

**EXPLANATORY MEMORANDUM TO THE
RATES (INDUSTRIAL HEREDITAMENTS) (AMENDMENT) ORDER
(NORTHERN IRELAND) 2007**

S.R. 2007 No. 1

1. General

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

2. Description

- 2.1 This Order provides that for the financial year beginning on 1st April 2007 rates shall be chargeable on 30 per cent. rather than 35 per cent. of the net annual value of an industrial property where the property is used wholly for industrial purposes. Where an industrial property is used partly for industrial purposes, rates shall be chargeable on 30 per cent. rather than 35 per cent. of the part of the net annual value which has been apportioned to the use of property for industrial purposes (in addition to the rates chargeable for the part of the property used for other purposes).

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

- 3.1 None.

4. Legislative Background

- 4.1 The Order amends paragraph 4(3)(c) of Schedule 7 to the Rates (Northern Ireland) Order 1977 [S.I. 1977/2157 (N.I. 28)] and provides that for the financial year beginning on 1st April 2007 the rateable net annual value of an industrial property used wholly for industrial purposes shall be 30 per cent. rather than 35 per cent of its net annual value.
- 4.2 In the case of an industrial property used partly for industrial purposes paragraph 4B(1)(za) of Schedule 7, in the computation of the rateable net annual value, applies the percentage in paragraph 4(3)(c) to the part of the net annual value of the property apportioned to the use of the property for industrial purposes.

5. Territorial Extent and Application

- 5.1 The Order applies only to Northern Ireland.

6. European Convention on Human Rights

- 6.1 In the view of the Department, the provisions of this Order are compatible with Convention rights.

7. Policy Background

Background to industrial derating and its removal

- 7.1 Until 31st March 2005 properties occupied and used for industrial purposes were exempt from rates in Northern Ireland. This exemption, commonly known as “industrial derating”, dates back to 1929 and applied throughout the United Kingdom. It was abolished in England and Wales in 1963 and phased out in Scotland by 1995.
- 7.2 The question of the removal of industrial derating was included in the consultation paper on the Review of Rating Policy in Northern Ireland launched in May 2002 by the then Northern Ireland Executive.
- 7.3 The public consultation process revealed broad support for removing this measure. Two committees of the Northern Ireland Assembly, i.e. the Committee for Finance and Personnel and the Committee for Enterprise, Trade and Investment were in favour of removal. Several political parties gave qualified support for phasing out industrial derating in the long term and reaction from business organisations was mixed.

Publications relating to the consultation can be found at:

<http://www.ratingreviewni.gov.uk/index/domestic/domestic-background/pub-2002-cons.htm> .

- 7.4 Following specific consultation on the removal of industrial derating in April 2003, the Government announced its decision to remove industrial derating and the legislation to do so was contained in the Rates (Amendment) (Northern Ireland) Order 2004 (S.I. 2004/703 (N.I. 4)) (“the 2004 Order”).
<http://www.opsi.gov.uk/si/si2004/20040703.htm> .
- 7.5 The 2004 Order provided for the phasing out of industrial derating from 1st April 2005 and manufacturers would begin to pay rates at the following percentages of full rate liability:

YEAR	% OF FULL RATE LIABILITY
2005/2006	15
2006/2007	25
2007/2008	35
2008/2009	50
2009/2010	75
2010/2011	75
2011 onwards	100

Publications on the above consultation and consultation on the legislation can be found at:

<http://www.ratingreviewni.gov.uk/index/nondomestic/non-domestic-background/non-dom-pub-industrial-derating.htm> ; and
<http://www.ratingreviewni.gov.uk/index/nondomestic/non-domestic-background/non-domes-pub-draft-order-2003.htm> .

Background to change to the legislation

- 7.6 Since the re-introduction of rates to the manufacturing sector from 1st April 2005, serious concern has been expressed that the measure is having a detrimental effect on business. A campaign led by the Northern Ireland Manufacturing Focus Group (NIMFG) culminated in an Assembly debate on 6th June 2006 to consider the motion:

“That this Assembly, pending the restoration of a fully devolved Assembly and power-sharing Executive:

- (a) calls on the Secretary of State to freeze the Industrial Rate at 25%;*
- (b) agrees with the Northern Ireland Manufacturing Focus Group that the introduction of full Industrial Rates as currently planned by the Government will lead to devastation in the manufacturing sector and the loss of thousands of jobs; and*
- (c) therefore calls on the Secretary of State to deliver on his undertaking to act upon the agreed position of all the political parties, and cap the Industrial Rate at 25% ”.*

- 7.7 The motion was carried. In addition the matter was considered by the Assembly’s Programme for Government Committee and its subgroup on Economic Challenges facing Northern Ireland.
- 7.8 In September 2006, following approaches from NIMFG and the Trade Union Amicus, the Secretary of State for Northern Ireland, the Rt. Hon Peter Hain MP, agreed to set up a working group to hear their concerns and consider evidence in advance of a formal policy review scheduled for April 2007. As a result the Government agreed to slow down the planned phasing in of industrial rates pending the review next year and to change the percentage liability from 35% to 30% for 2007/2008.

8. Impact

- 8.1 The Order applies only to industrial properties benefiting from industrial derating in Northern Ireland.
- 8.2 A Regulatory Impact Assessment (RIA) is not considered necessary for this adjustment as the wider policy (the phasing out of industrial derating) has already been the subject to this assessment. Furthermore, the wider policy is to be subjected to a formal review commencing April 2007.
- 8.3 It is estimated that the reduction from 35% to 30% of full rate liability in 2007/2008 will result in a loss in rate revenue of £3.7m in that year.

8.4 There are no significant impacts on staffing on the public sector.

9. Contact

Brian McClure at the Department of Finance and Personnel Tel: 028 9127 7668
or e-mail brian.mcclure@dfpni.gov.uk can answer any queries regarding this
Order.