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FROM: **JOHN O'DOWD MLA**
MINISTER OF FINANCE

TO: **J BUCKLEY MLA**

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MINISTERIAL STATEMENT - REVAL 2026 – RECEIPTS & EXPENDITURE METHOD OF VALUATION

Following the REVAL 2026 Oral statement I have provided a paper detailing the Receipts and Expenditure valuation method used for valuing licenced premises for rates purposes here. That paper was deposited on 09 February 2026, in the Assembly Library.

JOHN O'DOWD MLA
MINISTER OF FINANCE

GM-0117-2026 – MINISTERIAL STATEMENT – REVAL 2026

Background

This paper has been prepared on the Receipts and Expenditure (R&E) valuation method and the shortened approach used for licensed premises for rating valuation purposes. It aims to provide a clear explanation of the methodology, its legislative basis, and the process by which the percentages used in the shortened approach are reviewed at each revaluation

Receipts & Expenditure Method – Legislative Context and Purpose

The primary piece of legislation governing our non-domestic rating valuation is the Rates (Northern Ireland) Order 1977. Schedule 12 of that Order sets out the basis of value, requiring that every non-domestic hereditament be assessed at:

"the rent for which, one year with another, the hereditament might, in its actual state, reasonably be expected to let from year to year" on a fixed statutory valuation date.

This means that all non-domestic rating valuations, regardless of the valuation method used, are an estimate of rental value at a statutory valuation date also known as an antecedent valuation date (AVD). The AVD for Reval 2023, the current valuation list, is 1 October 2021.

Receipts & Expenditure Method

The Receipts and Expenditure (R&E) Method is the standard UK valuation approach used where rental evidence is limited and rental bids are influenced by the trading potential of the property.

When the R&E Method Is Used

- When open-market rental evidence is scarce or unreliable.
- When turnover and trading potential, rather than physical size, determine the rental bid.
- When the nature of occupation involves turnover generation (e.g., pubs, hotels, visitor attractions).
- When valuers need to reflect the property's trading capacity rather than the actual operator's performance.

Fair Maintainable Trade

The R&E method asks what rent a reasonably efficient operator could afford, based on the Fair Maintainable Trade (FMT) of a property. Fair Maintainable Trade (FMT) is the expected level of trade that a *reasonably efficient operator* could achieve under normal market conditions at the statutory valuation date. It is an objective assessment of the trading potential of the premises and not a measure of the actual occupier's performance.

FMT assumes:

- competent and efficient operation,
- typical pricing and staffing,
- reasonable levels of marketing and business management, and
- normal trading conditions without exceptional events or personal goodwill.

FMT is derived from:

- historic trading performance (adjusted for anomalies),
- evidence from comparable premises,
- local market and economic conditions, and
- the physical characteristics and capacity of the property.

Key features of FMT

- Reflects trading potential, not actual turnover.
- Strips out personal skill, goodwill, and operator-specific effects.
- Adjusts for exceptional circumstances or underperformance.
- Underpins both the full R&E method and the shortened approach here.
- Provides the foundation for assessing what a hypothetical tenant could reasonably afford in rent.

FMT is therefore the primary starting point for the R&E method and remains fully aligned to the statutory requirement to estimate a rental value at the fixed valuation date. To determine that rental value:

1. Fair Maintainable Trade (FMT) is estimated.
2. Cost of sales and working expenses typical for the undertaking are deducted.
3. This produces the divisible balance.
4. The divisible balance is then shared between:
    - the tenant (reward for effort, capital, and risk), and
    - the landlord (the rental value or Net Annual Value).

The landlord's share represents the Net Annual Value (NAV) determined under Schedule 12 of the Rates Order 1977.

The Shortened Receipts & Expenditure (R&E) Method

Here, a shortened version of the full Receipts & Expenditure (R&E) Method is used for valuing many hospitality and licensed premises. This approach complies with Schedule 12 of the Rates (Northern Ireland) Order 1977, because it produces an estimate of rental value at the statutory valuation date, but it does so using a simplified mechanism that is appropriate for this sector.

The shortened method begins, like the full R&E method, with Fair Maintainable Trade (FMT), the turnover that a reasonably efficient operator could achieve at the valuation date. However, instead of carrying out a detailed examination of cost of sales, working expenses, tenant's capital, and the tenant's share, the shortened method applies a fixed percentage to the FMT to determine the Net Annual Value (NAV).

This percentage represents the landlord's share of the divisible balance and is based on sector evidence, historical analysis, and consultation with the hospitality industry.

Receipts & Expenditure Illustrative Example (Simplified)	
Fair Maintainable Trade	£500,000
Less Costs of Sales	£300,000
Less Working Expenses	£75,000
Divisible Balance	£125,000
Tenant's Share	£75,000
Landlord's Share (Rent/NAV)	£50,000
NAV expressed as a % of FMT	10%

Why the Shortened Method Is Used

1. It reflects real rental practice in the licensed trade: In pubs, bars, restaurants and similar premises, rents are frequently set in the open market as a percentage of turnover, because turnover is a clear indicator of a property's trading potential. Using a turnover-based percentage is therefore consistent with how tenants and landlords negotiate rent.

2. It provides transparency and predictability: Operators can more readily understand valuations where FMT is established, the applicable percentages are clear, and the resulting NAV follows directly from the calculation.

3. It avoids unnecessary complexity: A full R&E valuation can require detailed trading accounts, adjustments to expenditure, assessment of tenant's capital, and judgement on the tenant/landlord split. Applying that level of analysis to every licensed premises would be disproportionate.

4. It supports consistency across similar properties: Licensed premises often share broadly comparable trading models and cost structures. Applying standard percentages helps maintain consistent relativities across the sector.

5. It is evidence-based and reviewed: At the start of each revaluation cycle, LPS engages with hospitality bodies and invites empirical evidence to inform whether the percentages remain fair and appropriate. Where robust evidence is not provided, the existing percentages are maintained.

6. Our percentages are comparatively favourable: The percentages applied here (5-8% for pubs) are generally lower than those used in other jurisdictions. Scotland applies a standard rate of 8.5% of FMT for pubs and in England and Wales the percentages adopted range between 7% and 12.25% (excluding London).

What shorthand percentages are used?

The shorthand R&E percentages table below sets out the fixed rates we use to convert Fair Maintainable Trade (FMT) into a rental value for pubs, with wet sales (drink) attracting increasing percentages as turnover rises to reflect the higher profitability and economies of scale in larger, better-trading pubs, while dry sales (food) are valued at a flat 5% because food has consistently lower margins; together, these percentages form the simplified mechanism used to derive the Net Annual Value under the licensed premises practice note

R&E Shorthand Percentages		
FMT/ Turnover	Percentage Rate to be applied	
Thresholds	Wet Sales (Drink)	Dry Sales (Food)
Below £250,000	5%	5%
£250,001 - £500,000	6%	5%
£500,001 - £750,000	7%	5%
£750,001 and above	8%	5%

This shorthand R&E example shows how a pub that sells **only** drink is valued using the percentage-of-turnover method: if the Fair Maintainable Trade (FMT) for wet sales is £500,000, pubs in this turnover band are assessed at a rate of 6% for drink sales, producing a Net Annual Value (NAV) of £30,000, which represents the hypothetical rent a reasonably efficient operator could afford to pay based on the property's trading potential.

R&E Shorthand Example		
Fair Maintainable Trade	Wet Sales (Drink)	NAV (rent)
£500,000	6%	£30,000

Reviewing Shorthand R&E Percentages at Revaluation

At the start of each revaluation process, Land & Property Services (LPS) provides an opportunity to review the percentages used in the shortened Receipts & Expenditure (R&E). Any such review must be based on robust empirical evidence relating to trading performance at, or capable of being reliably adjusted to, the statutory Antecedent Valuation Date (AVD).

This review requires evidence drawn from a broad sample of hospitality properties to understand overall trading patterns and assess whether the existing percentages remain fair and appropriate. To facilitate this, LPS invites representative bodies to supply the necessary turnover and trading information for analysis. In the absence of detailed empirical evidence required to support a data-driven adjustment of the percentages the established percentages are retained.

However, for individual assessments, LPS will use all relevant information available, such as Companies House filings, LPS-held data, comparable market evidence and inspection findings to estimate a fair and reasonable valuation. Actual trading information remains the most accurate and preferred basis for valuation, and LPS continues to encourage businesses to supply it.