

Ref.A084/282

PRIME MINISTER

Non-Domestic Rating Revaluation:

C(84) 1

## BACKGROUND

The White Paper on Rates (Cmnd. 9008), published in August 1983, said that:

"The Government propose to set in train the work required for a non-domestic revaluation".

FLAG A 2. On 28 September the Chief Secretary, Treasury wrote to the Secretary of State for the Environment proposing that the effective date of this revaluation should be early in the lifetime of the next Parliament, and that a suitable date might well be April 1989. Andrew Turnbull's letter of 4 October

FLAG B agreed to this; and the Secretary of State for Trade and FLAG C Industry wrote on 21 October pointing out that there were arguments for an earlier date and that the later date would need 'convincing justification', but coming down on balance in favour of April 1989.

FLAG D 3. The Secretary of State for the Environment's reply of 2 December argued strongly for a date of April 1987, on the grounds that delay would provoke justified complaints from those whose property was overvalued and call into question the Government's sincerity in treating rates as the main source of local revenue for local government for the foreseeable future. The Chief Secretary was unpersuaded, though he implicitly FLAG E withdrew, in his letter of 23 December, a previous suggestion that there might be Civil Service manpower arguments in favour of delay.

FLAG F 4. The issues are set out in C(84) 1 by the Secretaries of State for the Environment and Wales. As the memorandum makes clear, the issues raised are quite separate from those that would be raised by a revaluation of domestic property. The Secretary of State for the Environment expects to bring forward proposals on this in due course.



## MAIN ISSUES

5. The Government is publicly committed to a non-domestic revaluation. The only issues are:

- (i) what should be the operative date? and
- (ii) when and how should the decision be announced?

Operative Date

6. Revaluations have to take effect from 1 April to coincide with the beginning of a new rating year. The date has to be fixed about three years beforehand. There appear to be only two options worth considering:

- (a) 1 April 1987, the earliest technically feasible date; and
- (b) 1 April 1989, the first date after the latest possible date for the next General Election.

7. The effective date of the last revaluation in England and Wales was 1973. Since then, there have been substantial changes in the relative values of industrial and commercial property of different types and in different parts of the country. The main losers from a revaluation (ie those whose property would rise in relative rateable value) would be big shops, and other commercial buildings in prime city sites; and the main gainers (ie those whose property would fall in relative rateable value) would be older industry and, generally, small businesses elsewhere. On average, industry and commerce would pay more in the South East and less in the North. Further details are given in paragraphs 4 to 6 of C(84) 1.

Para D

8. The changes need not affect domestic ratepayers. The attachments to the letter of 2 December from the Secretary of State for the Environment explain how they could be insulated from changes in non-domestic values.

9. The arguments seem to be fairly set out in C(84) 1. In favour of 1 April 1987 are the following.

- (a) the Government has an obligation to keep the valuation base up-to-date. There is no technical difficulty about this with non-domestic property



(as there is with domestic property because of the lack of evidence on market rents). Unnecessary delay unfairly penalises those whose property is over-valued; they would have a legitimate complaint against the Government. Those whose property is under-valued will not welcome a revaluation; but they have no legitimate grounds for complaint about it.

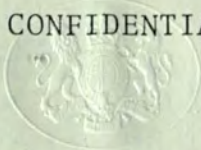
(b) The Government's public stance is that it intends to keep the rating system, but to reform it and to stop abuses of it. That stance will lack credibility if the Government lets manifest inequities persist for longer than is necessary.

(c) The longer the delay, the greater the eventual upheaval (and perhaps the pressure for expensive transitional measures to cushion the impact of changes in valuations on individual ratepayers).

10. The argument in favour of 1 April 1989 is essentially that the gratitude of those who gain from a revaluation will be less intense than the resentment of those who lose, and that it would therefore be better to avoid what may be a politically sensitive time.

#### Announcements

11. It is likely that Ministers will be pressed for an announcement of their intentions during the passage of the Rates Bill, which goes into Standing Committee on 26 January. There is no obvious reason to delay an announcement; and if the decision of substance were for 1 April 1987, it would be necessary to get ahead quickly with recruiting staff and other preparations. You will probably wish to invite the Secretaries of State for the Environment and Wales, and the Chief Secretary, Treasury, (who has departmental responsibility for the Inland Revenue Valuation Office, which would carry out the revaluation) to agree the text of any announcement and to circulate it for clearance in correspondence.



## HANDLING

12. You will wish to invite the Secretary of State for the Environment to introduce the memorandum and the Secretary of State for Wales to add his comments. The Chief Secretary, Treasury could then be asked to reply. The Secretary of State for Trade and Industry has an important departmental interest in the valuation for rates of industrial and commercial property; and the Secretary of State for Scotland (where a full revaluation is to be undertaken from 1 April 1985) is also likely to wish to comment. The Lord President of the Council may have views arising from his responsibility for the presentation of the Government's policies.

## CONCLUSIONS

13. You will wish the Cabinet to reach conclusions on:
- (i) the effective date of the next revaluation of non-domestic property in England and Wales;
  - (ii) announcements.

ROBERT ARMSTRONG

25 January 1984