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MEMORANDUM E (20) 211 (C)

**FROM: EDWIN POOTS MLA
MINISTER OF AGRICULTURE, ENVIRONMENT AND RURAL AFFAIRS**

DATE: 17 SEPTEMBER 2020

TO: EXECUTIVE COLLEAGUES

FINAL EXECUTIVE PAPER – FINANCIAL ASSISTANCE DUE TO CORONAVIRUS TO PRODUCERS IN THE ORNAMENTAL HORTICULTURE SECTOR

Introduction

1. The COVID-19 pandemic has caused significant and long-lasting impacts on the domestic ornamental horticulture production sector in Northern Ireland. Following the NI Executive agreement on 15 May to a £25m financial support package and my subsequent written statement to the Assembly on 30 June, I propose to support this sector through a financial assistance scheme. The use of the Financial Assistance Act (Northern Ireland) 2009 is required to support this scheme and a determination and designation is required, and therefore I am bringing the proposal to your attention for consideration.
2. I have written to First and Deputy First Ministers seeking such a determination and their response has supported this proposal. This paper now sets out the proposed scheme.

Background

3. Garden centres, one of the key routes to market for ornamental plant products, had been effectively closed as a result of the provisions of the Health Protection (Coronavirus, Restrictions). They reopened following amendments to the regulations on 15 May; however, most of the intense trading period for the sector (March – June) had passed by that stage. Growers in the ornamental horticulture sector have consequently suffered losses due to the market closure for bedding, cut flowers and other plants prior to the reopening of garden centres under restrictions. In Northern Ireland, there are 240 producers selling approximately £25.5 million of product per

OFFICIAL - EXECUTIVE

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year. The main outlets for produce are direct sales, garden centres, multiple retailers, and local retailers in Northern Ireland and the Republic of Ireland. There is a narrow window for sales and a short shelf life for annual bedding plants, with 60% of annual sales occurring from March to June. Generally these horticultural businesses do not pay rates so have been unable to access the £10k and £25k Covid-19 business grants from the Department for the Economy. DAERA officials have made an assessment through engagement with growers and from other sources of the potential loss. This information has indicated that losses in the region of £1.5 - £2m have been incurred by the ornamental production sector in Northern Ireland during the period March to June.

4. The annual turnover for some ornamental crop businesses has been significantly reduced. This is due to a combination of, loss of sales during the lockdown, discounting prices (50% for some in mid-March to shift product which had a 10 day shelf life) and a shortage of product to sell later in the year.
5. As some EU Member States have prioritised support for their ornamental sector, this could provide an opportunity for EU producers to replace domestic producers and to fill the gap created by their potential collapse if financial assistance is not provided.

Discussion

Proposed scheme – high level principles

6. The Ornamental Horticulture Scheme will follow design principles to ensure good governance, avoid unnecessary bureaucracy and ensure that the scheme complies with legal requirements. These principles include:
 - Support for evidence-based losses caused by market disturbance;
 - Support targeted to those impacted most financially;
 - Compliance with State Aid rules;
 - Simple approach and flexible to administer / minimum bureaucracy;
 - Compliance with good governance and accountability;
 - Measures to avoid over compensation of losses / consideration of benefits from other schemes;
 - Partnership approach with stakeholders;
 - Compliance with Section 75 obligations.

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7. These high level principles are intended to provide a framework to ensure that support is focused on those businesses that are facing significant and long-lasting financial impacts from the current COVID-19 restrictions.
8. The specific proposals for the Ornamental Horticulture Scheme are as follows:
 - Businesses must be registered on DAERA's Registered Authorised Professional Operator (RAPO) list as at 1 April 2020 or be a producer of fresh cut flowers, and must be VAT registered as at 1 April 2020;
 - Businesses must demonstrate a financial loss. The scale of that loss will be determined by an assessment of the sales of relevant plants. The scale of financial loss will be based on the difference between actual sales (including accruals) for the stipulated period, 1 March to 30 June 2020, and the average over the last three years (prior to the current one) for the same period. All evidence provided by individual businesses in support of their claim must be confirmed by a qualified accountant;
 - Financial assistance of up to 80% of the eligible loss will be available under the scheme, up to a maximum of €120,000 per business (i.e. the State Aid limit for both de-minimis and Temporary Rules). DAERA is aware that some growers have received benefit from the Self Employment Income Support Scheme (up to £7.5k per person) to compensate for loss in profits, have used the furlough scheme for their staff, and the Bounce Back Loan Scheme to reduce costs of capital. The support payment should therefore be a contribution towards losses incurred, in particular the working capital or production costs as opposed to the profit element. It is estimated that the total cost of this intervention will be up to £1.6m;
 - Businesses which pay business rates and availed of the Covid-19 Small Business Grant Scheme or the Retail, Hospitality, Tourism and Leisure Grant Scheme will not be eligible for this proposed measure. Such businesses will not only have obtained grant aid, but will also have other business and retail interests which could have generated an income stream and so are not critically dependant on production activities and exposure to losses of working capital.

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9. It is proposed that the period covered shall be restricted to 1 March – 30 June 2020, which is the period when approximately 60% of annual trade occurs within this sector.

Financial Implications

10. As advised in EXEC-0080-2020, because of these unique circumstances, ornamental horticulture businesses are now facing significant financial losses. The Small Business Grant Scheme is predicated on the rateable value of the business premises. This has precluded certain sectors, including most of the ornamental horticulture sector, which do not pay business rates. Ornamental horticulture businesses will be eligible for the Self-employment Income Support Scheme and Coronavirus Business Interruption Loan Scheme. However, these measures may not be sufficient to save a number of these businesses because of their scale and the amount of working capital tied up in annual bedding plants. Particularly vulnerable are the relatively small number of specialist growers that concentrate on producing plants for onward sale to retail outlets and which have no other aspects to their business. Due to the fact that the main route to market was closed for the most part of this sector's short season, there is a case for government intervention.
11. Based on preliminary work, the proposed support for the ornamental horticulture sector would require budget provision of up to £1.6m, which is included in the COVID-19 £25m financial support package.

Discussion with other UK Administrations

12. DAERA continues to work closely with stakeholders and other UK administrations to assess the impacts of the COVID-19 situation. To date DEFRA has not proposed a financial assistance intervention.
13. A Dutch Government scheme was announced for the potato and floriculture sector, which provides financial support to growers based on the decline in turnover in the period of 12 March to 11 June compared with average turnover in the years 2017, 2018 and 2019. A suite of measures was introduced by the Italian authorities to assist agricultural and horticultural undertakings in the Campania region of Italy, including Campanian floricultural producers. Aid is calculated on the basis of the relative decline in turnover over the period March-April 2020 compared with the same period in 2019. Support is capped at EUR 10,000 per undertaking.

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Consultation

14. Officials have been in contact with industry groups and associations throughout the period. I had a virtual meeting with representatives of the ornamental horticulture associations including business owners on 18 June to consider their issues before deciding on the allocation of Covid-19 support package. Given the urgent need for legislation to be in place to allow financial assistance to be issued as soon as possible, the Department will take forward a short teleconference consultation on the draft regulations.

Legislative Implications

15.

LPP/LAP

16. The First and Deputy First Ministers are supportive of the proposal to designate my department to make regulations regarding such a scheme. The 2009 Act, section 1(5) provides that regulations made under that section are subject to the negative resolution procedure. Any regulations made by a Northern Ireland department following designation, must be approved by The Executive Office. Those regulations must be made within 3 months of the making of the determination by First Minister and deputy First Minister.
17. Draft regulations have been developed, and following consideration by the AERA Committee, these would be submitted for the formal endorsement of The Executive Office as required by the Financial Assistance Act (Northern Ireland) 2009.

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Timing/Other Issues

18. Regulations must be made and in operation to enable affected businesses to apply for assistance. To provide timely financial support, it is hoped the regulations will be operational by late September, applications received in October, and payments made as soon as possible after that.

Recommendation/Executive Decision Sought

19. The Executive is asked to:
 - i. note the First and Deputy First Ministers' support for the proposal to provide financial assistance to the ornamental horticulture industry;
 - ii. agree in principle to provide financial assistance to mitigate the effect of this hardship by means of a scheme provided for in accordance with the Financial Assistance Act (NI) 2009;
 - iii. note and approve the details of the financial assistance scheme included in this paper; and
 - iv. agree that a Determination and Designation in accordance with the Financial Assistance Act (NI) 2009 is made. A draft Determination and Designation is attached.

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