

Finance Circular No. 1/ 2009

By e-mail

Chief Executives, Directors of Finance and Head of Revenue of Scottish Local Authorities

Our ref: B2573789
21 January 2009

Dear Chief Executive/Director of Finance/Head of Revenue

SETTING THE DECAPITALISATION RATES FOR THE 2010 REVALUATION

Decapitalisation rates are used by the Scottish Assessors when valuing non-domestic subjects using the contractor's principle method of valuation. Ministers have prescribed the decapitalisation rates for the last four revaluations (1990, 1995, 2000 and 2005). A [public consultation](#) on setting the decapitalisation rates for the 2010 Revaluation was carried out from June to September 2008.

The Scottish Government has now considered the responses to the consultation paper and has confirmed the following Ministerial decisions:

- decapitalisation rates will continue to be prescribed;
- there will be no change to any of the groupings of properties within each rate; and
- Scottish Ministers have decided to retain the existing decapitalisation rates.

For the purposes of the 2010 Revaluation, the higher decapitalisation rate will therefore remain at 5 per cent. The lower decapitalisation rate, which is applied to education, healthcare, church, day nurseries and MOD properties, will remain at 3.33 per cent.

No new legislation will be required to implement this decision, as the existing Regulations will continue to apply ([The Valuation for Rating \(Decapitalisation Rate\) \(Scotland\) Regulations 2005](#)).

Background

The next revaluation of non-domestic property in Scotland will take effect from 1 April 2010. A revaluation results in the introduction of new valuation rolls which will contain revised rateable values for all non domestic properties in Scotland. Some 20 per cent of the new rateable values will be derived using the contractor's principle method of valuation.

Rateable value broadly represents rental value and, in most cases, the Scottish Assessors use evidence of actual rents to estimate rateable value. However, for some properties (oil refineries, hospitals, schools, *etc.*), there is no direct evidence of actual rents and, in these circumstances, the Assessors may use an alternative method of valuation called the contractor's principle.

In arriving at a rateable value under the contractor's principle valuation method, an Assessor will:

- (i) estimate the cost of replacing the building and any rateable items such as certain types of plant and machinery;
- (ii) adjust this cost to reflect any obsolescence in the actual property;
- (iii) add this sum to the capital value of the site; and
- (iv) 'decapitalise' the total capital sum by using the decapitalisation rate to give an annual equivalent that is taken to be the rateable value.

Copies of the consultation paper and of the responses received are available on the Scottish Government website at:

www.scotland.gov.uk/Topics/Government/local-government/17999/11199/reevaluation

Yours faithfully



David Henderson
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