



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

MUS 19/11
[Handwritten signature]

PRIME MINISTER

with notes? GREEN PAPER ON ALTERNATIVES TO DOMESTIC RATES

1. I have seen the Secretary of State for the Environment's minute of 9 November to you and the revised draft Green Paper which he circulated with it. I agree that the Green Paper should be published jointly by the Secretaries of State for the Environment, for Scotland and for Wales. If it can be published soon, I also agree that it is reasonable to seek comments by 1 April 1982. We must allow interested bodies a few months to consider their responses but a later date would raise doubts about our determination to proceed quickly.
2. There is a strong possibility that the Select Committee on Scottish Affairs will want to take evidence related to the Green Paper and its contents as their next inquiry. Because that will enhance public interest in rating issues, there may in the event be pressure for an oral announcement on publication. Undoubtedly there will be extensive public and press interest, and it is essential, as the Secretary of State for the Environment recognises, for the initial press arrangements to be co-ordinated. I shall be glad to participate.
3. In the text, changes are required to paragraph 4.11 which does not take into account my decision not to have referendums in Scotland, and in paragraph 10.17 on a technicality relating to partial revaluation. My officials are taking up these points with the Department of the Environment, together with some minor textual changes. I am naturally anxious to make an announcement as soon as possible that a partial revaluation of non-domestic properties should proceed, since in Scotland the staff involved are employed by the local authorities and they need to know for planning purposes. This is a matter which I shall shortly raise in H Committee. Otherwise I am content.
4. I am copying this minute to the recipients of the minute from the Secretary of State for the Environment.

G.Y.

G.Y.

SCOTTISH CHURCH
WHITTINGTON ROAD, KILPATRICK



15 NOV 51



cc CST
FST
MST(C)
M(L)

Mr Cropper
Mr Battishill
Mr Kitcatt
Mr Griffiths

PS/IR



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

17 November 1981

The Rt. Hon. Michael Heseltine, MP.,
Secretary of State for the Environment

A handwritten signature in dark ink, appearing to read 'M Heseltine'.

I will try and let you have by the 20 November any comments I have on the revised draft of the Green Paper on Alternatives to Domestic Rates. The draft also raises (Chapter 10) the question whether or not we are going to have a non-domestic revaluation and in view of the tight timetable I am writing to you about this first.

The Green Paper says that we are treating non-domestic revaluation as a separate issue and that it will be announced shortly whether a non-domestic revaluation will take place.

The timetable is largely dictated by the position in Scotland. At the beginning of October Malcolm Rifkind was saying that Scotland needed a mid-November announcement if the Scottish revaluation was to take place as planned for 1983. I am told that the Scottish Office are resigned to some slippage but they are now looking for an announcement at the same time as the Green Paper and by the end of the year at the latest. Their problem is that a 1983 revaluation means that new lists have to be produced by December 1982. For England and Wales the proposal is to revalue for 1985 but to do this a start will need to be made in 1982. This also points to an early announcement. Although there is less immediate pressure it would be difficult to make an announcement about Scotland without saying something about England and Wales.

I agree that there is a strong case for a non-domestic revaluation although there is a substantial manpower cost which cannot be found from within my Departments. This problem does not arise in Scotland since I understand that the valuation offices responsible for the work there are still staffed on the basis of quinquennial valuations. In England and Wales we have not had a revaluation since 1973 and numbers in the Valuation Office have been run down.

We always recognised that the timetable would be tight but the original intention was I believe to leave ourselves time to consider the revaluation issue on its merits after the Green Paper had been published so that the decision could take account of initial reactions

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to the Green Paper. This does not now seem possible. If the announcement will now have to come at the same time as or, at best, hard on the heels of the Green Paper some revision of Chapter 10 will be necessary. Ought we not seek the agreement of colleagues to non-domestic revaluation at the same time as we seek their agreement to the Green Paper?

I am copying this to George Younger, James Prior and Nicholas Edwards.

A handwritten signature in black ink, appearing to read 'Geoffrey Howe', with a horizontal line above and below it.

GEOFFREY HOWE



local gov

PRIME MINISTER

Following the decision by H Committee that Mr. Younger should proceed with a non-domestic rating revaluation in Scotland, Mr. Heseltine has written to the Chancellor proposing that he should set in hand a similar revaluation in England and Wales.

There were two reasons why Mr. Heseltine shied away from taking this decision earlier. First there was the problem of the extra manpower necessary to carry out a revaluation in England and Wales. This objection did not apply in Scotland since the assessors required were already employed by local authorities. Mr. Heseltine proposes to get round this problem by using private surveyors.

Second, there was the argument that a revaluation would not be advisable when the whole future of the rating system was being discussed. Mr. Heseltine considers that he cannot use this as an argument for not proceeding with the revaluation now that the decision to proceed in Scotland has been taken.

His letter to the Chancellor seeks approval for using private surveyors.

CWJ

MS

11 December 1981



~~Prime Minister~~

~~Mr Heseltine~~

2 MARSHAM STREET
LONDON SW1P 3EB

My ref: H/PSO/19334/81

Your ref:
10 December 1981

Dear Charles of The Exchequer

RATING REVALUATION ON NON-DOMESTIC PROPERTIES

- copy requested

Thank you for your letter of 17 November about non-domestic revaluation. H Committee has since decided on 24 November that there should be a non-domestic revaluation in Scotland and I am inclined to agree with you and other colleagues who have commented to Tom King that the technical arguments point to an early decision to proceed with revaluation of non-domestic property in England and Wales. I also appreciate the need to reach agreement in respect of England and Wales very shortly in order to accommodate our Scottish colleagues.

The main point outstanding on which H has to take a view with regard to England and Wales is of course the question of the additional Inland Revenue staff needed to bring the Valuation Office back up to strength for the revaluation. I note that the manpower cost, which I understand will be in the region of 800-900 posts, cannot be found from within your Departments. I fear that I cannot offer any help on this.

It appears to me, nevertheless, that the manpower requirement involved in periodic revaluations is an inevitable cost of the current system of rating. Given that non-domestic rates will continue in existence for the immediately foreseeable future and that there has been no revaluation in England and Wales since 1973, I do not feel we should delay a non-domestic revaluation further on manpower grounds. This is particularly true now that a decision has been taken to go ahead with such a revaluation in Scotland, where the last revaluation took place as recently as 1978. Could we not use private surveyors to carry out the revaluation? This is perhaps unusual but I am successfully using private sector professional advice in the historic buildings listing work, in the English house conditions survey and as planning inspectors. The idea of private sector valuers would be desirable in itself, as well as avoiding some or all of the need for additional civil service manpower. Otherwise, would you propose that this manpower cost should be treated as a call on the central contingency margin or that it should be found by savings elsewhere?

Manpower must primarily be a question for you. In the meantime, I attach a contribution, covering the technical aspects of the question, to what I hope could be a joint H Committee paper, if one is necessary. It is clearly most important to Scottish colleagues to resolve the matter in time for a decision and announcement to be made before Christmas, so I hope that it may be possible for colleagues to agree by correspondence, first that there should be a non-domestic revaluation in England and Wales, as well as Scotland; secondly, the staffing arrangements that you will be proposing; and thirdly, that we should make a co-ordinated Great Britain announcement as soon as these matters are settled provided that is after 16 December, when the Green Paper will be published.

I am copying this to all members of E and H Committees, and to
Sir Robert Armstrong.

Yours sincerely
Duss

MICHAEL HESELTINE

Approved by the
Secretary of State and
signed on his behalf.

RATING REVALUATION OF NON-DOMESTIC PROPERTY IN ENGLAND AND WALES:

DRAFT CONTRIBUTION TO JOINT MEMORANDUM BY THE CHANCELLOR OF THE EXCHEQUER AND THE SECRETARY OF STATE FOR THE ENVIRONMENT

INTRODUCTION

1. This paper proposes the preparation of new valuation lists for non-domestic properties in England and Wales for 1 April 1985. A similar revaluation, ^{planned} to take effect in Scotland on 1 April 1983, ^{was approved by H Committee} ~~has already been~~ ^{on 29 November} ~~proposed by George Younger in H(81)62.~~ The proposal as it affects England and Wales was first raised in correspondence with the Chief Secretary on 14 August 1981 by the Minister for Local Government and Environmental Services. That correspondence was copied to members of E Committee.

BACKGROUND

2. Under the Local Government Act 1948 it was intended to hold a general revaluation every five years. However, since 1945 revaluations in England and Wales have taken place in 1956, 1963 and 1973 only. The Local Government Planning and Land Act 1980 repealed the statutory requirement for a quinquennial revaluation and provided that general or partial revaluations would be carried out when prescribed by Order of the Secretary of State. A general revaluation had been planned for 1983, but this was deferred pending the outcome of the Government's review of the domestic rating system. In Scotland, however, the quinquennial cycle of revaluations has been broadly maintained since 1961 with the last one having taken place in 1978.

3. A partial revaluation in England and Wales will take almost three years' work. A decision to proceed in December would allow for revaluation to be completed by the end of 1984 and for the new valuation list to come into effect on 1 April 1985.

THE TECHNICAL ARGUMENTS

4. The present rental basis of the rating system necessitates periodic revaluation of hereditaments in the interests both of equity and economic efficiency. Considerable changes have taken place since the last revaluation in England and Wales in 1973 in the relative values of various kinds of industrial and commercial property. The effect of these is to distort the way in which the rate burden is now distributed among non-domestic ratepayers, leading to cross-subsidisation and in consequence a degree of inefficiency in the use of resources.

5. Evidence available to the valuation office suggests that a revaluation of non-domestic property in England and Wales would tend to:

substantially reduce the comparative rate burden for:

- larger, older, labour-intensive factories in the Midlands and North;
- older steelworks;

slightly reduce the comparative burden for:

- newer steelworks;
- local shops;
- older offices in some cities outside London;

slightly increase the comparative burden for;

- new offices in more prosperous centres;
- small factories on modern industrial estates;

substantially increase the comparative burden for:

- shops in primary locations; and
- modern oil refineries.

6. Such a revaluation would not however alter the relative rate burden on the non-domestic and domestic sectors while the domestic rating system remained in existence. In exercising this power to order a partial revaluation, the Secretary of State for the Environment is required to prescribe a 'multiplier', the effect of which would be to preserve the overall ratio between the revalued and unvalued sectors.

[STAFFING COST]

7.

CONCLUSION

8. Although the staffing consequences will be considerable, we consider that a decision to proceed with the revaluation is justified for the following reasons:

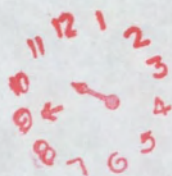
- (i) on grounds of equity and efficiency: substantial anomalies have arisen in relative rateable values in the non-domestic sector since 1973 and these will have further increased by 1984-5:

(ii) the non-domestic rating system will continue to operate in the immediately foreseeable future and periodic revaluations are essential if this system is to operate on a sound tax base and to enjoy public confidence;

(iii) the publication of the Green Paper on alternatives to domestic rating inevitably raises the question of non-domestic revaluation and highlights the technical arguments in its favour.

10. We therefore invite colleagues to agree that there should be ^a non-domestic revaluations in England and Wales ~~and Scotland~~ to produce new valuation lists to come into force on 1 April 1985 ~~and 1 April 1983~~ respectively; and that an announcement ^{of the proposals for Great Britain as a whole} ~~to this effect~~ should be made ~~on~~ publication of the Green Paper on Alternatives to Domestic Rates ^{or as} soon as possible thereafter.

11 DEC 1981



From: Rt Hon Michael Jopling MP

cm
16/12



Government Chief Whip
12 Downing Street, London SW1

14 December 1981

RATING REVALUATION ON NON-DOMESTIC PROPERTIES

Thank you for sending me a copy of your letter of 10th December to Geoffrey Howe about non-domestic revaluation.

I have only one comment to make, and that concerns the timing of this. I am very concerned at the reactions of our backbenchers to this announcement, coming as it will so soon after the issue of our Green Paper on Rating Reform.

I am copying this to all members of E and H Committees, and to Sir Robert Armstrong.

The Rt Hon Michael Heseltine MP

SWYDDFA GYMREIG
GWYDYR HOUSE

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✓ AD

MSBM

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Oddi wrth Ysgrifennydd Gwladol Cymru

The Rt Hon Nicholas Edwards MP

From The Secretary of State for Wales

15th December 1981

De Michael

LOCAL GOVERNMENT FINANCE BILL: STATEMENT ON GREEN PAPER ON
ALTERNATIVES TO DOMESTIC RATES

Thank you for sending me copies of your letter of 14 December and enclosed outlined statement.

I agree that we should take the opportunity presented by your statement on the Green Paper to comment on our revised proposals for the Local Government Finance Bill. I also agree with your view that it would be wrong when authorities meet unexpected expenditure for this to be met by an increase in grant which would, unless Treasury were prepared to enter into an open-ended commitment to increase the RSG total, be at the expense of other authorities' grant. I am sure our strict borrowing conditions provide a more effective constraint on excessive expenditure than if authorities knew that they could receive 100% grant support notwithstanding that they would have to face the need to repay it in the next financial year.

On the question of temporary borrowing permission, you will know that local authorities in Wales will need to apply to me for borrowing approval if unexpected, non-rated expenditure takes place and I would be glad if paragraph 6 of your draft statement could be amended to make that clear.

I am content with the general lines you propose in your outlined statement on the Green Paper.

I am copying this to the Prime Minister, Members of Cabinet, the Chief Whip and Sir Robert Armstrong.

J. e.
N. e.

The Rt Hon Michael Heseltine MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON



10 DOWNING STREET

From the Private Secretary

- 1 Mr Patten M.P.
- 2 Prime Minister

H (81) 76.

In view of your comments on the attached, I have suggested to the Home Secretary's Office that he should report the conclusions of H to Cabinet tomorrow under the Parliamentary affairs item. H meets before Cabinet.

The important point is that the Green paper deals with reform of the domestic rating system. The Scottish Secretary wishes to announce a revaluation of the non domestic sector. It is likely to conclude that such an announcement would complement the Green paper rather than ~~it~~, and that it would not be seen as inconsistent.

WPSR

16/12