



Llywodraeth Cymru  
Welsh Government

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Welsh Government  
Consultation – summary of response

## Non-Domestic Rates

Setting the Decapitalisation Rates for the Non-Domestic Rates  
Revaluation 2023

August 2021

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 'Setting the Decapitalisation Rates for the Non-Domestic Rates Revaluation 2023'.

## **Action Required**

This document is for information only.

## **Further information and related documents**

Large print, Braille and alternative language versions of this document are available on request.

## **Contact details**

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## **Additional copies**

This summary of response and copies of all the consultation documentation are published in electronic form only and can be accessed on the Welsh Government's website.

Link to the consultation documentation: [Setting decapitalisation rates for Wales for the Non-Domestic Rates Revaluation 2023](#)

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## Introduction

1. A revaluation of non-domestic properties usually takes place every five years, with the next revaluation originally scheduled to take place in 2022. The Welsh Government decided to move the next revaluation to 2023, factoring in the economic impact of the Coronavirus pandemic.
2. The main purpose of a 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 2023. 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 2021. 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 valuation methods used for calculating the rateable value of a property, the number of rates which should be prescribed, the appropriate rates for the 2023 Revaluation, and the possibility of a general decapitalisation rate for future revaluations.

## Engagement

- Views were invited as part of a 12-week consultation period which began on 24 March 2021 and ended on 16 June 2021. 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 six responses, five of these responses were from representative bodies and one general response was from an individual, but was not specific to the proposals set out in the consultation.
- A full list of respondents is given in Annex A.

## Summary of Responses

- 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.

### **Q1. Do you agree Welsh Government should continue to prescribe the decapitalisation rates used in the Contractor's Basis of Valuation?**

#### **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 there are merits to the continued prescription of decapitalisation rates, subject to proper consultation. This could include review by an independent body in order that rates are reflective of accurate values.
- Concerns were expressed that a continued prescription of the same rates, without considerable consultation and technical input can lead to rates that are distant from the relevant market and rating hypothesis.
- It was also suggested that the methodology used in selecting the rates is clearly set out so everyone can see how it has been undertaken and whether it is fair both to ratepayers for hereditaments valued by the Contractor's Basis and to ratepayers whose premises are valued by other methods.

## **Conclusion**

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

## **Q2. Do you agree that the Welsh Government should continue to prescribe two decapitalisation rates in Wales?**

### **Responses**

18. The majority of respondents agreed that the Welsh Government should continue to prescribe two decapitalisation rates.

19. It was stated that the present system has worked well and is widely understood. The respondent stated that, although there is scope for more than two decapitalisation rates, it would need greater examination of the system.

20. Respondents said that if a single decapitalisation rate is used, this would put burden on the public purse and would make the method less reliable.

21. It was also suggested that any changes to the system should be evidence-based and in the wider public interest.

### **Conclusion**

22. The Welsh Government should continue to prescribe two decapitalisation rates for the forthcoming revaluation and continue to consider the merits of a general policy in the longer term.

## **Q3. 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?**

### **Responses**

23. One respondent addressed the method of comparison with property investment (industrial) yields. They said that the logic of the contractor's basis is that no open market evidence exists. Concerns were raised with applying analysis of sale prices from a different market to construction costs adopted for a specialised property.

24. It was also suggested that due to the difficulties and uncertainties created by COVID 19, together with the increased construction costs caused by COVID-19 restrictions and supply difficulties arising, a reduction in the headline decapitalisation rate to 3.25% should be considered.

25. One of the respondents preferred the cost of securing capital from borrowing approach.

26. The Property Yield investment method was considered not appropriate as it does not reflect the true nature of the hypothesis as described in case law.

### **Conclusion**

27. The Welsh Government will consider all the factors, including the changes in the construction cost, when determining the appropriate rate.

## **Q4. Do you agree with the Welsh Government's proposed approach for setting decapitalisation rates in Wales?**

### **Responses**

28. It was suggested that prescription of any aspect of valuation is likely to diverge from original policy intentions set out in legislation. It was acknowledged that prescription may also give ratepayers certainty and clarity where otherwise complex and lengthy discussions on a case-by-case basis could lead to great administrative cost, delays and potential litigation.

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

### **Conclusion**

30. The Welsh Government will continue to set decapitalisation rates in line with the proposed approach.

## **Q5. What are your views on adopting a general policy for setting decapitalisation rates in Wales for future revaluations?**

### **Responses**

31. One respondent said that this could cause difficulties as it may reduce flexibility and the ability to fully reflect all the factors that feed into the setting of the decapitalisation rates.

32. It was also suggested that defining certain rules within which the decapitalisation rate should be prescribed for future revaluations may result in the Contractor's Basis becoming less aligned with the original policy intentions captured in legislation.

33. It was said that a general policy would not adjust to market conditions and would remove the ability for the Welsh Government to adjust the rates to reflect particular circumstances.

34. Only one respondent was in favour of a general policy, subject to appropriate public consultation and stakeholder input, as it would reduce administration and provide a degree of certainty.

### **Conclusion**

35. Further analysis and consideration will be required by the Welsh Government before determining whether a general policy is appropriate.

**Q6. We would like your views on the effects that the Draft Regulations would have on the Welsh language, specifically on opportunities for people to use Welsh and on treating the Welsh language no less favourably than English. What effects do you think there would be? How positive effects could be increased, or negative effects be mitigated?**

### **Responses**

36. Most respondents chose not to comment. Those who did said that the proposals would not have a negative impact on the Welsh language or its use.

### **Conclusion**

37. No concerns were raised that the Welsh language would be adversely affected by the concepts proposed in the consultation.

**Q7. Please also explain how you believe the Draft Regulations could be formulated or changed so as to have 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 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.**

### **Responses**

38. Most respondents chose not to comment. Those who did said that the proposals would not have a negative impact on the Welsh language or its use.

### **Conclusion**

39. No concerns were raised that the Welsh language would be adversely affected by the concepts proposed in this consultation.

**Q8. We have asked a number of specific questions. If you have any further points related to this consultation which we have not specifically addressed, please use this space to record them.**



## **Responses**

40. No points were raised in response to this question.

## **Next Steps**

41. The consultation responses will be used to inform the setting of decapitalisation rates for the 2023 revaluation which will be prescribed in legislation.

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

43. 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:

Anonymous

UK Petroleum Industry Association

Farebrother Chartered Surveyors

Avison Young

Rating Surveyors' Association (RSA)

Royal Institution of Chartered Surveyors (RICS)