

Appendix 7.4

UNIFORM BUSINESS RATES REVALUATION 2017

September 2018



Valuation Office
Agency

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Date : 27th July 2018

By email

David Alborough
Property Manager
Northumbrian Water Ltd
Northumbria House
Abbey Road
Pity Me
Durham
DF1 5FJ

Dear David,

Uniform Business Rates Revaluation 2017 – Northumbrian Water

I refer to our previous correspondence and discussions in this matter.

The asset split approach to tenant's share apportions the divisible balance (profits) in accordance with the market value of the tenant's assets as a proportion of the total value of landlord's and tenant's assets.

The net present value of the expected annual returns from water supply produces the market value in capital terms of the landlord's and tenant's assets taken together. The workings of the scheme of economic regulation place that value towards the regulated capital value (£1928.1 million for Northumbrian Water). Kielder Reservoir is not however included in the RCV. The market value of the reservoir is similarly the net present value of the annual returns derived from it. I have capitalised these at the PR14 determined WACC which gives a figure of £383m. This gives a total value of £2311.1 million (£1928.1 + £383).

I have used the depreciated current cost of the tenant's assets of £639 million (calculated by Momin) as the market value of the tenant's portion of the assets.

It follows that the market value of the landlord's assets is £1672.1 million (£2311.1 less £639).

After allowing for working capital the tenant's share equals:

$$\text{£669 million} / (\text{£639 million} + \text{£1672.1 million}) \text{ £2311.1 million} = 29\%.$$

I have carefully considered Momin's analysis but do not consider that the figure of £26.7 million represents the capital value of Kielder Reservoir in view of the cash flows associated with it at the antecedent valuation date of 1st April 2015. My approach is set out above.

The rating assessment for Northumbrian Water will therefore now be increased to £85,000,000 as shown on the attached valuation. I had previously advised you that the increase would be to £84,700,000 but I have updated my valuation for the actual (rather than estimated) Kielder income.

I shall also certify the rateable value at 31st March 2017 at £66,100,000 (valuation attached) to reflect the Kielder income and a revised approach to tenant's share following the Valuation Tribunal decision in respect of United Utilities Water plc.

Yours sincerely,

Adrian Smith-Shaw

Adrian A W Smith-Shaw MRICS IRRV(Hons)
National Valuation Lead