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My ref:

Your ref:

The Rt Hon Malcolm Rifkind MP
Scottish Office
Dover House
Whitehall
LONDON
SW1

20 June 1989

Dear Secretary of State,

Map

HARMONISATION OF RATING: THE DECAPITALISATION RATE

I have now had the opportunity to consider the response to the consultation document that we issued on this subject, which followed the agreed line set out in my minute of 3 February to the Prime Minister.

Although industry favours a decapitalisation rate of 5%, they justify this only by placing a different emphasis on the interpretation of the same evidence as we used in our consultation paper. I am not persuaded by their arguments. I therefore propose that we each use our powers to prescribe a common decapitalisation rate of 6 per cent north and south of the border, as we previously agreed.

As to lower rates for certain cases, I think it would be right for us to prescribe a 4% rate for schools, universities, polytechnics and colleges of further and higher education provided by local authorities and non-profit making bodies. To encompass the last of these, I will need to make a minor amendment to my powers of prescription, and will incorporate this in the Local Government and Housing Bill. I understand that a similar amendment may be needed to your legislation.

On health care facilities, officials are still discussing whether health centres can come in at the lower rate besides hospitals and maternity homes. There are definitional problems and the risk that we should destabilise a much wider range of rateable values set on rental evidence. So they will probably have to be at the higher rate. However, we do not need to settle this relatively minor point now.

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In the meantime, if you agree, I suggest that we aim to make a joint announcement early next month, to give the Valuation Office and Assessors certainty for their revaluation work. I enclose a draft of an arranged written question and answer.

I am copying this letter to the Prime Minister, John Major, Peter Walker, Kenneth Baker and Kenneth Clarke.

Yours sincerely



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NICHOLAS RIDLEY

(Approved by the Secretary of State but signed in his absence)

QUESTION

To ask the Secretary of State for the Environment, what are the results of consultation on the harmonisation of the decapitalisation rate used for rating assessment in Great Britain that he announced on 7 March.

ANSWER

My Rt Hon Friends the Secretaries of State for Scotland and Wales and I have considered carefully the responses received to our proposal to set the decapitalisation rate for property valued by reference to the cost of construction somewhere in the range 6 - 7%. Respondents recognised that a common decapitalisation rate throughout Great Britain will assist in the harmonisation of rating. However, they generally argued that a rate as high as 7% overstated the 1988 cost of borrowing to finance construction. We have therefore decided to set the rate at 6% for most property, with a lower rate of 4% applying to educational property - schools, universities, polytechnics, and to colleges of further and higher education provided by local authorities and non profit making bodies - and to hospitals and certain other health establishments. The necessary regulations will be made later this year.

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