POLICY NOTE

THE VALUATION FOR RATING (DECAPITALISATION RATE) (SCOTLAND) REGULATIONS 2016

SSI 2016/402

The above instrument is made in exercise of the powers conferred on the Scottish Ministers by section 6(8A) and (8B) of the Valuation and Rating (Scotland) Act 1956 and all other enabling powers. The instrument is subject to negative procedure.

Purpose

The purpose of this instrument is to set the decapitalisation rates to be applied by the Assessors when valuing non-domestic property using the contractor's basis for entry in valuation rolls from 1 April 2017.

Policy objective

Rateable value broadly represents market rental value and in most cases the Assessors use evidence of actual rents to arrive at their opinion of a property's rateable value. However, for certain properties (oil refineries, hospitals, schools, etc.) there is little or no direct evidence of actual rents, and in these circumstances the Assessors may use an alternative method of valuation called the contractor's basis.

A broad summary of the steps the Assessors take in arriving at a rateable value under the contractor's basis is as follows: an estimate is made of the cost of replacing the building and any rateable items such as certain types of plant and machinery; this cost is adjusted to reflect any obsolescence in the actual property; this sum is then added to the capital value of the site; the total capital sum is then 'decapitalised' by using the decapitalisation rate to give an annual equivalent; and the figure arrived at is reviewed ('stand back and look') making any such adjustments as affect the property as a whole.

Prior to the creation of the 1990 valuation rolls, Assessors and the courts experienced difficulties in determining how the decapitalisation rate should be derived and at what level it should be set. This gave rise to a series of appeals which created uncertainty as to the rates liability of a range of ratepayers, and ultimately the level of non-domestic rates income.

Consequently for revaluations since 1990 decapitalisation rates have been statutorily prescribed. The decapitalisation rates were set with consideration given to various factors, including interest rates and property yields. Certain property types have

been deemed to merit separate consideration (for example, they may be funded from cheaper sources of public-sector finance or charitable donations) and accordingly have been subject to a lower decapitalisation rate than other property.

Church property, healthcare property and educational establishments are deemed to fall into that category as of the 2017 revaluation, and will be subject to a lower decapitalisation rate of 2.9%. Other property will be subject to a standard decapitalisation rate of 4.6%.

Consultation

The Scottish Government ran a public consultation from August to November 2015, which informed the prescribed decapitalisation rates in this instrument.

Business and Regulatory Impact Assessment

No Business and Regulatory Impact Assessment was undertaken.

Financial impact

The decapitalisation rate is just one factor in the rating valuation and corresponding non-domestic rates liability for properties valued on the contractor's basis. For most such properties, that liability will generally be lower from 1 April 2017 than it otherwise would have been, due to the revised decapitalisation rates set by this instrument.

Local Government & Analytical Services Division
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