Non Domestic Rates Revaluation 2015 
and the treatment of specialist properties

Setting of Decapitalisation Rates

As part of the revaluation process properties are valued for rates by reference to an estimate of rental value (net annual value or NAV) using evidence of recent lettings. Some types of properties are rarely let however and therefore direct open market rental evidence is not available to assist with valuing them. Rental value has to be determined by other means. Most specialist properties are valued for rating purposes with reference to construction costs and converted to an assessed rental sum (NAV) through the use of ‘decapitalisation rates’.

The Department undertook a targeted consultation on its preferred approach for the setting of decapitalisation rates.

The consultation ended on the 10th January 2014. The main proposals put forward in the consultation paper were that:

- for “Revaluation 2015” Northern Ireland harmonises with the decapitalisation rates (5% and 3.33%) used in England and Scotland;
- the Department of Finance and Personnel continues to prescribe by legislation the decapitalisation rates to be used;
- Northern Ireland does not follow the Welsh approach and set its own unique decapitalisation rates;
- Northern Ireland continues with two decapitalisation rates; and
- the Ministry of Defence (MOD) properties in Northern Ireland be moved from the lower decapitalisation rate to the standard decapitalisation rate.

As will be explained in this paper, the Department has changed its proposals in the light of the consultation.

This paper is in two parts:

- The first part sets out the Department’s thinking in the light of the consultation and outlines the way forward.
• The second part is the **consultation report** which summarises the responses.

In relation to those responses, the Department wishes to convey its appreciation for their quality and the level of engagement on this highly complex and technical issue. Those who responded will note that the Department has taken account of many of the views expressed through this process and accordingly has significantly changed its approach.

There was strong support for continuing to prescribe two decapitalisation rates and therefore the focus of the ‘way forward’ section of this paper is on the level of those rates and the underlying considerations. The issue of the treatment of the MOD estate is also addressed.
PART 1  CONTEXT AND FUTURE CONSIDERATIONS

Section 1: Background


2. All such 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 have to be valued with reference to construction costs. In the current Valuation List this amounts to about 16% of the total value of all non domestic properties, including hospitals, schools, airports, shipyards, some sport and leisure facilities, churches and halls.

3. A conversion factor (the decapitalisation rate) is needed to derive an annual equivalent or rental value from the depreciated construction cost estimate. Small changes in the decapitalisation rate can have a big effect on rate bills for these properties.

4. 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 before a new Valuation List is compiled.

5. Since 1997 in Northern Ireland (and 1990 in the rest of the UK), two decapitalisation rates have been prescribed; a standard ‘decap’ rate for most specialised properties and a lower decap rate for education or health care purposes and the Ministry of Defence. The reasons for this are explained in section 3.

6. Northern Ireland has always followed the decapitalisation rates adopted in England and Scotland at their most recent Revaluations.

7. Northern Ireland’s decapitalisation rates are currently higher than those which apply in the rest of the UK. This is because since they were set at 5.5% and 3.67% at our last Revaluation in 2003, the rest of the UK was subject to a Revaluation in 2005, which introduced lower decapitalisation figures of 5% and 3.33%. These rates were then continued for the 2010 Revaluation in England and Scotland. At this point, Wales adopted different (lower) decapitalisation rates for the first time.

8. The Revaluations in England Scotland and Wales have been postponed (at
least until 2017) and NI will have no convenient reference point to harmonise with, in setting its decapitalisation rates for our Revaluation next year.

9. The means of arriving at the appropriate level of decapitalisation rate is far from an exact science and because rate bills are very sensitive to small changes, successive governments have been wary of making radical change, because of its potential effect on public sector budgets. This was because most of the properties valued for rating on a cost basis are healthcare and education buildings.

10. It is clear that for the 2010 Revaluations in GB, policy thinking in this area had shifted. This marked change in emphasis is explained in the Consultation Paper published by the Department of Communities and Local Government for the 2010 Revaluation in England:

“The contractor’s basis is used where there is little or no evidence of rental value and, generally speaking, where the receipts and expenditure method is not available. It is used because it is the best method available but it is far from perfect. Central to the contractor’s basis is the assumption that cost equates to value but that is not always the case. Certainly, there are examples in some sectors where construction costs have increased but returns have fallen. And the decapitalisation rate is the central part of the valuation which translates cost into value.

In light of this, the Government proposes to include in consideration of the decapitalisation rate, a wider view of the relative movement in rents between the valuation dates for the 2005 and 2010 revaluations. The movement of rateable values for properties assessed on the contractor’s basis should not, overall, fall significantly out of line with the general movement of rental values. If it were the case that movements of rateable values on the contractor’s basis were significantly out of line with movements for other properties then this would indicate that the results of the method had departed, to some extent, from the value of the properties. Since the decapitalisation rate is the principal tool in the contractor’s basis for translating cost into value then it follows that it should be set having some regard to those relative movements in rents.”

11. A more pragmatic approach has been adopted, which appears to have set aside the purist methodology that had its origins in rating case law before the rates were prescribed in legislation. This had used prevailing financial and property market indicators as a reference point. These considerations are described in more detail in the next section.
Section 2: Key considerations and policy direction

12. The decision to postpone the Revaluation in GB to at least 2017 is significant given the dramatic economic changes that have occurred since the GB decapitalisation rates were set in 2008 (the common valuation date adopted for their Revaluations in 2010). Indeed, this was a point that was drawn out in a number of the consultation responses.

13. The Department accepts this is a factor in deciding these matters and accordingly has reconsidered the original harmonising proposals set out in the consultation paper.

14. As noted in the previous section, the setting of the level of decap rates is far from an exact science. Bank of England base rate are being held at an all time historic low under an “ultra low interest rate strategy”. That strategy was an intervention that effectively pegged the base rate of interest at a much level lower than exists in more settled economic circumstances. It therefore casts doubt on its value, in absolute terms, as a reference point for setting decapitalisation rates in the traditional way. Whilst this does suggests a clear ‘climate change’ for interest rates, the extent to which this should influence the absolute level of the decapitalisation rates is debatable.

15. The English and Scottish decapitalisation rates were originally set against a valuation date of 1 April 2003 and then retained for a valuation date of 1 April 2008 AVD. Between those two points in time the Bank of England Base Rate actually went up by 1.5% without a corresponding change in the decapitalisation rate in England and Scotland. The decisions taken in England and Scotland to retain the same rates over the life of two Valuation Lists was to ensure cost based valuations did not pay a larger share of the overall rating burden from one Revaluation to the next, recognizing the imperfections of this method of valuation. This too is a valid consideration, particularly in a falling market where the linkage between cost and value is much weaker.

16. Emerging findings from the Revaluation suggest that building costs in Northern Ireland have increased significantly since the last Revaluation here. The Building Cost Information Service (BCIS) index reveals that building cost inflation from 2001 to 2013 (the valuation dates for the previous and forthcoming revaluations) was 38% \(^1\).

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\(^1\) It should be noted that this headline UK figure does not mean that cost based valuations will increase by an average of 38%. Increased specification over that period and the lower NI location adjustment will significantly moderate the increase. Reduced land values and increasing depreciation may also have a moderating effect.
17. For these reasons the Department proposes to adopt lower rates than the proposed rates set out in the consultation paper

18. If no change to the current rates is made, the aggregate rateable values of properties valued using this method would increase substantially more than the average in Northern Ireland, thereby shifting the overall rate burden from the private to the public sector. If setting a lower rate, the consequence is that the revenue loss from these specialist properties will be redistributed as a natural part of the Revaluation process. In effect this means that the difference will be met by all ratepayers paying slightly higher bills.

19. The following section explains the Department’s view, what rates will be adopted and why. It also sets out some analysis explaining the consequences.
Section 3: Analysis and decided level of decapitalisation rates

20. The scope for excessive litigation on decapitalisation rates remains as significant now as it was before they were prescribed in legislation many years ago. Indeed, it could be argued that because the courts have not considered decapitalisation rates for so long, the scope for argument in appeals over the appropriate rate is greater than it has ever been. Importantly, there was universal support in the consultation for continuing to prescribe a decapitalisation rate.

21. Therefore, there is no issue with continuing to prescribe the decapitalisation rates used applied to specialist properties (those that are assessed for rates using construction costs) for the new Valuation List. Furthermore, the Department intends to continue the practice of prescribing two decapitalisation rates.

22. The issues that remain are what level they should be and also whether there should be any changes to the categories of property that are subject to the standard or lower rates. The Department has decided to proceed as follows.

The decisions:

Taking account of views expressed, the Department has decided to adopt lower decapitalisation rates than that proposed in the consultation paper.

A standard rate of 4% and a lower rate of 2.67% will be adopted for the new Valuation List, following the Revaluation in April 2015.

The MOD estate will move from the lower rate to the standard rate.

23. These decisions are explained in the following paragraphs.

The influencing factors:

24. It is generally accepted that there are 3 main ways of arriving at a decapitalisation rate if adopting a financial or property market led approach.

25. The traditional approach involves estimating the cost of borrowing allowing for deductions which take account of the effects of inflation over time and real costs of appreciation or depreciation. This approach would produce a decapitalisation rate as low as 3%.
26. Yields from property investment, which examine rates of return on capital investments, are another indicator. “The paradigm shift in financial and investment markets since 2008” ², however, has had the opposite effect on this indicator with prime property yields mostly placed into the range of 7% to 10%.

27. The money market approach analyses the factors which determine yields in the investment market. Reliance on this method would produce decapitalisation rates as low, if not lower, than the adjusted cost of borrowing approach.

28. These 3 separate approaches all produce different results and there is no reliable and objective way of working out a weighted average. It is worth noting, nevertheless, two of the three indicators suggest that a significant reduction in decapitalisation rates would be appropriate. This is supported by all who responded to the consultation, though it needs to be recognised that the interests of other ratepayers were not clearly represented in the responses.

29. The Department therefore proposes to look beyond the market indicators and establish a rate that recognises the effect Revaluation will have on properties assessed with reference to construction costs, in a time of falling property returns when the linkage between cost and value is particularly weak.

30. Headline building costs have increased by as much as 38% since the last Revaluation in 2003, whereas rental growth ever since then has been minimal; despite there being a ‘major boom and bust’ over the same period. A standard decapitalisation rate of 4.00% is considered to ‘go a long way’ to achieving this result, without significantly shifting the burden onto other ratepayers.

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² As described in the Northern Ireland Commercial Property Market Report (Dec 2012), University of Ulster with Investment Property Databank (IPD).
31. The following analysis, using emerging findings from the ongoing Revaluation exercise, illustrates the point:

Table showing the average NAV and Rates liability for schools (LPS preliminary estimates)

<table>
<thead>
<tr>
<th>Higher rate</th>
<th>Lower rate</th>
<th>Av NAV after decap rate</th>
<th>Av Rate liability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Rates (5.5% and 3.67%)</td>
<td>40.765</td>
<td>£13,820</td>
<td></td>
</tr>
<tr>
<td>5.00%</td>
<td>3.33%</td>
<td>52,886</td>
<td>£17,934</td>
</tr>
<tr>
<td>4.50%</td>
<td>3.00%</td>
<td>48,078</td>
<td>£16,303</td>
</tr>
<tr>
<td>4.00%</td>
<td>2.67%</td>
<td>42,736</td>
<td>£14,492</td>
</tr>
<tr>
<td>3.75%</td>
<td>2.50%</td>
<td>40,065</td>
<td>£13,586</td>
</tr>
</tbody>
</table>

Table showing Decapitalisation Rate effect on the Regional Rate poundages

<table>
<thead>
<tr>
<th>Higher rate</th>
<th>Lower rate</th>
<th>New regional rate</th>
<th>Increase in rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Rates (5.5% and 3.67%)</td>
<td>33.91</td>
<td>0.103</td>
<td>0.3%</td>
</tr>
<tr>
<td>5.00%</td>
<td>3.33%</td>
<td>34.01</td>
<td>0.427</td>
</tr>
<tr>
<td>4.50%</td>
<td>3.00%</td>
<td>34.34</td>
<td>0.793</td>
</tr>
<tr>
<td>4.00%</td>
<td>2.67%</td>
<td>34.70</td>
<td>0.979</td>
</tr>
<tr>
<td>3.75%</td>
<td>2.50%</td>
<td>34.89</td>
<td></td>
</tr>
</tbody>
</table>

The case for two decapitalisation rates:

32. For all Revaluations in GB since 1990 (and for NI since 1997) two decapitalisation rates have been set. A lower rate was set for church property, educational establishments and healthcare properties at the 1990 and 1995 Revaluations. Educational establishments (generally independent schools and Universities) were considered to form a distinct and self-contained set of properties. Occupiers of this type of property raised much of the capital required to build, not from borrowing but by way of grants and charitable donations. It was considered that a lower decapitalisation rate (set at two thirds of the higher rate) should be applied in these cases to reflect the lesser extent to which the occupier may be expected to borrow to fund these works. The same rationale was applied to church property and hospitals.

33. The original arguments in favour of giving education and healthcare special treatment are certainly not as compelling as they once were and thus are very difficult to justify on rating grounds alone. Nevertheless, the Department proposes to continue to set a lower rate for educational and health care
properties. Moving these properties to the proposed main rate would run
counter to the Assembly’s priorities in these key policy areas, and would
increase costs that fall ultimately to be met largely by NI public expenditure,
including funding from the Regional Rate. Ultimately, it is an issue around
what is mostly circular or recycled money.

34. All of this begs the question, why not apply an even lower decapitation rate to
health and education properties? This has been considered but to do so
would further shift the overall rate burden from the private to the public
sector. The long established convention throughout the UK to set the lower
decap rate at two thirds of the standard rate will continue in Northern Ireland.

**Treatment of MOD estate:**

35. CILOR (Contribution in lieu of rates) was a scheme whereby the occupiers of
Crown properties made a contribution in lieu of rates rather than receiving a
rates bill. It was the practice, however, for that contribution to be full and
equivalent, though MOD were assessed on the lower decapitalisation rate.
CILOR was abolished on 1 April 2000 and from this date, Ministry of Defence
properties which had previously benefited from CILOR were assessed on the
lower decapitalisation rate.

36. However, although these properties tend to be very specialised it is unlikely
that this reason alone would lead valuers and the courts to select a lower
decapitalisation rate than for other specialised properties. The special
treatment afforded MOD is difficult to reconcile with the prison and police
service estates which are assessed at the standard decapitalisation rate.
Having considered responses to points made in the original consultation
paper about the specialized nature of one class of property compared to
another, the Department does not consider this to be a deciding factor in
whether a particular type of property or category of ratepayers should qualify
for the lower rate.

37. For these reasons the Department proposes to put the MOD estate on the
standard decapitalisation rate of 4%. This is not to say that UK defence
matters are not a priority, however, it is not a devolved matter and therefore
the ‘circular money’ argument in favour of education and healthcare
properties does not apply.

**Conclusion**

38. The new decapitalisation rates of 4% and 2.67% will apply for the life of the
next Valuation List, which takes effect in April 2015 following the Revaluation.
39. This will mean they are the lowest in the British Isles and that sufficient adjustment has been made to take account of the wider economic changes between the GB and NI AVD dates. The proposed rate is 20% lower than the decap rates which currently apply in England, Scotland and the Republic of Ireland and also lower than the Welsh decap rates of 4.5% and 2.97%. Revaluations are planned for the rest of the UK in 2017 and it is expected that the decapitalisation rates there will reduce.

40. The need to maintain broad equivalence of rate bill for specialist properties between the current Valuation List and the new one was a point drawn out in some of the consultation responses. The Department will not fully achieve this in the lower decap rates it is setting, however, they will substantially moderate the effect of the revaluation for the vast majority of properties assessed with reference to building costs (see table at para 31); recognizing that a balance has to be drawn with the interests of other ratepayers.
PART 2 - THE CONSULTATION REPORT

Section 1: Overview and summary

41. This part of the paper is a consultation report which summarises the responses to the targeted consultation which closed on the 10 January 2014.

42. An advert was placed in the three main daily newspapers and the consultation process was publicised on the Department’s website and the Rating Policy Division website. The Department circulated the consultation document via an initial letter to consultees, and a follow-up reminder letter in mid-November. The consultation was publicised by Land and Property Service’s via their ongoing engagement with the RICS network. All government departments and associated public bodies were contacted through the DFP Departmental Liaison Officer and the Finance Committee were issued with a copy of the consultation document (MISC135/11-15 - Decapitalisation Rates Consultation).

43. A total of 11 responses to the consultation exercise were received, consisting of 7 organisations, 1 university, 2 sports bodies and 1 individual ratepayer.

44. **Jones Lang LaSalle** is a financial and professional services firm specialising in real estate services and investment management. They employ more than 40,000 people in more than 1,000 locations in 70 countries serving the local, regional and global real estate needs of those clients. The organisation’s website can be accessed at the following link: [http://www.joneslanglasalle.co.uk/UnitedKingdom/EN-GB/Pages/Home.aspx](http://www.joneslanglasalle.co.uk/UnitedKingdom/EN-GB/Pages/Home.aspx)

45. **Defence Infrastructure Organisation (DIO)** was formed on 1 April 2011. It replaces the former Defence Estates and brings together property and infrastructure functions from across the Ministry of Defence. DIO manages the MOD's property infrastructure and ensures strategic management of the defence estate as a whole, aiming to optimise investment and providing the best support possible to the military. The Department also met with agents representing MOD (GVA Grimleys) as part of the consultation process and have been engaged in detailed written exchanges with those agents in relation to the consultation process. For more information visit; [https://www.gov.uk/government/organisations/defence-infrastructure-organisation](https://www.gov.uk/government/organisations/defence-infrastructure-organisation)

46. **WHR Property Consultants LLP** - WHR are Property Consultants who provide advice upon a range of issues as they apply to commercial properties. They have written into the consultation on behalf of their clients
Belfast International Airport. The range of advice upon which they advise may be categorised between landlord and tenant issues which will include rent reviews and lease renewals, business rates and valuations. The work undertaken crosses all sectors of commercial property including industrial, offices and retail and leisure properties. Their website can be accessed at; http://whrproperty.co.uk/

47. **The Rating Surveyors' Association (RSA)** is a professional organisation representing the interests of experienced Chartered Surveyors who specialise in the field of business rates and can demonstrate that they comply with the highest of professional standards. The Association was founded in 1909 and now has over 350 members drawn from private practice, corporate bodies, the Valuation Office Agency and local authorities. The primary function of the organisation is to work with the various bodies responsible for the rating system - the Department for Communities and Local Government, the Valuation Office Agency, local authorities and the Valuation Tribunals - to improve the business rates system. For more information visit; http://www.ratingsurveyorsassociation.org/

48. **The Northern Ireland Local Government Association (NILGA)** represents the collective interests of elected members in local councils and facilitates the development of the sector. NILGA seeks to promote, strengthen and represent the local government sector as part of the Local Government Group of Associations in the UK. The Association is supported by the main political parties in Northern Ireland together with representatives from other parties, and is supported by elected representatives from all 26 local authorities who are members. For more information visit; http://www.nilga.org/

49. **The South Eastern Health and Social Care Trust** is an integrated organisation, incorporating acute hospital services, community health and social services and serves a population of approx 345,000 people with a budget of almost £500 million. The Trust covers the local government districts of Ards, North Down, Down and Lisburn. For more information visit; http://www.setrust.hscni.net/. The Trust replied to the consultation simply to say they had no comment to make on the proposals

50. **Colliers International** is a global real estate body offering to investors, property owners, tenants and developers around the world. A subsidiary of First Service Corporation with offices worldwide. For more information visit; http://www.colliers.com/en-us

51. **Queen’s University Belfast, Belfast Harlequins Club** and the **Ulster branch of the Irish Rugby Football Union** also provided responses. The
Department also met with representatives of the Ulster Branch of the Irish Rugby Football Union as part of the consultation process.

52. Lastly, one individual ratepayer, who represents carers, provided a response which did not provide comment on the specific proposals but which requested that the welfare of carers be taken into consideration when implementing any changes.
PART 2 – CONSULTATION REPORT

Section 2 – Responses to each proposal

53. The Department's proposals were:

1) that Northern Ireland aligns with English and Scottish decapitalisation rates for the forthcoming 2015 revaluation;

2) that the Department continue to prescribe the decapitalisation rates to be used;

3) that Northern Ireland does not follow the Welsh approach and set its own unique decapitalisation rates;

4) that the Department continues to prescribe two decapitalisation rates; and

5) that the Ministry of Defence properties in Northern Ireland be moved from the lower decapitalisation rate to the standard decapitalisation rate.

Proposal 1

54. Four respondents were in favour of proposal 1 within the report (that Northern Ireland aligns with English and Scottish decapitalisation rates for the forthcoming 2015 revaluation), three were against and four did not indicate a preference.

55. Belfast Harlequins Club commented that the rates should be set at “...as low a percentage as possible and certainly no higher than the highest rate applicable in the rest of the UK which currently is in England and Scotland. There is a strong argument that as interest rates are so low that the decapitalisation rates in future should be lower...and more in line with the percentages used currently in Wales of 4.5% and 2.97%”. This was a view which was echoed by the Irish Rugby Football Union (Ulster Branch).

56. The Defence Infrastructure Organisation (DIO) commented that “in principle” it was appropriate to align the decapitalisation rates in Northern Ireland with those in the rest of the UK but only “where those rates reflect the economic circumstances at the appropriate antecedent valuation date (AVD)”. Queen’s University commented that, “all other things being equal (as indicated in Section 3 paragraph 27 of the paper), the University would be in favour of the proposed rates of 5% and 3.3%”. However they went on to say; “Until the numeric levels of all of the factors are know it is not possible to know what the net effect will be on NAVs assessed by this method. In that context
the University would reserve comment on the appropriateness of the proposed rates.”

57. Three respondents expressed concerns over proposal 1. The concerns were related to the length of time which has elapsed since the current England and Scotland decapitalisation rates were set and also the change in economic circumstances since then. Jones Lang Lasalle stated that “a fresh look at prevalent costs of finance should be considered” citing the fall in Bank of England lending rates from 5% to 0.5% since 2009 as evidence that “the cost of borrowing has substantially altered (reduced) since the English and Scottish rates were last determined”. WHR Property Consultants LLR (WHR) who responded on behalf of Belfast International Airport were against harmonisation with the current rates in England and Scotland because of the elapsed time between the AVD dates and because the planned 2017 revaluation in England, Scotland and Wales will amend and probably reduce the decapitalisation rates. They too cited the reduction in Bank of England lending rates believing that standard decapitalisation rate should be nearer 3%.

58. The same concerns were also expressed by the Rating Surveyors’ Association (RSA) who felt that the Department should not disregard applying the rates set by the Welsh Assembly. They stated; “…the rates to be applied for the 2015 Northern Ireland Revaluation should reflect the changed economic circumstances between the respective valuation dates (2008 to 2013).” Colliers International also expressed concern at the proposal to align the rates with those in England and Scotland and pointed out that the rates would only align until 2017 at which time rates will change in England and Wales based on future economic circumstances.

59. Of the three respondents that expressed no preference two utilised the consultation to highlight other issues. An individual who responded on behalf of Ballynahinch Support Group wish to ensure that the welfare of carers was taken into consideration during any proposed changes. The Northern Ireland Local Government Association (NILGA) expressed no specific views on the proposal but commented that “[t]he proposal to harmonise…must be viewed in the light of the unprecedented turmoil in the financial and property markets in recent years and the local government reform programme that is currently underway.”

60. The South Eastern Health and Social Care Trust did have any comment to make.
61. The following table sets out the level of rates suggested by respondents:

<table>
<thead>
<tr>
<th>Respondent</th>
<th>Suggested rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jones Lang Lasalle</td>
<td>Around 3% and not exceed 4%</td>
</tr>
<tr>
<td>Defence Infrastructure Organisation</td>
<td>Align with GB where the rates reflect the economic circumstances at the appropriate valuation dates (AVD).</td>
</tr>
<tr>
<td>WHR Property Consultants LLP</td>
<td>Suggest decap rate should lie nearer 3%</td>
</tr>
<tr>
<td>Rating Surveyors’ Association</td>
<td>Rates to be applied for 2015 should reflect the change in economic circumstances between 2008 and 2013. The rates applied in Wales should not be disregarded</td>
</tr>
<tr>
<td>Colliers International</td>
<td>4% and 2.66%</td>
</tr>
<tr>
<td>Queen’s University Belfast</td>
<td>Could not comment on appropriateness of aligning with England and Scotland as there are too many unknowns at the time of their response.</td>
</tr>
<tr>
<td>Belfast Harlequins Club</td>
<td>More in line with rates in Wales (4.5% and 2.97%)</td>
</tr>
<tr>
<td>Irish Rugby Football Union (Ulster Branch)</td>
<td>Supports move to lower rates preferably in line with Wales but at least aligning with England and Scotland</td>
</tr>
</tbody>
</table>

Proposal 2

62. Eight respondents were in favour of proposal 2 within the report (that the Department continue to prescribe the decapitalisation rates to be used) and 3 expressed no preference.

63. Jones Lang Lasalle was content for prescription of rates to continue as it removes the need for expensive litigation. However they also stated that as there was no right of appeal for those ratepayers affected the level of the rate
should be transparent and follow previous methodology applicable to market conditions. These views were echoed by WHR and the RSA. Belfast Harlequins Club, DIO, Irish Rugby Football Union and Queen’s University also agreed with this proposal but made no further comments.

64. None of the respondents were against this proposal with the remaining three respondents making no specific comment.

Proposal 3

65. One respondent was in favour of proposal 3 within the report (that Northern Ireland does not follow the Welsh approach and set its own unique decapitalisation rates), six were against and the remaining four respondents did not comment on this proposal.

66. Queen’s University commented generally that they were in favour of the proposals set out by the Department but said they would reserve comment on the appropriateness of the suggested rates as the factors affecting these were as yet unknown.

67. Jones Lang Lasalle disagreed with the proposal, commenting that “Northern Ireland should set its own decapitalisation rate appropriate to market conditions as at 1 April 2013 and our own analysis...suggest[s] the rate should be c.3.0% and should not exceed 4.0%.” The response was accompanied by their analysis which took three possible approaches to arriving at an independent rate for Northern Ireland. They went on to say that should the Department decide to set a rate higher than 4% then “full appeal rights should be reinstated so that ratepayers assessed under the contractor’s basis have an opportunity of submitting relevant evidence before a Tribunal” because the rate would be” significantly in excess of evidence available during 2013”.

68. WHR also disagreed saying that Northern Ireland should set its own decapitalisation rates with proper analysis of the cost of capital. The RSA also expressed concern at the lack of appeal rights for ratepayers subject to the contractor’s method of valuation commenting that if Northern Ireland adopted the rates set in England and Scotland “an artificially high decapitalisation rate could lead to NAVs not supported by economic fundamentals”. They argued that Northern Ireland should set a lower rate than the rest of the UK but were “concerned at the lack of information regarding likely increases to the capital costs to be applied to subjects valued on the contractors’ principle of valuation”.

69. Colliers International simply stated that “Northern Ireland must set its own decapitalisation rate in the current circumstances, where its valuation date does not correspond with that applying in England Scotland and Wales”. The
two sports organisations wished Northern Ireland to set its own rate, preferably lower than that in England and Scotland as this would ultimately have a positive impact on sport and recreation in Northern Ireland.

70. The individual ratepayer and NILGA made no comment specific to the proposal.

Proposal 4

71. Five respondents were in favour of proposal 4 within the report (that the Department continues to prescribe two decapitalisation rates) and six were neither for nor against it.

72. The two sports organisations that responded to the consultation were in favour of the continuation of two rates but both qualified this by saying that sports clubs should be eligible for the lower rate. The Ulster Branch of the Irish Rugby Football Union commented that sports clubs should be categorised under the lower rate within the education and healthcare sectors – “Sports Clubs are at the heart of the community and provide essential opportunities for children, young people and adults regarding education and physical/mental health and well-being”.

73. The RSA were in agreement that the Department continue to prescribe two rates as “there has not been any material change sufficient to justify fundamental changes to the existing two-tier structure.”

74. As already mentioned Queen’s University Belfast was broadly in agreement with all the proposals but made no further comment. The DIO supported the proposal.

75. WHR and Colliers International all stated that they had no comment to make on this proposal, however Colliers went on to say they saw no reason to move away from the two tier system.

76. The other respondents made no comment as regards this proposal.

Proposal 5

77. Two respondents were in favour of proposal 5 within the report (that the Ministry of Defence properties in Northern Ireland be moved from the lower decapitalisation rate to the standard decapitalisation rate) two were against and seven either felt unable to comment or made no comment.
78. The majority of the respondents felt unable to comment on this specialist area, however, two respondents were strongly opposed to the proposal; the DIO and the RSA. The DIO which represents the Ministry of Defence gave arguments against moving their properties to the standard rate. They commented; “At Paragraph 55 of the Consultation Paper it states that “the MOD estate does not have the range of specialist defence properties which exist in the rest of the UK”. We would strongly contest this statement. The range of properties in Northern Ireland mirror those in the rest of the UK and are very much specialist in their nature. Given the requirement for heightened security measures that continue to exist in Northern Ireland when compared to those in the rest of the UK it should be argued they are in many ways even more unique than those in the rest of the UK.”.

79. They argue that based on methodology adopted in the courts in England and Wales which states that the Contractor’s Basis of valuation should be based on the tenant’s ability to borrow funds to build the property in question, the MOD should benefit from the lower rate as they, being the only possible tenant for their properties, would be able to borrow at a lower rate.

80. They stated that if Northern Ireland MOD properties were to be subject to the higher rate their liability would increase by 52% and would they argue “place[s] a disproportionate tax burden on the MOD” and would not “accurately reflect changes in the economy between 2001 and 2013”. They also commented that “[t]he MOD is established for the public benefit and the defence of the Realm. As such it benefits the community in a similar way to education and healthcare.”

81. The RSA were of the opinion that the MOD should continue to benefit from the lower rate commenting that “[t]here is little justification for not maintaining the same level as education and healthcare subjects.” They also made the point that “subjects in the nature of public works or which are occupied for non-commercial, non-profit making purposes” should benefit from the lower rate and suggested that there should be a clear definition of property types, especially modern property types which would be eligible for the lower rate.

82. They went on to suggest that “...the cost of erecting such subjects may be so high that no tenant of the class in question would be prepared to pay rent brought out by applying the contractors’ principle on the normal basis” and that the MOD would hypothetically offer greater security to a landlord, being able to borrow money at a lower rate than the ordinary borrower.

83. In contrast Queen’s University and WHR were in agreement with the proposal. However Queen’s University gave no explanation why and WHR were commenting on a specific element of the MOD’s property; the military
airport at Aldergrove. They said; “It is our view that if two identical properties were occupied by a Civilian Airport and a Military Airport it is inconceivable that in the real world the rental values would vary.”

General Comments

84. A number of general comments were made by the respondents. Relating to their specific organisational needs or the wider area of rates including the planned non-domestic revaluation and local government reform.

85. The DIO commented that the “winners” and “losers” in a revaluation should only be as a result of economic changes since the last revaluation – “To increase the decapitalisation rate adopted for MOD properties for reasons outside the normal economic factors and move away from the principles established elsewhere in the UK for MOD property is inequitable.”

86. Queen’s University made the point that “…there are obviously a number of factors which are used in determining Net Annual Value by the Contractor’s Method, of which the decapitalisation rate is just one. Until the numeric levels of all of the factors are know it is not possible to know what the net effect will be on NAVs assessed by this method.”

87. WHR wished to put forward Belfast Internationals case, commenting that; “Belfast International Airport is in competition with other Airports in the United Kingdom. There should therefore be the ability to ensure that the assessment of business rates is on an equal footing and that a comparison can be made between the various assessments to ensure equality in terms of rate payments.”

88. A similar point was also made by the RSA – “Factors such as the effects of transitional relief, the method and the evidence for updating and applying cost rates, the district rate to be applied and the level of industrial derating to be applied remain unknown and all of these factors will have an impact on expectant occupiers liability.” The RSA also said they would “urge that a decision on decapitalisation rates be made at the earliest opportunity.”

89. NILGA commented - “The proposal to harmonise...must be viewed in the light of the unprecedented turmoil in the financial and property markets in recent years and the local government reform programme that is currently underway.” They also “noted that this change is to be considered at a time when the business and retail sector continue to feel the deepest impacts of the economic downturn.”
90. **NILGA** also mentioned rates convergence - “...**NILGA would highlight concerns regarding the impact of rates convergence, which is an already contentious element of the reform programme. While we appreciate that within the context of a wider revaluation the timing of the decapitalisation rate review is appropriate, it is unfortunate that this is occurring at the same time as rates convergence.**”

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