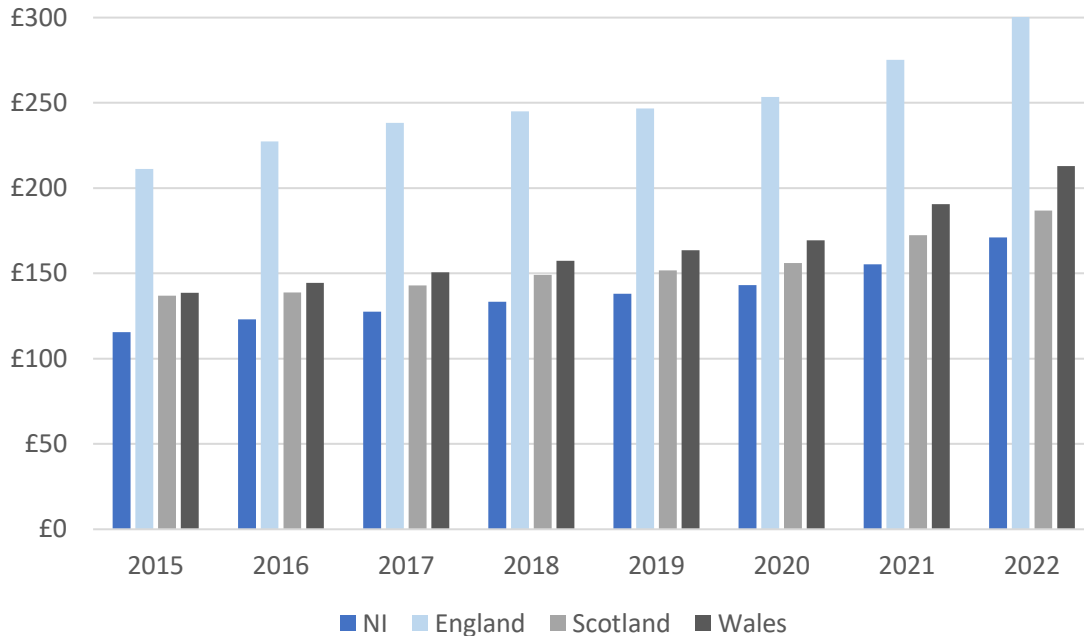


Source: ONS

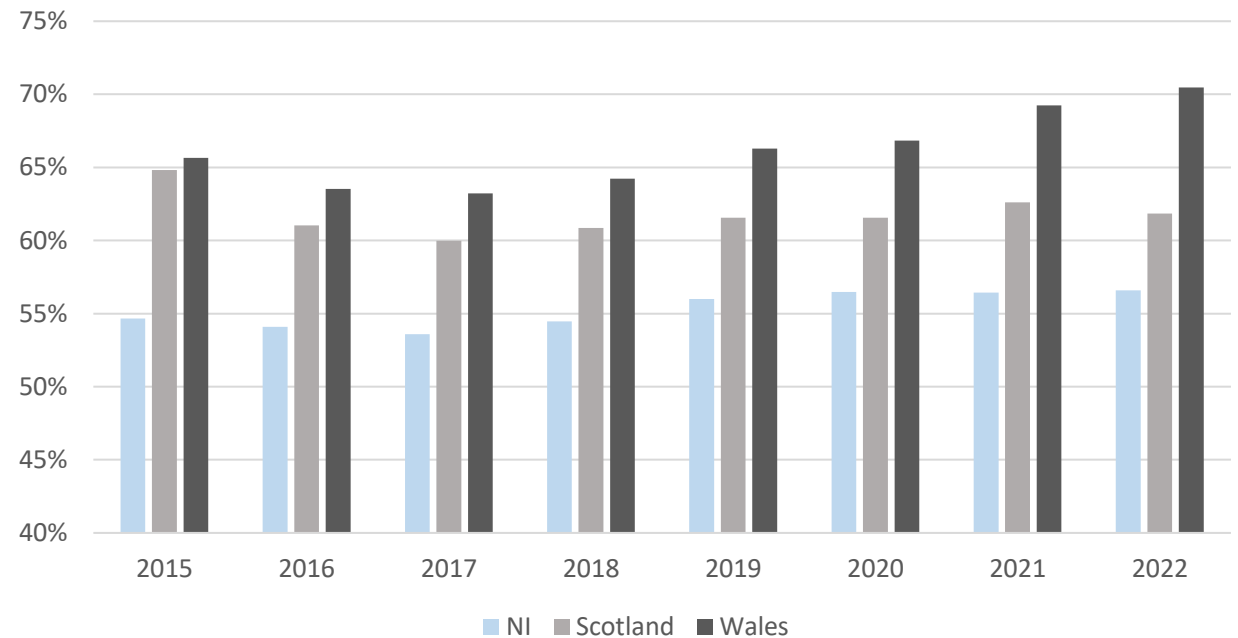
- Income tax revenue per capita in NI is approx. half that in England. Given GDHI and median wage levels in Wales are broadly equivalent to NI levels, income tax raised per capita is also similar.
- Scottish per capita levels are much closer to England.
- Given the tax-free threshold, a lower level of earnings will result in a significantly lower level of tax being paid, hence the differential between NI and England.

Average House Prices

Average House Prices (£'000s)



Average House Prices – NI, Scot & Wales as % of Eng

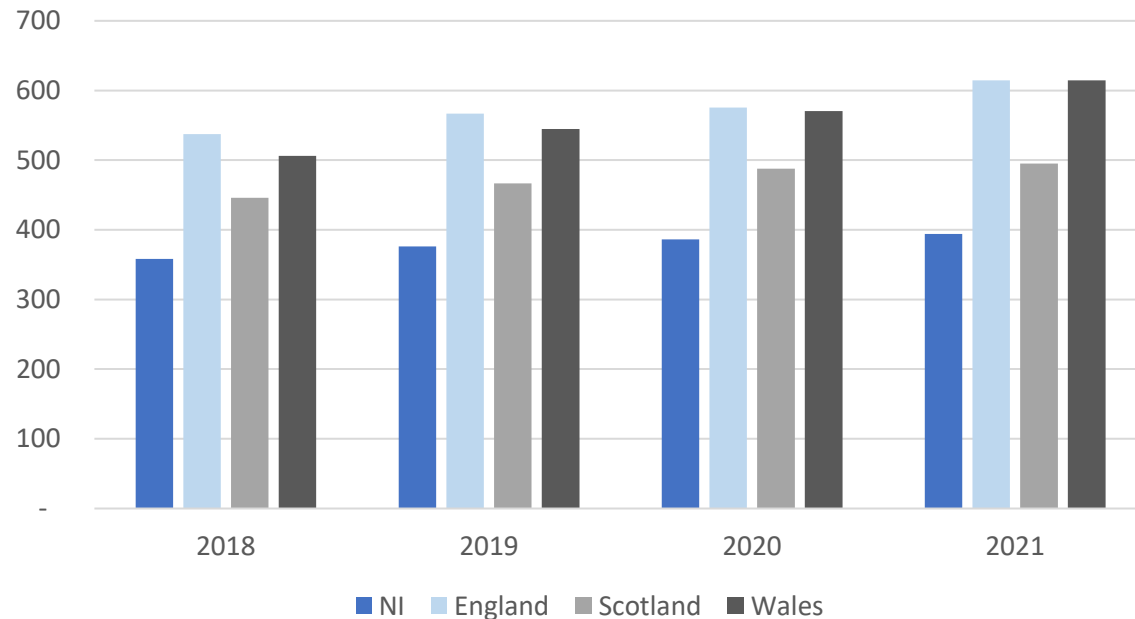


Source: Land Registry & Dept of Finance

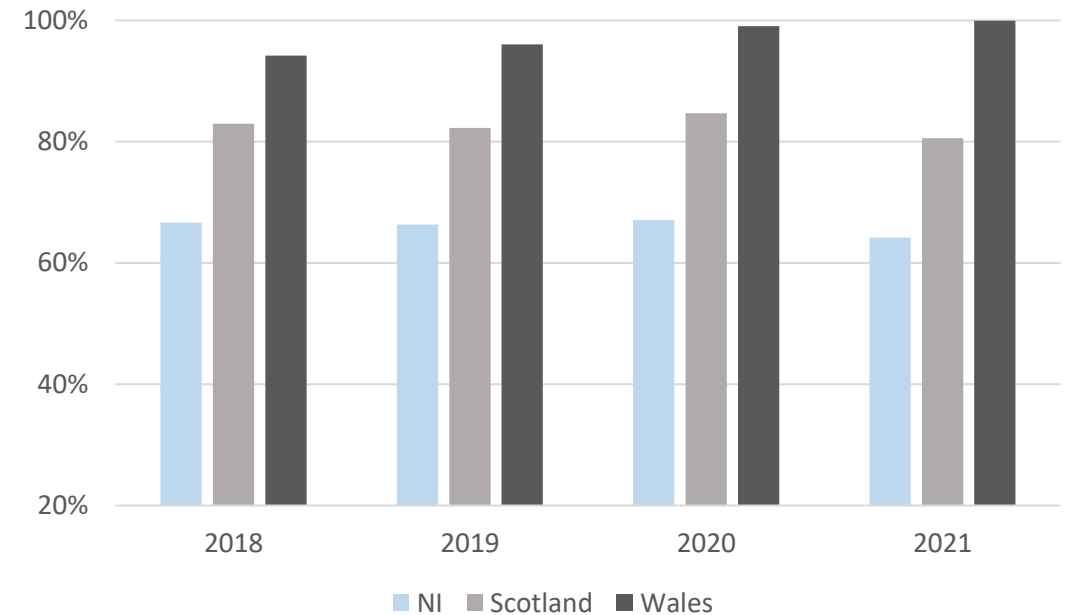
- House prices are significantly higher in England than all other UK nations. Although Wales has lower levels of income than Scotland, house prices are more expensive.
- NI house prices have consistently been the lowest in the UK over this assessment period.

Domestic Rates/ Council Tax revenue

Domestic Rates/ Council Tax Revenue per capita



Domestic Rates/ Council Tax Revenue per capita - NI, Scot & Wales as % of Eng

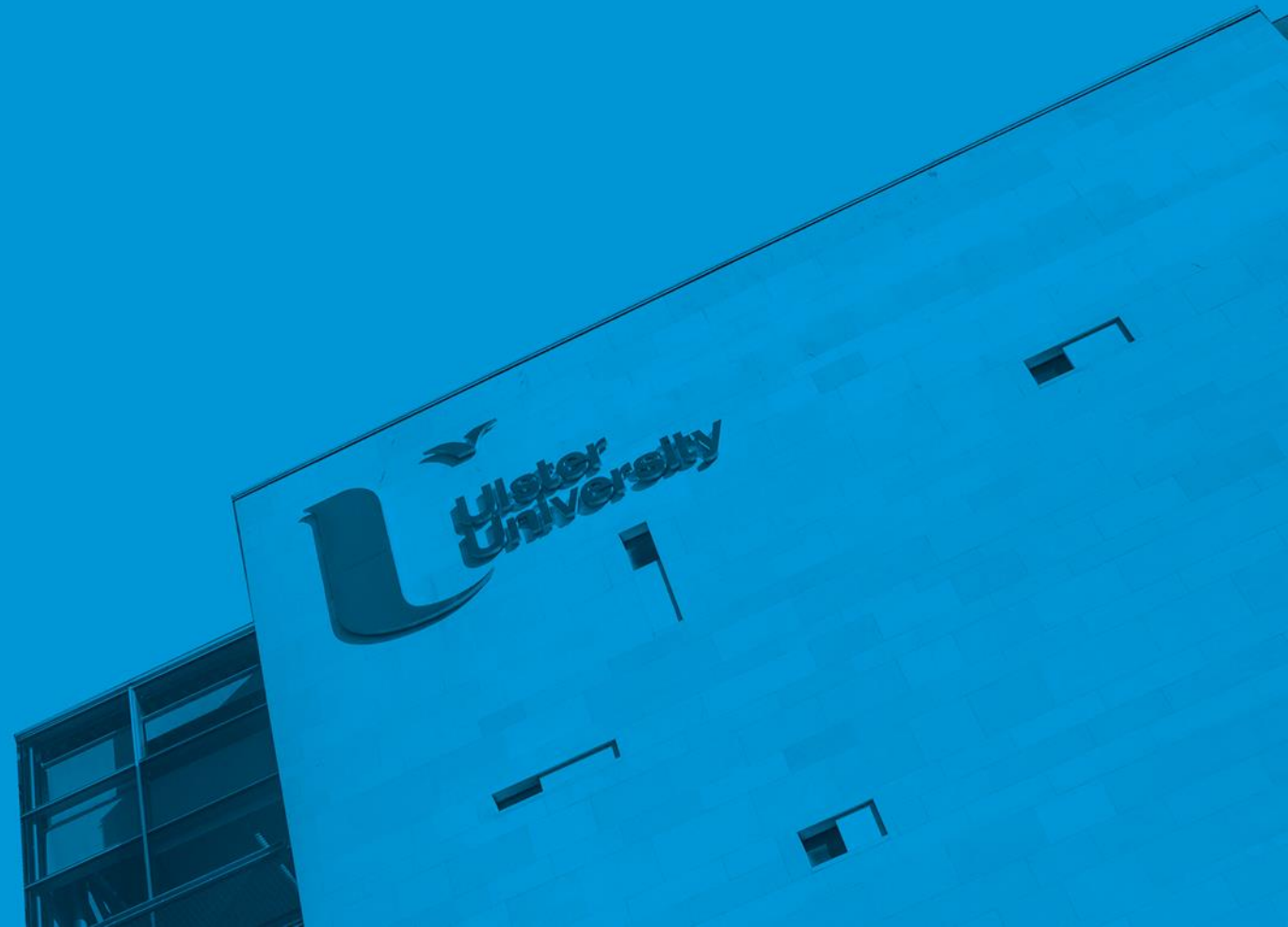


Source: Land & Property Services

- Domestic Rates revenue per capita in NI is approx. 65% of levels of Council Tax revenue in England.
- Council Tax revenue per capita in Wales is very similar to England (even though house prices and earnings are much lower) and Scotland is approx. 80% of English levels.



Conclusions



Conclusions



The following conclusions can be made based on the research undertaken:

- Although the rates/ council tax systems and valuation dates differ across the UK, it is still reasonable to make comparisons of household bills. **However**, the different approach to calculating the “average” household bills in NI compared to the rest of the UK means that **comparisons of published figures are not made on a like-for-like basis**.
- Approx. 88% of properties in NI have a valuation of £200k or below and they represent 75% of the total rates income generated. In contrast, only 1% of properties have a valuation in excess of £400k (i.e. above the current cap) and they represent approx. 3% of total rates collectable. As a result, increasing the rates poundage would significantly increase the burden on those in lower value properties and abolishing the cap would **not** significantly increase revenue.
- Following on from the point above, re. increasing the burden on lower value properties (and by extension lower income households), raising the regional rate would also increase the cost of rate support and, in particular, means tested rates support.
- [contd. overleaf]

Conclusions



[Contd:]

- Analysis of wider economic comparison data with other UK nations has shown that NI lags behind the rest of the UK and in particular England. GDHI in NI is approx. 80% of English levels, median wage 90% and **Income Tax revenue per capita is approx. 50% of English levels**. Given these income and tax statistics it is not surprising that **NI rates revenue per capita is only 65% of Council Tax revenue per capita in England**.
- Although outside the remit of this research, the analysis suggests that given the lower levels of earnings in Wales (and the other data) Council Tax revenue seems quite high.



Annex



Annex A – GB Council Tax Bands

BANDS	ENGLAND	WALES	SCOTLAND
A	Up to £40K	Up to £44K	Up to £27K
B	40K – 52K	44K – 65K	27K - 35K
C	52K – 68K	65K – 91K	35K – 45K
D	68K – 88K	91K – 123K	45K – 58K
E	88K – 120K	123K – 162K	58K – 80K
F	120K – 160K	162K – 223K	80K – 106K
G	160K – 230K	223K – 324K	106K – 212K
H	More than 320K	324K – 424K	More than 212K
I		More than 424K	

END

