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## CABINET

## RATING REVALUATION

Memorandum by the Secretary of State for the Environment

1. The Cabinet must decide quickly whether to continue with a general rating revaluation, in England and Wales, for 1982. The main issues are our policy on rating, and of public expenditure and Valuation Office Manpower. These were discussed in Home and Social Affairs Committee (H) on 13 June but unresolved and I was invited to prepare a paper in consultation with the Chancellor of the Exchequer reflecting the points made in the Committee discussion and submit it to the Cabinet.
2. Current law requires a general revaluation every five years but the Labour Government postponed the one due for 1978 until 1982. The Valuation Office of Inland Revenue need about four years to execute a general revaluation, and in the current exercise have reached the stage of sending questionnaires to the occupiers of some 22 million properties; this has prompted a good deal of public concern and speculation about this Government's policy on domestic rating. The next stages are of recording, analysis, valuation and comparison, but this will be less visible to the public until the new lists are published at the end of 1981.
3. Total cost of the revaluation, in manpower, computers, etc is around £10 million of which some £3.5 million has been expended. Up to 1,000 additional permanent staff and some 400 casuals are needed for 3-4 years, and most are now in post. Since the additional permanent staff hired could not be disposed of quickly, the net saving if the revaluation were cancelled would be of the order of £5 million. If the revaluation were suspended and restarted a year or two later the £5 million so far expended would be wasted, and the full cost of £10 million (at 1979 prices) would be incurred at that time.

## THE RATING CONTEXT

4. Longer term Government policy on rating will need further thought. An earlier Conservative commitment to abolish domestic rating has not been dropped, although we have made it clear (eg. in the Election Manifesto) that this must have a low priority. The options we shall need to explore meanwhile are:



- i. Make abolition of domestic rates a firm objective for the 1980s and review alternative sources of finance.
  - ii. Leave the ultimate position open, preserving domestic rating and making short term improvements meanwhile.
5. Whatever our eventual decision, we are committed to retaining non-domestic rating. Domestic rating yields £2.3 billion annually, non-domestic gives a larger yield of £3.5 billion, and this implies a commitment to keep the rating system up to date for the sake of the non-domestic sector.

#### ARGUMENTS FOR AND AGAINST CANCELLING THE REVALUATION

6. In my view there is a compelling case for stopping the revaluation:
- i. Despite abortive costs of cancellation, and higher costs ultimately of a later revaluation, we can save £5 million or so and make manpower economies in the Valuation Office of Inland Revenue over the next 3 years; this would contribute to other objectives of the Government. But above all,
  - ii. revaluation would fuel public grievances about domestic rating and create an impression that the Government will preserve domestic rating indefinitely. Cancellation would give a greater sense of urgency in working out alternatives.
  - iii. This presentational problem arises immediately since work on the revaluation is proceeding publicly and since, whatever we decide to do, legislative action will be required early this Session if we are to avoid the extant statutory requirement of a revaluation for 1981. It will also arise, in force, in 1982 when the revaluation would make itself felt.
7. Some of my colleagues in H Committee took another view. They made the following points:
- i. Abandonment of revaluation would appear to indicate that the Government had an alternative to domestic rating which they were ready to bring forward in the near future. Some colleagues however considered that devising a viable alternative could only be a long-term objective and that therefore the revaluation should proceed.
  - ii. Since domestic rating will at best persist well into the next Parliament and since we are committed in any case to preserve non-domestic rating they argue that regular revaluations are required to correct the anomalies and injustices that arise between different ratepayers - both domestic and non-domestic. Anomalies in the



present 1973 list are already causing problems which will be more severe by the time of the new lists in 1982. Further postponement or cancellation would exacerbate these difficulties, which would be a matter of great concern to local authorities.

iii. They were concerned about the abortive expenditure of £5 million that had already been incurred especially if it were subsequently decided to restart the revaluation.

iv. In Scotland a revaluation recently took place and Scottish Office Ministers believe it to be highly desirable that the next revaluation should go ahead on the present statutory timetable unless and until it becomes clear that an alternative to domestic rating can be introduced. In Scotland any decision to delay revaluation would require new legislation and the Secretary of State has no power to postpone a revaluation from year to year.

#### EUROPEAN ECONOMIC COMMUNITY (EEC) AND INCOME DISTRIBUTION ASPECTS

8. There are no EEC implications of cancellation of the revaluation. Income distributional effects are impossible to quantify; there may be some unfairness between different ratepayers because of the continuance of the increasingly out of date 1973 values, but this should not present an acute problem for a few years.

#### CONCLUSION

9. An urgent decision is needed both to end public speculation and to answer several Parliamentary Questions that have now been tabled for oral answer on 27 June. I ask colleagues' agreement to the cancellation of the revaluation. I should like to make an immediate announcement to this effect, so that the Valuation Office can cease work on the revaluation directly. I would then take powers in any Local Government Bill this autumn to regularise the statutory position.

M H

Department of the Environment

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