

These notes refer to the Damages (Return on Investment) Act (Northern Ireland) 2022 (c.1) which received Royal Assent on 2 February 2022

Damages (Return on Investment) Act (Northern Ireland) 2022

EXPLANATORY NOTES

COMMENTARY ON SECTIONS

Schedule

Schedule C1 contains 34 paragraphs and provides as follows.

Paragraphs 1 to 3 oblige the rate-assessor to review the discount rate and deal with the timing of reviews.

Paragraph 1 provides that the first review is to be a review of the discount rate set under existing section 1 of the 1996 Act as it applied immediately before the provisions of the Schedule are brought into operation. This rate was last set by the Lord Chancellor by the Damages (Personal Injury) Order 2001 (2001 No. 2301) at 2.5%. If there is no such rate in operation (for example, if that Order were to be revoked in its application to Northern Ireland without being replaced before the Schedule to the Act comes into operation), then the first review is to be a review of there being no prescribed rate. The first review is to start on the date on which the Schedule is brought into operation.

Paragraph 2 deals with the timing of subsequent reviews and requires the rate-assessor to start a subsequent review on 1 July 2024 (intended to align Northern Ireland with the cycle of regular reviews of the rate in Scotland) and thereafter on the day after the end of the five-year period, beginning with the day on which the previous regular review must be started (establishing a five-year cycle of regular reviews). The Department may, under sub-paragraphs (2)(a) or (b), require the rate-assessor to conduct a review starting earlier than the next regular review would do. However, if that occurs, the extra review does not disturb the commencement of a review on 1 July 2024, or the five-year cycle of regular reviews thereafter.

Paragraph 3 requires reviews (whether the first review or any subsequent regular or extra review) to be concluded within a 90-day period beginning on the day on which it must be started.

Paragraph 4 provides an overview of the rate-setting process. Paragraph 5 provides that a review will determine whether the rate is to remain the same or be changed. Paragraph 6 provides that the rate-assessor must have regard to the

views of any person the rate-assessor chooses to consult, or whose advice has been sought, provided these are received within a reasonable time (including views received before the Schedule comes into operation – see paragraph 29).

Paragraph 7 sets out the basis upon which the rate-assessor is to determine the rate of return. Subject to standard adjustments and rounding of figures noted below, it provides that the rate should reflect the rate of return for the notional portfolio provided for in paragraph 12 over a 43-year period. Paragraph 8 gives the Department a power, by regulations subject to the draft affirmative procedure, to change the period of 43 years.

Paragraph 9 provides for an adjustment to the rate of return to take account of inflation by reference to the retail prices index or to an alternative source of information as prescribed by the Department in regulations subject to the draft affirmative procedure.

Paragraph 10 provides for standard adjustments to the rate of return arrived at on the above basis. The rate-assessor is to deduct 0.75 of a percentage point to take account of the impact of taxation and the costs of investment advice and management. The rate-assessor is also to deduct 0.5 of a percentage point as a further margin (which recognises that there is risk inherent in even the most carefully advised and invested portfolio). Paragraph 11 provides that the adjustment figures may be changed by the Department by regulations subject to the draft affirmative procedure. The resulting figures may be zero or a positive number. They cannot be a negative number (so the adjustments can never raise the rate of return). They need not be whole numbers but can include a decimal fraction. Unlike the rate ultimately set by the rate-assessor (see paragraph 19), these numbers are not limited to being expressed in steps of a quarter percentage point.

Paragraph 12 sets out the notional portfolio with the types of investments and percentage holdings on which the rate-assessor is to determine the rate of return. Paragraph 13 provides that, if the type of investment is not defined by regulations under paragraph 14, it is to be interpreted by the rate-assessor in the way it is commonly understood in investment contexts. Paragraph 14 provides that the Department may make regulations (subject to the draft affirmative procedure) to define any of the types of investment. Paragraph 15 provides that the Department may make regulations to make changes to both the list of investments and the percentage holdings.

Paragraph 16 provides that, before any review of the rate of return under paragraph 2(1), the Department must consider whether it is necessary to make regulations under paragraphs 14 and 15 to ensure that the notional portfolio remains suitable for investment in by a hypothetical investor, as described in paragraph 17. Sub-paragraph (2) provides that, in considering this, the Department must consult such persons as it considers appropriate. However, sub-paragraph (3) provides that no such consideration is required before an extra review under paragraph 2(3).

Paragraph 17 describes a hypothetical investor as follows: a recipient of damages; who will invest the damages as properly advised; who has no financial resources apart from the damages that can be used to meet the losses and expenses for which the damages are awarded and will make withdrawals from the investment fund deriving from investment of the damages; and whose objectives are to secure that the damages will meet the losses and expenses for which they are awarded and be exhausted at the end of the period of the award.

Paragraph 18 clarifies that, for the purposes of paragraphs 16 and 17, the damages are damages for future pecuniary loss in an action for personal injury and they are paid in a lump sum.

Paragraph 19 provides that the rate will be set as a percentage figure, whether a whole number of percentage points or multiple of a quarter percentage point. It can be expressed in quarter percentage points and rounded to the nearest whole number or quarter percentage point. Paragraph 20 provides for the rounding of the figure so as to comply with that requirement.

Paragraph 21 provides that there will be a single rate of return which will apply to all cases unless regulations provide otherwise. Where the Department sets out in regulations (subject to the draft affirmative procedure) that there should be more than one rate, a review is to be carried out separately for each rate of return. Under paragraph 22, such regulations must set out the circumstances in which each rate is to apply and require the rate-assessor to report separately on each rate of return.

Under paragraph 23, the rate-assessor must send a report to the Department when the review has concluded and no later than the last day of the 90-day period for carrying out the review. The report must be dated and contain the rate determination and a summary of how the rate is calculated. Under paragraph 24, the Department must lay the report before the Northern Ireland Assembly as soon as practicable after it has been received and on the same day, the rate-assessor must publish the report. Paragraph 25 provides that the rate will come into effect on the day after the report is laid. Paragraph 26 provides for the Department to reimburse the rate-assessor for costs incurred in connection with a review.

Paragraphs 27 to 30 make provision for transitional arrangements so that the rate of return currently prescribed under section 1 of the 1996 Act will continue to apply until such times as a rate is set under the provision in the Act when enacted.

Paragraph 31 deals with regulations made under the Schedule. Sub-paragraph (1) allows regulations to make different provision for different purposes. For example, in the event that the Department makes regulations under paragraph 21 requiring more than one rate to be set, paragraph 8 (as read with paragraph 31(1)) could be used to prescribe different periods to be used in connection with the setting of the different rates. Sub-paragraph (3) provides that regulations made under the Schedule will be subject to the draft affirmative resolution procedure.

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Paragraphs 32 to 34 are interpretation provisions for the purposes of the Schedule.