



Department for
Communities and
Local Government

The decapitalisation rate for the 2017 business rates revaluation

Government's response



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Contents

Introduction	4
Summary of responses and the government's response	4
Next steps	6

Introduction

1. The next revaluation for business rates takes effect from 1 April 2017. Rateable values will be updated by the Valuation Office Agency using market rental values at 1 April 2015. But for some properties where rents do not exist they will use the “contractor’s basis” of valuation. In September 2015 the government published a technical discussion paper seeking views on setting the decapitalisation rates to be adopted when properties are valued using the contractor’s basis of valuation for the 2017 revaluation in England. Views were invited by 9 November 2015.

Summary of responses and the government’s response

2. There were 31 responses to the discussion paper. 8 were from ratepayers or organisations representing ratepayers, 13 from local government, 7 from rating agents and 3 from professional bodies.

Question 1: Do you think the government should prescribe the decapitalisation rates for the 2017 revaluation?

Question 2: What would be the implications for the rating system if the government did not prescribe decapitalisation rates for the 2017 revaluation?

3. 29 respondents favoured prescribing the decapitalisation rates for 2017. Most felt that to do otherwise would add too much uncertainty and litigation into the rating system. Only 1 respondent (a local authority) was against prescription saying that allowing the Valuation Office Agency to set the decapitalisation rate would allow for more in depth and specific valuations.
4. The government believes that without prescription of the decapitalisation rate businesses valued on the contractor’s basis would not be able to plan for their rates bill and local government would offset this uncertainty by increasing provisions and, in turn, reducing income for local services. Therefore, the government has decided to prescribe decapitalisation rates for the 2017 revaluation.

Question 3: Do you think the government should continue to prescribe two different rates – one lower rate for education, healthcare and Ministry of Defence properties and one higher rate for all other properties valued on the contractor’s basis?

Question 4: Do you think the government should adopt different groups of properties for different prescribed rates? If so why and do you have suggestions for how the different groups would be defined?

5. 22 respondents favoured retaining 2 prescribed rates primarily for simplicity and certainty. 6 respondents proposed a different configuration; 2 proposed a single rate for simplicity and 4 proposed 3 or more rates to more accurately reflect the circumstances of specific sectors.
6. 17 respondents did not want to change the groups of properties in each rate generally because they felt it would add complexity to the system. 11 respondents wanted to change the mix of properties within the rates of which 8 argued for public sector or not for profit occupations, including museums and sports facilities, to be moved to the lower rate in recognition of the lower borrowing costs or grant used to fund those properties.
7. The government believes that retaining the current groups of properties on each decapitalisation rate would provide certainty for those ratepayers assessed on the contractor's basis of valuation and ensure they did not face sudden and large changes in their bills for reasons unconnected to the revaluation. Therefore, the government has decided to retain the existing practice of prescribing 2 different rates – one lower rate for education, healthcare and Ministry of Defence properties and one higher rate for all other properties valued on the contractor's basis.

Question 5: What are your views on the methodologies set out at the Annex for setting prescribed decapitalisation rates and can you provide further evidence?

Question 6: Do you have suggestions for different methods for setting the decapitalisation rates?

Question 7: If the Government decided to prescribe decapitalisation rates, what should those rates be?

8. 11 respondents said they preferred method 1 in the Annex to the discussion document (the cost of securing capital to build the alternative property from borrowing) as it reflected the way many properties were financed and was grounded in previous case law. 3 respondents rejected method 3 (property investment yields) and method 4 (relative movement in rents) arguing that properties valued on the contractors had little connection to property yields or other rents. Otherwise, there was general support for the methodologies proposed.
9. 20 respondents proposed rates. 4 suggested retaining the current rates of 3.33% and 5%. For the remainder, the range suggested by respondents for the lower rate was between 2% and 2.5% and for the higher rate it was between 3% and 4.5%. One respondent suggested a rate for grant funded projects of 0.5%.
10. The government believes that Method 1 continues to provide the most relevant evidence of the decapitalisation rate and that the method produces a range of 1% to 4% for education, healthcare and the Ministry of Defence and 1% to 7.5% for all other

properties. Having regard to the considerations explained in the technical paper and having considered the responses, the government has decided to reduce the decapitalisation rates for the 2017 revaluation to 2.6% for education, healthcare and the MOD and to 4.4% for other specialist properties.

Next steps

11. The government will bring forward secondary legislation to change the decapitalisation rates for the 2017 revaluation. The 2017 rateable values for properties valued on the contractor's basis will be assessed by the Valuation Office Agency, published in draft on 30 September 2016 and come into force on 1 April 2017.