Department of Finance and Personnel

Consultation Paper
Non-Domestic Rates
Revaluation 2015

Decapitalisation rates:
Converting cost to rateable value

October 2013
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Executive Summary – ‘A brief explanation’

• There is to be another rating revaluation of all non domestic properties in 2015. The last revaluation in Northern Ireland occurred in 2003 and before that, 1997.

• All properties are valued for rates by reference to an estimate of rental value (net annual value or NAV). However, some properties are rarely let and therefore their rental value is determined by reference to construction costs.

• This amounts to about 16% of the total value attributable to non domestic properties, including hospitals, fire stations, court houses, police stations, ambulance stations, schools, airports, shipyards, some sport and leisure facilities, churches and halls.

• A conversion factor ("the decapitalisation rate") is needed to derive an annual equivalent or rental value from the depreciated construction cost estimate and is related to the cost of borrowing.

• Small changes in the decapitalisation rate can have a big effect on rate bills.

• Up until 1997 (and 1990 in GB) this factor was determined by valuers but its uncertainty led to expensive and prolonged litigation which served neither government nor ratepayers well.

• Since then decapitalisation rates have been prescribed in legislation and this can only be set at revaluations.

• There are two decapitalisation rates, a lower one for healthcare, education and Ministry of Defence property and a standard one for all other specialised properties.

• This paper explains the issues around the decapitalisation rate and seeks views from non domestic ratepayers on the Department’s proposals. The Department’s preferred approach is that;

  I. for “Revaluation 2015” Northern Ireland harmonises with the decapitalisation rates (5% and 3.3%) used in England and Scotland for their 2010 Revaluations;

  II. the Department continues to prescribe by legislation the decapitalisation rates to be used;
III. Northern Ireland does not follow the Welsh approach and set its own unique
decapitalisation rates;

IV. Northern Ireland continues with two decapitalisation rates, a lower rate and a
standard rate; and

V. the Ministry of Defence (MOD) properties in Northern Ireland be moved from the
lower decapitalisation rate to the standard decapitalisation rate.
1. On 5 April 2012 the then Finance Minister Sammy Wilson announced that the Executive had agreed to put in place measures to undertake a revaluation of non-domestic properties in Northern Ireland.

2. A new valuation list will come into effect in Northern Ireland in April 2015 and this will contain new rateable values\(^1\) for all 72,500 individually assessed rateable properties.\(^2\)

3. More information on the 2015 revaluation can be found at:

   &

4. A decapitalisation rate is used in assessing the rateable value of certain types of property. This is used for properties where normal market evidence of rental values does not exist - therefore what is called a “cost based approach”\(^3\) has to be used. There are currently just under 13,000 of these types of properties (including those that are exempt) and they include specialist properties, fire stations, court houses, police stations, ambulance stations, airports, schools, schools meals centres, further education colleges, hospitals and halls.

5. The individual cost based assessments that are undertaken for the revaluation of these properties have to be converted to annual equivalents to determine the rateable values. In recent years this percentage conversion factor has been prescribed in legislation both in

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1 Net Annual Values or NAVs.
2 Hereditaments including exempt properties.
3 Also referred to as the Contractor’s Method of Valuation. See link to useful paper for background:
[http://www.dfpni.gov.uk/lps/valuation_for_rating_-_the_contractor_s_basis.pdf](http://www.dfpni.gov.uk/lps/valuation_for_rating_-_the_contractor_s_basis.pdf)
Northern Ireland and throughout the British Isles.

6. This consultation paper contains proposals for prescribing the **decapitalisation rates**.

7. There are two decapitalisation rates adopted throughout the UK, a lower one for healthcare, education and Ministry of Defence property and a standard one for all other specialised properties. The Republic of Ireland adopts the one rate of 5% because healthcare, education and defence properties are not normally liable for rates.

8. Northern Ireland’s decapitalisation rates are higher than those which apply in the rest of the UK because they were set for the 2003 Revaluation and since then there have been two full revaluations in the rest of the UK using lower decapitalisation rates.

9. This paper recommends that for “Revaluation 2015” Northern Ireland harmonises with the decapitalisation rates (5% and 3.3%) used in England and Scotland for their 2010 Revaluations; as well as aligning the main 5% rate with the Republic of Ireland.

10. **This paper explains the issues involved and seeks views from non domestic ratepayers.**
Section 2: Background information on the Decapitalisation Rate

11. All non-domestic properties are assessed for rates by reference to an estimate of rental value (Net Annual Value) of the property. Most are valued by direct reference to prevailing market rents, which are carefully analysed and usually broken down into a price per square metre, which can then be used as a benchmark to assess the rental values of all comparable properties.

12. However, some types of properties are rarely let and in the absence of sufficient rental evidence, the rental value estimate has to be assessed in a different way.

13. About 16% of the total value of all non domestic properties, including hospitals, fire stations, court houses, schools, schools meals centres, airports, shipyards, some sport and leisure facilities, churches and halls, are valued with reference to construction costs, using a method commonly known as the Contractor’s Method of Valuation.

14. A summary of the steps that valuers take in arriving at a rental value under the Contractor’s Method of Valuation is given below:

- an estimate is made of the cost of replacing the building and any rateable items such as certain types of plant and machinery;
- this cost is adjusted to reflect any obsolescence in the actual property;
- this sum is then added to the capital value of the site; and
- the total capital sum is then “decapitalised” using the decapitalisation rate to give an annual equivalent that is taken to be the rateable Net Annual Value.

15. A conversion factor (“the decapitalisation rate”) is used to derive an annual equivalent or rental value from the depreciated construction
cost estimate. It is important to note that small changes in the decapitalisation rate can have a big effect on NAV and therefore also on rate bills.

16. Up until 1997 (1990 in the rest of the UK) this factor was determined by valuers but its uncertainty led to expensive and prolonged litigation which served neither government nor ratepayers well. Since then decapitalisation rates have been prescribed in legislation and this can only be set at revaluations.

17. Since 1997 in Northern Ireland (1990 in the rest of the UK), two decapitalisation rates have been prescribed;

- a standard decapitalisation rate for most specialised properties; and
- a lower decapitalisation rate for education or health care purposes and the Ministry of Defence.

18. Northern Ireland’s decapitalisation rates are currently higher than those which apply in the rest of the UK. This is because they were set at the last Revaluation in 2003\(^4\), at 5.5% and 3.67%, whereas the rest of the UK was subject to a Revaluation in 2005, which introduced lower decapitalisation rates of 5% and 3.3%.

19. England and Scotland retained these rates for their 2010 revaluation. The Welsh decided, after consultation, to lower their rates, reducing the lower rate from 3.3% to 2.97% and the standard rate from 5% to 4.5%.

20. In Northern Ireland the Department of Finance and Personnel last consulted on the decapitalisation rates in 2008/2009 for the planned Revaluation in 2010, which was later postponed until 2015. The majority of responses to that targeted consultation were supportive of

\(^4\) Valuation for Rating (Decapitalisation Rate) Regulations (Northern Ireland) 2003
the move to harmonise with the English and Scottish rates. A summary of these responses is provided in Annex 1.

21. In the Republic of Ireland a single decapitalisation rate of 5% is used\(^5\) for all commercial properties assessed using cost information. This does not affect the same range of properties as Northern Ireland because public sector bodies do not pay rates, so schools and hospitals are excluded. The Republic of Ireland has been engaged in the process of carrying out a programme of rolling revaluations over the past 10 years and has maintained the same level of decapitalisation rate throughout this period.\(^6\)

\(^5\) Valuation Act 2001 at section 50

\(^6\) For more information on revaluation in ROI; http://www.valoff.ie/revaluation_faq.html
Section 3: Proposal to align with England and Scotland

Proposal to align with England and Scotland

22. It had been the case that before 2005, Northern Ireland was aligned with GB; the main reason that the Northern Ireland decapitalisation rates are out of line with those applying in the rest of the UK is that the revaluation dates in Northern Ireland and GB are out of sequence.

23. In 2009, prior to the planned Northern Ireland 2010 revaluation, it was proposed to harmonise once again with England and Scotland. Following consultation on the proposal, which was generally positive, new rates of 5.0% and 3.3% were proposed and legislated\(^7\) for in 2009.

24. These would have come into effect had the 2010 revaluation proceeded. Due to the cancellation of that revaluation exercise, the new rates were not introduced, and the existing rates of 5.5% and 3.67% continue to be used.

25. The Department proposes that Northern Ireland aligns with English and Scottish decapitalisation rates for the forthcoming 2015 revaluation.

Impact of aligning with England and Scotland

26. It is too early in the revaluation process to say what the precise impact will be in money terms because a variety of other factors come into play in undertaking these assessments, such as:

- cost inflation since the last revaluation in 2003,
- land value increases,
- regional cost adjustments,
- rental growth in other sectors; and
- rates in the pound.

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7 Valuation for Rating (Decapitalisation Rate) Regulations (Northern Ireland) 2009
27. However, ‘all other things being equal’ this move would result in lower assessments\(^8\) for the properties concerned by around 10%, with the Valuation List reducing from £203m to an estimated £183.5m\(^9\). The financial impact of this would have been to reduce overall revenues by £11.5m per annum from £118m to £106.5m, but given that any revaluation is assumed to be revenue neutral, any actual loss would be made up through redistributing the additional rating burden onto non-specialised property, mainly retail and business premises.

28. It is estimated that the amended decapitalisation rates on their own would represent an add-on of 1.15p to the non-domestic rate poundage. While an increase in the poundage would result from moving to those rates used in England and Scotland, this is considered to be a fair redistribution of the rates burden between the different sectors.

29. The financial effects of maintaining the current system and moving to align with England and Scotland are contrasted in the paragraphs below.

30. **The potential financial impact of maintaining the current rate of 5.5% and 3.67% is detailed below:**

   - Total NAV on Valuation List: £203m
   - Revenue raised: £118m

31. **The potential financial impact of aligning with England’s and Scotland’s rates of 5% and 3.3% is detailed below:**

   - Total NAV on Valuation List: £183.5m\(^10\)

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8 Analysis is based on assessments in the current Valuation List. The illustration is therefore on the basis of all things being equal however the Department acknowledges the fact that changes are likely to occur as the result of the revaluation more generally.
9 Calculated using 2001 values.
10 Calculated using 2001 values.
- Revenue raised: £106.5m
- Reduction in Total NAV on Valuation List: £203m - £183.5m = £19.5m
- Loss of revenue: £118m - £106.5m = £11.5m reduction in revenue
- Add on to non-domestic poundage: 1.15p
- Average rate bills for those on the lower rate would fall from £17,100 to £15,400; for those on the standard rate, average bills would fall from £10,400 to £9,500.

Initial Assessment of Market Indicators

32. In terms of objective methodologies for setting a decapitalisation rate there is a bewildering array of money market and property market indicators ranging from the cost of securing capital to build property through to property investment yields. These fluctuate depending on the prevailing minimum lending rate of the Bank of England (now the official bank rate) and this rate has declined sharply since 2009 - down from 5% to 0.5% in that one year and stable ever since. This was the year after the current decapitalisation rates were last established for England and Wales.

33. Whilst on the face of it this is fairly compelling evidence that the rate should not be any higher it is another matter entirely to say that the new decapitalisation rate(s) should track this scale of reduction. The reason for this is that property yields have increased, albeit to a modest extent over this period. More importantly, the premium associated with borrowing to build property has increased significantly.

34. None of this suggests that setting the decapitalisation rate(s) can ever be an exact science and it is unlikely that there can be even a consensus amongst market experts as to the relative weight given to the various (and at times conflicting) indicators.
35. Without wishing to prejudice the outcome of the consultation, the Department considers that any economic analysis is likely to prove inconclusive, particularly in the light of the unprecedented turmoil in the financial and property markets in recent years. It is the Department's view that this underlines the need for caution to be exercised. Certainly there is no clear evidence at pre-consultation stage that the decapitalisation rates currently adopted in England and Scotland are inappropriate for Northern Ireland's Revaluation in 2015.
Section 4 – Principles

Prescribed decapitalisation rates

36. Up until 1997, the decapitalisation rate was determined by valuers without an express decapitalisation rate being laid out in legislation. This however led to uncertainty and a high number of appeals; as a consequence it was decided to prescribe decapitalisation rates in legislation. The Department considers the scope for prolonged litigation remains significant.

37. As the Department for Communities and Local Government (DCLG) have previously pointed out\(^\text{11}\), prior to the decapitalisation rate being expressly prescribed appeal hearings considered the following issues to be central to the setting of the rate:

   a. the cost of the finance which would be needed for the range of likely tenants who, under the assumptions of the Contractor’s Method of Valuation, would be considering building their property, and
   b. how that finance cost should be adjusted to recognise that the tenant would decide to rent the property rather than build an alternative\(^\text{12}\).

38. In the years following the prescription of an express decapitalisation rate financing theory and practice has moved on considerably. There are now many more sophisticated models available which could be used to support a challenge to a rate which has not been prescribed. Therefore, given the inevitable increase in uncertainty, ending

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\(^\text{12}\) This is because finance is now secured from a very wide range of sources ranging from private equity, public equity, commercial borrowing and the Public Loans and Works Board. The sources and cost of that finance will vary by the nature of the property and type of occupier. The valuers would have to assess the mix and nature of that finance (for the hypothetical construction of the property) to value individual properties on the contractors’ basis.
prescription of the rate may give rise to extensive litigation on the
decapitalisation rate.

39. If there were no express decapitalisation rate laid out in legislation,
courts and tribunals could only resolve issues on a case by case basis
which would cause significant uncertainty for ratepayers and the tax
base.

40. The Department will prescribe the use of a defined decapitalisation rate
for those particular properties where it is not possible to use the normal
rental approach but instead use the actual or notional cost of
construction. These include the majority of the following types of
properties:

- educational or health care properties,
- local government properties,
- Crown properties,
- large specialised industrial properties (e.g. chemical plants),
- conference and exhibition centres,
- Community halls,
- airports and airfields; and
- some sport and recreational facilities.

41. The Contractor’s Method of Valuation is generally used for large
specialist properties. In contrast, the vast majority of small businesses
are assessed using conventional valuation methods. It is therefore
unlikely that the decapitalisation rates will have a direct effect on small
businesses.

42. For the reasons outlined above the Department therefore
proposes to continue to prescribe the decapitalisation rates to be
used.
**Northern Ireland decapitalisation rates**

43. In the past Revaluations undertaken in Northern Ireland have taken place 2 or 3 years after Revaluations in GB and there has been no real issue in following the decapitalisation rates adopted there. However, it is now 5 years since the last Revaluation date of 2008 in the rest of the UK and market changes in the intervening period have been significant.

44. Were Northern Ireland to set different decapitalisation rates, it would have the option to go lower than those rates set by England. For example, the Welsh have set their rates at 4.5% and 2.97%. It is worth noting in this context however that it is estimated that adopting the current Welsh rates would lower assessments for the properties concerned by close to 20%, with the value of the current Valuation List reducing from £203m to an estimated £165.2m\(^{13}\) and revenues would reduce by £22.2million from £118m to £95.8m. There would also be an increase in the non-domestic poundage by 2.1p.

45. The consequence of setting lower rates is that, while reducing the burden on those properties valued using decapitalisation rates, the burden is passed on to the rest of the non-domestic sector, through a higher non-domestic poundage.

46. Given that decapitalisation rates are normally arrived at with reference to a number of market indicators, as well as other policy considerations, harmonising with the existing decapitalisation rates for England and Scotland is considered to be the most prudent approach.

47. **For these reasons the Department proposes that Northern Ireland does not follow the Welsh approach and set its own unique decapitalisation rates.**

\(^{13}\) Calculated using 2001 values. The illustration is therefore on the basis of all things being equal however the Department acknowledges the fact that changes are likely to occur as the result of the revaluation more generally.
48. Since 1997 in Northern Ireland two decapitalisation rates have been prescribed:

a. a standard decapitalisation rate for most specialised properties; and

b. a lower decapitalisation rate for specialised properties within the education, healthcare sectors or those occupied by the Ministry of Defence.

49. Since prescribed decapitalisation rates were first introduced education and healthcare properties have been considered worthy of special treatment due to their uniqueness and the priority the government has afforded to the sector. While it is difficult to justify this different treatment on rating grounds alone (for example, in GB, Valuation Office Agency analysis of yields on certain primary healthcare premises, surgeries and health centres, suggests that the lower rate should not be applied to them), there is some economic justification in the fact that these types of social infrastructure properties can attract donations or at least have access to cheaper forms of funding, which the decapitalisation rate is intended to reflect.

50. Retaining the current categories would provide certainty for ratepayers assessed at the lower decapitalisation rate. This is because moving educational and health care properties to the proposed main rate could substantially increase their rates bills. For example moving educational properties to the proposed new decapitalisation rate (5%) would see an estimated\(^\text{14}\) total rate bill of £66m (compared with £43m at a rate of £27,000 if they moved to the new proposed lower rate of 3.3%). Calculated using 2001 values. The illustration is therefore on the basis of all things being equal however the Department acknowledges the fact that changes are likely to occur as the result of the revaluation more generally.

\(^{14}\) The estimated total rate bill currently is £48m. Further the average rate bill currently is £30,100 and if they were moved to the new proposed main rate (5.0%), the average rate bill would be £41,000 as opposed to the average of £27,000 if they moved to the new proposed lower rate of 3.3%. Calculated using 2001 values. The illustration is therefore on the basis of all things being equal however the Department acknowledges the fact that changes are likely to occur as the result of the revaluation more generally.
3.3 %.) Likewise for health properties the estimated total bill would be £33m (compared with £21.8m).\(^{15}\)

51. This would be an increased cost that would fall on what are almost exclusively public funded bodies, which would run counter to NI Executive priorities in key policy areas and also raise wider issues around dealing with circular money.

52. **For these reasons, the department proposes to continue with two different rates.**

**The issue of the future treatment of Ministry of Defence (MOD) properties**

53. Until 2000 Ministry of Defence (MOD) properties were entitled to Crown exemption, nevertheless HM Government paid a contribution in lieu of rates which is equivalent to the full bill had they been liable. That full bill was calculated using the lower decapitalisation rate.

54. Crown exemption was removed in the year 2000 and before that happened it is understood that arguments were put forward to adopt the lower decapitalisation rate, given the very specialised nature of MOD property and also to maintain the status quo, in terms of rates contributions. Whilst these arguments can be used for MOD property, other considerations do seem to apply to healthcare and educational properties, particularly about access to lower costs of financing and donation funding.

55. The Department considers that there is nothing in valuation or rating terms to suggest that MOD properties should be treated any differently to

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\(^{15}\) The estimated total rate bill currently is £24m. Further the average rate bill is currently £29,800 and with a decapitalisation rate of 5.0%, the average bill would be £40,700 as opposed to £26,900 at the 3.3% rate. Calculated using 2001 values. The illustration is therefore on the basis of all things being equal however the Department acknowledges the fact that changes are likely to occur as the result of the revaluation more generally.
other specialised property assessed at the standard decapitalisation rate. While this move would place MOD bases here in a different rating position to those in the rest of the UK, it is considered the preferential treatment afforded to it is not justifiable. Furthermore, the NI MOD estate does not have the range of specialist defence property which exists in the rest of the UK. It is suggested therefore that there are no longer any compelling reasons for keeping MOD properties at the lower decapitalisation rate and views are invited on this proposal to move such property to the standard rate for the 2015 revaluation.

56. In and of itself moving MOD properties to the proposed new main rate of 5% could substantially increase their rate liability. Their estimated total rate bill would be £10.2m compared with an estimated £6.7m at 3.3%.\textsuperscript{16}

57. It is worth noting that whilst the revaluation exercise is intended to redistribute the rating burden throughout NI in a revenue neutral way, this will not be the case for District Councils. Any change in the valuation treatment of MOD properties is likely to have an impact on the district rate in some areas. Council areas with concentrations of MOD property within their boundaries will find that the district rate base is bolstered accordingly.

58. \textbf{For these reasons the Department proposes that the Ministry of Defence (MOD) properties in Northern Ireland be moved from the lower decapitalisation rate to the standard decapitalisation rate.}

\textsuperscript{16} The estimated total rate bill currently is £7.5m. Further the current average rate bill is £121,500 and with the proposed new decapitalisation rate of 5.0% that would increase to £165,500 (compared to £109,276 under 3.3%). Calculated using 2001 values. The illustration is therefore on the basis of all things being equal however the Department acknowledges the fact that changes are likely to occur as the result of the revaluation more generally.
Section 5: Consultation issues and questions

59. The Department considers the most pragmatic approach is to harmonise with England and Scotland, the main reason being that the Northern Ireland rates are only out of line with those applying in the rest of the UK because the revaluation dates in NI and GB are out of sequence. It was always the Department’s intention that these decapitalisation rates maintain parity with the decapitalisation rates in England and Scotland. The previous NI consultation in 2009 endorsed this proposal.

60. It is currently too early in the Revaluation process to say what the precise impact will be in financial terms because a variety of other factors come into play, such as cost inflation since the last revaluation, building costs, land values, rental growth of other sectors and rates in the pound.

61. It is clear, however, that harmonisation with England and Scotland will help moderate all cost based assessments in Northern Ireland, compared to what they would have been at current decapitalisation rates.

62. In this consultation document the Department has highlighted a range of issues that need to be taken into account in considering the decapitalisation rate to be applied.

63. The Department considers that the following specific questions should be addressed to consultees in order to inform its thinking on the issue:

Q1: Should the Department align Northern Ireland’s decapitalisation rates with England and Scotland for the 2015 non-domestic revaluation (i.e. move from the current rates of 5.5% and 3.67% to 5% and 3.3%)?
Q2: Should the Department continue to prescribe the decapitalisation rates?

Q3: Should Northern Ireland set its own decapitalisation rate?

Q4: Should two separate decapitalisation rates (a lower and a standard rate) continue to exist?

Q5: Should the Ministry of Defence (MOD) properties in Northern Ireland be moved from the lower decapitalisation rate to the standard decapitalisation rate?

64. The Department welcomes views on these specific questions as well as other general points on the issues raised by this paper.
Section 6: Next Steps

65. The consultation process will end on **10 January 2014**. The Department can arrange meetings with ratepayers or representatives before the closure date if this is helpful in making a response.

66. You may submit your responses in a variety of ways including written correspondence, by fax or e-mail. Written responses should be sent to:

   Brian McClure  
   Rating Policy Division  
   Department of Finance and Personnel  
   3rd Floor  
   Longbridge House  
   20-24 Waring Street  
   BELFAST  
   BT1 2EB

67. Comments may also be faxed to: 028 9034 7435

68. Should you wish to contact us by e-mail, any queries and consultation responses should be sent to: ratingpolicy.cfg@dfpni.gov.uk

69. If you require any further information about this consultation exercise you should contact Rating Policy Division on 028 9040 8008. The consultation paper may be made available, on request, in alternative languages and formats.

70. Responses to the consultation exercise will be made available on the Rating Policy website [http://www.dfpni.gov.uk/rating-review/index.htm](http://www.dfpni.gov.uk/rating-review/index.htm). A paper summarising the main issues raised during consultation will also be published in due course.
71. It should be noted that the Department intends to publish all responses and **will only withhold information in exceptional circumstances**.
72. In 2009 a targeted consultation was undertaken to facilitate the forthcoming revaluation and, in essence, it sought views on a proposal to **realign** with England and Scotland and follow the approach they were taking for their corresponding revaluations in 2010 (In Northern Ireland, the rates used are currently 5.5% and 3.67%, compared to 5% and 3.3% in GB).

73. The economic crisis was noted by 2 respondents (Colin Wilkinson (IRRV Representative in Northern Ireland) and the Northern Health Trust) who suggested that some adjustment was needed to provide for the difficulties being faced by the commercial sector.

74. The Association of Local Government Finance Officers considered that there would be a disproportionate impact on councils with the redistribution of the rating burden, given the reduction in NAV terms of 9.21% as the result of the Decap levels.

75. The agents for the International Airport were supportive of the harmonization but questioned the methodology and considered there was a flaw in the legislation governing the Contractor’s Method of assessment as it did not allow for comparisons to be made with similar properties in England.

76. The Northern Ireland Manufacturing Association were also supportive of harmonization but questioned the “flawed logic” for using the lower capitalization rate for only health, education and MOD properties. The Association considers that the lower rate should also be extended to the valuation of plant and machinery in industrial properties and they outline the reasons for their views.

77. The CBI agreed that the decapitalisation rates should be prescribed and welcomes the recognition that small changes to the
decapitalisation rates can lead to large changes in the rates payable. They did not wish to see the NI rate exceeding the English rate, and did not see a significant EU State Aid risk if a lower rate was adopted.

78. The CBI’s main concern was on the “significant differential” between the lower (MOD, health and education) rate and the standard rate for all other specialized properties. They noted that both health and education are spending priorities for the Executive but make the point that the economy is also a top priority. Their recommendation was to reduce the gap between the standard and the lower decap rates, suggesting that the lower rate should be held at 3.67% or reduced to a minimum of 3.5%. For the standard rate, they consider that it should be reduced to 4.8% thereby, they suggest, providing some additional support to economically important infrastructure.
2009 No.

RATES

Valuation for Rating (Decapitalisation Rate) Regulations (Northern Ireland) 2009

Made - - - - 18th June 2009

Coming into operation - 1st October 2009

The Department of Finance and Personnel makes the following Regulations in exercise of the powers conferred by paragraphs 5 and 6 of Part I of Schedule 12 to the Rates (Northern Ireland) Order 1977(17).

Citation and commencement

1. These Regulations may be cited as the Valuation for Rating (Decapitalisation Rate) Regulations (Northern Ireland) 2009 and shall come into operation on 1st October 2009.

Interpretation

2.—(1) In these Regulations—

“the 1977 Order” means the Rates (Northern Ireland) Order 1977;

“capital value”, in relation to a hereditament, means the price which a willing seller would reasonably expect to realise for the fee simple absolute in possession in the hereditament, in its actual state and with vacant possession, at the time by reference to which the estimate of net annual value falls to be made, on the assumption that there was then an adequate supply of similar properties available to meet a reasonable demand;

“church hereditament” means any hereditament which falls within Article 41(2)(b) of the 1977 Order;

“contractor’s principle” means the method of ascertaining the net annual value of a hereditament by reference to the actual or notional cost of constructing or providing it or to its capital value;

(17) S.I. 1977/2157 (N.I. 28); paragraphs 5 and 6 of Schedule 12 were inserted by Article 12(a) of the Rates (Amendment) (Northern Ireland) Order 1996 (S.I 1996/3162 (N.I. 25))
“decapitalisation rate” means the percentage rate which is applied to the actual or notional cost of construction or provision or to the capital value of any hereditament for the purpose of the contractor’s principle;

“defence hereditament” means a hereditament which is occupied or, if unoccupied, owned by the Secretary of State for Defence;

“hereditament” means any hereditament or any part of it.

(2) In these Regulations “educational hereditament” means any hereditament—

(a) which is constructed or adapted for use, and which is wholly or mainly used, for the purposes of—

(i) a school within the meaning of Article 2(2) of the Education and Libraries (Northern Ireland) Order 1986(18);

(ii) an institution of further education within the meaning of Article 2(2) of the Further Education (Northern Ireland) Order 1997(19); or

(iii) a higher education institution within the meaning of Article 30(3) of the Education and Libraries (Northern Ireland) Order 1993(20); or

(b) which consists of premises with respect to which a person is registered under Article 118(1)(b) of the Children (Northern Ireland) Order 1995(21) and which are wholly or mainly used for the purpose of providing day care for children who have attained the age of two years.

(3) In these Regulations “healthcare hereditament” means any hereditament constructed or adapted wholly or mainly either—

(a) for the reception and treatment of persons suffering from any illness, injury or infirmity; or

(b) as a maternity home,

and used for such a purpose.

(4) Any reference in these Regulations to a hereditament used for any particular purpose includes a reference to a hereditament which is not for the time being in use but which when last in use was used for that purpose.

Application of Regulations

3. These Regulations apply in relation to the ascertainment of the net annual value of any hereditament for the purpose of any NAV list which comes into force on or after 1st April 2010.

Decapitalisation rate

4. Where, for the purposes of paragraph 1 of Part 1 of Schedule 12 to the 1977 Order, the net annual value of a hereditament is ascertained by reference to the contractor’s principle in circumstances where these Regulations apply, the decapitalisation rate shall be—

(a) 3.33 per cent in the case of a church hereditament, a defence hereditament, an educational hereditament or a healthcare hereditament; and

(b) 5 per cent in any other case.

(18) S.I. 1986/594 (N.I. 3)
(19) S.I. 1997/1772 (N.I. 15)
(20) S.I. 1993/2810 (N.I. 12)
(21) S.I. 1995/755 (N.I. 2)
Revocation and saving

5.—(1) Subject to paragraph (2), the Valuation for Rating (Decapitalisation Rate) Regulations (Northern Ireland) 2003(22) (“the 2003 Regulations”) are revoked.

(2) The 2003 Regulations shall continue to have effect in relation to the ascertainment of the net annual value of any hereditament for the purpose of the valuation list which came into force on 1st April 2003.

Sealed with the Official Seal of the Department of Finance and Personnel on 18th June 2009

Brian McClure

A senior officer of the Department of Finance and Personnel

(22) S.R. 2003 No. 30
These Regulations prescribe the decapitalisation rate to be applied when determining the net annual value of any hereditament by reference to the contractor’s principle for the purposes of any NAV list coming into force on or after 1st April 2010. The contractor’s principle is the method of ascertaining the net annual value of a hereditament by reference to its actual or notional cost of construction or provision or to its capital value.

The decapitalisation rate is 3.33% in the case of a church hereditament, defence hereditament, educational hereditament or healthcare hereditament, all of which are defined in regulation 2, and 5% in any other case.

The corresponding decapitalisation rates for the purposes of the valuation list which came into force on 1st April 2003 were 3.67% and 5.5% respectively and provision is made for those rates to continue to have effect in relation to that list.
Annex 3 – Useful Links to Previous UK Consultations

**English Consultation Paper -**


**Scottish Consultation Paper –**

http://www.scotland.gov.uk/Publications/2008/06/decapitalisation

**Welsh Consultation Paper -**