SECRETARY OF STATE FOR THE ENVIRONMENT

PRIME MINISTER

TIMING ON NON-DOMESTIC REVALUATIONS

attached

At E(LF) on 14 April, you invited me to reconsider the provision in the Local Government Finance Bill which requires non-domestic revaluations to occur every 5 years. We also touched upon this topic at Cabinet yesterday.

Our discussion at the sub-committee arose from 2 separate concerns:

(i) that a 5 year period between revaluations - particularly the next revaluation - would not be long enough to allow the phasing in of the changes; and

(ii) that revaluations are inherently unpopular so we should have some discretion as to their timing.

On reflection, I do not believe that either of those concerns is best met by going back on the present commitment to regular 5 yearly revaluations.

Revaluations are an inescapable feature of property taxes and follow from changes in the real economy's demand for property. They differ from taxes like corporation tax because the changes in the burden of those taxes are assessed annually and therefore generate far less hostility. We would not, of course, contemplate continuing to charge corporation tax on the basis of earlier years' profits figures.

In principle the lack of regular revaluations means that the incidence of the tax becomes progressively less fair and in practice it means that the size of the resulting changes, when revaluation is finally undertaken, is much greater: as we are finding now. Delaying revaluations also distorts the property market as artificially low rates drive up market rents. We can see this now in Kensington, for example. The revaluation in 1990 will "over assess" values there. The advantage of our present proposals is that we may never have to implement the 1990 increases in full. They should be overtaken by relatively lower 1995 valuations reflecting the response of the market to the new rate bills. Planning a longer period between revaluations in order to allow the full 1990 increases to be phased in is likely to be less, not more, fair to businesses in that position.

The logic of this argument is of course to have even more frequent revaluations. But at the present stage of computerisation of the Valuation Office, a 5 year cycle is about the best that can be managed, allowing for both the revaluation and subsequent appeals.

We should be clear that giving ourselves flexibility over the timing of revaluations would bring almost universal opposition from the business community. Since our meeting I have taken the opportunity to review the representations which were made to us on this subject by business organisations. The proposal for automatic quinquennial revaluations was one of the very few in the consultation paper we issued last summer to command general support. The only dissent from that proposal came from those organisations which wished to replace business rates entirely with another form of tax.

On the other hand, the Institute of Directors, the Association of British Chambers of Commerce, and the CBI all expressed firm support. So did a number of bodies representing particular industries. Even the British Retailers Association whose members are likely to face the biggest increases from the 1990 revaluation support the proposal and are among a number of bodies, including the Association of Independent Businesses, which blame the long delays since the last revaluation for the large increases they face. Support for regular revaluations is therefore consistent with the pressure we face now for adequate transitional protection against the very large changes some businesses will face. We got

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the NNDR proposals through the House on Thursday 21 April on the basis of statutory 5 year revaluations and to change policy now would be regarded as a deception of the House. There is no pressure for change at all.

In the past the difficulty with revaluations has been the domestic sector. There revaluation has been extremely artificial because of the absence of a rented housing market. There are also 18 million householders. The majority are owner-occupiers and have no opportunity to lay off rate increases in rent negotiations. We have now broken that link forever. We can, therefore, look at the non-domestic revaluation in its own right.

Of course revaluation in Scotland in 1985 caused us great difficulty but I believe it is true that:

- by far the greater number of complaints related to the domestic sector - which carried a greater overall share of the rate burden following revaluation;

- much of the concern arose because new rateable value figures were issued before the off-setting reductions in rate poundages were confirmed;

- the revaluation was not accompanied by a move to a national non-domestic rate and many local authorities took advantage of it to increase their revenue;

- there was initially no provision for transitional arrangements; and

- there had, in fact, been a gap of 7 years since the last revaluation during which time the economy had undergone major restructuring.

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Resistance to flexibility in the timing of revaluations arises from the deep cynicism of businesses about Government's commitment to maintaining the rateable value base. An explicit change of policy now, which would require amendments in the House of Lords, is likely to re-awaken fears and opposition to the UBR proposals at a time when we have succeeded in focusing attention entirely on the transitional arrangements. I conclude that there are no short term benefits to be taken from a change of policy. Nor am I sure that we will necessarily need such a power in the long term. If we decide we need such a power before 1995 we can taken one then.

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

R Bright

PP NR (approved by the Secretary of State and signed in his absence).

22 April 1988