The Rating of Crown Property in the UK: The Issues Past and Present

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Abstract

Crown owned and occupied property is currently valued in accordance with normal valuation methods and principles. Since 2000, in the UK the various valuation agencies have been placing annual values for rating purposes (property tax) on all Crown property in accordance with standard valuation principles and practices.

The removal of Crown exemption has resulted in the “correct” valuation of unique and often iconic historic buildings. Whilst the buildings maybe old, historic and even iconic it is the use they are put to that is of importance from a valuation perspective. This paper has examined the historical setting of the Crown exemption and the rationale for its removal.

The paper then outlines the main methods of rating valuation as used in the UK and includes a section on the valuation of some historic and iconic building in England and Northern Ireland.

Key words: Rating, UK, Crown exemption, valuation methods, valuation examples

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The Rating of Crown Property in the UK: The Issues Past and Present

Introduction

In most countries government property is not liable for property taxes; indeed, the whole idea may be seen as a circular shifting of money (Bird and Slack 2004; Youngman and Malme 1994). The United Kingdom (UK) has recently taken a very different perspective. Regarding it as important that both government and local government occupiers are aware of the true cost of holding property, the UK insists on a system of notional rents and ensures liability for local property taxes.

From the enactment of the Poor Relief Act in 1601, the generally accepted starting date for the taxing local property in the UK, until 2000 when changes were enacted, property occupied by the government or Crown was not subject to property tax or "rates." However, the Crown did accept that it was appropriate to make some contribution to meet the costs of local services and paid an ex gratia contributions in lieu of rates (CILORs). This process suffered from a number of problems: the contributions were voluntary; Crown property did not appear in the valuation lists; and the basis upon which the contributions were made lacked the rigor and transparency of valuation that applied to all other property.

The Local Government and Rating Act was introduced in 1997 for England and Wales (with an amendment in 1998 for Northern Ireland[1]) to effectively place all Crown property on the same footing as all other taxable property and liable to be assessed for rates. These provisions came into effect from 1 April 2000. As a result, such iconic buildings as the Palace of Westminster and the Tower of London are now being valued in the same way as all other property for the first time.

Background on the Crown Exemption

Prior to the 2000 rating lists, certain properties occupied by the Crown, e.g., central government offices and Ministry of Defence establishments, were exempt from rating and did not appear in any rating list. The Crown did, however, make an *ex gratia* Contribution in Lieu of Rates (CILOR) based on a notional rateable value.

The Crown was neither expressly mentioned in the Poor Relief Act of 1601, the original rating act sometimes referred to as The Statute of Elizabeth, nor in the General Rate Act 1967 that replaced it. As it was a principle of UK law that the Crown was not bound by an act of Parliament unless specifically mentioned, there was no liability for rates. Further, no rates could be imposed with respect to property occupied by its servants whose occupation amounted to occupation by the Crown. This position was upheld by *Jones v Mersey Docks* (1865).

However, as far back as 1860 the government accepted the principle of the Crown paying something by way of *ex gratia* CILORs with respect to property occupied for public purposes. This practice was made uniform in 1874. The Treasury of the UK, by formal

[1] The Rates (Amendment) (Northern Ireland) Order 1998

Minute, adopted the principle that property occupied for the public service should contribute to the local rates equally with the other property in the parishes in which it was situated, having regard to its character in each case. The Treasury Minute established the Rating of Government Property Department (RGPD) to undertake the assessment of all government property with the intention of adopting in each case as far as possible the same principles as were applicable to the valuation of private property.

Nineteenth-century case law established that the exemption applied only to property occupied by the Crown itself or its servants, but not to other property occupied for public purposes. Generally, therefore, the exemption applied to property occupied for the purposes of the central government and the Royal palaces and parks, and to other property occupied by servants of the Crown (for example, occupation by government ministers or by military personnel of Royal Naval, Army, and Royal Air Force bases).

In 1896, a further Treasury Minute reaffirmed the principle of equal contribution, and made certain concessions in order to carry it fully into effect. The concessions included periodical revaluation, punctual payment, and a contribution with respect to the Houses of Parliament.

The following were the main characteristics of the CILOR in the last few years of its existence:

- The Crown Property Unit (CPU) of the Valuation Office Agency (VOA) was responsible for agreeing to the assessment and CILOR (following its absorption of the RGPD).

- CILOR payments were collected by rating authorities from the CPU.

- Valuations were carried out, and bills calculated, on exactly the same rules and methods as under the rates proper, taking account of any relevant rating reliefs.

- Local authorities included CILOR payments with other nondomestic rate income paid into the rating pool, and the combined payments were then redistributed to receiving authorities.

The CILOR arrangements differed from standard rating procedures in the following main respects:

- Contributions were, in theory, voluntary.

- Valuations originally decided by the RGPD, albeit after discussion with the local valuation officer, were not always at the same level as normal assessments.

- Crown bodies did not have the same rights as ratepayers to appeal against their valuations, and to have their appeal determined by an independent Valuation Tribunal.

Because the Crown is, in constitutional theory, one and indivisible, the CILOR treatment of properties occupied by more than one Crown body differed from the usual treatment of rateable property in more than one occupation. For CILOR, a single valuation was normally carried out for the property as a whole, and a single bill was calculated and sent to the major occupier, who then recouped the appropriate proportion of the total payable from the minor occupiers. Under standard rates, separate valuations are usually carried out for each separately occupied part of the property and each occupier receives a separate bill.

Rationale for Removal of the Crown Exemption

The government debated the removal of the Crown Exemption as far back as World War II. The Central Valuation Committee, in a letter of 21 January, 1947, to the Minister of Health, while in effect suggesting such a removal also stated that it had long been its view that the then arrangements for the rating of property occupied by the Crown were in many respects unfair and unsatisfactory to local authorities who at the time set their own rate levels. In the 1950s the English local authority associations expressed their dissatisfaction with the Crown Exemption and went so far as to say that the manner of assessing CILORs was completely arbitrary and frequently worked to the detriment of local authorities. They estimated the rateable value of Crown property in England and Wales in 1952 to be around £14 million out of a total rateable value of about £341 million, which would equate to £2.2 billion based on levels of value at the 2010 revaluation.

In the mid-1990s the government considered several drivers for change:

- The Crown's exemption from rates served no clear public policy objective, since Crown occupiers were, in any case, expected to make CILORs.

- It was the government's general policy, as stated in the Citizens Charter White Paper (1991), that general Crown immunity should be removed progressively as legislative opportunities became available, so that the Crown should in general be subject to regulatory and enforcement arrangements on the same basis as others.

- The lack of appeal rights for Crown occupiers was unsatisfactory in principle.

The Local Government and Rating Act 1997 made provision to end the Crown Exemption from nondomestic rates in England, Wales, and Scotland, effective 1 April 2000. Similar legislation was passed for Northern Ireland (The Rates (Amendment) (Northern Ireland) Order 1998). Rating authorities would collect rates on Crown properties directly from the departments concerned. These authorities also would be able to proceed with enforcement proceedings against the Crown, as they would with other ratepayers. Although this would happen in only the rarest of cases, rating authorities would in principle be able to take steps against a government department to obtain a liability order for unpaid rates if the need arose.

It has been suggested by the rating profession in the UK that, since rating is a tax, valuing and taxing properties occupied by public bodies is a waste of public resources. Properties which might fall in this category include those occupied by the Ministry of Defence, National Health Service, and local authorities. Superficially, valuing and taxing these properties may appear unjustified. The difficulty is that many activities traditionally carried out by central or local governments are now also performed in the private sector. Leisure centers are just one example. Exempting local authority properties from rates when they compete directly with the private sector could be argued to be unfair as it would give the public sector a fiscal advantage.

While the public sector occupies other buildings whose current use clearly does not compete with private business, it is difficult to justify exempting some publicly occupied properties and including others. The original justification for rating buildings occupied by public sector bodies (including the removal of Crown Exemption in 2000) was to establish a level playing field, ensure that the costs of occupation were fully recognized, and make transparent the contribution of public sector bodies to the cost of providing local services.

There are approximately 8,000 properties occupied by the Crown in England and Wales. It is virtually impossible to calculate the total rates paid by the Crown as it is not possible to identify this class of property within the 1.85 million individual entries in the rating lists. However, the total rateable values for the following classes of Crown property are:

As at 31/12/12 Rateable Values (England and Wales)

Army	£117,251,000
Royal Navy	£42,659,000
Royal Air Force	£55,501,000
HM Prison Service	£83,924,000
Courts Service	£159,160,000

Valuing Commercial Property

The rating valuation of commercial property is governed by legislation in each jurisdiction within the UK. The basis of value is, therefore, extremely important as it sets out the valuation standard (annual value) and the various assumptions that have to be made.

Basis of Value

Rating is a tax on the occupation of property and as such what has to be determined is the annual value of the property. For England, the basic definition of rateable value can be found in Schedule 6, Local Government Finance Act 1988:

> "The rateable value of a non-domestic hereditament none of which consists of domestic property and none of which is exempt from local non-domestic rating, shall be taken to be an amount equal to the rent at which it is estimated the hereditament might reasonably be expected to let from year to year…"

In Northern Ireland the basis of valuation is slightly different and is contained in Schedule 12 of the Rates (Northern Ireland) Order 1977. In this case the Net Annual Value of a rateable property is:

> "...the Net Annual Value of a hereditament shall be the rent for which, one year with another, the hereditament might, in its actual state, be reasonably expected to let from year to year, the probable average annual cost of repairs, insurance and other expenses (if any) necessary to maintain the hereditament in its actual state, and all rates, taxes or public charges (if any), being paid by the tenant."

Valuation officers of the Valuation Office Agency (VOA[2]), a part of Her Majesty's Revenue and Customs (HMRC) are responsible for compiling and maintaining commercial (nondomestic) property rating lists for England and Wales. The local assessors[3] are responsible in Scotland, and the Land and Property Services (LPS[4]) have responsibility for Northern Ireland. Broadly speaking the rateable value of a nondomestic property is based on the annual rent that it could have been let for on the open market at a standard date (the antecedent valuation date). For England and Wales the antecedent date of the 2000 lists was 1st April 1998; for the 2005 lists it was 1st April 2003; and for the 2010 lists, which came into effect on 1st April 2010, it was 1st April 2008. In N. Ireland the AVD for the 2003 revaluation was 1st April 2001.

Table 1 shows the number of taxable properties in England and Wales and their total rateable (taxable) value. Comparisons with capital value based property taxes are a little difficult because it is necessary to know the relevant yields to make the comparison, but even so it is clear the level of taxation is unusually high for a property tax. The tax level for England and Wales is approximately 45 percent, but this is on rental, not capital, values.

Table 1: Nondomestic Rate Statistics, April 2012

Jurisdiction	Number of Properties	Total Rateable Value (£, billions)	Rating Multiplier (tax rate)
England	1,736,000	58.575 (US$92.76bn)	45.8%
Wales	106,000	2.587 (US$4.11bn)	45.2%
N. Ireland	70,000	1.00 (US$1.56bn)	60.0%[5]

Source: http://www.hmrc.gov.uk/stats/non_domestic/menu.htm

The UK government sets a separate uniform tax rate (poundage) for England known as the nondomestic rating multiplier. For Scotland and Wales it is set by their respective assemblies and for Northern Ireland each district council sets its own rate. This determines the sum payable on every pound sterling of rateable value to arrive at the full rates bill. In England and Wales local authorities remain responsible for calculating rate bills and collecting nondomestic rates payable on properties within the authority's area. They do not, however, retain the rates they collect but pay them into a national pool (one each for England and Wales). The money in the pool is then redistributed to local authorities with special arrangements for the City of London. In Northern Ireland the Land and Property Services bill and collect the rates due from all commercial occupiers.

Rating Valuation Methods

Introduction

Valuations for rating are based on reality in that as far as possible we are looking either at market evidence, or at evidence of accounts or evidence of construction costs. In order to

[2] http://www.voa.gov.uk
[3] http://www.saa.gov.uk
[4] http://www.lpsni.gov.uk
[5] Average tax rate since each of the 26 District Councils set their own rates

establish an annual rental value under the rating hypothesis, three methods of valuation are generally recognised (Johnson, et al., 2000). These are:

- The comparative method or analysis of actual rents passing on the subject property;
- The revenue principle (receipts and expenditure method/profits method) which looks at the accounts; and
- The Contractor's Basis.

It has been clearly established within rating case law that the objective of valuation is to arrive at a rental value that a tenant would pay which then becomes the rateable value on which the occupier can be taxed. In *Port of London Authority v Orsett Union* (1920), Lord Dunedin said:

> "...What will the hypothetical tenant give for the subject? If the subject is an ordinary one, similar in character to other subjects which have stood the test of the markets. the inquiry is simple. But when the nature and circumstances of the hereditament in question do not admit such a test, some other way must be found. Now there are several ways of attacking the problem. One way is to consider what profit the hypothetical tenant could make out of the hereditament, not in order to rate that profit, but in order to find out what he was likely to give in order to have the opportunity of making that profit. Another way is to see what it would cost an owner to produce the hereditament in its present form and then to see what a tenant who had not himself the money to be an owner, would give the owner yearly, it being assumed that that sum must bear some relation at ordinary rates of interest to what has been spent. No question of law is necessarily involved in either of these methods."

In *Garton v. Hunter (VO)* (1969) valuations on the Contractor's Basis and on the profits approach (Receipts and Expenditure basis) were submitted in respect of a caravan camping site. The Court held that these valuations were not excluded by evidence of a rack rent paid for the site under a recent lease, and that all relevant evidence was to be admitted; the quality of it went to weight, not admissibility. The Court of Appeal in *Garton v Hunter (VO)* (1969) said:

> "...we do not look upon any of these tests as being either a 'right' method or a 'wrong' method of valuation; all three are means to the same end; all three are legitimate ways of seeking to arrive at a rental figure that would correspond with an actual market rent on the statutory hypothesis and if they are properly applied all the tests should in fact point to the same answer; but the greater the margin for error in any particular test, the less is the weight that can be attached to it."

It is important to note that the implication is that all methods of valuation should, if appropriately applied, produce the same answer (VOA, 2010). There is, therefore, a hierarchy of methods of valuation employed in rating which is clearly evident from examination of case law. This was confirmed in the judgment at the Court of Appeal in *Imperial College of Science and Technology v Ebdon (VO) and Westminster City Council* (1984) in which Glidewell, LJ said:

> "Normally the principal weapon in [the rating surveyor's] armoury is evidence of recent lettings, or failing that, sales of similar or comparable properties. For some categories of property, however, such evidence is rarely if ever to be found…. The valuer called upon to assess the [rateable] value of such a property has no evidence of comparable transactions to guide him. If the hereditament itself is let at a rent, or if it is occupied by a commercial enterprise which trades at a profit, evidence of the actual rent or profit may assist towards the necessary valuation. But Imperial College is not let at a rent and is not a trading concern. The valuer must therefore seek some other method."

It is clear that actual rents, where they are available should be the best guide to annual value. Where such evidence is not available, the motive likely to induce potential tenants to bid for the hereditament is a relevant factor in estimating the rateable value and this justifies a receipts and expenditure basis of valuation. Finally, where property is of a kind that is rarely rented, recourse is sometimes had to interest on capital value or on the actual cost of land and buildings, as a guide to ascertaining rateable value (VOA, 2010). Thus, while all evidence may be admissible (as expressed in *Garton v Hunter*), there is a preference for the most reliable, and recognition that some methods may be less unreliable. It is also clear that, while accepted under appropriate circumstances, the Contractor's Basis is not a method preferred by the courts. In *Cardiff R. A. & Cardiff A.C. v Guest Keen Baldwin's Iron and Steel Co. Ltd.* (1949), Lord Justice Denning said:

> "[The Contractor's Basis] is only one of the ways in which the tribunal of fact can form some idea of what a hypothetical tenant would pay… Even when the Contractor's Basis is taken, the assessment on that basis is open to great variations up and down, as, for instance, in assessing the effective capital value and in deciding what percentage to take on it.... The possible variations may become so great that the Contractor's Basis ceases to be a significant factor in the assessment. In such a situation the tribunal of fact may prefer to take some other basis…"

Comparative Method of Rating Valuation

The comparative method of valuation relies exactly on that - comparison. It involves comparing similar types of property in a given area to judge the relative value of a subject property under investigation. This is the method most commonly used to arrive at the open market rental value. Although the methodology sounds simple and straightforward, there can be several potential problems. In using this method, it is preferable that comparison should be made with similar properties situated in the same area/location, similar type, size, age condition etc and with transactions, which have recently taken place. This principle rests on the assumptions that:

- valuation is an estimate of what the market will pay;
- what has been paid for a similar interest in a similar property under similar economic conditions is the best indicator of market value.

The principle is a simple one, but is fundamental to the practice of valuation. The method proceeds by analogy. The valuer isolates those characteristics of the subject to be valued which in his view affect value and then seeks another property of known or ascertainable value possessing some or all of those characteristics with which he may compare to the subject of valuation. The method entails making a valuation by directly comparing the subject property with similar properties, which have been sold, and estimating its value from these transactions. If the comparable property requires significant adjustment the less confidence one can have on the estimated valuation.

Prices which have actually been paid should:

- reflect the balance of supply and demand for that type of property;
- reflect the competition between buyers;
- indicate the price at which vendors are willing to sell.

When there are a number of transactions which can be analysed, and they lead to generally consistent results, there will be more confidence about the quality of the comparative evidence. Consistency will indicate that transactions are conforming to the principles of an open market and are indicative of market value. There are instances where the subject property is unique which results in having few comparables upon which to base the estimated value of the subject, indeed there could be cases where there is a complete lack of sales evidence.

The property market does not fully meet the conditions of the perfect market in terms of economic theory, in part because of weakness of information flows, and in part because of the uniqueness of each property. The problem of uniqueness is a potential weakness for the comparative method, but it can tempered in part, by analysing prices paid for property such as $/per metre squared or $/acre etc. Other differences can be adjusted for by comparing analogous situations and identifying the added value from different features such as building or site qualities.

The Contractor's Basis of Valuation

Of the three methods the Contractor's Basis has been the subject of much criticism and debate, largely by the courts. In the past the Contractor's Basis has been criticised and referred to as a method of last resort. The Lands Tribunal and higher courts of appeal over the years has refined the method and is now an acceptable appraoch to be employed in the valuation of certain types of property such as public buildings, universities, etc. On this point Lord Avonside in the Scottish Case of the *Post Office v Assessor for Fife Region* (1981) said:

> "I would only add that in a case such as the present one, where no proper comparisons and values are available, and the Revenue Principle is plainly inapplicable, resort must be had to the Contractors Principle. That principle has been criticised decade after decade but I have yet to see any critic suggesting a method of valuation which could take its place."

Although the method is now more generally referred to as the Contractor's Basis, the original use of the word "test" was pertinent in that whilst interest on cost as a guide to rental value is the basis of the method, it is not envisaged that the hypothetical tenant should be considered as building the actual (or if appropriate a modern substitute) building, but that its rental value would be "tested" by having regard to what it would cost to build and the interest that would thereby be forgone or become payable (VOA, 2010).

The valuer should remember that the valuation method employed is only a means to an end, i.e. establishing the rental value of the property under the statutory rating hypothesis. Where other methods are not appropriate or where comparison cannot readily be made with other properties, it should not be used blindly nor in isolation and wherever possible and as far as can be ascertained the values achieved by the use of the Contractor's Basis should be consistent with the levels obtained by other methods and applied to other properties (Bond and Brown, 2006).

This method of valuation (which is based on costs) and is typically employed in the case of properties which are normally rarely, if ever, let and by their nature do not lend themselves to valuation by comparison with other property where rental evidence does exist.

In applying the Contractor's Basis, the valuer is concerned with ascertaining the cost of building the subject property but on the basis that it is a notional cost of the subject building. The costing approach merely provides the basis from which a rental value can ultimately be derived by the careful application of the main stages in the valuation method.

The cost approach to valuation is used in the case of property where there is a lack of market rental transactions. It requires the valuer to assume that the capital cost which would be incurred to buy a site and the capital cost of erecting buildings which are on it are, together, a guide to the value of the property as a whole (Connellan and Baldwin, 1992). The capital value thus derived can then be decapitalised to arrive at the rental value for rating purposes.

The classic explanation and basic philosophy underlying the contractor's basis is set out in the case of *Dawkins (VO) v Leamington Spa BC and Warwickshire* CC (1961).

The hypothetical tenant has an alternative to leasing and paying rent because he can build similar premises; the "tenant's alternative." The hypothetical tenant would not pay more in rent, and may well pay somewhat less, than interest charged or foregone on the capital sum employed in providing the tenant's alternative.

<u>The Valuation Stages</u>

The Contractor's Basis is currently based on five stages of valuation following the leading case *Gilmore (VO) v Baker Carr (No 2)* (1964). A further stage is possible i.e. "the negotiations" stage which was largely based on the decision in *Imperial College of Science and Technology v Ebdon (VO) and Westminster City Council* (1984). The stages are as follows:

Stage 1	Estimation of the Replacement Cost (ERC)
Stage 2	Estimation of the Adjusted Replacement Cost (ARC)
Stage 3	Estimation of the site value
Stage 4	Application of the statutory decapitalisation rate
Stage 5	Consideration of the results of Stage 4 to see whether it represents a broadly acceptable estimate of the rateable value
Stage 6	Negotiations

Stage 1: Estimated Replacement Cost

This stage is to establish what it would cost to construct all the buildings, including all site works and relevant plant and machinery within the property. The valuer may have actual costs available (if it is a new building) or may be required to estimate the cost of either replacing the actual building(s) or, in appropriate circumstances, replacing them by a modern substitute. It is usually necessary to estimate the replacement cost, however, actual costs may be utilised providing they have been adjusted to ensure they are consistent with the valuation of the property at the antecedent valuation date (VOA, 2010).

The concept of the "tenant's alternative" was confirmed in the case of *Monsanto v Farris (VO)* (1998), where the Lands Tribunal said:

> "However, I would reject the literal interpretation which assumes the actual building of an alternative hereditament. In operating the five stage method it is neither built nor valued, it is a total fiction and as such it should not be dressed in the clothes of supposed reality, because that produces even greater unreality…."

The Stage 1 costs will therefore relate to a new building, but the valuation must remain firmly rooted in the actual building. For the purposes of valuations on the Contractor's Basis it must be assumed that a hypothetical tenant would estimate costs for the "alternative" building, complete and fitted out with all rateable plant installed as at the valuation date (in the UK this is the antecedent valuation date (AVD) with no costs or values to be taken at a date earlier than the AVD).

Where a building is such that perhaps because of age, design or type of construction it would not be realistic to envisage rebuilding it in its present form, as an alternative to estimating the cost of replacing the actual building, the valuer may estimate the cost of a modern substitute building. For example, the subject property might have excessively high ceilings by modern standards or considerable ornamentation and embellishment which would not be replicated in a new building.

Where a substitute building approach is adopted, costs should be estimated on the basis that the substitute building is of a quality and specification, and has such services as would be required, to enable the use carried on in the actual building to be carried out satisfactorily in all respects.

The substitute building should be of a similar floor area to the actual, but where the reason is that the actual building is over-large, perhaps due to changes in demand or technology, then any differences, (both advantages, but more likely disadvantages), between the substitute and the actual building may be reflected at Stage 1 by costing a suitably sized alternative building or at Stage 2 by making an allowance (VOA, 2010).

Stage 2: Adjusted Replacement Cost

The replacement costs estimated at Stage 1 relates to the provision of new buildings, plant and machinery etc. As it is the actual property which has to be valued, in its existing physical state, adjustments may properly be considered at this stage to reflect certain deficiencies in comparing the actual property with the "new" property costed at Stage 1.

The deficiencies can be grouped under the general heading of obsolescence and can include an allowance for age, physical, functional and economic obsolescence.

Physical obsolescence: relates to “wear and tear” of the building due to its age. Although age itself is not a justification for an allowance, the tenant will reflect on the prospect of increased maintenance costs in his rental bid (VOA, 2010).

- Functional obsolescence: relates to the problems which may be present in the design of the property such as poor layout, inefficient heating, lighting and ventilation systems, inadequate vehicular access etc;

- Technical obsolescence: may be regarded as an extension of functional obsolescence and which arises where current technology has changed so that the actual plant to be valued or the building’s housing the equipment have become redundant for example, coal fired boilers being replaced by modern gas or oil boilers.

Stage 3: Value of Land

The valuation of the land component comprises two stages. The first is to establish the capital value of the land associated with the property. The second is to make such adjustments as may be appropriate in the circumstances of the case having regard to the fact that the site has been developed with the actual building(s) erected upon it.

The value for the land is based on the assumption that the site is cleared of all buildings but further assuming that planning permission for the existing development for the buildings would be granted having regard to their existing use and reflecting all advantages and disadvantages of the site and its location. It must be borne in mind that the land has to be valued *rebus sic stantibus* (“as it stands”) and that, accordingly, the value has to be determined on the assumption that development of the site is confined to the class of hereditament under consideration. Thus an actual price for the land in question, or for a comparable site, may need to be discounted, or even disregarded, if it is clear that the price reflects an alternative development value unrelated to the actual development (VOA, 2010).

Evidence as to the value of the land may be obtained from market transactions of similar sites for broadly similar uses. The price actually paid for the land may require adjustment to conform to the antecedent valuation date. What is required is the value of the land restricted to the actual use, it should not include any development potential over and above that required for the buildings within the hereditament.

Having established the value of the cleared site it is then necessary as part of this stage to consider whether that value requires to be adjusted to reflect the assumption that the site is to be considered as one encumbered by the building(s) on it. Thus the valuer needs to refer back to Stage 2 and consider whether the adjustments made to the buildings reflect factors which would have an adverse effect on the level of value adopted for the land (VOA, 2010).

This aspect was considered in the *Imperial College* case:

> “The starting point on the building is ‘cost’ and on the land is ‘value.’ The value of the site may reflect advantages or disadvantages not accounted for in the estimated replacement cost of the substitute buildings but properly to be reflected in the adjusted

cost thereof. For these reasons the amount of the deduction to be made to the buildings may be different from that on the land. The facts have to be considered in each case."

Stage 4: Decapitalisation

This stage is the application of a decapitalisation rate to the Effective Capital Value (ECV) which is the sum of Stages 2 and 3 to give the estimated rental/rateable value. Prior to the decapitalisation rates being statutorily imposed, the determination of the appropriate rate percent for application to the capital value had become a very contentious stage in the Contractor's Basis of valuation resulting in lengthy and costly litigation (VOA, 2010). The rates are now prescribed in legislation for GB and Northern Ireland. Thus in order to assist in the harmonisation process with England, Wales and Scotland and to seek to avoid the inevitable litigation as to the appropriate rate or rates that should be adopted, the Secretary of State as empowered by the Local Government Finance Act 1988 Schedule 6 made Regulations establishing the decapitalisation rates to be adopted in any Contractor's Basis valuation (whether in whole or in part) in England Wales and Scotland. For Northern Ireland the rate is specified by the Valuation for Rating (Decapitalisation Rate) Regulations (Northern Ireland) 2009.

The current rate for Northern Ireland is:

- 3.33% in the case of any hereditaments consisting of any church property, healthcare property or an educational establishment; and

- 5% in any other case

Scotland

For Scotland the rate is specified by the Valuation for Rating (Decapitalisation Rate) (Scotland) Regulations 2005.

The current rate is:

- 3.33% in the case of any hereditaments consisting of any church property, healthcare property or an educational establishment and Ministry of Defence property; and

- 5% in any other case

Wales

- 2.9% in the case of any hereditaments consisting of any church property, healthcare property or an educational establishment and Ministry of Defence property; and

- 4.5% in any other case

England

- 3.33% in the case of any hereditaments consisting of any church property, healthcare property or an educational establishment and Ministry of Defence property; and

- 5% in any other case

Stage 5: Consideration of results

This stage is often referred to as "the stand back and look" stage but it is important to note that a number of adjustments and allowances may have already been made at earlier stages. It is important that any adjustments at this stage are only made for matters which have not already been allowed for in considering the buildings and land separately at Stages 2 and 3.

However, the valuer should now review the four stages that have preceded and make such further adjustments to them which, on reflection, are necessary, leaving those which cannot properly be made at the previous stages to be considered at Stage 5. It is at Stage 5 that the estimated rental value as determined by the application of the contractor's basis represents an acceptable assessment of value for the property.

Stage 6: Negotiations

This additional stage was introduced by the *Imperial College* case. Having considered the relevance of any allowances under Stage 5, but before finalising the valuation, it is important for the valuer to take an overview of the levels of value achieved by this method to ensure that they sit properly with the broad pattern of values in the locality which have been established by other methods (VOA, 2010). This stage would represent the "higgling in the market" and reflect any rounding of the valuation determined in Stage 5.

The Receipts and Expenditure Method

The following is a general definition of the receipts and expenditure method (R & E), formerly known as the "profits basis."

> "the ascertainment of the rental value of the hereditament by reference to receipts and expenditure, adjusted as necessary, of an undertaking carried on therein."

The R & E method is likely to be the preferred method of valuation in those cases where rental evidence is limited or indeed non-existent and where the rent is likely to be a function of the actual or anticipated profit of the business carried on at the property (VOA, 2010). The rationale for the method was expressed by the Court of Appeal in *National Trust v Hoare (VO) 1998*:

> "Sometimes in the case of properties which are rarely if, ever let it is appropriate to arrive at the annual value by a method of valuation known as the profits basis. The broad theory is that where a property can be used so as to yield profits then the hypothetical tenants would be prepared to pay a rent for the use of that property in order to be able to make those profits and that the level of the rent would reflect the level of anticipated profits."

The starting point for the valuation are the total receipts and expenditure of the actual occupier. However, it is the profit potential of the property that has to be established and not the profit achieved by the actual occupier. It is therefore important to recognise that it is the property that has to be valued and not the actual occupier's business (Bond and Brown, 2006).

Where available, accounts for more than three years will enable a fuller picture to be obtained, especially for those items which tend to vary from year to year.

<u>Outline of Method</u>

Similar to the Contractor's Basis there are various stages that have to be followed through in producing an E & R valuation.

Stage 1	Determining the Gross Receipts
Stage 2	Determining the purchases necessary to run the business
Stage 3	Deducting purchases from gross receipts provides Net Profit
Stage 4	Determining the Working Expenses
Stage 5	Calculating the Divisible Balance
Stage 6	Determining the Tenant's and Landlord's share
Stage 7	Stand back and look at the remaining rental value

Gross Receipts should be determined by taking into account all income that can reasonably be derived from occupation of the property. The receipts to be taken into account will comprise income from all sources related to the occupation of the property. Receipts from out-of-the-ordinary or one-off events (Olympic games for example) which may not be maintainable on a year to year basis, need consideration and could well be excluded.

Receipts should be examined to ascertain whether they fairly represent those likely to be earned by the hypothetical tenant; for example, the actual occupier may not run the business to its (expected) full capacity (VOA, 2010). The Cost of Purchases made in order to produce those receipts should be deducted to determine Net Profit.

From the Net Profit the Working Expenses such as salaries, wages, annual repairs, cleaning, utility costs etc., but excluding rent and rates, should be deducted to determine the Divisible Balance. Only those expenses attributable to the occupation of the property should be included with appropriate care being taken to avoid double counting.

The Divisible Balance is that amount remaining after the working expenses have been deducted from the gross profit. The Divisible Balance is available for sharing between the tenant, in the form of the tenant's share, and the landlord, in the form of rent. It contains two main elements:

The Tenant's Share is to provide a return on any tenant's capital employed and a reward to the tenant for his venture reflecting the extent of the risk and the need for profit. The tenant's share is, broadly, the amount which the tenant will require out of the business to induce him to take on the tenancy at the rent as estimated by the valuation, bearing in mind the capital needed to operate the business and the risk to that capital. It has been established that the tenant's share provides an allowance for (a) interest on capital; (b) profit; and (c) risk. There are four main methods of estimating the tenant's share:

- percentage on tenant's capital;
- percentage on receipts;
- proportion of divisible balance; and
- spot figure.

The preferred method will depend on the nature of the property/business, the likely number of hypothetical tenant's and the motive for occupation. Whichever method is adopted it is important that the valuer stand back and consider whether the sum produced is reasonable when compared to the level of tenant's capital, the turnover and divisible balance (net profit). This is then deducted from the Divisible Balance to leave the landlord's share.

Deducting the tenant's share from the divisible balance leaves the sum available to be paid as rent i.e. the "landlord's share." Although the tenant's share may be regarded as the first charge upon the divisible balance, it does not follow that the landlord's position should be ignored. In determining the tenant's share, and hence the rateable value, the relative negotiating strengths of the two parties and the quantum of their respective investments will be relevant (VOA, 2010). The hypothetical landlord will have invested significant capital in the property, and will expect an adequate return. Where there is insufficient profit available for both the tenant and landlord to achieve their desired level of return a compromise will be required.

As with other forms of valuation, it is necessary to "stand back and look" at the final figure and consider whether in all the circumstances it correctly shows the rent which would be paid under the statutory rating terms.

International Comparisons for Payments in Lieu of Property Tax

United States

In the United States, generally speaking under federal law, federal lands may not be taxed by state or local governments unless the governments are authorized to do so by Congress. Under federal law, local governments are compensated through various programs for reductions to their property tax bases due to the presence of federally owned land. These lands cannot be taxed, but may create demand for services such as fire protection, police cooperation, or simply longer roads to skirt the federal property (Corn, 2012). Federal land varies greatly in revenue production. Some lands have a large volume of timber sales, some have recreation concessions such as ski resorts, and some generate little to no revenue at all.

As a large part of the funding of local governments is generated from property taxes, this inability to tax the property values derived from the federal lands can adversely affect local tax bases. Instead of authorizing taxation, the US Congress chose to create various payment programs designed to compensate for lost tax revenue. These programs take various forms but the most wide-ranging payment program is called "Payments in Lieu of Taxes" or PILT's. It is administered by the Department of the Interior and affects most acreage under federal ownership (DoI, 2012).

PILT program eligibility is reserved for local governments (usually rural counties) that contain non-taxable federal lands and provide vital government services, such as public safety, housing, social services and transportation. These jurisdictions provide significant support for national parks, wildlife refuges and recreation areas throughout the year. PILT seeks to compensate them for their support and foregoing tax revenue from these Federal lands.

The Payments in Lieu of Taxes Act of 1976 was passed at a time when U.S. policy was shifting from one of disposal of federal lands to one of retention. The policy meant that the retained lands would no longer be expected to enter the local tax base at some later date. Because of that shift, Congress agreed with recommendations of a federal commission that if these federal lands were never to become part of the local tax base, some compensation should be offered to local governments to make up for the presence of non-taxable land within their jurisdictions (PLLRC, 1970). Moreover, there was a long-standing concern that some federal lands produced large revenues for local governments, while other federal lands produced little or none.

In FY2012, the PILT program covered some 606.5 million acres, or about 94% of all federal land. For some 1,850 local governments a total of $393 million under the 2012 Payments in Lieu of Taxes (PILT) program was redistributed (DoI, 2012).

Calculating a particular county's PILT payment is based upon several issues:

- The number of acres of eligible lands in the relevant county?
- Population of the county?
- Previous year's payments, if any, for all of the eligible lands under the other payment programs of federal agencies?
- Does the state have any laws requiring the payments from other federal agencies to be passed through to other local government entities, such as school districts, rather than staying with the county government?
- The increase in the Consumer Price Index during the year?

Canada

The Government of Canada's property is exempt from local taxation under the Constitution Act, 1867. However, since 1950, the federal government has shared in the cost of local government, where it owns property, by making payments in lieu of property taxes. The Payments in Lieu of Taxes Program is administered by Public Works and Government Services Canada (PWGSC) under the authority of the Payments in Lieu of Taxes Act 2000. Under the Payments in Lieu of Taxes Act the Minister of Public Works and Government Services may make payments in lieu of taxes (PILT's) with respect to federally owned property, which is constitutionally exempt from provincial and municipal property taxation. The purpose of this Act is defined as providing "fair and equitable administration of payments in lieu of taxes."

Across Canada municipalities have three primary sources of revenue: property taxes, license fees, and user fees. The largest portion of municipal revenue is derived from property taxes. Typically, all levels of government are exempt from paying municipal property taxes, but in almost every province and territory, the government pays municipalities a grant in lieu of property taxes with most jurisdictions defining the grant-in-lieu payment structure in legislation. The program is intended to provide fair and equitable administration of payments to taxing authorities on behalf of federal custodian departments and agencies.

In this regard, payments are made on approximately 22,500 federal properties located in some 1,300 taxing authorities. Whether through legislation or defined in policy, each jurisdiction defines the properties that are eligible or ineligible to receive the grant-in-lieu. Grant-in-lieu programs are always applied to crown-owned property. Almost every grant-in-lieu program pays a grant equal to the taxes that would have otherwise been paid if the property was not exempt from taxation. However, Ontario, Québec, the Northwest Territories and Nunavut all have programs that either pay a grant equivalent to the full value of the taxes that would have been paid, or a varied portion of a payment for defined properties. These amounts can be considerable and may have an important impact on some taxing authority budgets.

The payments to the provinces are an important federal disbursement to local government. Table 2 shows the total levels of payment in nominal terms for the period 2008-11 and Table 3 payments made in respect of several cities. Payments are calculated on the basis of values and rates which would, in the opinion of the Minister of Public Works and Government Services, apply to federal property if it were taxable.

Table 2: Total PILT payments 2008-12

Year	Total PILT payment (Million CAN$)
2011	504.69
2010	480.05
2009	471.85
2008	460.72

Source: Public Works and Government Services Canada, http://www.tpsgc-pwgsc.gc.ca/biens-property/peri-pilt/at-ta/2011-eng.html

Table 3: Level of PILT payments for selected cities, 2011

City	2011 PILT payment (Million CAN$)
Calgary	1.5
Montreal	16.5
Ottawa	131.8
Québec	13.0
Toronto	11.5
Vancouver	7.0

Source: Public Works and Government Services Canada, http://www.tpsgc-pwgsc.gc.ca/biens-property/peri-pilt/at-ta/2011-eng.html

Malaysia

In Malaysia, the federal government makes a contribution in aid of rates on government property that is not let for profit. Government property that is let for profit is valued and taxed in the normal way. Government is required to pay the contribution under Article 156 of the Federal Constitution. The contributions are not based on the assessed value (rental value) of government property but rather on actual expenditure items such as fire services, street lighting, water supply and refuse disposal (Choong, 1998; Manuel, 1998). The actual contribution is negotiated on an annual basis and is normally paid in full. In Kuala Lumpur for example, in 2010 the total assessed annual value for government property was MYR 282m and the contribution was 24.7m representing a tax rate of 8.75% (a tax rate of 12% is applied to commercial buildings within the city proper, therefore government is not obliged to pay the full potential rate liability. The total number of government properties in Kuala Lumpur (in 2010) was 25,612 which represents 5.6% of the total number of taxable properties. The revenue contribution of these properties was approximately 3.3%.

The Valuation of Iconic Buildings

The removal of the Crown Exemption precipitated the need to value a wide variety of unusual properties. Rating in the UK is an occupier's not an owner's tax and is based on broad actual use rather than highest and best use. Very old buildings often have to be valued, though many of them have been modernized and used for diverse purposes, such as offices, commercial mixed uses, or, at least in part, tourist attractions. The traditional comparison valuation approach could be made with similarly used properties to enable determination of an indicative rental value for some structures, but for others the task was much more difficult. For example, Somerset House on the River Thames is a purpose-built office block, but it is the world's first purpose-built government office block, dating back to 1776, and it has been used in commercial filmmaking, so is difficult to compare to other buildings.

Valuing unusual properties is not confined to Crown properties or those for which the rental comparison method cannot be used because there are no relevant comparisons. In such cases, the use of the Receipts and Expenditure (R & E) or income method may be a more reliable guide to assessing the market rental value of a property. This method is appropriate if the property to be valued is commercial in nature or has a degree of monopoly, and an occupier would be motivated primarily by the prospect of profit in its use of the property and, indeed, makes a profit (Bond and Brown 2006).

If neither the comparison nor R&E methods can be used, then the Contractors Basis or cost method is used where the property is provided primarily for public purposes and is not occupied for commercial profit, or where the property concerned is commercial but it is not a profit center with its own accounts. In both cases the occupier (or owner) would be prepared to incur the cost of a replacement property to carry on the use of the property.

In addition to the problem of valuation is the UK complexity of having a separate tax on domestic property. In England, Scotland, and Wales this is the Council Tax, but in Northern Ireland the system is one of Domestic Rates. If any part of a property is used for domestic purposes, as defined in the legislation, then that use is assessed for the domestic tax. Thus, Buckingham Palace and Windsor Castle, both royal palaces, have a rating assessment on the nondomestic, commercial element and a council tax on the domestic sections of the buildings.

Example Valuations

Parliament Buildings—Stormont, Belfast, Northern Ireland

The need for a separate parliament building for Northern Ireland emerged with the creation of the state of Northern Ireland under the Government of Ireland Act 1920. Built in 1921 at a cost of nearly £1.7 million, it was designed to house the newly formed Government of Northern Ireland and was officially opened on 16th November 1932 by the then Prince of Wales.

The building was used for the Parliament of Northern Ireland until it was prorogued in 1972. The Senate chamber was used by the Royal Air Force as an operations room during World War II. Between 1973 and 1998 it served as the headquarters of the Northern Ireland civil service. Between 1982 and 1986 it served as the seat of the rolling-devolution assembly. It is now the home of the Northern Ireland Assembly.

The buildings extend to some 12,000m^2 and comprise primarily offices with stores and a restaurant. The Net Annual Value is £1,246,000 and is based on the comparative method using office rents on similar style buildings.

Source: © iStockphoto/arodPEI

Belfast City Hall

Plans for the City Hall began in 1888 when Belfast was awarded city status by Queen Victoria. This was in recognition of Belfast’s rapid expansion and thriving linen, rope-making, shipbuilding and engineering industries. During this period Belfast briefly overtook Dublin as the most populous city on the island of Ireland. Negotiations to acquire the one and a half acre White Linen Hall site, located in Donegall Square, began in 1896 and a price of £30,000 was agreed.

Construction began in 1898 and in total, Belfast City Hall cost around £500,000 to build. The Net Annual Value is £590,000 and is based on the comparative method using office rents from within the city centre.

Source: © iStockphoto/Robert Mayne

Waterfront Hall, Belfast

The Waterfront Hall is a multi-purpose facility, in Belfast, Northern Ireland. Planning for the building began 1989, with the hall being completed in 1997 for the sum of £32 million. The main circular Auditorium seats 2,241 and is based on the Berlin Philharmonic Hall. In 2002, the hall was voted the second best conference centre in the world in the Apex Awards.

Valued at £1,000,000 Net Annual Value using the Contractor's Basis.

Source: William J. McCluskey

Crumlin Road Gaol, Belfast

HMP Belfast, also known as Crumlin Road Gaol, is a former prison (having closed in 1996) now after extensive renovations the gaol has re-opened as a visitor attraction and conference centre. Situated on the Crumlin Road in north Belfast and is the only Victorian era prison remaining in Northern Ireland. The Gaol was built between 1843 and 1845 and cost £60,000. It was constructed of black balsalt rock on ten acres at the bottom of the Crumlin Road. It was one of the most advanced prisons of its day. The first 106 inmates, were men, women and children, from impoverished working-class families who were often imprisoned for offences such as stealing food or clothing.

The Northern Ireland Environment Agency has given it a grade A listed building status because of its architectural and historical significance. The Crumlin Road Courthouse, stands opposite the Gaol. A tunnel under the main road connects the two buildings and was used to transport the prisoners to the courthouse. During the history of the prison between 1846 and 31 March 1996, when it was closed, an estimated 25,000 prisoners were held here.

When originally designed the prison did not contain a gallows and the executions were carried out in public view until 1901, when an execution chamber was constructed and used until the last of the hangings in 1961. Seventeen prisoners were executed in the prison. Valued at £320,000 Net Annual Value applying the Contractor's basis. Significant adjustments made in the valuation for age and obsolescence.

Source: William J. McCluskey

RAF Brize Norton, England

Royal Air Force Station Brize Norton or RAF Brize Norton in Oxfordshire, about 65 miles (105 km) west north-west of London, is the largest station of the Royal Air Force.
The station is home to Air Transport, Air-to-Air refuelling and Military Parachuting, with aircraft operating from the station including the Hercules, C-17 Globemaster, TriStar and VC10.

Major infrastructure redevelopment began in 2010 ahead of the forthcoming closure of RAF Lyneham in 2012, at which point Brize Norton became the sole air point of embarkation for British troops.

RAF Brize Norton has a rateable value of £4,270,000 rateable value. The method of valuation is the Contractors Basis.

HM Prisons Parkhurst and Albany, Newport Isle of Wight, England

Parkhurst prison is one of the two prisons that make up HMP Isle of Wight, the other being Albany. Parkhurst and Albany were once amongst the few top-security prisons (called "Dispersals" because they dispersed the more troublesome prisoners rather than concentrated them all in one place) in the United Kingdom, but were downgraded in the 1990s. Parkhurst Prison was first built as a military hospital in 1805 and was later transformed to a prison for boys awaiting deportation, mainly to Australia, as part of the Parkhurst Act of 1835. As such, it was the first land-based government prison specifically for young people in England and Wales.

Parkhurst enjoyed notoriety as one of the toughest jails in the British Isles. Many notable criminals, including the Richardson brothers, the Yorkshire Ripper Peter Sutcliffe, Kenny Carter, Moors Murderer Ian Brady and the Kray twins, were incarcerated there.

Parkhurst and Albany prisons are valued for business rates on the Contractors (cost) Basis of valuation. Parkhurst is assessed at £490,000 rateable value and Albany £405,000 rateable value.

Royal Courts of Justice, London

The Royal Courts of Justice, commonly called the Law Courts, is the building in London which houses the Court of Appeal of England and Wales and the High Court of Justice of England and Wales. The building is a large grey stone edifice in the Victorian Gothic style and was built in the 1870s. The Royal Courts of Justice were opened by Queen Victoria in December 1882. It is situated on The Strand, in the City of Westminster, London. Parliament paid £1,453,000 for the 6-acre site upon which 450 houses had to be demolished.

The rateable value of the Royal Courts of Justice (Contractors Basis of valuation) in the 2010 rating list is £6.65 million which generates an annual rates payment of around nearly £3 million.

Source: © iStockphoto/fintastique

Central Criminal Court—The Old Bailey, London

The Central Criminal Court of England and Wales, commonly known as the Old Bailey from the street on which it stands, is a court in London and one of a number of buildings housing the Crown Court. The Crown Court sitting at the Central Criminal Court deals with major criminal cases from Greater London and, in exceptional cases, from other parts of England and Wales. Part of the present building stands on the site of the medieval Newgate gaol.

The present building dates from 1902 and is assessed at £3,000,000 rateable value using the Contractors (cost) basis of valuation.

Source: © iStockphoto/Tony Baggett

MI5 Thames House, Millbank, London

The MI5 Security Service has its headquarters at Thames House, a Grade II listed building at the corner of Millbank and Horseferry Road in central London. It overlooks Lambeth Bridge, a few hundred yards south of the Houses of Parliament on the north bank of the Thames. Thames House was acquired by the Government at the end of the 1980s and was extensively refurbished for use by the Security Service.

The property is assessed at £17,350,000 rateable value and the basis of valuation is rental comparison with other office occupations in the locality.

Source: © iStockphoto/Johnny Greig

Audley End House, England

Audley End is largely an early 17th-century country house just outside Saffron Walden, Essex, south of Cambridge, England. It was once a palace in all but name and renowned as one of the finest Jacobean houses in England. It is currently in the stewardship of English Heritage though remains the family seat of the Lords Braybrooke.

English Heritage is a non-departmental public body, with most of its funding derived from taxation. They are probably best known for looking after the National Heritage Collection of historic sites and monuments and the guardianship of over 500,000 objects and 12 million photographs in our public archives. The Collection ranges from prehistoric stone circles to a 1960s nuclear bunker and includes Hadrian's Wall, Charles Darwin's diaries and the Duke of Wellington's boots. Taken together, over 400 properties are cared for by English Heritage.

Audley End House has a rating assessment of £7,400 rateable value. The basis of valuation is the receipts and expenditure method. The R & E method is the preferred method of valuation in this case. Audley End House is a visitor attraction with a cafeteria and several self catering units of accommodation. The significant annual expenditure incurred to maintain the property is reflected in the modest rating assessment.

Source: © iStockphoto/stocknshares

Tower of London

Her Majesty's Royal Palace and Fortress, commonly known as the Tower of London, is a historic castle on the north bank of the River Thames in central London. It dates to the Norman Conquest of England in 1066, and the White Tower, which gives the entire castle its name, was built by William the Conqueror in 1078. The Tower has served variously as an armory, a treasury, a prison, a menagerie, the home of the Royal Mint, and a public records office. Now it is home to the Crown Jewels and is one of the country's most popular tourist attractions, having some 2.55 million visitors in 2011.

It is protected as a UNESCO World Heritage Site (and by some very high walls and elaborate alarm systems). It is valued by the R&E method, due to its particular value as a tourist attraction, and the rateable value equates to approximately 4.7 percent of Fair Maintainable Receipts. For the local 2010 rating list the property had a rateable value of £1,790,000 (for the 2000 rating list the value was £1,180,000).

Source: © iStockphoto/John Woodworth

Palace of Westminster

The Palace of Westminster, also known as the Houses of Parliament, is a royal palace and the meeting place of the two chambers of the Parliament of the United Kingdom—the House of Lords and the House of Commons. The Palace is the center of political life, and Westminster has become a metonym for the UK Parliament and the Westminster system of government for which it is named. The Elizabeth Tower, often referred to by the name of its main bell, Big Ben, is an iconic landmark of London. The gothic revival architecture by Sir Charles Barry dates from only 1840, but the remarkable Westminster Hall with its hammer beam roof dates from 1097.

The Palace of Westminster has been part of a World Heritage Site since 1987. The Palace had a rateable value of £14,700,000 in the local 2010 rating list (£5,500,000 in the 2000 rating list). If the standard tax rate of 45.8 percent is applied, then the tax liability ignoring any reliefs would be around £6,730,000 per year. The assessment actually combines four buildings: the Palace, Portcullis House, 1 Derby Gate, and the Norman Shaw buildings. All parts are valued on the comparative method with respect to offices, with allowances for layout/quantum QUANTUM is the technical term for the size of the property, normally very large properties where an allowance is given for such large floorspce
if appropriate, and in the case of the Palace the two chambers are valued at 65 percent of the main rate per square meter. There is a further end allowance to reflect the overall quantum of the property.

Source: © Thinkstock

Buckingham Palace

Buckingham Palace is the official London residence and principal workplace of HM Queen Elizabeth II, both with respect to her position as British monarch and head of state of many countries around the world, and as head of the Commonwealth. Located in the City of Westminster, the palace is a setting for state occasions and royal hospitality. Originally known as Buckingham House, the building that forms the core of today's palace was a large townhouse built for the Duke of Buckingham in 1705. Buckingham Palace became the official royal palace of the British monarch on the accession of Queen Victoria in 1837.

Buckingham Palace is used in part as one of the monarch's residences, but consists mainly of offices. Recently limited commercial use has been introduced as part of the building is open to visitors. The commercial portion has a rateable value of £1,300,000 in the local 2010 rating list. It is valued using two methods. First, the R&E or income method is used to reflect the commercial component (approximately 400,000 people visited during 2011). The property is open for 63 days per year with limited opening hours, so the relevant receipts are annualized and 5 percent is added to reflect the fact that longer opening hours would generate more ticket sales. The trading accounts as published show that the rateable value equated to 6.3 percent of Fair Maintainable Receipts. Second, the Contractors or cost method is used for the Queen's Gallery. The residential component of the palace has 775 rooms, including 52 Royal and guest bedrooms, 188 staff bedrooms, 19 state rooms, and 78 bathrooms. In 2011–2012 it had a council tax bill of £1,369.

Source: © iStockphoto/oversnap

Stonehenge

Stonehenge is a prehistoric stone circle on Salisbury Plain comprising a megalithic rock monument of 150 enormous stones set in a circular pattern dating back to 3000 BC. While there are larger stone circles in the world, including one nearby at Avebury, Stonehenge is unique because the Sarsen stones are surmounted by lintels connecting to one another and once formed a complete, connected ring. Stonehenge was built over a period of 1,500 years. It is a World Heritage Site attracting some 1 million visitors per year. Given the commercial operation of the property, it has been valued using the R&E method at a rateable value of £700,000.

Source: © iStockphoto/Robert Ellis

Summary/Conclusions

Crown owned and occupied property is currently valued in accordance with normal valuation methods and principles. Since 2000 in the UK the various valuation agencies have been placing annual values on all Crown property in accordance with standard valuation principles and practices.

The removal of Crown exemption has resulted in the "correct" valuation of unique and often iconic historic buildings. Whilst the buildings maybe old, historic and even iconic it is the use they are put to that is of importance from a valuation perspective. The use of the property will often lead the valuer to the most appropriate method of valuation, whether that be comparative, income or cost. The valuation methods applied have to reflect the use of the buildings and where rental evidence is limited; resort to the cost based approach may be required. This latter approach brings with it significant difficulties in application given that some buildings are several hundred years old! In such circumstances valuers have to be creative, artistic and scientific in their valuations.

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