

EXPLANATORY MEMORANDUM TO

The Rates (Small Business Hereditament Relief) Regulations (Northern Ireland) 2010

S.R. 2010 No. 004

1. Introduction

- 1.1. This Explanatory Memorandum has been prepared by the Department of Finance and Personnel ("the Department") to accompany the Statutory Rule (details above) which is laid before the Northern Ireland Assembly.
- 1.2. The Statutory Rule is made under Article 31C of the Rates (Northern Ireland) Order 1977 and is subject to the negative resolution procedure.

2. Purpose

- 2.1. These Regulations provide for rate relief in respect of certain small business hereditaments for the period up to 31st March 2015. The Regulations also provide for enhanced relief for post offices.
- 2.2. Regulation 1 – contains the citation and commencement provisions.
- 2.3. Regulation 2 – contains the interpretation provisions.
- 2.4. Regulation 3 – provides for the relief available for qualifying hereditaments. A 50% reduction in rates if the NAV of the hereditament does not exceed £2,000 and a 25% reduction if the NAV exceeds £2,000 but does not exceed £5,000.
- 2.5. Regulation 4 – provides for the relief available for post offices. A 100% reduction in rates if the NAV of the hereditament does not exceed £9,000 and a 50% reduction if the NAV exceeds £9,000 but does not exceed £12,000.
- 2.6. Regulation 5 – provides that the reductions under regulations 3 and 4 apply only to the extent that they do not contravene the State aid rules of the European Community. The relief is being granted as de minimis aid in line with Commission Regulation (EC) No. 1998/2006 on the application of Articles 87 and 88 of the Treaty to de minimis aid. There is currently a ceiling of 200,000 euros on the total de minimis aid that can be granted to any one business undertaking in the UK from all public sources over a rolling 3 year period. As aid in Northern Ireland will be granted in sterling the equivalent amount in euros must be calculated using the exchange rate which was current at the time the aid was granted.
- 2.7. Regulation 6 – provides that where rates are payable by the landlord rather than by the occupier of a hereditament, the relief is conditional on the landlord applying the amount of the relief for the benefit of the occupier.
- 2.8. Schedule – the Schedule lists the types of hereditaments which are excluded from the scheme ("excepted hereditaments").

3. Background

- 3.1. The idea of a small business rate relief scheme was first raised in an Executive consultation paper in May 2002. It recognised that there was evidence that rates are a higher percentage of overheads for smaller firms. The case for a scheme was again examined and consulted on as part of a review published in March 2005. At that time Direct Rule Ministers took the decision not to implement a scheme as there was concern that it would not target those businesses most in need. They concluded that a review of the case for introducing small business rate relief should be carried out during 2007.
- 3.2. The Economic Research Institute of Northern Ireland (ERINI) carried out the review in 2008 to establish if there was sufficient rationale for implementing the scheme and how it would be funded. They examined the success of similar schemes in England and Wales and looked at the State aid implications which may be created by such a scheme. Their conclusions were based on consultation with stakeholders, evidence obtained and analysis carried out. ERINI concluded that there was no compelling economic justification for implementing a small business rate relief scheme but that if the Executive were still minded to do so the Welsh model should be followed.
- 3.3. Due to the significant change in economic circumstances after the ERINI Report the then Finance Minister announced his decision to implement the scheme on 15th December 2008. This announcement was welcomed by small businesses in Northern Ireland. Provision was then made in the Rates (Amendment) Act (Northern Ireland) 2009 enabling such a scheme to be introduced on 1st April 2010.

4. Consultation

- 4.1. The Department carried out a consultation on the initial Integrated Impact Assessment focusing on the impact of the scheme rather than the policy behind it. The consultation period closed on 23 June 2009 and 12 responses were received. There was universal support for the enhanced post office scheme with only one respondent strongly opposed to the “retail” relief scheme. The main concerns of the respondents were that the scheme would not be targeted towards areas of higher social need and many small businesses with higher NAVs, in areas such as Belfast, would not benefit from the scheme. However most were of the opinion that the scheme was welcome especially in the current economic climate.

5. Equality Impact

- 5.1. An initial Equality Impact Assessment of the scheme did indicate that the eligible small businesses are more likely to be located in wards which tend to have a higher proportion of persons from a Catholic community background.

6. Regulatory Impact

- 6.1. An initial Regulatory Impact Assessment was undertaken in relation to the scheme, the results of which suggest that the scheme will not have a detrimental impact on the degree of competition in the market for goods

and services affected by the policy. There is also no detrimental impact on small businesses.

7. Financial Implications

- 7.1. The scheme, including enhanced relief for post offices, is expected to cost between £9m and £10m per annum in lost revenue. The relief will be applied automatically and as no application process will be needed administrative costs are expected to be minimal.

8. Section 24 of the Northern Ireland Act 1998

- 8.1. It is the view of the Department that these Regulations are compatible with section 24 of the Northern Ireland Act 1998.

9. EU Implications

- 9.1. See paragraph 2.6.

10. Parity or Replicatory Measure

- 10.1. Similar rate relief schemes exist in the rest of the UK and the Department took the decision on the recommendation of ERINI that the Northern Ireland scheme would be based on the Welsh scheme under the Non-Domestic Rating (Small Business Relief) (Wales) Order 2006 (S.I. 2006/3345 (W. 306)).
- 10.2. Subsequent changes made to the Welsh scheme in 2007 in relation to retail premises, child care premises and credit union premises have not been adopted in the Northern Ireland scheme. The Northern Ireland scheme, therefore, follows the structure of the original Welsh scheme with one level of relief for certain qualifying hereditaments and enhanced relief for post offices. However the Northern Ireland scheme also makes a number of modifications to the "excepted hereditaments" in the Welsh scheme as there are differences in the way data on hereditaments is held in Northern Ireland and the way in which certain types of hereditaments are legislated for.

11. Additional Information

- 11.1. Not applicable.