

DOUGLAS BOROUGH COUNCIL

Responses to 2019 Consultation on Review and Modernisation of Rates

Non-Domestic Rates

Question 1

Variations in the reduction of rateable value if a property can allow the promotion of particular business sectors or different types of property. Do you believe that there should be an ability to apply a reduction to the rateable values of properties in a particular sector or to different types of property?

No. Once a rateable value is fixed in accordance with a consistent formula, that value should remain fixed and not varied. The application of 20% reductions for domestic properties, offices and shops, 30% for commercial properties including factories and engineering works, 50% for industrial properties and hotels should all be phased out (recognising that the process is already under way in respect of hotels). The Council's preference is for the valuation formula to be based on the capital value of the property rather than the annual rental value.

It is suggested, however, that limited use of rates discount could apply to brownfield site developments to encourage the use of such sites. Temporary rates exemption or discount for a period of, say three, years after development would be a better incentive to developers than Corporate or Income Tax Relief.

Question 2

Should domestic properties from which businesses are operated (e.g. Airbnb rentals; hair/beauty salons; taxi firms etc.) be required to have designated areas of their property, which are related to the business activity, classified as non-domestic areas rather than domestic areas?

If those areas where the business activity takes place can be clearly defined (such as a salon), they should be treated as such. However, where that physical separation is unclear, such as a business operating from a desk in a living room, then the whole property should be treated as domestic. The difference would not matter if the values applied to domestic and non-domestic properties were the same. There would be administrative issues in distinguishing the use of individual rooms for domestic or non-domestic purposes.

Question 3

Should new legislation contain provision for the use of rates as an additional method of encouraging the owners of properties to keep them in good order and to a usable standard?

No. The removal of liability to rates on unusable properties should be ceased but dealing with unsightly, derelict or otherwise unsatisfactory properties should remain a local authority function and those powers extended, rather than using rates as a tool of persuasion. It would be inappropriate to use rating legislation to add to existing powers of enforcement on dilapidated properties, as the liability to rates and the responsibility to keep properties in good order are quite separate. To use the rating system in this way would introduce unnecessary complication to the system.

Question 4

If we do choose to use rates as a method of encouraging renovation and reformation of dilapidated buildings or under-utilised/previously used sites, do you believe rates would be better used to incentivise renovation or to penalise those allowing buildings to fall into a ruinous state?

This question assumes a positive answer to Question 3, which is not the case. Rating should be entirely separate from the process of dealing with unsatisfactory buildings. However removal of the rates exemption for unused property is essential because property owners currently benefit from allowing properties to become derelict.

The Council had proposed the introduction of a Clean Neighbourhoods and Environment Bill in 2013, to improve local authority powers in relation to dilapidated properties, but the detailed proposals were never fully adopted. It is suggested that creation of those powers would enhance the ability of local authorities to act on dilapidated properties so the proposals should be revisited.

Question 5

Under current legislation, “any building solely or principally occupied and used for charitable purposes” is exempt from the payment of rates. Do you think this exemption should continue to cover “charitable purposes” or should this be restricted to Manx registered charities?

Properties used for “charitable purposes” do still use local and utility services and therefore should be subject to rates. There is a lack of clarity over “charitable purposes” as a definition and if the exemption is to continue it needs to be better defined to distinguish those genuinely working for the community. Whether or not a charity is registered is not the best criterion as virtually any single-purpose organisation can register. One distinction that could be applied is whether the property in question is used to deliver the charitable purpose as opposed to whether the property is simply used to raise money for the financing of the charitable purpose. For example, charity shops would not be exempt from rates but a building providing services to homeless people would be exempt.

There should be no distinction between Manx registered charities and those registered within other jurisdictions.

Question 6

At present, premises occupied by charities/charitable purposes receive an exemption on property rates, and water and sewerage provision at a reduced rate or free of charge. Do you think charities should continue to receive an exemption or discount on their rates?

This largely replicates Question 5, and the same applies; there should be no discount or exemption, but if it is decided to continue as at present, the definition of “charitable purposes” should be better defined, possibly by reference to the point at which the service is delivered.

Question 7

At present, each of the rating authorities sets a rate which is charged to the properties in their area and this rate differs across the Island. Manx Utilities on the other hand, applies its set rate to all non-domestic properties on the Island. Should there be an all-Island non-domestic rate which is applied equally across all non-domestic properties on the Island?

Manx Utilities’ services are provided on an Island-wide basis and therefore charged on the same basis across the Island. Local services, provided by local authorities, are decided upon on a local basis and should be charged accordingly. The rate relates to services provided

within the authority's geographical area, which both domestic and non-domestic properties benefit from.

The setting of an all-island non-domestic rate would imperil local accountability and ability to make decisions allocating resources towards local services and amenities.

Question 8

Do you think it is fair that in some Rating Authority areas non-domestic rates subsidise the rate charged to domestic households?

It is fair that areas with high densities of non-domestic properties share the additional income from that across the spectrum of their ratepayers.

The use of the term "subsidise" loads the question towards a specific response. All ratepayers, domestic and non-domestic, use local services and should be treated equally.

Question 9

By whom should non-domestic rates be raised and retained?

There is a presumption that a central authority should be established to raise, collect and distribute funds through rates. That authority would then be involved in decisions on applications from current rating authorities for funding which would effectively give it control over schemes that should properly be decided on a local basis. Raising, collecting and spending local authority and joint authority rates should be local, because the local authorities are responsible for delivering the services the rates pay for. It is not simply a matter of them funding "projects", all rates received by a local authority are applied to pay for both one-off projects and to pay for ongoing services.

Any shortfall to local authorities arising from the loss of non-domestic rates would inevitably significantly increase the costs to be borne by domestic ratepayers. The Council sees the proposal as a means for this additional Government agency to take funding from local authorities and will resist.

Question 10

If non-domestic rates were raised and retained centrally, what do you believe should constitute national community policies?

This question again assumes a positive response to the previous question. The proposal of a centralised rating authority is not accepted. The suggestion that funds would be reallocated to local authorities on application for community projects reflects a lack of appreciation that local services and amenities should be locally decided upon and funded by ratepayers "through rates on domestic and non-domestic properties.

The proposal could lead to loss of a significant proportion of local authorities' income. The Council remains totally opposed to any suggestion of an all-Island rating authority, or an all-Island rate, although not opposed to a rating system based on five areas – North, South, East, West and Douglas.

Question 11

If we were to change the method of raising rates, do you think that a transition period should be provided to minimise any potential impact on domestic rates relating to current or ongoing projects being undertaken by Rating Authorities?

This question, together with Questions 12 and 13, are ambiguous. It is unclear whether “change in the method of raising rates” refers to the switch from rental value to area based valuations, or whether it refers to central collection and allocation of business rates.

There should be no change in the method of raising rates as the only change envisaged is in the way valuations are decided. Variations arising from the revaluation of properties’ rateable values (the purpose of the exercise as set out in the Consultation Document) should be phased in order to minimise adverse impact on ratepayers. **The Council does not support any change to the rating system that would involve any form of central raising and allocation of non-domestic rates.**

Question 12

For those that face a change in their non-domestic rates, should a transition period be granted to allow them to factor the change in to their financial planning?

As with the previous question, changes should only be through revaluation, and if there are to be any changes, then these should be phased in over ten years to reduce adverse impact.

Question 13

If a transition period were to be introduced, how do you think it would be best implemented?

By phasing both increased and decreased liability over ten years.

Question 14

The use of prompt payment discount is not commonly applied when raising public revenue in the Isle of Man. As such, it is being considered that rates should be brought in line with other forms of revenue collection by removing the prompt payment discount and instead adopting a late payment penalty, as with income or vehicle tax. Do you agree that this should be considered?

The prompt payment discount does generate an income flow early in the financial year to local authorities and therefore some incentive for early payment should be retained. There would however be issues in changing to adopting a deadline after which penalties will apply, in relation to how that date is fixed, particularly where properties change hands during the year. That would introduce unnecessary complexity. Furthermore any imposition of a penalty only at the end of the rating year would disincentivise against early payment and could generate cashflow problems for local authorities.

It is also suggested that as well as an early payment discount being applied at the discretion of the rating authority, a small discount for payment by Direct Debit could be introduced, which would benefit the rating authority by reducing administrative costs. Local authorities should be given the discretion and flexibility to determine the proportion of the overall discount level which could be given to prompt payment and the proportion applicable to payment by direct debit.

In other words, the Council does not support the use of a late payment penalty (the existence of an early payment discount and even a direct debit discount should be sufficient in this regard.)

Question 15

Do you think the Government and/or other public bodies should pay rates on the buildings they own or occupy or should this money be spent elsewhere?

No reason has been suggested for the Government and other public bodies being exempt from liability to rates on buildings they own or occupy. Government and other public bodies should pay rates in the same way as other property owners as they benefit from the same services and amenities. .

Domestic Rates

Question 16

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As for Question 14, the prompt payment discount does generate an income flow early in the financial year to local authorities and therefore some incentive for early payment should be retained. There may be issues in changing to adopting a deadline after which penalties will apply, in relation to how that date is fixed, particularly where properties change hands during the year.

Any penalty could only be applied realistically at the end of the year in which rates remain unpaid, and that is flawed as it would disincentivise earlier payment and cause major cash-flow problems for local authorities.

It is also suggested that as well as an early payment discount being applied at the discretion of the rating authority, a small discount for payment by Direct Debit could be introduced, which would benefit the rating authority by reducing administrative costs.

There should be no differentiation in the application of rules on rates payments on domestic and non-domestic properties; all form part of the same "pot" of local authority funding should be treated similarly.

Question 17

Do you think that discounts should be available on Manx rates?

A rebate scheme based on the number of occupants of a property would not be beneficial. It would be impossible to monitor and susceptible to fraud or misuse. Rates are a tax on the property, not a form of Income Tax.

Question 18

If you believe that discounts should be available, should these form part of the Social Security system that is managed through the Treasury Department?

No. Discounts based on occupancy levels should not be made available as rates are a tax on the property rather than on the individual.

Question 19

The water and sewerage costs continue to be included on the rates invoices to reduce the costs of administration. However the property rates are calculated on a different basis. Property rates are set by each Rating Authority and differ between Rating Authority areas, whereas water and sewerage are set at an Island-wide rate. As such, should they continue to be charged on the same invoice?

Douglas administers collection of its own rates and issues its own rates invoices very effectively. Its collection percentage in the current year is 100%. But where a local authority issues its invoices through the Treasury, there is no obvious reason to separate them from other property charges.

Question 20

In the 2015 consultation, a system of banding was suggested where properties of similar value would be required to pay the same amount in respect of property rates. Do you believe that a banding system would be beneficial?

The Council's response to the 2015 consultation was that primarily the rateable value should be based on capital rather than rental value, and that any banding applied should be adjusted annually for inflation. However, the view of the Council remains, as in 2015, that it is preferable to use actual values rather than banding.

Question 21

Using the area valuation method, each Rating Authority (and Manx Utilities) would set a rate per square metre. Do you believe that a flat rate per square metre should be applied across all properties within that rating area or should an adjustment be made for the location of the property within that area?

Rates are relative to services and amenities provided rather than to the location of a property.

If, as the Council prefers, the rateable value is decided according to the capital value of the property, rather than its area, then the location is already taken into account. However, if Government did go down the route of a rate per square metre, then the system should be kept simple with no adjustment for location, which would be a recipe for over-complicating the system.

Furthermore, the Council would reiterate the following recommendations it made in response to the 2015 consultation:

- That the notice period to be given to owners of their liability for rates on default of tenants should be within six months after the year end rather than one month; and
- That the obligation of occupiers to provide information should be extended to include a similar obligation on the part of property owners."

The Council would seek assurances that any move to valuations based on area would not lead to errors and inaccuracies, which will only lead to numerous appeals.