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## Factories and the Derating Question

Mr. Sparks' Industrial Rating Bill was defeated on third reading in the House of Commons on April 27 by 179 votes to 134, a Government majority of 45. A week earlier an attempt to kill the Bill on its last day in committee by an amendment to delete the principal clause was defeated by one vote.

The "rerating" Bill has served a certain purpose. With the recent revaluation it has focussed attention on some of the injustices and anomalies of which the present rating system is comprised, and the considerable support it has received from the public and from many local authorities will have impressed the Government with the need and demand for rating reform. Its sole purpose was to withdraw the privilege whereby since 1929 rates on factories and freight transport properties have been levied on only one-quarter of their assessed value. That privilege is wrong in principle and harmful in practice and has been opposed in these pages since the outset. The Bill sought to patch up the present system by substituting one evil for another. Factories, no less than any other kind of building or improvement, should not be taxed at all, for the effect of such infliction is to make them dearer and to tend to limit their supply, size and appointments.

### Ability to Pay

It may be true, as Mr. Sparks asserted, that industrialists can afford to pay more rates but contribution to municipal (and national) revenue should be in accordance with actual benefits received and not according to some artificially contrived assessment of alleged ability to pay. Until a valuation of land apart from buildings is undertaken for the whole country none can say whether manufacturers as a class are paying too little or too much in rates. What is certain is that many of those with the best developed properties are paying more than their fair share already without having their rates payment nearly quadrupled in the way envisaged by Mr. Sparks.

### What Might Have Happened

Industrialists would have had themselves to blame if this Bill had become law, for they have been content to receive favoured treatment at the expense of other ratepayers and have steadfastly refused to agitate for the adoption of just and scientific rating. The "re-rating" of industry would have afforded a limited relief to hard-pressed ratepayers (which in turn would have been reflected in an increase in the rental value and selling price of land in the suburbs) and would have slightly reduced the dependence of local authorities on the central government. It seems probable that industrialists would have campaigned for the withdrawal of the rating privileges accorded to agriculture and that they and farmers might then have listened more sympathetically

to those who call for the "derating" or untaxing of buildings and improvements of every kind. Be that as it may be, we do not regret the fate that has overtaken this Bill.

### Declared Purpose and Proven Failure

Moving the second reading of the Bill on March 16, Mr. Sparks recalled the circumstances in which industrial derating had been introduced by quoting from Sir Winston Churchill's 1928 Budget Speech ("Unemployment remains obstinately chronic around the dismal figure of one million"), from Cmd. Paper 3134 of 1928 ("if local authorities are to suffer so serious a loss of rating some alternative source of revenue must be provided"), and from a speech by Mr. Neville Chamberlain, then Minister of Health, on the second reading of the measure in November, 1928, ("at a stroke, £24 million is to be lifted from the back of industry").

Quoting figures, Mr. Sparks showed that in 1938 unemployment was higher, and the value of exports was considerably lower, than in 1929. "Therefore industrial derating failed in its purpose."

The £13.5 million which privileged industry had paid in rates in 1953-54 was sufficient to pay only for the fire service. All the other services which it enjoyed, directly or indirectly, had been paid for by the rest of the community. "Industry is a burden on the rates rather than *vice versa*."

The average rate poundage in England and Wales had nearly doubled since 1930-31 from 11s. 8d. to 22s. 11d. and local authority expenditure was increasing at an alarming rate. In 1930-31 industrial derating deprived local authorities of £20 million of rateable value. To-day, after revaluation, the figure stood at £108 million. Estimates were not easy to make but unless the rerating proposal was adopted very much more than £68 million would be lost to local authorities during 1956-57.

The £20 million compensation accorded to local authorities in 1929 by means of Exchequer block grants took no account of losses incurred in respect of factories built after that date. In 1948 the block grant was replaced by the Exchequer equalisation grant and no allowance was made for losses caused by derating. Many of the worst hit authorities did not receive the equalisation grant and had to bear the loss completely.

### Local Authorities and the Treasury

Repeal of derating in 1951-52 would have yielded in that year an additional rate income available to local authorities of approximately £38 million gross. But consequential reductions of £7.2 million in the Exchequer equalisation grant and £5.4 million in the education grant would have reduced this to a net gain of £24.4 million. These calculations were based on figures provided by the Society of County Treasurers

and on the assumption that agricultural land and buildings were rated (as was done previous to 1929) on 25 per cent of their assessed value.\* The gross liability to agriculture and industry would have been £8.2 million and £29.9 million respectively. Offsetting reduced national tax liability, the net cost to industry would have been only £15 million ("a very insignificant figure compared with the colossal profits that industries are making at present") and the net cost to the Treasury would have been £4.9 million.

Industry could well afford to pay full rates and rerating would at the most add only a shilling or two to the cost of very high cost products and a few pence in other cases. Rerating presented no administrative problem and it would remove a major obstacle in the way of the reform of local government finance.

#### Not a Party Matter

Seconding the Motion, Mr. Frederick Harris (Conservative, N.W. Croydon) stressed that this was "definitely no party issue." He had felt very strongly about it for many years and had initiated an Adjournment debate on the matter a year ago. Conditions had changed since 1929 and to-day industrial derating was outmoded. If the Government were unable to abolish derating they should make up from the Exchequer the resultant deficiencies in the revenues of local authorities.

An Amendment designed to postpone any legislative action until after the completion of the present review of local government structure and finance was moved by Mr. John Hay, Conservative, Henley, and seconded by Mr. Graeme Finlay, Conservative, Epping.

Mr. Hay agreed that this was not a party matter. But he denied that it was a simple one; it was extremely complicated and difficult. Nor was it correct that industrial derating had been introduced only because of the depression in 1929. It had been intended to be a permanent measure of local government reform, and to give long-term assistance to industrial and agricultural producers.

Views why derating should continue were strongly held and should be considered although he, personally did not find them conclusive. The effects of repeal on production costs and prices and the Exchequer equalisation grants were not known. Re-rating might affect adversely the Development Areas and would lead to a demand that agriculture should also be rerated which would have "very serious" consequences "to our countryside and our farms."

#### A "Most Embracing" Review

Mr. J. Enoch Powell, Parliamentary Secretary to the Ministry of Housing and Local Government, claimed that the fact that a review "of the most embracing character" was in progress more than justified support for the amendment. Derating was intimately intertwined in its consequences with every aspect of local government finance and with the relations between the Central Government and the local authorities. While the total extra net burden on industry might be small, the shift in rates paid by some sections of industry might be very considerable because the proportion which rates bore to costs of production varied enormously with different types of business.

Five Labour Members spoke in support of the Bill. They were: Dr. Horace King (Southampton, Itchen), E. G. Willis (Edinburgh East), Leslie Hale (Oldham), G. R. Mitchison (Kettering), and W. E. Wheeldon (Birmingham, Small Heath). Geoffrey Rippon (Conservative, Norwich South) supported

\* At present agricultural and buildings, other than farmhouses, are not assessed in England and Wales. Ed., L. & L.

the Amendment. Mr. David Price (Conservative, Eastleigh) declared his opposition to industrial derating but voted against giving the Bill a Second Reading as did Sir Austen Hudson (Conservative, Lewisham North) who was able to give only partial support. No Member present queried the practice of bringing factory buildings under assessment to local taxation. The five hours debate was confined to consideration of whether to maintain or increase the present harmful rate burden on industry.

#### Development Penalised in Britain . . .

The April 7 article in the *Manchester Guardian* series, "About the House," described the experiences of somebody who had converted a large, old-fashioned house into three self-contained flats. After explaining the structural alterations and new installations that had been made at some expense and inconvenience, the writer concluded: "When all the work was finished, two men appeared one day from the rating office and thoroughly inspected the premises. The fruits of this visit were that the flats were assessed separately for rating, and the total rateable value was exactly 50 per cent more than it had been for the house, although not a single square inch of floor space had been gained—merely the internal arrangement slightly altered. Perhaps I may remark that the project was carried out entirely on my own initiative and financed from my own resources; it did not cost the local authorities a penny, yet over a period of years they will gain hundreds of pounds additional income. I trust they consider me a good and profitable citizen!"

In this particular case the rating system did not prevent development. But thousands of similar outmoded houses are standing empty and therefore rate-exempt, slowly falling to pieces, despite offers of Government grants of up to £400 for each property produced by conversion (*i.e.*, £1,200 for one house made into three flats). Owners are left with white elephants on their hands, local authorities are deprived of revenue, a burden is placed on the national exchequer, and thousands of people, denied the opportunity of renting a home of their own, are driven into endless queues for subsidised housing. A race of madmen might better order their affairs.

#### . . . And Encouraged in Australia

The following message has been printed on the first rate notices to be issued in the provincial town of Castlemain, Victoria, since the decision given at a poll of ratepayers last August to adopt the rating of land values ("unimproved capital value" rating in Australian terminology):

#### TOWN OF CASTLEMAINE

As a result of a poll of ratepayers last August the rating system used by this Council is now changed to the Unimproved Capital Value system. The first assessment notice under the new system is herewith.

Under the altered method of rating the basic rate upon the value of the land is increased but the value of buildings and other improvements made by citizens is completely exempt from Council rates.

Your co-operation is therefore invited in making improvements which will add to the comfort and enjoyment of your own property, increase its sale value to you, and at the same time help this Town to develop and attract new citizens and opportunities.