

**EXPLANATORY MEMORANDUM TO THE
RATES (REGIONAL RATES) ORDER (NORTHERN IRELAND) 2007**

SR 2007 No. 52

1. General

- 1.1 This explanatory memorandum has been prepared by the Department of Finance and Personnel and is laid before Parliament by Command of Her Majesty.

2. Description

- 2.1 The Order fixes the amount of the regional rates for the year ending on 31st March 2008. It fixes 29.10 pence in the pound as the amount of the regional rate for non-domestic property and 0.3608 pence in the pound as the amount of the regional rate for domestic property.

3. Matters of special interest to the Joint Committee on Statutory Instruments

- 3.1 None.

4. Legislative Background

- 4.1 The Order, which is made annually, fixes the amounts of the regional domestic and non-domestic rates that are to be used in the assessment to rates and the billing of ratepayers in Northern Ireland.
- 4.2 The Rates (Making and Levying of Different Rates) Regulations (Northern Ireland) 2006 [S.R. 2006 No. 498] authorise different regional rates to be made and levied on the rateable net annual values of hereditaments (non-domestic) and the rateable capital values of hereditaments (domestic).

5. Territorial Extent and Application

- 5.1 The Order applies only to Northern Ireland.

6. European Convention on Human Rights

- 6.1 As the Order is subject to negative resolution procedure and does not amend primary legislation, no statement is required.

7. Policy Background

Background

- 7.1 The spending plans in the Northern Ireland budget are funded by allocations received in the Spending Review announced by the Chancellor of the Exchequer and also by revenues raised through the regional rates. The percentage increases in the regional rates are decided as part of the budget process and reflect the

decisions made in the budget, which contribute towards services provided by Government departments.

- 7.2 Following a period of consultation, the Secretary of State, Peter Hain MP announced in December 2005 the intention to bring forward to Parliament the percentage increases for 2007/2008 of 6.0% and 3.3% for the domestic and non-domestic sectors respectively. Although the domestic system has been revalued on a capital value basis as opposed to rental values, the increase to the Regional Domestic rate poundage on last year is the equivalent of 6%.
- 7.3 No consultation however takes place on the Regional Rates Order as it is a technical Order that simply fixes the appropriate monetary values to be applied for the incoming financial year.
- 7.4 There is a high degree of media, political and general public interest when both the annual percentage increases in the regional rates (paragraph 7.2 above) and the actual rates in the pound (paragraph 2.1 above) as contained in this Order are announced.
- 7.5 The Order is legally important in that it allows for the billing, collection and recovery of rates from 1st April of any year. Failure to bring the Order into operation on that date would lead to significant adverse consequences for the funding of public services through delays in billing and collection of rates.

Rate reform

- 7.6 The decision to change the basis of the valuation of domestic property from rental value to capital value was taken in December 2002 after consultation, as part of the Review of Rating Policy, which began in May 2002. All documentation relating to reform of the domestic sector can be found at the website address below:
<http://www.ratingreviewni.gov.uk/index/domestic/domestic-background/pub-2002-cons.htm>
- 7.7 A consequence of introducing a domestic tax base based on capital values and a non-domestic tax base that will continue to be based on rental values was that the method for striking the regional rates required revision. The capital value (domestic) and net annual value (non-domestic) components of the regional rates will now be struck independently of each other.

Domestic Rate Aid Grant

- 7.8 Article 27 of the Rates (Northern Ireland) Order 1977 [S.I. 1977/2157 (N.I. 28)] provided for a reduction in the amount of the normal regional rate payable each year on a dwelling house and the domestic part of a property that contained both domestic and non-domestic elements. The reduction was known as the Domestic Rate Aid Grant (DRAG), applied only to the domestic regional rate and was shown separately in the annual Regional Rate Order.

- 7.9 DRAG was the mechanism through which the balance between the domestic and non-domestic regional rates was maintained.
- 7.10 The Rates (Making and Levying of Different Rates) Regulations (Northern Ireland) 2002 [SR 2002 No. 409] enabled different rates to be made and levied on domestic and non-domestic property and stipulated the relationship between the two.
- 7.11 They provided that the domestic rate bore the same relation to the non-domestic rate as the aggregate Net Annual Value (NAV) of non-domestic properties at 1st April 2001 bore to the aggregate NAV of such properties at 1st April 1976.
- 7.12 Given this factorisation/relationship between the two, DRAG was needed in order to ensure that different rate increases could be set in the regional domestic and non-domestic sector while still maintaining this underlying balance. Without this it would not be possible to set predetermined rate increases for the two sectors.
- 7.13 The Department however considered that factorisation was no longer needed in terms of the regional rate and that the domestic and non-domestic regional rate increases should be independently determined. In the absence of factorisation and the link between the two sectors, DRAG was therefore no longer needed. As such, Article 27 was repealed by Article 28 of the Rates (Amendment) (Northern Ireland) Order 2006 [S.I. 2006/2954 (N.I. 18)].

8. Impact

- 8.1 No Regulatory Impact Assessment was prepared. The Order applies the regional rates to all domestic and non-domestic property in Northern Ireland through the billing and collection of rates.
- 8.2 The removal of Domestic Rate Aid Grant (DRAG) from the domestic regional rate has no consequences for rate bills post 1st April 2007 as regional domestic rate changes are based on the net-of-DRAG position.
- 8.3 It is estimated that, for the purposes of funding public expenditure, the regional rates will raise approximately £500.6m in 2007/2008.

9. Contact

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