

**EXPLANATORY MEMORANDUM TO**  
**Valuation for Rating (Decapitalisation Rate) Regulations (Northern Ireland)**  
**2009**

**S.R. 2009 No. 241**

**1. Introduction**

- 1.1. This Explanatory Memorandum has been prepared by the Department of Finance and Personnel to accompany the Statutory Rule (details above) which is laid before the Northern Ireland Assembly.
- 1.2. The Statutory Rule is made under paragraphs 5 and 6 of Part I of Schedule 12 to the Rates (Northern Ireland) Order 1977 and is subject to the negative resolution procedure.

**2. Purpose**

- 2.1. These Regulations prescribe a new decapitalisation rate (decap rate) for non domestic properties as part of the 2010 rating revaluation.
- 2.2. Regulation 1 contains the citation and commencement provisions.
- 2.3. Regulation 2 defines certain expressions which are used in the Regulations and describes the classes of hereditament in respect of which a decapitalisation rate is prescribed by the Regulations.
- 2.4. Regulation 3 provides for the Regulations to apply for the purposes of any NAV list coming into force on or after 1st April 2010.
- 2.5. Regulation 4 prescribes two decapitalisation rates and specifies the classes of hereditament in respect of which these rates are to be used for valuation purposes. The lower rate of 3.33% applies to church, defence, educational and healthcare hereditaments and the higher rate of 5% applies to any other case where the contractor's principle is used.
- 2.6. Regulation 5 revokes the Valuation for Rating (Decapitalisation Rate) Regulations (Northern Ireland) 2003 subject to a provision providing that those Regulations shall continue to have effect for the purposes of the valuation list which came into force on 1st April 2003.

**3. Background**

- 3.1. All non domestic properties are valued for rates by reference to an estimate of rental value but as some of these properties are rarely rented it is necessary to value them with reference to construction costs. The decap rate is the conversion factor needed to derive an annual equivalent or rental value from the depreciated construction cost estimate.
- 3.2. In 2007 a revaluation of non domestic properties was authorised by the NI Executive. This is a periodic exercise to reassess values based on economic, social and environmental changes over time. It will come into effect in April 2010 and will be based on values pertaining at April 2008. The revaluation in NI will take place at the same time as a similar exercise in GB and the opportunity is now being taken to amend the decap rate for

non domestic properties to bring NI into line with English and Scottish rates. The last revaluation in NI took place in 2003, the last one in GB in 2005 and so the rates have been out of line since then.

- 3.3. There are two rates; a standard decap rate for most specialised properties and a lower decap rate for education, healthcare, church and Ministry of Defence property. These rates are currently set at 5.5% and 3.67%.
- 3.4. GB was subject to a revaluation in 2005 which set lower decap rates of 5% and 3.3%. England and Scotland have recently consulted on the methodology and legislative base for these rates. Following the consultation, which raised no major issues, Ministers have confirmed that the current rates will remain unchanged. Wales issued a consultation paper seeking views on the current rates and the Welsh Minister has decided to lower the existing rates to 4.5% (currently 5%) and 2.9% (currently 3.3%). These rates are in line with the average increase in rateable values for other types of non-domestic property in Wales.

#### **4. Consultation**

- 4.1. The Department issued a consultation paper on 24th October 2008 to a focused group who were directly or indirectly affected by the decapitalisation rate. The consultation merely sought confirmation of our proposal to harmonise with England and Scotland and to introduce such rates by legislation. The Department received eight responses none of which raised issues to give significant cause for concern. Most were supportive of the move to harmonise with England and Scotland.

#### **5. Equality Impact**

- 5.1. There are no equality impact implications

#### **6. Regulatory Impact**

- 6.1. An RIA was not carried out as this is a technical market device linked to rating valuation assessment and it will not impact significantly on the businesses concerned. Most of those affected are in the public sector in NI.

#### **7. Financial Implications**

- 7.1. The decap rate is but one element in a highly complex rating assessment. Whilst the decap rate for revaluation 2010 will be lower than that applied in 2003 its financial impact is likely to be off set by increases in other elements within the assessment such as construction costs and land values

#### **8. Section 24 of the Northern Ireland Act 1998**

- 8.1. It is the view of the Department that these Regulations are compatible with section 24 of the Northern Ireland Act 1998.

#### **9. EU Implications**

- 9.1. Not applicable.

#### **10. Parity or Replicatory Measure**

- 10.1. These Regulations are required as part of the Northern Ireland non-domestic revaluation exercise in 2010. The rest of the UK is also

undergoing a revaluation at the same time and they too are required as part of the process to make similar legislation for their respective jurisdictions.

**11. Additional Information**

11.1. Not applicable.