

CONSULTATION RESPONSE FORM

Your name:	Jamie Baker
Organisation (if applicable):	UK Petroleum Industry Association
Email / Telephone number:	0207 269 7605
Your address:	6 th Floor, 37 High Holborn, London, WC1V 6AA

Questions

Do you agree the Department should continue to prescribe the decapitalisation rates used in the Contractor's Basis of Valuation?
UKPIA's view continues to be that if set fairly, subject to consultation and within the context of existing case law, then continued prescription of decapitalisation rates is the preferred option. This can help avoid expensive litigation and assist predictability and accuracy in budgeting and forecasting which are important particularly when making location and investment decisions within our industry.
Do you agree that the Department should continue to prescribe two decapitalisation rates in Northern Ireland i.e. a standard rate and a lower rate?
We have no objection to the continuance of two decapitalisation rates.
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?

Firstly, we would wish to address the method of comparison with property investment (industrial) yields. The logic of the contractor's basis is that no open market evidence exists. Evidence is derived from the investment market where there are competing occupiers and where lease terms and covenant strength has significant influences on market yields. It is incongruous to apply analysis of sale prices from what is a completely different market to construction costs adopted for a specialised property. We are unaware of any established case law supporting such an approach.

Having regard to the more traditional approaches as endorsed by the Courts deriving from money market interest rates we understand that there is some difficulty in producing meaningful outcomes at a time when, recently, even negative interest rates were speculated and the Bank Rate stood at only 0.1% at 1 April 2021 AVD. However, it is noted that this is below the 0.5% rate which stood at 1 April 2018 AVD for the 2020 Revaluation.

Added to the widely known difficulties and uncertainties created by Covid together with evidence of increased construction costs caused by Covid restrictions and supply chain difficulties, UKPIA considers that a reduction in the headline decapitalisation rate to 3.4% would be justifiable. This would also lend support and aid recovery of heavy industry at a very difficult time and we commend it to the Northern Ireland Executive. It is also commensurate with the rate recently announced by the Welsh Government for the 2023 revaluation. Whilst Northern Ireland has a slightly later valuation date interest rates have remained at the same level of 0.1%.

Do you agree with the proposed approach for setting decapitalisation rates in Northern Ireland?

Please see our comments to Q3.