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CABINET

NON-DOMESTIC RATING REVALUATION

Memorandum by the Secretary of State for the Environment and the Secretary of State for Wales

Our decision "that rates should remain for the foreseeable future the main source of local revenue for local government" (Rates White Paper, Cmnd 9008, paragraph 2.15) obliges us to correct the distortions that have arisen in the tax base since the last general revaluation in England and Wales in 1973. The anomalies are most significant in the non-domestic sector. In the White Paper, we proposed "to set in train the work required for a non-domestic revaluation" (paragraph 5.8).

2. There is ample open market evidence on rentals for non-domestic properties; there is therefore no reason to change the present basis of assessment. This contrasts with the domestic sector, where rental evidence is wholly inadequate. The White Paper said only that the Government were "considering urgently the case for a domestic revaluation and will issue a consultation document as soon as possible. Any such revaluation could not take effect until towards the end of the decade" (paragraph 5.10). Mechanisms exist to ensure that domestic ratepayers are not affected even indirectly by a non-domestic revaluation. The two issues can therefore be considered entirely separately and we shall consult colleagues later on the much more difficult political issues raised by a domestic revaluation.

3. We have now to decide when the non-domestic revaluation should become effective. We favour 1 April 1987, the earliest feasible date; the Chief Secretary, Treasury favours 1 April 1989 - after the next Election. The White Paper did not indicate any date. In responding to consultation the Confederation of British Industry and other representatives of industry and commerce, the local authority associations and the professional bodies interested have all welcomed the recognition that a non-domestic revaluation is needed and have pressed for it to take place as soon as possible. Most have also sought frequent and regular revaluations thereafter.

EFFECT OF A REVALUATION

4. Significant changes in relative rental values have occurred since 1973. Older industry and small businesses outside city centres currently bear an unfairly high proportion of the rates burden and would benefit from a revaluation. A sample survey based on 1980 rental values suggests that at the extreme the older industrial properties and warehouses and many properties in the Northern and West Midlands conurbations might have

achieved reductions in their then rate bills of up to two-thirds. Rating authorities in the Midlands and the North have drawn attention to the difficulties caused both for local business and for the authorities themselves, in collecting revenue, by their disproportionately high rateable values based on what were for those regions the relative prosperous early 1970s.

By contrast, large retail operations and commercial properties on prime sites are at present generally undervalued. The sample survey suggested that well located shops, small new factory units, and good office conversions, especially in areas of new development in the South, might have seen their rate bills double.

6. The longer the delay in revaluation the worse the anomalies will become and the greater the adjustments needed. We could cushion the impact of revaluation by legislating to phase in the changes over a few years. But we should resist such a move. It would defeat much of the purpose of revaluation by postponing the rectification of existing anomalies and would be particularly criticised by those ratepayers who stand to gain from the revaluation.

EFFECT ON LOCAL AUTHORITY REVENUE AND ON DOMESTIC RATEPAYERS

7. We can ensure that a partial revaluation has no effect on the proportion of the rates burden borne respectively by non-domestic and domestic ratepayers. We would propose to adjust the increases in non-domestic rateable values by a national factor, as required by the legislation, leaving domestic rateable values unchanged. The equalising effect of rate support grant will compensate for changes in rateable values between local authority areas. So rate poundages should not be affected by the revaluation and all domestic ratepayers will see no consequent change in their rate bills. Those non-domestic ratepayers whose rateable values have increased broadly in line with the average national increase will also see little change.

MANPOWER

8. Some 700 additional staff, 400 of them professionally qualified, will be required in the Valuation Office, Inland Revenue, for the non-domestic revaluation. They will need to be working for 2 years before the revaluation takes effect and will then have to deal with the inevitable appeals work which follows on the introduction of a new list. The Chief Secretary, Treasury considers that there is nothing to choose between 1987 and 1989 for this purpose; the staff will be an unwelcome claim on the contingency reserve and would in either case affect the public sector manpower figures at 1 April 1988.

FEASIBILITY

9. The earliest practicable date for a non-domestic revaluation is now 1987. Inland Revenue would need to recruit the staff required by 1 April 1985; new lists would be published at the end of 1986 and become effective on 1 April 1987. Those professionally concerned with rating

matters are well aware that such a date would be feasible; some have sought a still earlier date. They will know that any later date would represent a deliberate decision to delay the revaluation.

CHIEF SECRETARY, TREASURY'S VIEWS

10. The Chief Secretary, Treasury acknowledges the case for a non-domestic revaluation. But he believes that the political impact of the revaluation is potentially such that it would be unwise to risk it taking effect in the run-up to an Election. Its effect is to redistribute rateable value. There would be gainers and losers. But complaints from those who lose almost invariably outweigh gratitude from those who gain. As paragraph 5 makes clear some losers will face substantial increases. These could impose additional financial strains on companies. The blame will be laid at the door of the revaluation and hence the Government for any adverse consequences. Ratepayers - including domestic ratepayers whose rate bills would be unaffected by the revaluation - might nonetheless blame the Government for any increases they face.

11. The issue in the Chief Secretary, Treasury's view is a simple one. Is it worth running the political risk of a 1987 revaluation when 1989 would be a safer alternative? While there may be some criticism before a 1987 or 1988 Election from potential losers from a 1989 revaluation, he believes that this will be very much less than would come from known losers from a 1987 revaluation. There has been no revaluation since 1973. So the question is one of converting a 14-year wait into a 16-year one. The Chief Secretary, Treasury's view is that prudence points to the later date.

CONCLUSION

12. By contrast we favour 1987. A non-domestic revaluation is an unpleasant necessity. We shall inevitably be criticised by those ratepayers who lose from it, or can foresee that they will lose from it, whenever it is held. But we shall also be criticised by representatives of business if we allow the revaluation to drift beyond the earliest feasible date. We can expect growing criticism from those industrialists in the older industrial sector who are increasingly aware that their rateable values are disproportionately high. And as we move the date back towards the end of the decade pressure for a full revaluation, including domestic property, will mount.

13. We cannot convincingly argue, now that rates are to stay, that the non-domestic revaluation should be further postponed, taking it beyond the life of this Parliament. We recommend that we should announce an effective date of 1 April 1987 for uprating the non-domestic tax base. It would be desirable to announce the decision as soon as possible after the Rates Bill goes into Committee.

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Department of the Environment

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