RATING REVALUATION REVISITED

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Introduction

The political significance of the Scottish rating revaluation of 1985 was that of a catalyst for change. The Government had come under increasing internal pressure (i.e. from its own supporters) in 1984, some simply protesting about the growth of rate bills and the political consequences of that for the Conservatives, others concerned about the inability of the Government's control system to discriminate between 'prudent' and 'profligate' authorities.(1) The impact of revaluation was to increase demands from conservative groups for reform. Although much was made in the media of widespread public dissatisfaction, in our view the pressure was confined to a small but vociferous and active number of pressure groups, both of the ratepayer and business variety. For example, in Lothian, only around 5% of domestic ratepayers challenged their new assessments. This is certainly an increase from the 3% of 1978, but when one takes into account the change in incidence of taxation from non-domestic to domestic, it is hardly evidence of widespread discontent. Moreover, although the non-domestic sector benefited as a whole from the changeover, there were some dramatic individual increases. Non-domestic ratepayers appeals by contrast rose from 19% to 25% in 1985.(2)

Yet the impression given in the media was of a nation in revolt. In part, this is because of the general misconception that revaluation will be to the detriment of all ratepayers. A more accurate picture would be of a minority in revolt. Those who were gaining had no reason to.

The search for an alternative system of local government finance began in the Conservative Government's first term. This focussed on domestic property and in January 1982, the Secretary of State announced that the revaluation due to be held in 1983 would apply to non-domestic property only, the intention being not to have a domestic revaluation whilst the future of the domestic rating system was being considered.

Following strong representations by the Convention of Scottish Local Authorities and others that this would create anomalies, the Government decided to defer the revaluation completely for two years. Some commentators interpreted this decision as reflecting the expectation that revaluation would have adverse electoral consequences for the

Government. The revaluation postponement aroused no great
opposition. One senior official voiced to us the view that this is only
"– revaluation is used as a political whipping-boy, the conveni
material for the making of political capital, and all political par
guilty in this respect. It is my view that the real reason was that a
revaluation was administratively impossible".

By the late summer of 1984, early indications of the likely ef
revaluation were available. By October, a report of the Dist
Committee of the Working Party on Local Government
recommended an increase in the domestic element of the Rate
Grant, which would mitigate the effects of revaluation on d
ratepayers. Government ministers took a series of interim mea
ameliorate the effect of revaluation.

In December, 1984, the Minister announced that Industrial D
was reduced from 50% to 40%, and increased the domestic eleme
rate support grant from 1p to 5p in the pound (on the new val
Thereafter protests grew, both within the Conservative party and
its natural supporters, owner-occupiers and sections of the
community. Early in 1985, the Government made it clear that rev
would not be postponed, and in February announced a further inc
domestic rate relief to 8p in the pound, the equivalent of about £1
per household.

This second subsidy was achieved by generating savings
elements of the Scottish Office expenditure block, namely regic
roads and transport, prisons, health and housing. The total now co
by Domestic Rate Relief was £102 millions, compared to £14.3 mi
1984-5. The final stage in the process was responding to the press
the small business sector. Whilst the overall effect of revaluat
broadly neutral on the commercial sector, within that
considerable variation in the revaluation factor occurred. So the
Office had a strong political card to play and managed to obtain con
from the Treasury out of the Contingency Fund. The sum of £50 mi
allocated for further rebates for those whose valuation had incr
least threefold (in contrast to the national 2.3 times increase)
individual limit of £10,000 placed on this particular subsidy. The
legislation to allow this was assisted by opposition parties in Parlia

It should not be assumed, however, that these adjustme
painless. There is some evidence that the reduction in industrial
caused hardship to some small industrialists. Moreover, the increa
domestic element of the rate support grant reduced the amounts a
for the needs and resources element. That is, it redistributed gran
away from poorer, needier areas, to wealthier ones. Finally, these
denied industry the full benefits of revaluation. These changes we

will be temporary, and a gradual reduction of the domestic relief will take place. (It was reduced to 7p in the current year).

Revaluation in Scotland gave an additional impetus to the Government's efforts to find an alternative to the rating system. Indeed, revaluation was presented in the latest Green Paper as providing further evidence of the unfairness and unacceptability in the rating system (Scottish Office 1986). Whilst we are sceptical of this view, we have little doubt that, combined with the reduction in the rate support grant, and the budget conflict in Edinburgh, it strengthened Ministers' resolve to find a politically acceptable alternative. We shall address some of these issues later, but at this point, an account of the mechanics of the system is necessary, for it became clear that even active lobbyists are confused over how the system works.

The basis of domestic rates is a valuation placed by the Assessor on rateable value, and that valuation is an estimate of the rent at which a property might reasonably be expected to be let for a one year period with a reasonable expectation of continuance (based on the contractor principle). It is based on a survey of the property market, rental evidence, and some other general factors. Thomson(3) lists these as the age, degree of attachment, construction, amenity and quality of a house.

The Assessor enters properties in the Valuation Roll showing annual value. In the case of domestic properties these are valued to a Gross Annual Value, and a statutory allowance is deducted to cover the upkeep of the property to arrive at Net Annual Value. All other subjects are valued direct to Net Annual Value.

The amount of rates payable by each ratepayer is determined by the rateable value of the property multiplied by the Regional and District Rates. The combined rate is reduced by a statutorily determined sum (7p per £ of Rateable Value in 1986-7) for domestic ratepayers. People on low incomes have their rates taken into account in a system of housing benefits, and therefore treated as part of their housing costs. Domestic water rates are levied separately, but paid with the rate payments.

Given the basis of the rating system, it is clear that frequent revaluations are necessary. In this respect, we are in full agreement with the former Scottish Secretary, George Younger, who told the House of Commons,

"It is the precise purpose of having a revaluation to reflect changes in

values both upwards and downwards. It was never the purpose to ensure that nobody had an increase and nobody had a reduction. That would merely perpetuate the unfairness which revaluation is designed to reduce."

The changes in liability are the consequence of valuation from rental. In Scotland, house rentals have moved upwards in steady progression for the past twenty years. Levels depend very much upon public authority housing and on rents set by Rent Assessment Committees and Rent Officers. However, the industrial and commercial sector are more sensitive to changes in the economic climate. Industrial depression causes industrial rents to fall, in real terms, and the level of value in the commercial sector ebbs and flows from place to place. This explains the changes which occurred in 1985. In 1978, the changes benefited domestic ratepayers, and as a result, domestic rate relief was reduced from 31p to 3p (The relief of 3p in 1977-8 was equivalent in terms of the new valuations applicable to 1978-9 to 11p in the pound.)

According to law in Scotland, a revaluation must take place every five years. In 1983, with the agreement of other political parties and COSLA, the revaluation was postponed for two years, on the grounds that plans to reform the rating system were underway. In fact, the recommendations of the 1981 Green Paper (Department of the Environment 1981) suggested only minimal change, and the Government proposed the retention of rating as the major form of local taxation.(4)

Whatever the reason, the end result was that revaluation was taking place after seven years of fairly traumatic changes in the British economy, and it would inevitably reflect those trends. The major change has been the rapid decline in manufacturing industry, and by contrast, the growth in the service sector and new technology. The rental value of properties will change with the capacity of those different sectors to pay, in short, it will reflect the operation of supply and demand mechanisms in a mixed economy.

The second related change was the growth of unemployment. Areas experiencing high unemployment will likewise have reduced capacity to pay rents, and house prices will also be affected. For those in work, however, the picture has been somewhat different, and in particular in families where the growth of working spouses has led to increased family income and aspirations. The demand for home ownership has increased and, therefore, the putative 'rental value' of privately owned houses relative to the public sector.

The end result was inevitably going to be changed tax liabilities for many ratepayers. There is also a difference in the basis of the valuation for the commercial sector. Housing is valued on the principle of a 'balanced market' (the assumption that supply equals demand for housing), whereas the value of shops for rating purposes is accordingly governed by a straightforward comparison of rents actually paid.

There has been rapid fluctuation in the level of value of shops, particularly with the developments of new shopping centres, which redirect the flow of potential value from one part of the town to another, often lowering the value of other shops. Revaluation is necessary to reflect this, otherwise shops with reduced income will be left with higher values. Shop rents themselves vary in the regularity with which rents are fixed, some on an annual basis, others on long-term basis. Rents fixed more recently will provide a much more accurate basis for reflecting current economic conditions as shop rental values reflect location, trading and the flow of potential customers.(5)

From the official papers, it is clear that the provisional estimates showed that rateable value would increase on average by 2.3 times. There was, however, a significant range of variation between the four sectors (domestic, industrial, commercial, others), with domestic subjects increasing by 2.6 times on average and industry by 1.7 times on average. These estimates suggested an increase of 16.5% in the share of total rateable value borne by domestic subjects with decreases of 24% for industry and freight subjects and 6% for 'other' subjects.

This prompted the early responses on industrial derating and the increase of domestic rate relief. The effect that had on potential increases is indicated below, and slight modifications were made to these figures later when errors in assessment were corrected.

TABLE 1

(October)

	Before Adjustment	After Adjustment
Domestic	+17%	+ 8 %
Industrial	−25%	−10.7%
Commercial	− 1%	− 1.3%
Others	−11%	−10.5%

Source: Geddes[6]

However, the actual rates increases have also to take into account overall changes in grant income and the spending decisions of local councils. A COSLA paper produced in March 1985, and based on the further increase in the Domestic Rate Relief, local budgets, and the reductions in grant, presented the following picture

TABLE 2

Potential changes in Rating Liabilities of Different Sectors
Based on budget Decisions of Local Authorities

	% of RV (1984)	£m	% of RV (1985)	£m	% Change
Domestic	36.9	£533	42.2	£652	+18
Industrial	11.8	£181	10.4	£186	+ 3
Commercial	28.2	£434	27.2	£486	+12
Other	23.1	£356	20.2	£361	+ 1

Source: Convention of Scottish Local Authorities.

The Political Response to Revaluation

As authorities were finalising their budgets in 1985, and as the new assessments were being delivered to ratepayers, pressure grew on the Government, in the main from Conservative Party supporters, ratepayers groups, and small businessmen. During this period, the notion that the Government faced widespread electoral disaster in Scotland unless they took action to mitigate the effects of revaluation became commonplace, and was widely alluded to in the media. For example, the Chairman of the Scottish Conservative Party, Sir James Goold led the pressure to suspend revaluation as "a huge vote loser",(*Glasgow Herald* 23.2.86), and Brian Meek, then Conservative Convener of Lothian Region, expanded this argument into the issue of wider reforms of local government finance.

> "We should stop tinkering with this unfair system and replace it with a more equitable form of local taxation. I cannot recall anything that a Tory Government has done that has been so massively unpopular as this." (quoted in *Glasgow Herald* 7.3.85).

This view was put even more forcibly by Jim O'Neill, former

Conservative leader of Renfrew District Council, who predicted that revaluation would put a lot of small businesses out of business, and have adverse effects for the Conservative Party.

> "I have met many people in the business community who supported the party because it backed owner-occupation and small business. But with one move they have destroyed the dreams of many. I don't think Mr Younger, the Scottish Conservative Party, or the Government itself, have any idea of the depth of anger over this issue. At future elections there will be a terrible backlash."(quoted in *The Scotsman* 15.3.85)

What is ironic about all this of course is that the trends in rental value merely reflect economic trends in the market. The growth of owner-occupation and the service sector would inevitably be reflected in tax liabilities. And indeed the Government did share many of these preconceptions of the political consequences as the subsidies to domestic and non-domestic ratepayers show. Public misunderstanding was prevalent in the view that the Government was to blame. One senior local government officer questioned this view.

> "However misguided such conceptions may have been, Central Government decided to retreat in the face of the onslaught and it was subsequently announced that an extra £50 million had been found which would be made available to stave off the disaster which apparently was threatening the credibility of the party in power who had evidently assumed responsibility for the outcome of the revaluation. This was surprising as such results were quite predictable and would have been the same no matter what shade of Government had been in St Andrews House or in the House of Commons for that matter. Nevertheless, the dice had been cast."(7)

There is no doubt that potentially the highest increases were faced by the Government's 'natural' supporters, owner-occupiers and small businessmen. The highest increases in the domestic sector, where rental values had risen three times on average for owner-occupied houses compared to 2.6 for all houses, and 2.3 times for Scotland as a whole. This was noted in the recent Green Paper.

> "Average movements at the regional level mask even more dramatic increases falling on individual ratepayers. The average domestic valuation in Scotland increased on revaluation by a multiplier of almost 2.7, but 130,000 Scottish householders faced multipliers of

> more than three times their previous rateable values."

Increasing domestic rate relief provided the biggest subsidies to those occupying houses with the highest rateable value. (In short, the subsidy was a regressive one.)

It is also true that some of the highest increases were faced in the commercial sector, but it is unclear that job losses would result. One Officer questioned this view.

> "Revaluation has *not* put many small businesses out of business, and though it has caused many small businesses to tell the press and me that they could be put out of business, but I have yet to see evidence of this."

In his opinion, job losses result from technological changes in retail practice rather than simply from revaluation. New shopping centres are designed for more efficient profit-making by reducing overheads, and such developments have offsetting effects in traditional shopping centres, whose retail values will also drop. The matters are interconnected.

> "But on the simpler basis of looking at a retail shop, no case has been brought to my attention where a shopkeeper has had to pay off staff because his rent or valuation has increased. I can recall one such 'demonstrative' case, but the very needs of the business involved re-engagement of staff who had been temporarily laid off."

Public protest centred around three key themes.

First, it was argued that revaluation demonstrated that rating was unfair and ought to be replaced.

Second, it was argued that revaluation discriminated against Scottish ratepayers vis-a-vis English ratepayers.

Third, it was widely believed that revaluation caused rates increases. The third theme does have some credence and will form the third part of this paper. The other two themes represent misunderstanding of the system by lobbyists, and we will only make a brief comment about each of these.

The notion that rates are unfair was invoked regularly, both in attempts to delay revaluation, *and* in the pressure mounted for the abolition of the rating system. The National Federation of Self Employed and Small Businesses have been powerful and persistent critics of rating's unfairness. One of the worst hit areas by revaluation was the Borders Region, and their NFSESB spokesman, John Curtis, adopted that line.

> "It must be remembered that rate increases and demands bear no relation to the ratepayers' ability to find the money.......the rating system is unfair and completely out of date but, despite election promises, the Government has done nothing to introduce alternative methods of raising local finance."(quoted in *The Scotsman* 8.2.85)

The Scottish Conservative Party Chairman, Sir James Goold, argued that the revaluation experience showed that "the rating system, with a reducing industrial base and with not all that many people paying rates, is not the proper system for financing local government."(quoted in *The Scotsman* 8.2.85)

Let us now address some of these assumptions. Firstly, we should be clear as to the *actual* impact of revaluation. It does not increase the *rating income* of local authorities, but updates the rateable values to take account of changes in inflation and circumstance since the previous revaluation. What it does do is alter the balance between *ratepayers*, and indeed *local authorities*, because it affects their entitlement to rate support grant. Those with above average increases in rateable values will have their grant income reduced, as the resources element seeks to equalise grant income per penny rate poundage, and those with below average incomes will have their grant increased. For the small number of authorities who receive no resources element, their position is that if they had above average increases in rateable value, their tax raising *potential* is increased (i.e. they can raise more for a penny rate) and vice-versa.

The notion that revaluation demonstrated that rates are an unfair tax is mere tautology, for all that revaluation showed was that if you change the basis of calculation then you change the outcome in terms of tax liability. The mere fact that these changes took place is no more evidence that rates are an unfair tax than the previous pattern of tax liabilities were *per se*.

The notion that revaluation does not take account of ability to pay is only true in a narrow sense. Certainly values ignore income considerations, but indirectly, as these are based on comparisons with actual rental and property market evidence, the system does so. The Green Paper[8] distinguishes between the 'redistributive' and 'beneficial' principles in rating. The redistributive principle "sees the value of property as the measure of the taxpayer's ability to pay. The ratepayer, in living in a more

valuable house than he truly needs, has exercised choice, knowing that one of the consequences is an increased tax liability."[9]

As noted earlier, the basis of valuing shops for rating purposes is governed broadly by a straightforward comparison of rents actually paid. In a market economy, one has to assume that the buyer (the renter of the property) is willing to assume the consequent rent and rates costs of doing so, and if the highest increased values were in sectors and locations experiencing relative economic prosperity, it is difficult to see this as unfairness. It is possible to argue that there are similarities in principle between the income tax system and the rating system, particularly for non-domestic ratepayers, if income tax is viewed as a share of the profits of employment, and rent as an appropriate share of the profits of occupation of property. (This view was put to us by a Chartered Surveyor in private correspondence).

In terms of logic, it would be wrong to argue that revaluation showed that rating is an unfair system. Those who argued in this way were simply transferring their own general criticisms of the rating system *per se*, to revaluation itself.

The second recurring theme was the notion that revaluation was unfair to Scotland vis-a-vis the rest of Britain. Mrs Mary Whitehouse, Chairman of the Scottish Ratepayers Federation, made this point frequently in the press. Sir James Goold, Scottish Conservative Party Chairman, used this argument when calling for the suspension of revaluation, as "it demonstrates the way in which Scotland suffers, whilst England does not." More expectedly, Donald Stewart MP, President of the SNP, also calling for revaluation to be shelved, stated that revaluation continued the Government's policy of direct discrimination against Scotland, using Scots "as guinea pigs for measures which would be unacceptable in the Tory shires or the Home Counties."(quoted in *The Scotsman* 6.4.85). By contrast, John Davidson, of the Scottish CBI, believed that revaluation had gone some way to rectifying imbalance between industrial/commercial rates and domestic rates, whilst arguing that industry and commerce still pay more than similar interests in England.

Again, there are serious problems with these assumptions. It is certainly the case that there has been no revaluation in England since 1973. In part this is for technical reasons. With the growth of owner-occupation, and the decline of the private rented sector, it was stated in the Layfield Report of 1976 that the point had been reached in England and Wales where enough rental evidence to support another revaluation of domestic properties on a rental basis would not be available.[10] A recent study argued that only 1.7% of private dwellings in the Borders Region had rents which were useable for valuation purposes.[11] However, this study wrongly ignored the public rented sector.

There are problems of comparing the outcomes of the two systems, as they are based on different principles. And the data does not exist to allow a comprehensive comparative analysis of the tax liabilities of non-domestic ratepayers North and South of the border.

Certainly, the selectivity exercised by pressure groups for purposes of political lobbying (e.g. Celtic and Manchester United, or Frasers and Harrods) provides no sound basis for conclusions. In terms of domestic ratepayers, there is consistent evidence of higher average rates in England vis-a-vis Scotland, both per house and as a proportion of average incomes.[12] There are reasons for expecting this to be the case. Scotland has a higher level of central government support for local government finance than in England. England has a higher level of owner- occupation, with consequent higher rateable values, and thus higher rates.

As the two systems have different principles, it is wrong to assume that an English revaluation would settle what real anomalies do occur anyway. Only when a uniform system of valuation is introduced will this be so. What has to be clear, however, is that a revaluation in England would have *no direct* impact on rates in Scotland, nor vice versa. A revaluation in England would lead to some ratepayers paying more and others less, and in all probability, to use an American analogy, a shift in grant resources from the English "sun belt", the prosperous South and South East, to the English "frost belt", the industrial North.

The 1981 White Paper *Alternatives to Domestic Rates* predicted that an English revaluation would have the following shifts:

(a) Larger, older labour intensive industries in the Midlands and the North would have their relative rate burdens substantially reduced.

(b) Newer steelworks, local shops and older offices would receive a slight reduction.

(c) New offices and small factories on modern industrial estates would be slightly increased.

(d) Shops in primary locations and modern oil refineries would be

substantially increased.

These are similar to the changes which occurred in Scotland. As a result, the political consequences for the Government could be more dramatic than in Scotland if a revaluation now took place in England. This does not conceal the fact that rates are lower in the South and higher in the North than they would be if revaluation took place. Whatever the position in England, apart from industries in *direct* competition, (i.e. *not* Frasers and Harrods) it is difficult to find any serious argument that revaluation was discrimination against Scotland as a whole. This would only be so if *all* Scottish ratepayers paid more as a result of the revaluation (which they do not) and as a result paid more for the same level of service as in England. What is surprising is the lack of knowledge of the system by political or pressure group activists seeking to affect change. One would have thought a sound knowledge of how the current system works is a necessary prerequisite to informed advocacy of change and reform.

Analysing the Impact of Revaluation on Rates

We have already stressed that revaluation does *not* increase the rating burden as a whole. It does, however, have relative effects between ratepayers and areas. We cannot examine detailed and individual cases, and whilst we know that, in general, industrial ratepayers gained and domestic ratepayers lost, and others were broadly neutral, there will always be exceptions to those general trends because of peculiar local circumstances. Ratepayers do not pay 'national' rates, so knowing the broad shifts for Scotland as a whole are only indicative.

The proportions of rateable value paid by the different classes of ratepayer varies between authorities, so one would expect any relative effect of revaluation on rates to vary also. There are two ways of analysing this effect. One is by suing direct measures of the change in rateable values. Table 3 below shows the wide range of changes incurred across Scotland within the total overall changes which ranged from 1.4 to 2.7.

TABLE 3

Range of Revaluation Multipliers by Sector

Domestic	2.4 to 2.9
Industrial	0.6 to 2.8
Commercial	1.3 to 3.4
Other	1.5 to 3.6

We can see the range is considerable. It may well be, however, that such indicators have a varied effect on rates. For example, an authority which had a high increase of rateable values for its industrial ratepayers, but which sector provided only a small proportion of its rateable income, would have a different effect from an authority with the same degree of increase but where that same sector accounted for a higher proportion of its rateable values. We know also that these proportions vary considerably between authorities. For example, Table 4 sets out the variations in domestic as a proportion of total income.

TABLE 4

Domestic as a Proportion of Total Rateable Income

Number of Authorities	Percentage Range
2	0–9%
Nil	10–19%
2	20–29%
18	30–39%
22	40–49%
10	50–59%
2	60% +

We have therefore constructed three measures which reflect the pattern of change nationally. If we are looking for explanations of variations in the effect of revaluation *between* authorities, then we know to concentrate on measures relative to the two classes of ratepayer where the most significant overall changes took place, namely domestic and industrial ratepayers.

We have suggested two indicators to take account of the effect of industrial decline. The first is simply the *percentage of industrial rateable value in the total of rateable value*. With the decline in industrial values, authorities with high proportions of industrial ratepayers will have greatly reduced rateable income which could affect the amount which needs to be raised in rates from other sectors *within* the authority, and may well bring them into the resources element and affect other authorities. Secondly, we propose using a simple measure of *population density* as industrial decline is thought to be greatest in urban areas.

The final problem is the choice of a dependent variable. We have

already argued that revaluation does not in itself increase local authority expenditure, but what it does change is the rateable and grant income of authorities. As the greatest overall increase was faced by domestic ratepayers, we have chosen the *% growth in average domestic rate bill* as the domestic variable as this will vary directly with the effect of revaluation. The average domestic rate bill in Scotland grew by 19.5% in 1985-6, (after account is taken of selective action to reduce the rate in the City of Edinburgh).

We tested the relationship of these variables using the statistical technique of regression analysis. When used in data analysis, this is a versatile statistical procedure employed for exploring and testing the relationship between a dependent variable and a set of independent variables. The technique can be used to quantify the strength and nature of relationships among certain variables while controlling the effect of other variables in the regression formula. The statistical relationship between variables is sought in a linear model of prediction. It can, therefore, identify general relationships. It cannot be used for the explanation of features specific to a few observations.

TABLE 5

	Average Domestic Rate	% Domestic	% Industrial	% Commercial
Ave. Domestic Rate	1.000			
%Domestic	0.316**	1.000		
%Industrial	−0.257*	−0.262*	1.000	
%Commercial	0.057	0.267*	−0.198	1.000
%Other	0.061	0.167	−0.048	−0.286*
Population Density	0.487***	0.246	0.050	0.356**

* = Significant at .05 level
** = Significant at .01 level
*** = Significant at .001 level

The first stage of the analysis was simply the production of simple correlations, as set out in Table 5. It provides some statistical support for the hypotheses framed earlier, with one spectacular exception. The strongest correlation found was between population density and the average domestic rate increase. So whilst the simple correlations suggest that no general relationship exists between the percentage of commercial and the percentage of domestic rate increase, its close association with population density suggests that it was in urban residential and commercial centres that the greatest impact of revaluation was felt and that population density is not a surrogate for industrialisation as expected. We know that high increases occurred in residential Bearsden and Eastwood for instance, and the big commercial cities such as Aberdeen, Glasgow and Edinburgh. Importantly, there was a negative relationship (as expected) with the surrogate for industrial decline (percentage of rateable value for industrial ratepayers). In fact, the areas most likely to benefit from revaluation were areas of traditional Labour Party control.

There are obvious problems of multi-collinearity with the data. That is, simple correlations do not isolate completely the explanatory power of specific variables. For example, areas with a high dependence on domestic rateable income are also closely associated with high levels of income from commercial ratepayers.

We pursued this further by entering the variables into a stepwise, multiple regression, a technique for isolating the effects of individual variables and identifying those variables with the strongest explanatory power. That is, the analysis selects those variables most strongly associated with the dependent variable, the percentage increase in the average domestic rate payment.

The empirical findings confirm our theory. *Population density* was selected first, and explained 23% of the variance. The second variable selected was the *percentage of rateable values raised by industrial ratepayers*, and the relationship, as expected, was a negative one. This second variable added only a further 6% to the variance explained.

TABLE 6

Stepwise Regression on Effect of Revaluation on the Average Domestic Rates Payment

Variable	Correlation Coefficient	Variance Explained
Population Density	0.487	23.73%
% Industrial in Rateable Values	–0.235	29.17%

None of the other variables adds any further explanations to those two variables, and are therefore rejected by the computer. This provides partial confirmation of our hypotheses. Areas with high proportions of industrial ratepayers are areas of relative economic decline, and this has been reflected in the movement of rental levels, and thus of rateable values. They would therefore receive additional resources element grant and, assuming no change in spending or grant levels, this would result in lower domestic rate payments than in residential areas. However, in the real world of local politics, changes in grant and spending occur as local authorities react to changes in their financial, social, economic and political context. Moreover, as we saw, less than 30% of the variance in increases in domestic rate payments were directly attributable to revaluation.

We can explore the issue further by widening the analysis to include other factors unaffected by revaluation, by seeking to explain changes in rateborne expenditure. Revaluation does not affect rateborne expenditure for local government as a whole. What it changes is the balance of contributions between classes of ratepayer and local authority area. We have already examined the effect of changes between classes of ratepayers on authorities. What matters here is the changes in revaluation overall. Authorities with high increases in rateable values will have consequent decreases in the resources element of the Rate Support Grant. In some cases, where authorities do not receive resources element, high revaluations would represent real growth in the financial raising capacity of a penny rate, and potential real growth in income to authorities (e.g. Grampian Region where the growth was above the Scottish average). Table 7 below sets out the changes in valuations for regional and island authorities. In the case of Orkney and Shetland, neither of whom receive resources element, revaluation resulted in a real loss of income per penny rate product, and this reflects the high proportion of non-domestic rateable income.

A similar picture emerged for districts where the range of changes varied from 2.1 to 2.7. Significantly, the highest increases overall were in areas where the Conservative Party is electorally strong. These were, Berwickshire (2.7), and Ettrick and Lauderdale, Roxburgh, Annandale and Eskdale, Kincardine and Deeside, Moray, Eastwood, Angus, and Perth and Kinross (all 2.6). In Eastwood, and Perth and Kinross District, the local Conservative MPs received considerable flak for the effect of both revaluation and government grant decisions on rates. The decision about absolute levels of grant would also affect the capacity of the resources element to compensate for relative changes in rateable income resulting from revaluation.

TABLE 7

Revaluation Multipliers 1985

Authority	Multiplier
Borders	2.6
Central	2.2
Dumfries and Galloway	2.5
Fife	2.4
Grampian	2.5
Highland	2.3
Lothian	2.3
Strathclyde	2.2
Tayside	2.5
Orkney	1.4
Shetland	1.7
Western Isles	2.3
Scotland	2.3

In this instance we will use the *% change in rateborne expenditure* as a measure of changes in local taxation, as the use of *rate poundages* would be complicated by the effect on poundages by revaluation. That is, the amount raised for a penny rate rose by 2.3 times in Scotland as a whole as a result of revaluation, thereby reducing the rate poundages fixed by authorities.

One variable likely to impact on rateborne expenditure is: *percentage change in the needs element* of the Rate Support Grant, the sum of money provided by central government as being indicative of need to spend. In 1985, the government decided to alter radically the balance of this grant between regions and districts, and whereas the total amount available to regional services fell by 1.86% (in part because of the increase in domestic rate relief), the sums available to districts fell by 27.83%. The effect of this is a cosmetic one, the intention being to increase the grant contribution to major services and assist more equitable use of grant between regional, therefore having very minimal impact on actual rates payments. But the effect of these changes needs to be isolated and controlled to examine the effects of revaluation on rateborne expenditure.

The next variable is the *percentage change* in *the resources element*, which is the direct result of revaluation. Some regions and islands get no such grant, and some such as Grampian did in the past, but revaluation

TABLE 8

	Rateborne Exp. (% Change)	Growth in Spending (% Change)	Balances	Change in Resources Grant (% Change)	Revaluation Multiplier	Change in Needs Grant (% Change)
Rateborne Expenditure	1.000					
Growth in Spending	0.553***	1.000				
Balances	0.467	−0.016	1.000			
Change in Resources Grant	−0.102	−0.167	−0.016	1.000		
Revaluation Multiplier	0.492***	0.260	0.139	−0.321**	1.000	
Change in Needs Grant	−0.346**	0.047	−0.140	−0.271*	0.073	1.000
Guideline Excess	0.252	0.649***	−0.234*	0.125	−0.123	−0.041
Growth in Guidelines	0.032	0.122	0.333**	0.036	−0.233*	0.133
Labour Control	−0.480***	−0.432***	−0.293*	−0.316**	−0.565***	−0.225*

* = significant at .05 level
** = significant at .01 level
*** = significant at .001 level

changed that.

For both the foregoing factors, we would assume a relationship that the greater the grant loss, the greater the increase in rateborne expenditure.

The third factor resulting from the decisions of the Secretary of State is current expenditure guidelines. Each year central government issues current expenditure guidelines to authorities to assist in their financial planning. Although described as indicative, these guidelines are crucial features of the penalty and rate-capping mechanisms. Guidelines are based on two sets of calculations. The first is the client group assessments of expenditure need, which form the basis of both guidelines and the distribution of the needs grant. The second is the operation of a safety net mechanism whereby assessments of need are adjusted to reflect past expenditure patterns. That is, authorities who would require to make dramatic savings to reach these assessments have them adjusted closer to their last year's budget in order to provide a more attainable guideline. The converse is also true.

Since the guidelines became linked to the penalty (or general abatement) system, the pressure to conform to them has increased. Indeed, some authorities whose needs assessment was growing lobbied hard to have the scale of the secondary adjustment modified to give greater prominence to the client group assessments in 1985-6. We have used *% growth in guidelines* as a potential explanatory variable.

We now turn to local factors. The first of these is simply the *revaluation multiplier* for each authority. It too, like the decisions of the Secretary of State, is a given. It does not in itself lead to changes in rateborne expenditure, but it can seriously constrain the choice. For example, an authority with a growing rateable income could choose either to use it to promote growth in spending, or reduce local taxation levels, whereas an authority with falling levels of income is less fortunate, dependent upon where it stands vis-a-vis its guidelines. So it could choose to increase its overall level to compensate for loss of income, or reduce spending, or some combination of these. At any rate, the key point is that the effect of revaluation would not be mechanical, but rather one of constrained choice.

The second variable relates to existing spending. Rateborne expenditure will be increased or reduced dependent upon the availability of unspent balances or accrued deficit in the previous year. The application of balances will reduce the level of rateborne expenditure, and rating for

deficits will increase it. The variable used is the *percentage change in balances/deficits.*

Government ministers continually insisted that a major cause of increased rates was local 'overspending'. The Scottish Secretary stressed this, even after he announced the subsidies to both domestic and non-domestic ratepayers.

> "We are in no doubt that there are many in Scotland who even after the new rebates will continue to face hefty rates increases this year, especially in areas where the local authorities have been less than responsible in budgeting." (speech to the House of Commons, 3.6.85)

We have included three variables which reflect local spending decisions. One is the *percentage change in net expenditure* (that financed by grant and rates) with the expectation that higher increases than suggested by the RSG settlement will lead to higher rateborne expenditure. A second indicator is the *degree of excess above current expenditure guidelines.*

Thirdly, there is a widespread assumption that Labour-controlled councils are "high spenders". Our own view is that this is an over-simplification, and whilst we would accept that in terms of political philosophy one would expect Labour to be more favourably disposed to local spending than the Conservatives, the Labour Party has a wide diversity of philosophy and practice with regard to local government (as with other areas of public policy). From our own research, we are aware of several Labour authorities which exhibit great concern for rate levels and the avoidance of rate-capping.

The variable we have used is simply *Labour control*. This is consistent with previous academic research[13], which argues that it is the fact of party control of the council which matters rather than the size of the majority. We have assumed therefore that Labour councils would be more prone to increase spending than either Conservative, Independent, or hung councils, and that the one authority controlled by the SNP would not be of statistical significance anyway. Our detailed knowledge of that authority (Angus) is such that we are aware of that Group's concern for fiscal prudence and in fact it met the government guidelines in 1985-6.

We have again examined these factors in two stages. Table 9 sets out the simple correlations found and reveals some strong associations. There is a negative correlation (-0.565) between Labour Party control and the revaluation multiplier. This confirms our previous findings that the areas of economic prosperity did have the expected higher valuations with adverse political consequences for the government.

In terms of explaining variations in rateborne expenditure, the strongest association was with growth in spending (0.552) and secondly, with the revaluation multiplier (0.492). Both of these are consistent with the government view that revaluation and spending growth were important factors. What is perhaps unexpected is the strong *negative* relationship between Labour control and both growth in rateborne expenditure and net expenditure. If authorities were being "less than responsible in their budgeting", then these do not seem to have been Labour controlled authorities.

Further examination shows the availability of balances to be quite strongly associated with growth in spending. Loss of needs grant is also related to growth in rateborne expenditure (the financing decision), though not to growth in net expenditure (the spending decision).

Some of these findings are really quite important. Already it appears that changes in *income* had a much greater effect on the financing decision of local authorities than the expenditure decisions. There are only two significant relationships identified with growth in spending. Budgeting to spend above guidelines is strongly related (0.649), which is not surprising, as guidelines now reflect past spending, but the real surprise again is the negative relationship between Labour control and spending growth. Labour councils lost needs grant, and gained resources grant in 1985-6, but these appear to have had little impact on the spending decision. Importantly, however, although guidelines growth had no impact on either the spending or the financing decision *overall*, it was weakly negatively associated with Labour control, and suggests Labour councils were constrained by this because of its implication for grant penalties.

As expected there was a negative relationship between the revaluation multiplier and the change in resources grant. There was no relationship at all between the needs grant and the revaluation multiplier. This can be interpreted as demonstrating that those authorities with the most buoyant local economies had less need to spend on local public services.

Again, many of these factors are interrelated, so we sought to isolate the effects through stepwise multiple regression. 31% of the variance in rateborne expenditure was attributable to growth in spending, 23% due to

changes in the availability of balances from the previous year (i.e. rating for spending previously funded from balances) 9% was negatively related to growth in expenditure need (as reflected in the needs grant) and 10% because of revaluation. In total these four variables explain 73% of the growth in rateborne expenditure, and all the other variables tested are rejected.

TABLE 9

Explanations of Change in Rateborne Expenditure

Variable	Correlation Coeficient	Variance Explained
Growth in Spending	.553	30.6%
Availability of Balances	.475	53.2%
Change in Need	−.313	62.8%
Revaluation	.337	73.2%

Conclusions

Revaluation did have considerable impact on the tax liabilities of individual ratepayers. Domestic ratepayers as a whole paid more, commercial ratepayers approximately the same (with greater variations) and industrial ratepayers paid less.

Its relative effects between authorities were minimal in comparison to other factors. In general, industrial areas with high levels of public housing gained central government resources from the changes. Areas of traditional Conservative support lost grant, and had higher rates increases as a result.

Whilst the spending decisions of local authorities were important, so also was the effect of changes in available balances perhaps because these were heavily used in 1984 to keep down district rates in the election year. Labour party control, contrary to expectations, proved unimportant. Labour councils were less likely in 1985-6 to finance higher spending, perhaps because of potential grant penalties. Other councils appear to have been less concerned about penalties and guidelines.

So whilst revaluation could be crucial in determining individual rates bills, its significance was much less in explaining rates increases between local authorities. As the biggest effect was on domestic ratepayers in general, and private house owners in particular, the political problems for the government were considerable. The more exaggerated claims about revaluation have little substance. Revaluation did not prove that Scotland was suffering vis-a-vis England, nor that rating is an unfair system. Indeed, the provision of additional grant for areas of social and economic decline has been a direct consequence of revaluation, and one which would not have occurred without it. In England, this problem can only be overcome by a revaluation, but this will not happen in the lifetime of the present Parliament.

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