



Prime Minister

HARMONISATION OF RATING  
ENGLAND/WALES AND SCOTLAND

Mr Tommy MacPherson of the Association of British Chambers of Commerce wrote to you in <sup>April</sup> ~~April~~ about the harmonisation of rating North and South of the border. I have since seen him and reassured him that we take the issue seriously and that we are pursuing it as a matter of urgency. He accepted my assurances but he is still owed a formal response and I attach a draft.

It is evident from his letter that the question extends beyond the technical issue of harmonising the valuations for equivalent properties in each country and into the equalisation of the rate poundages which apply to them.

On the first question we have good progress to report. Though more work remains to be done, there is a real prospect that at the 1990 revaluation many of the most obvious anomalies will have been removed or substantially abated.

There are two areas in which important decisions affecting valuation remain to be taken: one affects the rating of certain specialist installations which is of particular concern to the oil and chemical industry and where there are major divergences now. The other concerns the rating of plant and machinery. This is also a complex area in which practice in the two countries differs fundamentally. There is no prospect of resolving the second issue for the 1990 revaluation but we will need to start preparations shortly with a view to being ready for the subsequent revaluation. I will be putting specific proposals to colleagues on both issues shortly.

But even when these issues are resolved, businesses in Scotland will still be paying far more than in England because poundages are much higher. Once both countries have been revalued on a

*(this arises because spending per head is 1/3 higher in Scotland than England; this is reflected not in domestic rates, but in higher grant (60% base England) and higher business rates (20% base). PReb.*



common basis, that discrepancy will become very evident particularly in view of the progress which will have been made in harmonising valuations.

My own view is that it will be very difficult to defend those differences or to argue that no progress can be made before 1995. But Scottish rate poundages cannot be brought down to English levels unless the revenue lost can be found from elsewhere: either Scottish community charge payers or the national exchequer or from reductions in the expenditure of Scottish local authorities. The sums involved, however, are large. It is difficult to be precise but current estimates are that the total is at least £300m - equivalent to about £80 on average Scottish community charges. We have had one discussion of this problem in E(LF) when our conclusion was that despite the evident difficulties, any extra costs should not fall onto English and Welsh business ratepayers.

In the first instance this is a matter for Malcolm Rifkind. He may like to suggest that his officials prepare a paper on the options jointly with officials from the other concerned departments so that Malcolm can put proposals to us.

I am copying this minute to Malcolm Rifkind, Nigel Lawson, Peter Walker, David Young and Sir Robin Butler.

N R

28 June 1988



DRAFT LETTER FOR THE PRIME MINISTER TO SEND TO MR R T S  
MacPHERSON, CHAIRMAN, ASSOCIATION OF BRITISH CHAMBERS OF  
COMMERCE, SOVEREIGN HOUSE, 212A SHAFTESBURY AVENUE, LONDON WC2H  
8EW

*I am sorry for the delay  
in replying.*

*Thank you for your letter of*

~~You wrote to me on 11 April~~ about the differences in business rates as between Scotland and England and Wales. Since you wrote, I know that you have seen Nicholas Ridley who has assured you of the priority which we attach to removing the differences in valuation practice.

Work on this has now been underway for some time. The starting point in the process has been technical discussions between representatives of the Inland Revenue Valuation Office, who are responsible for Valuation in England and Wales, and the Scottish Assessors Association, whose members have this responsibility in Scotland. Regular reports on ~~the progress of~~ these discussions and recommendations concerning legislation have been made to the respective Secretaries of State.

These discussions have made significant progress. The major areas of cross border differences have been identified and the underlying causes analysed. It is not surprising that there should be such differences: there are 2 distinct bodies of statute law, expanded by case law, and these create codes which are binding on Scottish Assessors and the Valuation Office respectively. There are also differences in a number of procedural matters. The differences have been magnified by the more recent revaluations in Scotland.

*5/3/69*

Simultaneous revaluations north and south of the border will take place in 1990 and will be a major step in clarifying the position. The harmonisation discussions have concentrated on identifying areas where progress can be made quickly in the 1990 revaluation, but on the understanding that further work will be required subsequently.

Most properties are valued by reference to comparative rental evidence. A major benefit of the discussions ~~so far, therefore,~~ has been the agreement to ensure, so far as possible, that the handling and interpretation of the evidence of rents north and south of the border is consistent.

The discussions have also identified certain classes of property where there are at present fundamental differences of practice north and south of the border. There will now be moves to a common approach, within the constraints of statute and case law, and as a result many of the major gaps which have existed between valuations under the two systems should be substantially closed.

You particularly raised ~~with me~~ the problem of the Contractors Test valuations which apply to certain specialist properties for which there is no rental market. I accept that here valuation practice has differed fundamentally, particularly in relation to the rate of interest applied to the calculation of rateable values. It is possible that these rates of interest may be brought into line by voluntary agreement, but powers have been taken ~~in~~ both ~~in~~ England and Wales and ~~in~~ Scotland for the Government to prescribe a rate of interest on a GB basis, and we are currently considering whether we should do so.



Despite the difficulties which remain, this is an encouraging record of progress, which will reduce the cross border differences which have caused so much concern in recent years. It has always been argued that harmonisation of valuation practice would take more than one revaluation to accomplish completely. But that should not detract from the substantial progress which we believe is being made already.

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LOCAL GOVT: PABO PTO.

