



# The Contractor's Basis of valuation for rating purposes

Global

2nd edition, August 2017 (amended September 2023)

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Professional standard, global

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# RICS standards framework

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## Document definitions

| Document status             | Definition   |
|-----------------------------|--|
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# The Contractor's Basis of valuation for rating purposes

This is a republished version of the 2017 guidance in accordance with the new RICS standards framework. It is otherwise unchanged, except for some minor amendments such as removing the examples previously contained at 1.3, and revisions to appendices A and B to include updated decapitalisation rates and case law references respectively. The previous guidance will remain available from the RICS website.

## A Background

**A1** This professional standard is intended to be applicable for Contractor's Basis rating valuations effective from 1 April 2017 and thereafter. The purpose of this professional standard is to aid the understanding of the Contractor's Basis for the general rating practitioner while providing a common framework of the basis for the more experienced practitioner.

**A2** This professional standard supersedes that published in November 1995, which should be referred to for the original background and purpose.

**A3** Appeal decisions made by the courts and upper tribunals together with other legislative and regulatory changes have led to the need for an update of the original guidance.

**A4** The Joint Professional Institutions' Rating Valuation Forum (JPIRVF) was reconstituted for this purpose. It is made up of representatives of the Royal Institution of Chartered Surveyors (RICS), the Institute of Revenues, Rating and Valuation (IRRV), the Rating Surveyors' Association (RSA), the Valuation Office Agency (VOA), the Scottish Assessors' Association (SAA) and the Land & Property Services Northern Ireland (LPS).

**A5** The JPIRVF considers that there is a continuing need to clarify and harmonise the use and application of the Contractor's Basis.

## B The Contractor's Basis – the need for guidance

**B1** The overall aim of the Contractor's Basis is to arrive at the effective capital value (ECV) that is then converted into annual rental value. The primary method of arriving at ECV is to consider replacement building costs suitably adjusted.

**B2** The traditional explanation of the theory underlying the adoption of the Contractor's Basis is that the hypothetical tenant, instead of taking the subject property at a rent, has the option of building a precisely similar property for their own occupation, and that the rental bid for the subject property will be related to the annual equivalent of the capital cost of building such a property, including provision of the site.

**B3** While this classic explanation may have received approval in case decisions, closer examination reveals that it is completely artificial since the hypothesis underlying the concept of rateable value means that the tenant does not, in reality, have the choice between renting the property and building an alternative.

**B4** Appeal decisions made by the courts and upper tribunals highlighted a need for clearer guidance around this principle.

**B5** The objective of a rating valuation is to determine the rent that would be payable for the subject property in accordance with the statutory definition; no more, no less.

**B6** It has to be assumed that the property is owned by a hypothetical landlord who wishes to let it and that there is a hypothetical tenant who is willing to pay a rent in order to occupy it.

**B7** Although the parties to this transaction are hypothetical, the property is real and the valuer's concern is therefore with ascertaining the rental value of the actual property.

**B8** There may be a place for a modern substitute approach within the Contractor's Basis valuation process depending on the particular circumstances of the property concerned but it must be credible, realistic and supported technically or evidentially.

In such circumstances the valuer needs to consider (in the light of appeal decisions by the courts and upper tribunals relevant to the particular property or class of property) whether or not an appropriate incorporation or adjustment should be applied at Stage 1, Stage 2 or Stage 5 of the valuation.

**B9** It is the rental value of the actual property that is required and the justification for adopting the Contractor's Basis approach is that, when properly applied, it provides a guide to the rent that may be paid where no other valuation method can be used.

**B10** The valuer should not venture into a world of speculation that involves departing too far from the replacement of the actual property in the particular case. In most cases, the costing exercise should be related to the notional reinstatement of the actual property that is the subject of the valuation and the further the valuer strays from reality the less weight can be attached to the valuation produced.

**B11** With regard to plant and machinery, it is the *actual* plant and machinery forming part of the property that has to be considered in connection with determining rateability. While alternatives, some of which might be non-rateable, may be considered in ascertaining the value of the plant and machinery forming part of the property, they cannot determine the extent of it.

**B12** With the above observations in mind, the JPIRVF has updated this professional standard and added a schedule of relevant decapitalisation rates (in Appendix A) and a schedule of relevant cases from upper tribunals and higher courts (in Appendix B).



# 1 Scope and application

1.1 This professional standard applies to the valuation of property for rating purposes by reference to a rental value starting from the capital cost of construction. It is commonly referred to as the Contractor's Basis of valuation.

1.2 The method is employed in the case of properties that are not normally let out, which by their nature do not lend themselves to valuation by comparison with other classes where rental evidence does exist, and which are not of the type where a valuation solely by reference to the accounts of the undertaking would be appropriate. (Note: assessing bodies may apply differing interpretations as to the emphasis on, or use of, accounts information depending upon the jurisdiction).

The sale/purchase price of the property as a going concern, suitably adjusted to exclude non-rateable plant and other relevant matters may also be relevant as evidence of capital value. However, it is essential that a proper enquiry and analysis is conducted where this is the case to establish whether this can be accepted as open market value.

1.3 There is no statutory provision as to the circumstances or the classes to which the Contractor's Basis of valuation is to be applied. Professional judgement should be exercised in the choice of valuation method.

1.4 It may also be appropriate to use the Contractor's Basis for the valuation of part of a property (e.g. particular items of plant and machinery) otherwise valued on a rental or comparative basis.

1.5 In rating valuation it has to be assumed that the property is owned by a hypothetical landlord who wishes to let it and that there is a hypothetical tenant who is willing to pay a rent in order to occupy it. Although the parties to this transaction are hypothetical, the property is real and the valuer's concern is therefore with the rental value of the actual property.

1.6 While 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 constructing an actual property, but that the rental value of the property concerned is being 'tested' by having regard to the annualised equivalent of the estimated effective capital value (ECV). It would be inappropriate to assume that either the hypothetical tenant, or someone else, could or would actually build an alternative property, or that such a person has already built an alternative property suitable for occupation by the hypothetical tenant.

1.7 As with all valuations for rating purposes, the subject property has to be valued at the relevant valuation date having regard, in most cases, to the purpose for which it is used or, in the case of an empty property, to its mode or category of use.

**1.8** Current legislation allows for the prescription of the relevant valuation date, which is normally prior to the date the valuation comes into effect. This provides the base date for the costs to be used in arriving at rental value.

**1.9** Although costs are to be taken as at the valuation date, the physical state of the property must be taken to be as at the date specified in the legislation of the particular jurisdiction.

## 2 The approach to valuation

2.1 The recommended approach to valuation comprises the five component Stages listed below which are dealt with in more detail in Section 3.

**Stage 1** – Estimate the replacement cost of the site works, buildings, rateable structures and rateable plant and machinery.

**Stage 2** – Apply any appropriate adjustments and allowances to reflect the difference between cost and effective capital value (ECV).

**Stage 3** – Add the value of the land to arrive at total ECV.

**Stage 4** – Apply the appropriate decapitalisation rate to the total ECV.

**Stage 5** – Stand back and look at the result of Stage 4 and make any further adjustments considered appropriate.

2.2 Note that in some cases a sixth stage has been added under the heading 'negotiations' to reflect any haggling deemed to take place between the landlord and tenant. However, if stages 1 to 5 are properly applied then it should not be necessary to have a Stage 6.

2.3 Although the valuation process can usefully be broken down into five stages, it is the property as a *whole* that is to be assessed. The valuer should therefore take care to adopt an integrated approach and not be diverted into regarding each stage in isolation. The valuer needs to have regard to every intrinsic quality and every intrinsic circumstance that will affect value.

# 3 Stages of the valuation approach

## 3.1 Stage 1 – Estimated Replacement Cost

**3.1.1** Having identified the extent of the rateable hereditament/lands and heritages, the first stage of the Contractor's Basis is to estimate what it would cost to construct the property, including all the buildings, site works, and all rateable structures and rateable plant and machinery within the property, on an undeveloped site.

**3.1.2** Parts of the hereditament/lands and heritages may be domestic or exempt so it is important to establish how the exclusion of these parts from the valuation should be correctly achieved. This is due to different legislation in England/Wales, Northern Ireland and Scotland regarding the definition of hereditament/lands and heritages, and how these different parts are shown in the relevant list/roll.

**3.1.3** The estimated cost of replacement should include all of the elements that would go to make up an actual cost. Design costs, site works, provision of services and supervision costs (including fees) should all be included in the estimated replacement cost.

**3.1.4** Initially, the valuer needs to decide whether to cost the actual property or a substitute. In most cases costs will relate to the actual property, but there may be cases where it would be appropriate to cost a modern, simpler or smaller substitute.

**3.1.5** Next, the valuer estimates the replacement cost and this can be achieved either by:

- a reference to unit costs derived from analysis of actual costs or
- b reference to the actual costs of providing the subject property or
- c in the absence of sufficient evidence from (a) and (b), reference to other appropriate and reliable sources of cost estimates.

Unit costs should be the primary method adopted in order to achieve a consistent approach and ensure uniformity.

**3.1.6** Actual costs of providing the subject property may be considered where, for example:

- a full records of actual costs incurred at or around the relevant valuation date (as defined in 1.8) are available
- b it is possible to allocate costs clearly between rateable and non-rateable elements within the actual cost and

- c the property is unique in nature with significant elements that do not readily lend themselves to the unit cost approach.

If the valuer is using actual costs, care should be taken to exclude non-rateable items and un-remunerative expenditure, i.e. that which is not reflected in the value of the premises. Examples may include cost overruns and delays due to untypical weather conditions or industrial action.

**3.1.7** The costing exercise at Stage 1 requires an assumption to be made that construction is of the property as a whole, based on competitive rates prevailing at the valuation date. Therefore, any actual cost information will need to be adjusted to correspond with that basis.

**3.1.8** In adjusting actual costs there are different indices for buildings, civils and plant and machinery, etc. that should be applied. The older the cost information the less reliable this will be and care needs to be exercised to ensure that an appropriate index is applied.

**3.1.9** Actual cost information may come in a variety of forms including variation of price tender cost, firm price tender cost or final account figures. Valuers should be aware that different considerations are necessary for indexing each type of contract.

**3.1.10** Variation of price tender cost should be adjusted from the tender base date (normally four to eight weeks prior to the contracted start date) to the valuation date.

**3.1.11** Firm price tender costs and design and build tender costs should be adjusted from the midpoint of the contracted construction period (which may not coincide with the actual period) to the valuation date. However, such costs are the least reliable since they incorporate an element of speculation. Care should be taken in adjusting design and build contracts to avoid double counting as the costs will include an element for the design part of the contract.

**3.1.12** Final account figures being the actual costs should be adjusted from the mid-point between the tender base date and the date of practical completion, to the valuation date. This is the most reliable form of cost information subject to the guidance in 3.1.6.

**3.1.13** Where the cost of a plant item has been invoiced and charged on the basis of a foreign currency this should be converted at the time of purchase. The valuer should then apply an appropriate index to adjust to the relevant date. If a more appropriate index is not available then for the UK the BCIS Plant and Equipment Indices can provide a useful alternative.

**3.1.14** The valuer should take care to reflect the contract size with costs having to be adjusted to ensure proper relativity between the scale of the actual property and the contract(s) that formed the basis of any cost information.

**3.1.15** The valuer will also need to adjust for any difference in cost levels between the location of the property being valued and the source of the cost information. Note that most items of plant and machinery valued separately do not require adjustment for location.

**3.1.16** The total cost to be taken at Stage 1 must include all relevant professional fees.

**3.1.17** As the Contractor's Basis is a notional exercise, it is not considered appropriate to add VAT to the costs.

**3.1.18** In the event that a modern substitute approach is adopted (see 3.1.4) it should be remembered that strictly speaking this is a Stage 2 adjustment, considered at Stage 1 for convenience only. Costs should be estimated on the basis of the substitute being of a design and specification that enables the use of the actual property to be carried out in a fully satisfactory manner.

**3.1.19** Where the modern substitute approach is adopted because the actual building or item is larger than required – for example, due to changes in technology (and not for reasons that are personal to the actual occupier) – then the substitute should be costed on the basis of a size to reflect modern trade and business practices. In all other circumstances the cost should be based on the actual size.

**3.1.20** Paragraphs 3.1.18 and 3.1.19 above outline the basis for the substitute approach. Further adjustments required to take account of differences between the actual building and the substitute can still be reflected at Stage 2, or possibly Stage 5, but the valuer should take care to ensure that these adjustments (especially those made when determining the size of the substitute building) are not duplicated by way of allowances at Stage 2 or Stage 5.

**3.1.21** No adjustment should normally be made at Stages 1 or 2 for grants, or similar financial contributions that were either paid or would have been available at the valuation date, as these do not affect the cost of construction. Grants, or the prospect of them, do not reduce the contract price. Consequently, it is not in general open to a ratepayer in a Contractor's Basis valuation to claim that the availability of a grant would have enabled a tenant's alternative to have been constructed at a lower net cost.

**3.1.22** However, in some instances it may be appropriate to consider whether the availability of grant has resulted in a hereditament/land and heritages that is more costly, either because of size or level of specification, than would actually be required by the likely hypothetical tenant at the valuation date. If this is so, then a simpler and/or smaller substitute should be costed at Stage 1 (see 3.1.4).

## 3.2 Stage 2 – Adjusted Replacement Cost

**3.2.1** The costs estimated at Stage 1 relate to the provision of new buildings, structures, plant and machinery, etc. As it is the actual property that 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.

**3.2.2** The deficiencies that may be taken into account at Stage 2 can, for convenience, be grouped under the heading of 'obsolescence' and usefully subdivided into the following:

- a 'Physical obsolescence' relates to the deterioration of the buildings or other parts of the property through the wear and tear of the components. Although age is not in

itself justification for an allowance, the tenant will reflect the prospect of increased maintenance costs due to deterioration over time by a reduction in his or her rental bid.

- b 'Functional obsolescence' relates to the problems that may be present in the design of the property, which could be deficient by comparison with current requirements, for example, excessive ceiling heights, inappropriate layout, inadequate load bearing of floors, inferior heating and ventilation, etc.
- c 'Technological obsolescence' arises where current technology has changed so that the actual buildings or plant to be valued have become significantly redundant, economically outmoded or an alternative use has been adopted. Discussion with the ratepayer may assist in identifying such technological deficiencies.

**3.2.3** While an adjustment for the deficiencies of buildings, site works or plant will be accounted for as referred to in paragraph 3.2.2 above, valuers should bear in mind the following points:

- a An older building may require some adjustment not because of age per se, but because the original design, services and facilities are outdated.
- b It is unusual for an older property not to have been subject to some refurbishment and/or renewal throughout its lifespan with works such as re-wiring, new windows, etc. being common. Where this is the case, any allowances need to be reviewed depending on fact and degree.
- c Any adjustments should be approached with caution, as it is not possible to provide guidance on the level of adjustment that is appropriate for all types and uses of property. For example, there may be instances where 'age' enhances the value of the property, or where a specific design has quickly become obsolete, or where an item of plant and machinery has rapidly deteriorated in value. Adjustments in each case should be considered on their own merits.

**3.2.4** Where a modern substitute has been costed at Stage 1, allowances at Stage 2 should be restricted to the disadvantages of occupying the actual buildings in comparison with occupying the costed substitute (e.g. higher maintenance and running costs, etc.) since all other physical and functional obsolescence will have been reflected in the costing at Stage 1.

**3.2.5** In practical terms Stage 2 adjustments may properly be viewed from the perspective of an owner-occupier as Stages 1 to 3 are concerned with capital sums.

### 3.3 Stage 3 – Value of land

**3.3.1** Two stages are involved in valuing the land element. The first is to find the 'cost' of the site, which is based on the open market capital value of the land as at the valuation date. The second is to consider any adjustment for any disadvantageous effects that the actual buildings or rateable structures may have on the value of the site.

**3.3.2** The value adopted for the land should be on the basis that the site is undeveloped, with such services as existed at the relevant date available for connection, and with planning permission for development of the property. This will have regard to the existing use and should reflect all advantages and disadvantages of the site and its location.

**3.3.3** There may be some cases where a property is located in an area of high land value for historical reasons but derives no enhanced benefit from that location. In these circumstances it may be appropriate to adopt a lower value derived from comparison with more appropriate locations.

**3.3.4** Evidence as to the value of the land should, where possible, be obtained from market transactions in sites of a comparable size for use within the same mode or category as the subject property. Any price paid for the site itself may require adjustment to bring it into line with the date of valuation, or to exclude any value attributable to development not yet realised.

**3.3.5** Caution should be exercised in using individual site rents within the Contractor's Basis of valuation as this may misrepresent the value on the rating hypothesis.

**3.3.6** For certain categories of property (e.g. masts), there may be a reasonable body of reliable market evidence for site rental values. In these cases it may be appropriate to use this evidence for the site element of the valuation.

**3.3.7** It may be difficult to establish the appropriate land value when the property is in a class of its own, and where there is no evidence of a market in land for the particular use. While it would not be correct to value the site as if it were available for some other use, in the absence of more suitable evidence the valuer is not precluded from considering values relating to land used (or to be used), for other purposes in the vicinity. However, such an approach can only be used to the extent that it would be considered relevant by the hypothetical negotiating parties.

**3.3.8** While the value of the land should reflect all inherent advantages and disadvantages it should not include any development potential over and above that required for the buildings and/or rateable structures within the property. Thus, surplus land within the property that is reserved for future expansion should be valued as it stands, which may result in only a nominal value being applied. However, the valuer needs to exercise care in distinguishing surplus land from that which, while undeveloped with buildings, forms part of the overall development as open areas of amenity land or safety buffer zones that should properly be taken into account.

**3.3.9** To reflect the fact that the whole site is initially valued as undeveloped it is necessary to apply the average allowance that was adopted at Stage 2 to those parts of the site encumbered by buildings, etc. This is commonly referred to as the Ebdon allowance.



## 3.4 Stage 4 – Decapitalisation

**3.4.1** Stage 4 involves the conversion of the sum of the capital figures arrived at in Stages 2 and 3 into an annual equivalent through the application of the appropriate decapitalisation rate.

**3.4.2** Prior to 1990 the determination of the appropriate rate was a matter for valuer judgment and increasingly became the subject of dispute and litigation. To address this, since 1990 the decapitalisation rates have been set by statute by the respective UK jurisdictions following formal consultation processes.

**3.4.3** The appropriate statutory decapitalisation rates for different classes within each jurisdiction are set out in Appendix A.

**3.4.4** Where decapitalisation rates are prescribed by legislation, this does not allow any degree of valuation judgment at this stage of the valuation in respect of the rate or the classes to which they are applied.

## 3.5 Stage 5 – Review

**3.5.1** This is known as the 'stand back and look' stage. It should be used to consider whether any further adjustments are appropriate. Any such adjustments must be made for specific reasons and cannot be used to circumvent any prescribed decapitalisation rate. It may be helpful at this stage to revisit any adjustments made at earlier stages to avoid duplication.

**3.5.2** Adjustments at this final stage are to reflect factors that affect the value of the property as a whole and may include such items as poor access, cramped site conditions, inadequate layout, etc.

**3.5.3** This stage provides an opportunity to consider whether the type or use of the property is in a class which at the valuation date comprises a 'new venture' where demand has yet to be established and where a pioneering allowance may be appropriate to reflect the uncertainties facing the hypothetical tenant.

**3.5.4** It may be appropriate at this final stage to reflect the economic state of the subject industry, business or organisation. Specialised buildings and/or plant will be costly to provide but if there is little or no demand for the product that they are designed to produce (and no alternative use exists for the property, or part thereof, within the same mode or category of use), this is likely to affect the value of the property.

**3.5.5** While the above adjustment factors only apply in the more extreme situations, it does underline the need for the valuer to keep in mind that cost does not necessarily equate with value and to be aware of the state of the particular trade or industry concerned, so that, where appropriate, adjustments can be made.

**3.5.6** It is not appropriate to adjust the value produced by the Contractor's Basis of a particular part of the whole so that it equals its separately assessed equivalent. The value to

be determined should represent the value of the whole property and not just the aggregate of its component parts.

**3.5.7** Ability to pay matters may only be considered to the extent that they are not covered in the setting of any prescribed decapitalisation rate.

## 4 Material change of circumstances

4.1 Depending on the jurisdiction it may be necessary to revalue the property between general revaluations due to a material change of circumstances (MCCs) to the property or affecting the property. These may be of a temporary or permanent nature.

4.2 Valid and value significant MCCs to the actual property should be reflected by a reworking of the relevant stages depending on the facts.

4.3 Valid and value significant changes due to external factors, particularly of a general nature affecting the property, may most readily be reflected by an adjustment at Stage 5 of the valuation.

# 5 Conclusion

5.1 It is often said that the Contractor's Basis is a 'method of last resort'. However, if the Contractor's Basis is properly applied in accordance with this professional standard, by valuers using appropriate professional judgment, it is an acceptable method of ascertaining the value of properties that cannot be satisfactorily valued by other means.

# Appendix A: Table of prescribed decapitalisation rates

| Revaluation | England |       | Wales  |       | Scotland |       | Northern Ireland |                 |
|-------------|---------|-------|--------|-------|----------|-------|------------------|-----------------|
|             | Higher  | Lower | Higher | Lower | Higher   | Lower | Higher           | Lower           |
| 2005        | 5%      | 3.33% | 5%     | 3.30% | 5%       | 3.33% | 5.5%<br>[2003]   | 3.67%<br>[2003] |
| 2010        | 5%      | 3.33% | 4.5%   | 2.97% | 5%       | 3.33% | -                | -               |
| 2015        | -       | -     | -      | -     | -        | -     | 4%               | 2.67%           |
| 2017        | 4.4%    | 2.6%  | 3.8%   | 2.1%  | 4.6%     | 2.9%  | -                | -               |
| 2023        | 4.4%    | 2.6%  | 3.4%   | 1.9%  | 4.6%     | 2.9%  | 3.4%             | 2.27%           |

## Notes on the above rates:

- 1 In England, Wales and Scotland the **lower rate** applies to qualifying educational, healthcare and Ministry of Defence (MoD) properties save that for 2017 MoD properties in Scotland revert to the **higher rate**.
- 2 In Wales the **lower rate** also applies to public conveniences for the purposes of the 2010, 2017 and 2023 rating lists.
- 3 In Scotland the **lower rate** also applies to qualifying church properties for the 2005, 2010 and 2017 valuation rolls.
- 4 In Northern Ireland the **lower rate** applies only to qualifying church, education and healthcare properties.
- 5 The **higher rate** applies to all other categories of property.

# Appendix B: Key upper tribunal and higher court cases in respect of Contractor's Basis valuations for rating purposes

Please note that this is not meant to be a comprehensive list of all cases where the contractor's basis of valuation was considered, but to be a reference point for practitioners in respect of some key cases.

| Jurisdiction      | Case title  | Citation   | Key issues considered   |
|-------------------|---|--|---|
| England and Wales | Oxford University v Mayor of Oxford (No.1)  | 1902 RYDE AND KONSTAM's 1894-1904 87                             | This case is the first recorded case of the use of a 'substitute' building, due to the fact that the property in question had been built as a result of donations, bequests, etc. and would not have been built in the same way without this funding. |
| England and Wales | Liverpool Corporation v Chorley Union<br><br>Metropolitan Water Board v Chertsey Assessment Committee | (1912) 1 KB 270; (1913) AC 197<br><br>(1916) 1 AC 337<br><br>161 | These cases refer to situations where in the absence of better evidence, the price paid can be considered to arrive at an annual value. This is because, had that sum been invested, it would have yielded an annual income, which has been forgone.  |
| Scotland          | Magistrates of Perth v Assessor for Perth and Kinross   | (1937) SC 549  | This case includes a helpful explanation of the theory that underlies the Contractor's Basis of valuation.  |

| Jurisdiction      | Case title  | Citation                                | Key issues considered  |
|-------------------|---|---|--|
| England and Wales | Robinson Brothers (Brewers) Ltd v Houghton and Chester-le-Street Assessment Committee | (1938) 2 All ER 79                      | This case primarily concerned a public house and whether the higher rents brewers would bid for the property could be taken into account. However, it includes useful passages in the Court of Appeal decision (that was upheld) that refer to the use of indirect evidence to arrive at the rateable value – such as ‘capital value or cost of construction’ where no direct evidence is available – ‘either of which can, with appropriate corrections, be converted into approximately equivalent terms of annual value’. |
| England and Wales | Chandler (VO) v East Suffolk CC   | (1958) 51 R & IT 541; (1958) 29 DRA 361 | This case involved the valuation of a County Hall, where both parties had used the Contractor’s Basis of valuation, but where there was disagreement as to: <ul style="list-style-type: none"> <li>• the correct building cost to use to reach the effective capital value at Stage 1</li> <li>• the correct allowances to use at Stage 2</li> <li>• whether to add fees and</li> <li>• the correct addition for site value.</li> </ul>  |
| England and Wales | Dawkins (VO) v Royal Leamington Spa Borough Council and Warwickshire County Council   | [1961] RVR 291                          | This case gave the classic explanation of the rationale for the Contractor’s Basis of valuation.   |
| Scotland          | James A Silver v Assessor for Dumbartonshire  | LVAC (1963) RA 377; (1964) SLT 74       | This case considered the method of arriving at effective capital value (ECV). Sales evidence is an element to be taken into account but the weight to be attached depends on the circumstances of the case and the sales.  |

| Jurisdiction      | Case title   | Citation                     | Key issues considered  |
|-------------------|--|------------------------------|--|
| Scotland          | N & N Lockhart v Assessor for Fife   | LVAC (1963) RA 499           | This case also considered the method of arriving at ECV. Sales evidence was rejected because sales were not for going concerns.  |
| England and Wales | Gilmore (VO) v Baker-Carr and Others   | [1964] 4 RVR 7               | This case endorsed the five-stage approach to the Contractor's Basis of valuation. It also considered it inappropriate to take into account the individual tax position of the landlord.   |
| England and Wales | Downing, Newham, Churchill and King's Colleges, Cambridge v Cambridge City Council and Allsop (VO) | [1968] RA 603                | The areas of disagreement in this case were: <ul style="list-style-type: none"> <li>• the date at which costs should be taken</li> <li>• the type of replacement material to be taken</li> <li>• which scale to refer to when making age and obsolescence deductions (1956 or 1963)</li> <li>• the allowances for buildings of three storeys or more</li> <li>• the value of the land</li> <li>• the correct decapitalisation rate and</li> <li>• whether there should be further end allowances.</li> </ul> |
| England and Wales | Coppin (VO) v East Midlands Airport Joint Committee  | (1970) RA 503; (1971) RA 449 | The areas of disagreement in this case were: <ul style="list-style-type: none"> <li>• whether the cost of work undertaken to allow future expansion of the airport should be deducted from the valuation</li> <li>• where to deduct the value of parts of the building that were not part of the hereditament and</li> <li>• how to convert cost to value and then capital value to annual value to cost.</li> </ul>   |



| Jurisdiction      | Case title   | Citation                          | Key issues considered  |
|-------------------|--|-----------------------------------|--|
| England and Wales | Cardiff City Council v Williams (VO)   | (1973) RA 46                      | This case identified the factors that were considered in setting the decapitalisation rate before it was set by statute.   |
| England and Wales | Leicester City Council v Nuffield Nursing Homes Trust and Another                    | (1979) RA 299                     | This case established the appropriateness of using the Contractor's Basis of valuation, where no clearly established pattern can be observed from comparables.   |
| England and Wales | Imperial College of Science and Technology v Ebdon (VO) and Westminster City Council | [1984] RA 213; [1986] RA 233      | <p>This case concerned the valuation of a college in South Kensington, and although the estimated replacement cost had been agreed at Stage 1, there were substantial differences throughout the remaining stages.</p> <p>This is the case that established the Ebdon allowance on land, and is the one and only case that refers to a sixth stage.</p>  |
| Scotland          | Fife Regional Assessor v Distillers Co (Bottling Services) Ltd                       | LVAC (1989) RA 71; (1989) SLT 770 | This case concerned the valuation of a whisky warehousing, blending and bottling complex on matters of calculating the ECV and the decapitalisation rate. It stated that cost does not necessarily equal value, which must be an effective one in the sense that it is value that will be remunerative or produce rent. When considering value the positions of both the hypothetical landlord and the tenant have to be considered. |
| England and Wales | Monsanto plc v Farris (VO)   | (1998) RVR 107                    | This case (a chemical works in Newport, Wales) considered grant, reviewed the classic Dawkins rationale, and considered how to convert cost into capital value, including the owner-occupier perspective at Stages 1 to 3. It extended the Ebdon allowance to siteworks.   |

| Jurisdiction      | Case title  | Citation  | Key issues considered   |
|-------------------|---|---|---|
| Scotland          | Shell UK Exploration & Production v Grampian Assessor                 | LVAC (2000) RA 295  | <p>This case concerned the valuation of a gas terminal at St Fergus, Peterhead for the 1995 valuation roll, and covered issues such as:</p> <ul style="list-style-type: none"> <li>• the 'modern substitute'</li> <li>• rateability and value of 'slugcatchers' where unit cost approach preferred to indexed actual cost from 1977</li> <li>• rateability of fire protection, security and alarm systems and</li> <li>• the rateability of 'knock out drums'.</li> </ul> |
| England and Wales | Eastbourne Borough Council & Wealdon District Council v Allen (VO)    | (2001) RA 273   | This case considered the modern substitute and ability to pay.  |
| England and Wales | Lavery (Valuation Officer) v Leeds City Council                       | (2002) RA 165   | This case concerned the valuation of a Magistrate's Court via the Contractor's Basis. The main issue was whether grant could be taken into consideration, but also involved the use of a percentage of construction costs for Stage 3 – land value.   |
| Scotland          | UKAEA v Assessor for Highland and Western Isles Joint Valuation Board | LT (2006) RA 153<br>LVAC (2007) RA 65;<br>(2007) SLT 27 affirming LT decision | These cases considered the valuation of a nuclear installation during decommissioning. Issues considered included allowances, over-capacity, superfluity, costs of care and maintenance, and onerous security, safety and regulatory regime.  |

| Jurisdiction      | Case title  | Citation             | Key issues considered   |
|-------------------|---|----------------------|---|
| England and Wales | Allen (VO) v English Sports Council and another<br><br>(also known as the Bisham Abbey case)      | [2009] RA 289        | This case revolved around the issue of whether the rateable value of a property should be amended when a grant had been received to assist in its construction, and also the extent to which flooding of a property should be taken into account. It also referred to the ability to pay and what is taken into consideration at Stage 4.   |
| England and Wales | British Car Auctions Ltd v Hazell (VO)<br><br>(also known as the Blackbushe Airport case)         | [2014] UKUT 164 (LC) | This case considered the modern substitute:<br><br>'it is important that the modern substitute chosen must reflect the use of the actual hereditament that has to be valued. The modern substitute chosen should be able to do the same basic job that the actual hereditament does. The choice of a modern substitute is not the opportunity to adopt a new business model.'   |
| England and Wales | Hardman (VO) v British Gas Trading Ltd<br><br>(also known as the Peterborough Power Station case) | [2015] UKUT 53 (LC)  | The case related to the valuation of a gas-fired power station. A variety of methods of valuation was used by the Valuation Officer to show that the power station was worth more than £1. The decision stated that where the application of a particular method of valuation produced a 'surprising' result, it would be wise to step back and consider whether or not the result should be tested appropriately by using another method of valuation. |

| Jurisdiction      | Case title   | Citation  | Key issues considered   |
|-------------------|--|---|---|
| England and Wales | Stephen G Hughes (VO) v York Museums and Gallery Trust | [2017] UKUT 200 (LC)<br><br>Case number: RA/20/2015 | <p>The case involved several museums and other related properties in York.</p> <p>The main issue was the method of valuation for historic buildings used as museums and visitor attractions, but also included unit of assessment and exemption issues.</p> <p>While the decision confirmed that in this case the receipts and expenditure (R&amp;E) method was to be preferred, there was some interesting commentary on the Contractor's Basis.</p> <p>It stated that:</p> <ol style="list-style-type: none"> <li>1 The fact that a valuation based on R&amp;E suggested a nominal or nil value was not a reason for rejecting it and resorting to the Contractor's Basis.</li> <li>2 Where there is no reason to believe that a building like the subject to be valued would ever be constructed, the Contractor's Basis is detached from reality, and the existence of the theoretical relationship between capital cost/cost of construction and rental value is difficult to accept in the case of historic buildings used for cultural purposes.</li> <li>3 They rejected the use of the 'Monsanto scale' as allowances used for a post-war chemical works had no relevance to historic listed buildings used as museums and art galleries.</li> </ol> |

| Jurisdiction      | Case title   | Citation   | Key issues considered   |
|-------------------|--|--|---|
|                   |  |  | <p>4 The buildings in this case are of the type that are rarely or never let, and although there was insufficient transactional or settlement evidence to enable comparative valuations to be undertaken, it did strongly suggest that, for non-profit making museums at least, the Contractor's Basis produces valuations that are manifestly too high.</p>  |
| England and Wales | Celsa Steel (UK) Limited v Stephen Clive Webb (VO) | [2017] UKUT 0133 (LC)<br>Case number: RA/10/2016 | This case concerned a steelworks and considered whether an additional end allowance should be applied at stage 5, to reflect the fact that the premises operated in conjunction with a second hereditament nearby.  |
| England and Wales | Semlogistics Milford Haven v Stephen Webb (VO)     | [2018] UKUT 0019 (LC)<br>Case number: RA/12/2016 | This case concerned a tank storage depot and jetties formed out of a former oil refinery and valued on the Contractor's Basis. The decision, which has regard to the unusual character of the hereditament as a repurposed refinery, considers the application of the modern substitute/equivalent approach and the adoption of adjustments, whether at stage 2 or stage 5, and particularly with regards to under-utilisation. |

| Jurisdiction      | Case title  | Citation   | Key issues considered  |
|-------------------|---|--|--|
| England and Wales | Cemex UK Operations Limited v Thomas O'Dwyer (VO) | [2019] UKUT 0106 (LC)<br><br>Case number: RA/85/2017 | This case concerned the valuation of a quarry, processing plant and connecting conveyor, and considered whether the rate of extraction of minerals is to be fixed by reference to the material day for the purposes of the Contractor's Basis valuation. Additionally, it concerned whether the 1.6 km conveyor, considered essential to the functioning of the quarry and cement works, was of value.   |
| England and Wales | Stephen G Hughes (VO) v Exeter City Council       | [2020] UKUT 0007 (LC)<br><br>Case number: RA/73/2018 | This case concerned the valuation of a museum located in a historic building with a modern extension. While the Contractor's Basis was rejected for this particular hereditament, the decision includes a detailed appraisal of the use and application of the Contractor's Basis method including: <ul style="list-style-type: none"> <li>• consideration of socio-economic benefits</li> <li>• whether Contractor's Basis is to be used where occupation is not for profit</li> <li>• modern substitute building</li> <li>• function of stage 4 of Contractor's Basis</li> <li>• affordability of rent and</li> <li>• statutory occupation.</li> </ul> |

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