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Llywodraeth Cymru
Welsh Government

Welsh Government Consultation – Summary of Responses

Non-Domestic Rates

Setting the Decapitalisation Rates for the Non-Domestic Rates Revaluation 2021

September 2019

Mae'r ddogfen yma hefyd ar gael yn Gymraeg.
This document is also available in Welsh.

Overview

This document provides a summary of the responses to the consultation on proposals setting the decapitalisation rates for the non-domestic rates revaluation 2021.

Action required

This document is for information only.

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Additional copies

This summary report and copies of all the consultation responses are published in electronic form only and can be accessed from the Welsh Government's website.

Related Documents

Link to the consultation document:

<https://gov.wales/decapitalisation-rates-wales-non-domestic-rates-revaluation-2021>

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Setting the Decapitalisation Rates for the Non-Domestic Rates Revaluation 2021

Introduction

1. A revaluation of non-domestic properties usually takes place every five years. The next revaluation was due to take place in 2022 but the Welsh Government decided to bring forward the next revaluation to 2021.
2. The main purpose of revaluation, and the associated setting of the multiplier, is to adjust the liability of properties relative to others within the non-domestic rates (NDR) tax-base. This ensures the rates liability is spread fairly between ratepayers and is based on up-to-date rental values. At each revaluation, all properties are assigned a new rateable value. The multiplier is reset by the Welsh Government to ensure the tax-base can broadly generate the same level of funding after revaluation as before.
3. Preparations are underway for new rating lists to be applied in Wales from 1 April 2021. The Valuation Office Agency (VOA) is responsible for compiling and publishing the rating lists and will ensure each non-domestic property is assigned a new rateable value based upon its estimated annual rental value as at the Antecedent Valuation Date (AVD) of 1 April 2019. The VOA is independent of the Welsh Government.
4. The VOA uses three methods for calculating the rateable value of a non-domestic property, depending on the available evidence. This consultation concerns a feature of one of the methods, the Contractor's Basis. Most properties are assessed using rental information. The Contractor's Basis is used for specialised properties where there is little or no direct evidence available of actual rents. Approximately 6,000 non-domestic properties in Wales are valued using the Contractor's Basis. These properties include utilities, schools, hospitals, heavy industry, fire and police stations, and airports, amongst others.
5. The decapitalisation rate is a key part of the Contractor's Basis. It is a percentage figure which is used to convert the capital value of a property into an annual rental value. It ensures the costs and benefits of owning a property, compared to renting a property, are taken into account when calculating the rateable value of the property.
6. The consultation sought views on whether a decapitalisation rate should be prescribed in legislation, how many rates should be prescribed and how the rate or rates should be calculated. The consultation applied to Wales only.

Proposals

7. The consultation focused on the three possible methods used for calculating the rateable value of a property, the number of rates which should be prescribed and the appropriate rates for the 2021 Revaluation.

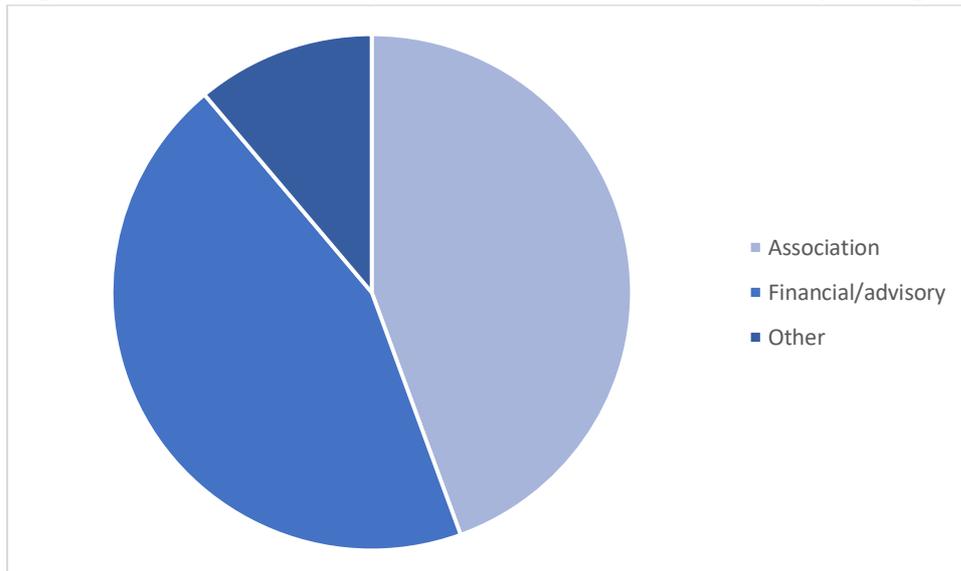
Engagement

- Views were invited as part of a 12-week consultation period which began on 8 March 2019 and ended on 30 May 2019. The consultation was published on the consultation pages of the Welsh Government's website. Respondents were able to submit their views and comments on paper, by email or online, and in Welsh or English.

Overview of Responses

- In total, the consultation received nine substantive responses, with almost all these being from representative bodies. Figure 1 illustrates the responses received by category. Of the nine responses, four were from associations and four from professional representative financial or advisory bodies. The remaining response was from a software company.

Figure 1: Number of responses to the consultation, by category



- A full list of respondents is given in Annex A. Individual responses are available on request from the Non-Domestic Rates Policy Branch.

Summary of Responses

11. This document is intended to be a summary of the responses received. It does not aim to capture every point raised by respondents but to highlight the key themes.

Question 1 Do you agree the Welsh Government should continue to prescribe the decapitalisation rates used in the Contractor's Basis of Valuation?

12. Responses

- Respondents agreed with the proposal in principle, with some commenting that it avoids the need for litigation which was a feature of decapitalisation rates before they were prescribed. The method standardises the approach to converting capital value to rental values and eliminates any uncertainties as to the rates used.
- A number of respondents said that the key to prescription is that rates are set fairly within the context of existing case law.
- The point was made that the only merit in not continuing prescription would be to reflect the circumstances of individual occupiers in the decapitalisation rate.
- Concerns were expressed that a “one size fits all” approach could prove a drawback in certain areas, and that while it is helpful to have a statutory rate, this is only the case if that rate properly reflects reality.
- It was suggested that if continued prescription is to occur, it is important that the system provides a greater degree of harmonisation and coordination across the UK, and that Welsh Government should seek even better coordination with England on its decapitalisation consultation.

Conclusion

The use of prescribed decapitalisation rates for the Contractor's Basis of Valuation was the preferred method for most respondents.

Question 2 Do you agree that the Welsh Government should continue to prescribe two decapitalisation rates in Wales?

13. Responses

- The majority of respondents agreed that the Welsh Government should continue to prescribe two decapitalisation rates.
- It was suggested that the present system has worked well and is widely understood but that it should not be extended beyond its current limits of healthcare, education, defence and public conveniences.
- One respondent felt that there should be three rates prescribed, as set out in the judgment in [1] Williams v Cardiff City Council (VO) 1973 RA 46, and that public sector bodies and not-for-profit organisations should also have access to the lower decapitalisation rate.

- The Association of Independent Museums (AIM) commented that neither the standard nor the lower rate reflected the reality of funding for the museum and heritage sector.

Conclusion

The Welsh Government will continue to prescribe two decapitalisation rates.

Question 3 Do you have any views on the methods for setting the decapitalisation rates (including any suggestions for alternative methods), on the range of values generated by each method, or on the merits or otherwise of each method?

14. Responses

See responses to Question 4.

Question 4 Do you agree with the Welsh Government's proposed approach for setting decapitalisation rates in Wales?

15. Responses

There were varying views expressed regarding Questions 3 and 4.

- One suggestion was that, as there are a number of methods at the disposal of the VOA to arrive at a figure, it must use the best method that suits an individual hereditament to the benefit of the ratepayer concerned and that it should be used in a fair and proportionate way. It was suggested that the 2017 rating list decapitalisation rates for Wales, of 3.8% and 2.1%, were an appropriate ceiling for the 2021 revaluation.
- A number of respondents felt that the current methodology has become established over several lists since the Government first proposed prescription of decapitalisation rates, and there was no obvious reason to doubt that this format would produce an acceptable approach for 2021.
- The Association of Independent Museums (AIM) felt that the proposed approach to setting decapitalisation rates did not reflect the reality of how museum developments are funded in the sector. The AIM proposed a third, lower rate be introduced in the statutory scheme.
- One response suggested that the setting of prescribed decapitalisation rates has had less to do with methodology and more to do with politics and favouring particular businesses. A preference was expressed for the setting of rates, if not abandoned, to be delegated to an independent body or committee charged with achieving rates which properly reflect value, uninfluenced by extraneous concerns.

Conclusion

Most respondents agreed to the Welsh Government's proposed approach for setting decapitalisation rates in Wales with the proviso that that it did not unfairly affect certain sectors.

Question 5 The Welsh Government would like your views on the effects these proposals would have on the Welsh language, specifically on:
(i) opportunities for people to use Welsh; and
(ii) on treating the Welsh language no less favourably than English.

16. Responses

See responses to Question 6.

Question 6 Please also explain how you believe the proposals could be formulated or changed so as to have:
(i) positive effects or increased positive effects on opportunities for people to use the Welsh language and on treating the Welsh language no less favourably than the English language; and
(ii) no adverse effects on opportunities for people to use the Welsh language and on treating the Welsh language no less favourably than the English language.

17. Responses

- Most respondents chose not to comment.
- Those who did believed the proposals would not have a negative impact on the Welsh language or its use and that the Welsh language should be used in a positive capacity not in a negative or discriminatory capacity. Comments included that, if there were a desire to conduct business through the Welsh language, this should be encouraged and supported but that people who do not wish to do so should not be treated negatively.
- Another commented that the Welsh language is a positive marketing tool for Wales with far-reaching benefits if treated correctly.

Conclusion

No respondents thought the Welsh language would be adversely affected by the concepts proposed in this consultation.

Question 7 We have asked a number of specific questions. If you have any related points which we have not specifically addressed, please use this space to record them.

18. Responses

- Two respondents said certain industry was being forced to change its business models in light of the changing nature of rural enterprise. The method for valuing property might be an issue for potentially unique rural assets. Many properties were being forced to diversify or develop income generation streams and improve commercial performance. This was undermined by the approach to NDR which was seen as imposing punitive rates on areas designated for commercial activity.
- Respondents also said that, for many, the idea of falling within scope of NDR as a result of diversifying came as a complete surprise and it could lead to businesses being discouraged from into looking at alternative income streams.

Next Steps

19. The consultation responses will be used to inform the setting of decapitalisation rates for the 2021 revaluation.

20. The Welsh Government will consider the broader points raised by respondents as part of the wider process of making non-domestic rates policy.

We would like to thank everyone who has taken the time to respond to the consultation. Your views were important in informing the decisions on setting the decapitalisation rates for Wales. We are grateful for your contributions.

Annex A: List of Respondents

Responses were received from:

Country Land and Business Association
Royal Institute of Chartered Surveyors
United Kingdom Petroleum Industry Association
Farebrothers
Altus Group
Association of Independent Museums
Deloittes LLP
Institute of Revenues, Rating and Valuation
Rating Surveyors Association