



## **INDUSTRIAL COMMITTEE**

### **Practice Note 3**

### **REVALUATION 2005**

## **Valuation of Minerals, etc.**

### **1.0 INTRODUCTION**

This practice note makes recommendations on the basic royalty rates to be applied to minerals and peat where worked, adjustments to these rates where appropriate and the approach to the valuation of plant, associated buildings and other works.

### **2.0 BASIS OF VALUATION**

The valuation of the mineral element to NAV is to be arrived at by applying the recommended royalty rate (or, where appropriate, a rate based on local evidence) to the annual output for the year 2002-03. If, however, upon examination of information for other relevant periods available this is regarded as inappropriate, an average of the annual output for the relevant periods should be taken.

#### **2.1 Unit of Measurement**

Output should be stated in tonnes for all minerals (output for peat should be in cubic metres) and the level of annual output adopted should be adjusted to reflect any marked change in trend. Occasionally, the output from a quarry will be measured in units other than metric tonnes.

The following conversion factors may be useful:

General	1 metric tonne	=	0.984 imperial tons
Whinstone	1 metric tonne	=	0.370 cubic metre
Gravel	1 metric tonne	=	0.550 cubic metre
Sand	1 metric tonne	=	0.610 cubic metre
Granite	1 metric tonne	=	0.370 cubic metre

## 2.2 **Methodology**

The basic rates reflect only the value of the mineral element and should be applied to the total annual tonnages for untreated, washed, dressed, crushed, graded and coated material. Adjustments for quality of mineral, overburden, height of face and other disabilities may be appropriate, but evidence and past experience seem to indicate that some of these disabilities would have to be significant before they affect the basic rate. Guidance is given in paragraph 3.

## 2.3 **Site Infrastructure**

Items of plant and infrastructure associated with the winning and working of minerals, to be included in valuation, will now probably be restricted in view of the terms of the Valuation for Rating (Plant and Machinery) (Scotland) Regulations 2000. However, individual characteristics of the plant may influence decisions on rateability, e.g. size, removability, situation inside or outside buildings, whether or not it is power or service plant etc., and if the tests for inclusion under the Regulations are satisfied, the plant should be valued by the application of the contractor's basis and reference to the VOA/SAA Rating Cost Guide and Basic Principles Practice Note 2. The Scottish regional location factor of 0.94 is to be used where appropriate. Typical items for inclusion will be settings and supports for process plant, settling tanks, large hoppers or bunkers, flumes, power generation/distribution plant, hazard protection plant etc. Also, all buildings, roadways, fences, etc. should be valued.

## 2.4 **Rates to be Applied**

The following royalty rates are recommended subject to variation where local evidence is incontrovertible and to adjustment as indicated in paragraph 3. They represent royalties paid for good quality minerals, having average disabilities and reflect the average tenant's liability to reinstate. These royalty rates reflect the position as at the tone date of 1 April 2003:

<b>Minerals etc.</b>	<b>£ Royalty Rate</b>
Sand and Gravel	£0.45 per tonne
Whinstone or other road metal	£0.30 per tonne
Barytes	£2.10 per tonne
Granite	£0.25 per tonne
Peat	£0.40 per m <sup>3</sup>

Where minerals are known to have exceptional qualities, or there are disabilities, which would either inflate the price of the material or significantly affect operational costs, an adjustment to the basic rate would be justified.

A few leases indicate a diminishing royalty rate for high output but most of the leases of larger quarries make provision for only one royalty rate at all levels of output. Accordingly, it is recommended that there should be no allowance for quantum. On the other hand, the royalty rates for let minerals, having a consistently low annual output, indicate levels of basic rates rather higher than the recommended rates. It is noted however that those mineral subjects with low annual output tend to be in the most remote situations.

### **3.0 ALLOWANCES**

Adjustments to the recommended royalty rates (other than for variations from basic rates justified by local evidence) should normally be restricted to the most extreme circumstances.

Such adjustments may fall under two heads.

#### **3.1 Quality of Material**

##### **3.1.1 Shrinkage**

High shrinkage in sand and gravel can have a serious effect on the sale price of the material and, in some circumstances, may limit sales significantly. An adjustment to the basic rate of up to a maximum of 30% may be appropriate. It should be noted that a shrinkage value of between 0.046 and 0.065 is considered normal.

##### **3.1.2 Poor Quality Material**

Gravel, whinstone or decomposed granite may be of such a quality that it can be used only as infill. Adjustment may be made to the basic rate up to a maximum of 30%.

##### **3.1.3 Contamination**

Significant levels of contamination by foreign materials in excess of an accepted norm of 5% - 7% may justify an allowance of up to 10%.

#### **3.2 Working Disabilities**

##### **3.2.1 Thickness of Overburden**

The significance of overburden has tended to have been exaggerated as a disability. Modern equipment and methods of working have generally reduced the difficulties unless the overburden is exceptionally heavy, or trees and/or rocky terrain is encountered. Any adjustment for this reputed disability should be resisted unless it is of a serious nature.

##### **3.2.2 Height of Face**

Height of face is thought to have been exaggerated as a disability, particularly as modern equipment and methods of working have moderated the difficulties.

### 3.2.3 **Distance to the Processing Plant**

The distance from the quarry face to such plant is usually a matter that is regulated by the suitability of site, restrictions by the landlord or planning authority, availability of water, etc., but only in very exceptional cases would it affect the royalty rate for the mineral.

### 3.2.4 **Planning or Blasting Restrictions**

Such restrictions, which may limit the volume of extraction in order to reduce noise and vibration in the area. This may affect the willingness of a tenant to take a lease and may, consequently, have an effect on the royalty rent, but the restrictions would have to be much more onerous than in the average case. Sometimes these difficulties are encountered near built up areas.

## 4.0 **MINERAL DERATING**

From the total NAV so achieved, the rateable value will be derived in terms of the Mines & Quarries (Rateable Values) (Scotland) Order 1995. It should be noted that peat is not a mineral therefore mineral derating does not apply.