



cc/s.

Prime Minister

11/5/87

HARMONISATION OF RATING: THE CONTRACTOR'S BASIS

I have seen Nicholas Ridley's minute of 5th October to you.

Prescription of the decapitalisation rate to be used in contractor's basis (in Scotland, contractor's principle) valuations will bring a number of advantages. First and foremost, it will promote harmonisation of the valuation systems between north and south of the border, in relation to types of property where there are conspicuous differences at present. It will also simplify the work of the Inland Revenue and the Scottish Assessors in preparing for the 1990 Revaluation. It may help reduce the caseload of appeals afterwards, and will provide a greater guarantee of continuing stability in this aspect of the valuation system. For these reasons I strongly support Nicholas Ridley's proposal that the new powers of prescription we have each taken in the Local Government Finance Act 1988 should be used.

As Nicholas recognises, the crucial question is of course the rate (or rather the structure of rates) to be prescribed. I can well understand why he, and others who have commented, are anxious to avoid the substantial increases in rateable value which would result from moving the basic decapitalisation rate for industry from the present figure of 5% (set for the 1973 Revaluation) to the figure of 7% which the IRVO and the Scottish Assessors appear to favour, and which has recently been confirmed in judgements of the Lands Valuation Appeal Court in Scotland. I well understand the case for compromise, and of course a rate of 6% would be a substantial improvement in the position of those sectors in Scotland who have suffered most from contractor's principle valuations in recent years.

But we must not lose sight of the fact that the whole purpose of revaluation is to redistribute the rating burden according to the most up-to-date measure of value. There is bound to be turbulence as the values of some classes of property go up while others go down in relative terms. More particularly, we must bear in mind that any concession to particular groups has to be paid for by other business ratepayers, through the higher level of overall poundages which will result.

Accordingly, while I see the attractions of prescribing the basic rate at 6% I feel that we must handle the consultation with care, recognising that there is a range of possibilities and that there will be representations pulling us in both directions. I hope, therefore, that Nicholas will agree that the consultation exercise should acknowledge the possibility of higher or lower rates, so that we are able to present the matter in an entirely open-minded way at this stage.

The effect of Nicholas' proposed rates for local authorities would be different in Scotland from south of the Border. We estimate the net effect would be neutral in terms of local authority expenditure and, therefore, there would be no implication for the levels of community charge here. Similarly the effect on independent schools would be slight and I can see the merits in bringing local authority schools into line with them in valuation terms.

One possible drawback about Nicholas' proposal is that the general rate of 6% would apply where sports clubs are valued in accordance with the contractor's principle, which is quite common in Scotland. I understand that the future basis of such valuations is being considered carefully in the harmonisation discussions between IRVO and the Scottish Assessors, and it is by no means certain whether the contractor's principle will be used in the next revaluation. There may, however, be concern about the effect of Nicholas' proposals in this respect, and this will be a point to watch in consultation.

One substantial impact of the proposed rates would be in the contributions paid in lieu of rates in respect of Crown properties. In Scotland this could increase the values of hospitals by around £15 million and prisons by up to £1 million. Nicholas does not make any firm proposals regarding the implication of such increases but it is clear that

additional funds will have to be made available to reflect these additional payments in order to safeguard services.

These reservations apart, I am content to proceed to consultation on the basis of Nicholas' proposals.

I am copying this letter to members of E(LF) and to Sir Robin Butler.

MR

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19 October 1988

LOCAL GOVT: Rating PTH

