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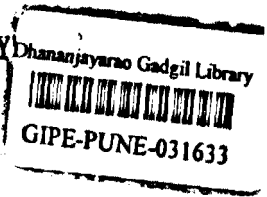
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VII

THE PROBLEM OF  
VALUATION FOR RATING

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# THE PROBLEM OF VALUATION FOR RATING

by

J. R. HICKS, U. K. HICKS

&

C. E. V. LESER

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## PREFACE

The primary object of this paper is to analyse the present condition of rating valuations of house property, in a manner which has been made possible by the kindness of the Ministry of Health in putting at our disposal the results of an enquiry conducted by them in the years 1937-38. The statistical analysis of this material is given in Part II below. Its use has enabled us to draw, for the first time, a general picture of the valuations which have resulted from present practices in the determination of rateable values, and thus to give our discussion of the problem a firm foundation of fact. We should like to express our gratitude to the Ministry for the confidence which they have shown in entrusting this unpublished material to non-official investigators (a confidence which we trust we have not abused) and for the interest in our enquiry which they have maintained throughout.

The enquiry has been conducted under the auspices of the National Institute of Economic and Social Research, and is a part of the general enquiry into local taxation which my wife and I have been conducting for the Institute. A report on the first part of our enquiry has already been published under the title 'Standards of Local Expenditure'; a third paper, dealing with the Incidence of local rates (rate payments as a percentage of the income of the ratepayer), is planned to follow. We have in fact been led to make the present investigation into valuations as a necessary preliminary to our study of the incidence of rates.

When a work has three authors, a word about the division of labour between them is perhaps called for. Part I, on the Historical Background, is the work of Mrs Hicks; the statistical analysis in Part II is due to Mr Leser. I am responsible for the more economic analysis in Part II, and jointly with my wife for the conclusions as to policy. Mr Leser is not responsible for the recommendations which have been based by his collaborators on the material which he provided.

J. R. H.



# INTRODUCTION

## 1. SCOPE OF THE ENQUIRY

As the present paper is no more than the second part of a larger undertaking, it may be convenient to begin by explaining its relation to the paper which preceded it and to that which will follow it. In *Standards of Local Expenditure* we investigated the relation between the levels of rates in different county boroughs and their actual standards of expenditure in the provision of various services; it became evident that high rates are more often a consequence of low rateable value than of a high propensity to spend. If it were the case that rateable values per head of population were equal in all areas, then it would be true that a high rate poundage signified a high propensity to spend (which might or might not be due to exceptional needs); but since in fact the levels of rateable value are very unequal, areas with low rateable value would have to impose much higher poundages in order to reach the same level of expenditure. What we found to be the general rule was that such areas had lower standards in most services, in spite of their high poundages—though to some extent the high poundages in such areas were due to exceptional expenditure on public assistance.<sup>1</sup>

When we find (as we do find, at least among the county boroughs) that the areas with low rateable value per head are those which one would naturally expect to be the poor areas, it is natural to proceed to the conclusion that they have a strong claim to receive from the Central Government relatively more assistance than they receive at present, and that until they receive such assistance they cannot be expected to develop their services to a nationally acceptable minimum standard. In fact, as we shall see, such a conclusion is abundantly justified; but it cannot be taken as established until it has been shown that the high poundages in the poor areas do imply that they are being taxed more heavily than others.

To ascertain the precise weight, or burden, of rates as a tax is not a simple matter; it is not even very clear what is the right way of measuring it. In our further paper on the Incidence of Rates, we shall seek to measure it by examining what percentages of the incomes of ratepayers (in different areas and in different income-classes) go in rate payments; from many points of view this is the most satisfactory measure. It will then appear that the highest poundages are definitely associated with a heavier burden of rates in this sense; but that high percentages of rates to income do sometimes occur when the poundage is not so high. Sometimes this is due to the area being highly rented; if rents are high, and rateable values high, even a moderate poundage may involve a high rate burden. But sometimes it is due to anomalies in the system of valuation.

<sup>1</sup> See also, in this connection, our paper 'The Beveridge Plan and Local Government Finance' (Manchester Statistical Society, 1942-3, reprinted in *Review of Economic Studies*, Winter, 1943). In this paper the same result is shown to hold for the county areas.

The proportion of the rate payment to the income of the ratepayer depends upon two things: on the proportion which gross rent, inclusive of rates, bears to income (this has to be ascertained from family budget studies) and on the proportion in which the gross rent is divided between net rent and rates. If the rateable value of a house were always proportional to its rent, this second proportion would depend entirely upon the rate poundage; but it is notorious that rateable values are in fact not proportional to rents. So we come to the valuation question, which is the subject of the present paper, and which has to be cleared out of the way before the problem of incidence can be tackled.

It must be a common experience, among people who have had to move house from one part of the country to another, to find an unaccountable difference in the rateable values of their two residences. The new house may be closely similar to the old, but the rateable value may be widely different. Even within a single district, when neighbours begin to compare notes, they often find strange anomalies appearing. The fact is that there is absolutely no guarantee that similar pieces of property will have similar rateable values, nor even that what is obviously a better house will have a higher rateable value than a house of lower quality. In view of these anomalies, it is evidently unsafe to take the rate poundage as any test of the heaviness of rates, even in the narrow sense of a tax on the annual value of property. One area may have a higher rate poundage than another, not because the tax which it imposes on the annual value of property is really any higher, but because it is more undervalued.

If one could rely upon the accuracy of rating valuations, the rateable value of an area would give a measure of the wealth of that area, not indeed in the more fundamental sense of the incomes of its inhabitants, but at least in the sense of the value of the property it contained. But as things are, it is impossible to take the rateable value of an area as being in any sense a reliable index of its true wealth. The anomalies of valuation have therefore stood in the way of any more effective assistance to the poorer areas by means of grants. Even if it is admitted that the poorer areas need more assistance, it has been impossible to tell at all precisely which are the areas to which assistance should be given. For although it may be accepted that an area which is only able to reach an inferior standard of services by imposing exceptionally heavy taxation is in need of more assistance, the same would not hold for an undervalued area whose poundage was only apparently high. Such an area, if correctly assessed, might well be shown as able to afford a higher standard of services out of its own resources; what is wrong, in such a case, is not the system of grants but the system of valuations.

There can be little doubt that the impossibility, which has existed up to the present, of distinguishing such a case as this from that of the genuinely poor area, has acted as a check upon the development of a more equalizing policy in respect of grants, and therefore upon the attainment of a more effective national minimum in the provision of local services. But of course the evils of the valuation chaos do not stop here.

There was a time, in the history of the Income Tax, when it was realized

that the 'incomes', on which considerable sections of the community were taxed, bore little relation to their true incomes; this accounted, to a considerable extent, for the unpopularity of the income tax in its early days. Better administration has largely overcome these defects in the case of the income tax; but a similar trouble still persists in the case of local rates. It is widely realized that the rateable value of a house often bears little relation to what an impartial person would consider to be its true value; or at the best the relation is an uncertain and fluctuating one. While this is so, rates are an arbitrary tax, whose amount ultimately depends upon what some administrative officer thinks the ratepayer should pay, not on what the law says he should pay; and a tax of which this can be said will be regarded by most people as a bad tax.

Rates, as at present administered, are a bad tax; it is indeed widely believed that they are such a bad tax that there is nothing for it but to sweep them away and replace them by some alternative. This, however, seems to be going too far. There are very substantial reasons why a system of local government on the traditional British model—freely elected local authorities with important duties but limited powers, yet encouraged to show initiative within those limitations—has to be financed by a tax more or less similar to the local rate. It is not possible to sweep away rates altogether without fundamentally altering the whole basis of local government, and altering it in a way which few people would regard as desirable.<sup>1</sup> But if rates are not to be abolished, it is all the more true that they stand in need of reform; and one of the most important lines of reform is concerned with the regularization of the assessment of rateable values.

Our enquiry has therefore widened out. We began to investigate valuations for the particular point of view of the calculation of incidence; but we have found it necessary, once we got involved in the subject, to consider wider issues—the general possibilities of reform in the present valuation system. Our discussion of these wider issues has had to be limited in one respect; we have had to confine our attention to the valuation of dwelling-houses. Our information relates entirely to dwelling-houses; for the rest of the field we have no facts to go on. It is quite probable that the differences in levels of assessment, which we shall be studying, are less serious in the case of non-residential property than they are in the case of dwelling-houses; we should ourselves be inclined to believe that this is so, but opinions differ on the point, and we have no special means of judging. It is generally estimated, however, that about two-thirds of total rate receipts are derived from residential property (no exact figure is available). It would thus appear that the part we can deal with is the major part of the problem.

The three parts into which the body of the following paper is divided correspond to what appears to be a natural division of the subject. In Part I we have considered the Historical Background, so far as it can be ascertained from previous researches and from public enquiries. As will appear, these investigations tell us relatively little of what we should most like to know about the evolution of present valuation practices; they do however show us what have

<sup>1</sup> For further discussions of this point, see below, pp. 6-11.

been the principles of the law, and how these principles have grown up. The evolution is a long one, extending over several centuries. They also show that the problem of valuation reform is not a new one; everyone who has looked into the matter, for the last century at least, has known that valuations were not all they were supposed to be. Numerous attempts have been made, over a long period of years, to bring some order into the system; up to the present these well-intentioned efforts have not had much effect. At the end of the story, however, we do come to a reform which might have been more efficacious if it had been allowed to operate. It was not allowed to operate; but the crisis which ensued did at least lead to the collection of the information which we have used in Part II, and by the use of which a satisfactory picture of the existing position can at last be drawn.

Part II is thus a statistical study of the degree of undervaluation in 1938. It is based upon the returns collected for the use of the Departmental Committee on Valuation for Rating, a committee which was appointed in 1938 but which never published a report owing to the outbreak of war. These returns show, for the great majority of local authorities, the numbers of houses in certain broad categories (rented houses, controlled and non-controlled, council houses, owner-occupied houses) and within these categories the houses are divided according to their gross values for rating purposes. Then, for all the rented houses, the aggregate rents of all the houses in each group are given. In order to use this material for a study of undervaluation, it was necessary to make up our minds what we meant by a house being fully valued. The law on the matter is not unambiguous (which is the root of much of the trouble). We have assumed that a non-controlled house is fully valued when its gross value is equal to its actual annual rent; and we have assumed that in each district houses of other categories are undervalued to the same extent as similar houses that are freely rented. This is perhaps a very drastic definition of full valuation, but it seemed to be forced upon us by the nature of our evidence. On this definition we could get an answer to our enquiry which means something. If we had adopted a milder definition, our results might have been less disconcerting, but they would have been less significant and less useful.

This is not the place to anticipate the results of our enquiry, but there is one result which is so important and so striking that it cannot be too much emphasized. There is a very widespread tendency for property to be more fully valued (in relation to the actual rent) in poor districts than in rich districts. Thus it can be said with confidence that in poor districts rates are usually quite as high as they look, but in rich districts they are much lower than they look. The evidence for this important result is given in detail in Chapter IV.

So long as the truth about valuation was not known, it was possible to suppose that the striking differences between the levels of rateable value in different areas (calculated per head of the population) were partly due to differences in the fullness of valuation. This was a comforting thought; if it were true it would mean that the differences between the rate poundages levied in highly rated poor districts and those in lightly rated rich districts were not so great as they look, and therefore that the whole problem of inequality in local

finance was not so serious as it appears at first. Unhappily the truth is the other way about. The existing differences in poundages are not as a rule due to differences in valuation; if valuations were correct, the differences in poundages would be wider, not narrower, than they appear at present. The effect of undervaluation on poundages is discussed in Chap. v.

Rateable value does not only govern the rates to be paid on a particular piece of property; it further affects the division of the cost of county services among the boroughs and other districts included in an administrative county, and also the division of grants-in-aid (especially block grants and education grants) between local authorities generally. In so far as valuations are systematically lower in some districts than others, the lower-valued districts will pay proportionately less to the county rate, and will receive relatively more in grants from the central government. And since the districts which are relatively undervalued are the richer districts, what happens is that the spreading of the cost of county services, and the differential assistance given by grants, are less effective in easing the position of the poorer authorities than they would be if the law were more strictly enforced. The point, however, must not be over-emphasized. As we shall show in Chap. vii, neither grants nor the spreading of county services have at present a sufficiently equalizing effect for the varying degrees of undervaluation to make so very much difference. What is important here is not what happens at present, but the obstacle which is raised by the present methods of assessment against the development of a more effectively equalizing policy.

As has been explained above, the rigorous definition of under-valuation which we have used in Part II has not been adopted because we think it either practicable or desirable to enforce full valuation on so rigorous a standard. One thing indeed the desirable definition should have in common with our rigorous test—it should be as objective as possible, as little arbitrary as possible. But subject to that all-important qualification, the standards it should seek to enforce are those of to-day, not those of the nineteenth, or sixteenth, or thirteenth century. It is possible to devise a system of valuation for rating which would be objective in this sense, but which would not conflict with modern ideals of social justice and economic policy?

We have felt it incumbent upon us to make some exploration of this large question (Part III). It is possible to propose a solution, but the solution we favour is not very simple, it is bound to be disliked by some interests which have been benefiting from present arrangements, and (worst of all) it can only become really effective after a considerable period of time. With valuations in their present state, the position cannot be put right overnight; it must be changed so that it can grow right. We feel, however, that it is very essential that it should grow right; both equity and effectiveness in local government depend upon it. And it is now realized more than before how essential these requirements are for the future social policy of the nation in general.

## 2. THE INEVITABILITY OF RATES

English local authorities have always depended on rates as their main local source of revenue; but that is of course no reason why they should continue to do so in the future. The rating system, we shall be showing, is at present in a very sorry mess; and it is not going to be an easy matter to put it straight. Why then, some of our readers will probably object, must we bother to do so? Even at the best rates are far from being an ideal tax; if they have now got into such confusion, surely we have an excellent opportunity for getting rid of them and substituting something better. There are many people who take this view; and we are well aware that in the following pages we are going to provide them with ammunition for their attack on the rating system. Our own conclusion however is different; we believe that the rating system has to be preserved, and therefore ought to be reformed, however arduous a matter it may be to reform it. But since the arguments against rates are becoming familiar, and the arguments in favour of rates are much less familiar, it does seem desirable to set out the case here, even though the discussion must lead us a little away from the problem of valuation, which is our proper scope.

Quite apart from the objections to the present rating system which arise out of the difficulties of valuation, rates have been criticized on two main grounds of principle. On the one hand it is observed that they are a regressive tax (the poor man pays a larger percentage of his income in rates than the rich man does). There is no doubt that this is correct, though the extent of the regressiveness is often exaggerated. On the other hand, they are a tax on housing—a tax, that is, upon a form of expenditure which it is a matter of social policy to encourage, not to discourage like expenditure on alcohol or tobacco. In both these ways the imposition of rates seems to be contrary to the aims of a progressive social policy.

These are certainly very weighty objections; if rates were a national tax, paid to the central government, instead of a local tax, it is quite conceivable that they would be strong enough to tilt the balance of argument against the rating system. But even this is not certain; it does not follow, for instance, that a tax is a bad tax merely because it is regressive. With the expenses of government on their present scale, it is not possible for governments to raise the whole of their revenue from the wealthy and the middle-class; this is true even in peace-time. There is not enough income in the upper brackets to meet the bill. The working-class has got to pay some taxes. Now it is very largely a matter of convenience whether this working-class share in taxation is paid in the same way as wealthier people pay the bulk of their taxes (by income tax) or whether it is paid in a different way. The test of equity in taxation is satisfied if poorer people pay a suitably lower proportion of their incomes in taxes than richer people do—but this test must be applied to all taxes taken together, not to any particular tax. It may well be more convenient for poorer people to pay the bulk of their taxes in a different form from that in which richer people pay the bulk of their taxes; if this is done, the poor persons' taxes, taken by themselves,

will be regressive; but the demands of equity are still satisfied if the total burden of all taxation is properly progressive.<sup>1</sup>

The argument against rates on the score of their being a tax on housing is very probably a stronger argument. But even here it should be noted that the repressive effect on house-building can be offset by housing subsidies. This may seem a cumbrous procedure, but it is not so very irrational. The housing subsidies are only paid to new houses, and new working-class houses; they therefore cost very much less than the rates on all houses bring in.

Thus neither of the arguments against rates is quite as strong as it looks at first sight; nevertheless it may be granted that if the *central* government had raised its revenue in this way, it is likely that rates would have disappeared long ago. The reason why they have not disappeared, and are unlikely to disappear, is that rates are a local tax, not a national tax. In order to be a suitable source of local finance, a tax has got to satisfy some very stringent requirements. There are in fact very few taxes which do satisfy these requirements. They are satisfied by rates, but they are not satisfied by most of the alternatives which have been suggested. It is very doubtful if there is any other possible tax which satisfies the requirements and which could be relied upon to produce a large amount of revenue.

The first requirement of a local tax is that it should be a very stable source of revenue. Very much the greater part of a local authority's expenditure takes the form of rather long-run commitments. Obviously it cannot suspend the service of its debts; but likewise it cannot easily reduce the number of its employees without the most disruptive effect on its whole organization, while the rates of wages and salaries which it pays are largely outside its control. It is therefore very difficult for it to contract its expenditure when its income falls off. If local revenues were subject to violent fluctuations, every downward fluctuation would produce a severe crisis. The central government, if it experiences a contraction in revenue, can run into debt; it is indeed to be hoped that national governments will in the future be more willing than in the past to meet depressions in trade in this way. But this solution is not open to local authorities to any important extent—nor is it desirable that it should be. Local authorities are not sovereign bodies; they have to work under a fixed code of rules. One of the most important of these rules is that which establishes central control of local borrowing. This control could not be abandoned without running the gravest risk of abuses, and at the same time abandoning one of the most important of the economic controls at the disposal of the central government. Now if local authorities were frequently obliged to borrow, not for capital purposes, but in order to meet casual deficiencies in local revenue, either the central control of borrowing must be abandoned, or one of the most important forms of local autonomy must be abandoned. For the central control of borrowing, as it exists at present, is not only a safeguard against

<sup>1</sup> It is well known that the British tax-system, as it existed in 1938, was regressive over ranges of family income of less than £250 a year. (Cf. Shirras and Rostas, *The Burden of British Taxation*, and our forthcoming paper, *The Incidence of Local Rates*). This regressive tail has largely disappeared in war-time, and it may be hoped that it will be prevented from reappearing, on anything like its former scale, when the war is over, by the introduction of family allowances.

abuses (it would be far harder for a local authority to resist unjustifiable demands for increased expenditure, if it could not point to the extra revenue it would have to raise to match that expenditure); it is also a safeguard of local autonomy. The only autonomy which is possible for a subordinate authority is autonomy within a set of rules; as long as revenue is reasonably stable, the control of borrowing provides a very workable rule on the financial side. So long as the local authority does not run into debt, it can on the whole spend what it likes. But if it were liable to run into debt purely because of a depression in trade, every trade depression would result in a suspension of local autonomy. The local authority would be unable to spend anything without central sanction.

Rates are a very stable source of revenue. At least in peace-time, the land and buildings in an area can be relied upon to be there; they are unlikely to be much diminished in quantity, though they may be increased. So long as they are valued according to their normal value, temporary fluctuations being discarded, their rateable value is affected to a minimum extent by fluctuations in trade. It may indeed be argued that the practices we shall be analysing have made rateable values too stable—too conventional; but no reform of valuations ought to go so far as to remove this precious characteristic of general stability.

There are, of course, other taxes whose yield is fairly stable; but they are not the progressive taxes (income tax and death duties, for instance); for profits are exceedingly sensitive to fluctuations in trade, so that taxes which fall largely on profits are exceedingly liable to have a fluctuating yield. The other stable taxes are the consumption taxes; thus on this ground alone they would be suitable enough as sources of local finance, though less suitable than rates. The main objection to consumption taxes as sources of local finance is the ease of evading them by making one's purchases in a neighbouring district where rates of tax are lower. Even in the United States, where such evasion is more difficult because of the greater dispersion of population, petrol taxes have proved a rather unsatisfactory source of state revenue because it is so easy for the population living on the fringes of a highly taxed state to fill their tanks by preference on the other side of the border.<sup>1</sup> It can hardly be doubted that in England the use of any consumption tax for local purposes would drive trade out of the large towns into the surrounding country—thus leaving the finances of those towns in an even more serious condition than they are often in at present. For while divergences in local rate poundages have something of the same tendency (people move out to escape the high rates), it would be far easier to buy one's petrol or cigarettes in the cheaper area, or even to do all one's shopping there, than it is as at present to change one's residence.

The stability of rateable value as a source of revenue is probably the decisive argument in favour of rates; for it follows from this that the rating system

<sup>1</sup> American states and municipalities are a fascinating fiscal laboratory, but it is doubtful if we in England have much to learn from them. The tragic economic history of America during the nineteen-thirties is very largely a lesson in the evils of allowing too much autonomy to subordinate authorities. The final conclusion which an economist might draw from the great American depression and from the failure of the New Deal to cure unemployment is that you cannot allow secondary authorities so much rope unless you also grant them the ultimate attribute of economic sovereignty—separate currencies under their own control.



cannot be abandoned without a radical change—for the worse—in the political character of English local government. But there is another argument which tells the same way, and which should not be overlooked.

The attempt which has been made in modern England to organize social services through the local authorities may be politically admirable, but it has led, in the economic sphere, to very paradoxical results. The purposes of the social services is to secure a minimum standard of amenities for all citizens; all those who cannot provide such amenities for themselves, out of their own incomes, should have them provided by the public authority. Now if the public authority in question is the local authority (as on political and administrative grounds there are strong reasons for concluding that it should be) then the greatest burden is laid upon those local authorities which have the largest proportion of poor people within their districts; and this must mean, whatever system of taxation is used, that the greatest burden falls upon the poorest authorities. The resulting inequity has been realized, and an attempt to meet it has been made by the giving of grants. But however generous the grants may be (there can be no doubt that in fact the grants received by many poor authorities are not nearly generous enough), it is impossible by grants to overcome the whole difficulty. If the grants given were sufficiently generous, they might enable the poor authority to reach an appropriate minimum level of expenditure without imposing unduly heavy taxation (we are far from reaching this point in practice). Yet even so, the poor authority would only be able to go beyond this level of expenditure (as it might have the best of reasons for desiring to do) if it imposed a higher rate of tax than a rich area would need to impose in order to finance a similar expansion. However generous grants become, they cannot give the poor authority the same liberty as the richer authority derives naturally from its greater wealth.

This inequality is bound to exist under any system of local taxation; whatever type of tax is employed, a poor town will have to pinch more than a rich town if it is to squeeze out an extra five shillings per head of its inhabitants. Nevertheless it is important to notice that some sorts of tax are much less hampering to the poor area than others are.

The least hampering type of tax is the rather regressive tax to which everyone contributes, the sort of tax which we have found to be desirable as a *local* tax on other grounds. The most hampering variety is a progressive tax, such as income tax, from which everyone whose income falls below a certain level is exempted, or largely exempted. The wealthy authority, which has plenty of freedom anyway, would find its resources improved by the introduction of a local income tax in place of rates; for the advantages which it would gain from the ability to make larger inroads into the incomes of its wealthier citizens would outweigh the loss from the exemption of the poorest. Thus when the matter is looked at from the point of view of a wealthy authority, the local income tax seem to be a most desirable reform; it would increase the resources at the disposal of the authority, and enable it to lighten the burden on its poorer citizens. But from the point of view of a poor authority, the position is very different. It would be easy to find local authorities in England and Wales whose wealthy citizens are a mere handful, and whose poor citizens,

who do contribute to rates, but who would contribute very little to a local income tax, are the immense majority. Such an authority would lose enormously by the introduction of the more progressive tax; and although the direct loss might be made up by larger grants, the independence of the authority would be seriously undermined. At present, if its citizens decide that there is some amenity which they desire badly enough for them to be willing to meet its cost out of their limited incomes, then they can have it, each of them bearing his share in the cost. But with a local income tax, the greater part of the cost would have to be borne by the few large or moderately large incomes, and in a poor district these might not amount to enough in total for the requisite revenue to be obtainable from them. Even if the revenue was obtainable on paper, it would usually be obtainable only by imposing a high rate of tax—and a high rate of income tax would be vastly more effective than high rates in driving people out of the district. High rates rarely absorb more than a small fraction of the ratepayer's income; but a local authority which imposes a high rate of income tax would find that anyone with an income worth taxing would avoid it like the plague. With a local income tax, or any other sharply progressive local tax, poor areas would be simply unable to get any special amenity they might happen to want, unless they could persuade the central government to meet the bill, or unless they could finance it by cutting their expenditure on other services.<sup>1</sup>

These are the essential arguments in favour of rates as a basis for local taxation; it will perhaps be granted that they are cogent arguments. To use local government—really independent local government—as a vehicle for the execution of a social policy that is national in scope, is an extraordinarily difficult thing to do; but it can be done, and it is certainly well worth doing. Yet it seems unlikely that there is any basis other than a tax of the type of rates on which it can be done.

Enough has perhaps been said to show why the total supersession of rates by some other form of tax is unlikely and certainly undesirable. And that is all that has to be shown for present purposes. If rates are to remain, they deserve to be reformed; it seems clear that they will remain important enough to deserve reform, however hard a matter it may be to reform them.

If indeed all that is proposed is a substitution of some other form of tax for a part of rate revenue, then the foregoing arguments are somewhat less conclusive.<sup>2</sup> The argument about stability loses some, but certainly not all, its force; the argument about the poor authority is certainly less telling. Nevertheless, it should be realized that there are great advantages in raising local

<sup>1</sup> A practical illustration of this defect of a local income tax is to be found in the experience of Sweden. In 1920 a progressive local income tax was introduced. After twenty years' experience it was found that it had mainly been used by the wealthy authorities, who had little need for further revenue. A commission on Local Taxation which reported in 1942 recommended that the tax should be discontinued and replaced by a grant in aid, mainly on the ground that the progressive tax intensified local disparities in resources. Cf. *Omläggning av den Kommunala Beskattningen*, 1924, pp. 243 ff.

<sup>2</sup> There is another argument against a local income tax, what we might call the Treasury argument, which remains valid if the income tax is used for any considerable part of local revenue. It could hardly not happen that the rates of local income tax would differ considerably in different localities; but these differences would create a problem of war finance similar

revenue from a single tax of determinable type, and these advantages should not be lightly abandoned. If, for example, a local authority had the choice whether to raise the bulk of its revenue from tax A, which fell mainly on the rich, or tax B, which fell mainly on the poor, a very disagreeable element of division would be introduced into local politics. One does not only think of the poor district, containing a few wealthy landowners, which might be tempted to indulge in a little social revolution of its own by taxing the landowners out of existence. One also thinks of the middle-class area, containing a small number of poor people, which is compelled by government regulation (of which its councillors disapprove) to do something for these people, and which may be tempted to express its disapproval by arranging that as much as possible of the cost is borne by the poor people themselves. The economic conflict between classes is bound to cause trouble in a society such as ours; but it will cause far less disunity if it is played out on the national stage, where it is less complicated by personalities than it tends to be in local politics.

It remains possible that some way could be found for enabling a local authority to raise some fixed part of its revenue from some other tax than rates; but it is hard to see that this arrangement would differ substantially from the system of grants which is at present in existence.

to that which has perplexed the governments of federations such as Australia. Income tax (*all* income tax including surtax) cannot rise to a rate of more than 20s. in the £; otherwise it is better to live on one's capital than to have an income, so the result is wholesale evasion. Now if local authorities were charging income taxes at rates varying between 1s. and 4s. in the £, this would mean that the central government would be unable (in an emergency) to raise its income taxes to more than 16s. in the £ on any incomes; so that millionaires living in the areas with the lower local tax would pay much less than millionaires can be made to pay under present arrangements. Judging by the Australian example, it seems probable that the central government would insist on withdrawing the power of taxing incomes during the emergency from local hands; but if local government had once come to depend upon that power, the effects of the withdrawal on local autonomy might again be very serious.

# PART I

## THE HISTORICAL BACKGROUND

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### CHAPTER I

#### THE TRADITIONAL BASIS OF ASSESSMENT

##### 1. THE ESTABLISHMENT OF THE RATE.

The local rate can trace its history, not merely in origin, but in the actual basis of assessment, over a period of some seven centuries. It is the only one of our taxes of any importance which can boast so ancient a lineage. From the earliest times the method of assessment has been broadly the same. The revenue to be collected was first determined, and the sum was then apportioned among the citizens from whom the rate was to be levied. The principles on which this apportionment is made define the art of valuation, with which we shall be concerned in this and the two succeeding chapters. It will be remembered that we are only concerned with one aspect of the question—the methods used for determining the value of dwelling houses. Quantitatively this is by far the most important part of the operation.<sup>1</sup>

It will be seen that the method of assessing rates differs entirely from that of many other taxes—for instance from customs and excise duties, where the revenue is not fixed in advance but depends on the consumption of the particular articles subject to the tax. Formerly the rate method of assessment was much commoner than it is to-day. Indeed it was the only possible one before the development of an adequate body of professional tax collectors. In the Middle Ages, and even later, national taxes were also collected by this method.<sup>2</sup> The central government informed local communities of the total amount of tax due from them, and it was left to the local magistrates to apportion the sum among the different inhabitants.

The method of rate assessment is thus a historical survival, but it remains appropriate since rates are the balancing item in local budgets; the amount required is therefore known in advance. It remains appropriate, that is to say, so long as it is possible to find a satisfactory method of making valuations so as to determine equitably the relative liability of ratepayers. The methods of doing this are the subject of our enquiry.

The need for raising particular sums to meet the collective wants of local communities began to emerge about the thirteenth century, parallel with the decay of feudal customs. Collective wants were expanding and the feudal method of relieving them by direct communal labour service was becoming

<sup>1</sup> It was estimated in 1921 that seven-eighths of the valuations to be made referred to undivided dwelling houses. Cf. *Representations of the Central Valuation Committee*, Resolution 27 of 26 Nov. 1926. Since that time the preponderance has increased owing to agricultural derating.

<sup>2</sup> Especially the famous Tenths and Fifteenths—which were in intencion income taxes, but the machinery for levying them as such was inadequate. Cf. Kennedy, *English Taxation*, 1640–1799.

increasingly inadequate. (It is worth noting that the method of direct service is still retained in some towns for the clearing of snow from footpaths—to the great inconvenience of the community). These collective wants called for occasional rather than for regular rates, and many of them were for capital purposes. But the objects for which rates were raised increased steadily. By the fifteenth century it would appear that some places were raising rates for some purpose or other almost every other year.<sup>1</sup> The early rates were of course non-statutory, but they were probably strictly enforced by the local communities (or by the Church if for church purposes). Statutory rates commenced with the Sewers Act of 1427, and from that time legally enforceable rates began steadily to accumulate.

The Elizabethan Poor Law, often held to be the beginning of rating, thus in fact had a large body of experience to draw on. The only things that were new about the poor rate were that it was universal and that it was regularly recurrent. The legislators of 1597 and 1601 were very anxious to give the impression that the rate was not new. Hence instead of laying down the principles on which valuation was to be made, the business was left as far as possible to be carried out according to tradition. Nevertheless it appears that there was at least a difference of emphasis in the assessment of the new rate.<sup>2</sup> But it is clear that to elucidate the origin of the principles of valuation we must go back to the pre-Elizabethan rates, and try to deduce the practice which had grown up in respect of them.

## 2. LEGAL PRINCIPLES OF VALUATION.

The earliest rates (such as that for repairing the sea walls of Romney Marsh in 1250) were assessed on a flat acreage basis,<sup>3</sup> on all property directly concerned—in the Romney Marsh case property likely to be endangered by inundation. By the following century not merely the number of acres, but also their quality was evidently taken into account. Early town rates in a somewhat similar manner appear sometimes to have been assessed as crude poll taxes. Out of these developed poll taxes graduated by property (and hence social class). By the fifteenth century the basis of rating was usually phrased 'according to ability or substance' (*iuxta facultates*). For particular sorts of rates an additional attempt was sometimes made to measure the extent of benefit conferred by the expenditure (for instance according to the nearness or farness of the improvement from the property)—just as to-day frontagers are normally charged part of the cost of making up a new road, although part is probably paid for out of the rates in general. More usually the extent of benefit was held to be sufficiently measured by the relative values of the properties.

It must be noted that in a society in which large incomes not derived from property hardly existed, ability and substance were practically synonymous, both depending on the value of property. Liability to rates was thus most conveniently measured by rents. To base the rate on the rent seems universally to have been the practice in respect of rates for general purposes, such as

<sup>1</sup> Cf. 'Ipswich Records', quoted in Cannan, *History of Local Rates*, p. 18—the chief authority for the early history of Rates, and from which the account which follows is mainly drawn.

<sup>2</sup> See next page.

<sup>3</sup> Cannan, *op. cit.* p. 22.

church repairs, conveying prisoners to gaol, relieving those suffering from the plague or compensating the victims of highwaymen. Even where direct benefit to the ratepayer was conferred by the expenditure, so long as the benefit could be considered proportional to the value of the property, a betterment rate gave rise to no different basis of assessment.

The only other established principles on valuation for rating up to the time of Elizabeth appear to have been, first, that the poor should be exempt (this was no peculiarity of rates, the poor were normally exempt from most national taxes);<sup>1</sup> and second, that there was a strong natural bias in favour of disturbing existing assessments and customs as little as possible. In the case of rates above all, the dictum that an old tax is no tax seems to have been firmly held.

Before leaving the early rates a word must be said on the question of incidence. The famous *Jefferay* case of 1589<sup>2</sup>—recommended by Coke to his readers as ‘a good case to many purposes’ and one the consequences of which they should well observe—established two important principles. First, a non-resident owner was liable to rates if he could be shown to be in beneficial occupation. *Jefferay* had been manuring his farm in Hailsham. Although he himself lived in the neighbouring village of Chiddingly, he was therefore liable to the rate for repairing Hailsham church. Had there been a tenant of the Hailsham farm, however, he would have been assessed to the rate, and not *Jefferay*. Secondly, it thus emerged that there must be one ratepayer for each piece of property, and a separate rate assessment for each ratepayer in respect of each part of his property. *Jefferay* would have one assessment for the Hailsham farm when a rate was being levied in that parish, and another in respect of his house at Chiddingly, should for instance the handsome stone spire of the church in that parish require repair.

This then was the traditional basis on which the Elizabethan legislators for the most part relied. But it appears that the framers of the Poor Law, while accepting the general basis of rents, aimed also at incorporating into valuations a more definite measure of ability than had been usual with the old rates. Thus in revising the Valuation List in London in 1587,<sup>3</sup> the valuers are directed

to sit again and peruse the books of taxation for the poor, that by assessing of such as be come in place since the last assessment and were not assessed before, and by advancing such as God hath further blessed with ability, and with reasonable consideration of such as be less able, the book may be renewed and made as beneficial as reasonably may be for the poor.<sup>4</sup>

The incompatibility between this type of ‘local income tax rate’, and the established method of assessing each parcel of property separately, was apparently not observed, in spite of Coke’s admonition. In practice the new method did not prove feasible, and the poor rate was soon being assessed in a manner indistinguishable from the older rates.

Although it did not fully succeed, the Elizabethan attempt to give more weight to general ability than had previously been done, is of great importance for the principles of valuation. It led most obviously to a long series of

<sup>1</sup> Cf. *Kennedy, op. cit.*

<sup>2</sup> Cf. *Cannan, op. cit.* p. 69.

<sup>3</sup> *Cannan, op. cit.* pp. 2 n. ff.

<sup>4</sup> *Cannan, op. cit.* p. 6.

attempts to include moveable property in the assessment—a series which only came to an end in 1840 when stock-in-trade was finally declared to be non-rateable. Indeed it is hardly going too far to include in the same series of attempts the struggle over the rating of tools and machinery which occupied rating authorities in the early part of the present century (until a workable distinction was finally made in the Rating and Valuation Act, 1925). But these struggles were not primarily connected with the valuation of dwelling houses, so that they need not concern us here.

More generally, the Elizabethan attempt to rate on a broad definition of ability encouraged valuers to pay less attention to actual current rents. Rating purely on ability lingered in some places well into the nineteenth century. Thus Cannan<sup>1</sup> quotes the case of a London parish where rates were traditionally levied on a general estimate of ability, and it had never been customary even to mention the rent in the assessment. To the disregard of current rents may be ascribed the feeling that an attempt must be made to 'go behind' the actual rent in order to establish whether it was a 'just rent' (in the mediaeval sense of 'just price'). This point of view was stated by the King's Bench in 1698 'the rent is no standing rule, for circumstances may differ, and there ought to be regard *ad statum et facultates*'.<sup>2</sup> It is hardly too much to see in this search for the 'just rent' as a basis of rating, the origin of the somewhat peculiar terms in which the canon of valuation was drawn up in the nineteenth century, and in which, substantially, it still stands.

### 3. INTERPRETATION OF THE LEGAL BASIS.

The canon of valuation for rates has been stated by Parliament in three different forms, but substantially they are extremely close, and have always been held to be consistent with one another.

The Parochial Assessments Act of 1836, the first statement of the principle, required 'an estimate of the net annual value of the several hereditaments... that is to say the rent at which the same might reasonably be expected to let from year to year... free of all tenants' rates and charges... necessary to maintain them in such a state as to command such a rent'. The Valuation (Metropolis) Act of 1-69 introduced the term 'Gross Estimated Rental' 'which a tenant might reasonably be expected, *taking one year with another*<sup>3</sup> to pay for an hereditament'. Finally the Rating and Valuation Act, 1925, altered the term 'Gross Estimated Rental' to 'Gross Value', and the wording to 'the rent at which a hereditament might reasonably be expected to let from year to year if the tenant undertook to pay all usual tenants' rates and taxes... and if the landlord undertook to bear the cost of repairs and insurance, and other expenses... necessary to maintain the hereditament in a state to command that rent'.

Although the rules for finding the true basis of rating—the 'true rent' as it has been called in the Courts—thus appear to be fairly simple and definite, in practice there is often no single and simple answer. There are indeed a number of ambiguities and traps for the individual valuer.

In the first place the words 'let from year to year' are open to two interpretations. They may mean no more than 'let on a yearly tenancy'—thus

<sup>1</sup> *Op. cit.* p. 79.

<sup>2</sup> *Ibid.*

<sup>3</sup> Our italics.

calling for an abatement before arriving at rateable value if the tenancy is for a shorter period, and perhaps also an adjustment for a long lease. On the other hand the 'taking one year with another' of the 1869 Act suggests a definite search for the just rent—a normal or long period average, disregarding accidental short period fluctuations. There is little doubt that such an element is in fact present in the practice of valuation. Even if the simpler interpretation is adopted there is room for considerable variation. For a weekly tenancy a conventional abatement of 5% may be made, or in addition an assessment of the risk of the property standing empty may be attempted.

Again, the fact that the rent on which the rate is to be based is that to be expected from a tenant—any tenant—not the particular tenant in question, introduces an element of arbitrariness, although it may be interpreted as no more than an admonition to be on the look out for abnormal features in a rent contract. Then there is the problem of 'reasonable'. Although the wording makes it quite clear that it is the expectation, not the rent which should be reasonable, it is easy to slip from one concept to the other, especially if one's attention is fixed on the just rent, which must surely be reasonable. Finally there is the question of keeping the premises in repair. This is closely concerned with the formal incidence of the rate, to the history of which we must therefore return for a moment.

#### 4. LIABILITY FOR RATES.

Jefferay's case would appear to have established that normally the (formal) incidence of rates was on the occupier, and not on the owner. But where the rate was used for a long run betterment, such as an important capital work, it seems to have been customary in the primitive rates to rate the owner, rating the occupier only for current repairs. A similar practice continued for the sewers rate levied in the nineteenth century by the Commissioners of Sewers. This was assessed on owner and occupier 'according to their respective interests' whether the property was large or small. The tenant had the right to deduct the owner's share, but no part of his own share, from the rent. The general sewers tax on the other hand fell wholly on the tenant. The sewers rate retained its separate identity and its peculiar incidence until 1888. According to Cannan<sup>1</sup> the owner was sometimes still rated in 1910–11, but this was only nominal. In practice occupiers agreed to pay the sewers rate with the rest. As early as 1823 it was stated that 99% of occupiers had entered into such an agreement. Consequently when the owner's liability was abolished there was no voice of protest, and apparently no realization of the significance of the change. The only other rate which the occupiers of premises both large and small were entitled to deduct from the rent was apparently that levied under the Animals (Contagious Diseases) Act.

The rating of small property was another matter. The custom of inducing the rent collector to act as rate collector also became firmly established in the nineteenth century. This practice was responsible for some of the biggest divergencies in valuation practice. A detailed account of the situation as it was

<sup>1</sup> Cf. Cannan, *op. cit.* p. 113.



in 1870 was presented by Goschen<sup>1</sup> to the Select Committee of that year. This well illustrates the chaos which might arise.

In respect of the Highway Rate the Small Tenements Rating Act allowed either for the compulsory rating of the owner, or for voluntary compounding. For the poor rate, the General District (health services) Rate, and usually for borough rates (then levied under local Acts by Improvement Commissioners), the owner was normally the rate collector, but the terms under which he acted differed from rate to rate. For the General District the whole rate was chargeable on the owner if the premises were unoccupied. The Assessed Rates Act of 1869 had just endeavoured to clarify the position in respect of the poor rate, not, one would think, with much success. The owner might either compound by agreement, or he might be compulsorily rated by the Vestry. If the premises were let for a term not exceeding three months, the occupier was in any case entitled to deduct poor rates from the rent. The owner was thus nominally rated in respect of all small property, and probably a good deal of medium sized property also.

##### 5. VARYING ASSESSMENT PRACTICES.

Maximum limits to the value of property which might be compounded for rates had been laid down under various Acts. They varied from £6 under the Small Tenements Act to £10 under the Assessed Rates Act for property in large towns. The commission for collecting also varied from Act to Act, and no more attempt was made to secure uniformity in practice than might be obtained by prescribing the outside limits for deductions. The maximum deduction under the Assessed Rates Act appears to have been 30% of rate liability, but in respect of the General District Rate the net annual value might be generously written down—in certain cases by as much as two-thirds of the value. When we take into account also the allowances made for repairs, it is evident that the law of valuation permitted a very wide degree of divergence between estimated rent and net annual value. It is evident further that in respect of small property the extent of the deductions imparted quite a considerable degree of 'progression' to the tax—the rate was a smaller burden relatively to rent than it was in the case of larger houses.

In addition to these statutory differences between estimated rents and net annual value there was also the possibility of a difference between the estimated 'just' rent and the actual rent. Since the occupier was to be rated, and he was usually in a considerably weaker economic position than the owner, it was not uncommon to find a bias in his favour, particularly if the valuation was on a new house which would entail extra expenditure for the occupier.<sup>2</sup> This bias was an additional reason for net annual value to sag below actual rents.

Finally we must not overlook the factor which in later times has frequently been held to be the main cause of undervaluation—the desire to minimize

<sup>1</sup> Reprinted in *Reports and Speeches on Local Taxation*, 1872, pp. 151-74.

<sup>2</sup> Cf. Sir George Cornwall Lewis, *Evidence before the Select Committee of the House of Lords on Parochial Assessments*. Lewis had been a Poor Law Commissioner from 1839 to 1847. From 1847 to 1852 he was Under-Secretary for Home Affairs in which position he fought the Turnpike Trusts. He was the most outstanding writer on Local Government problems of the middle of the century.

contributions to the county rate. In 1815 the traditional basis of the distribution of the county rate was abolished in favour of a 'full fair annual value of . . . the hereditaments rateable to the relief of the poor'. Rateable value thus became the measure of inter-parish, as it was of inter-personal, liability to rates. There is no evidence to show how far competitive undervaluation was ever responsible for pushing down valuations. Our investigations into modern practice when the motive for competitive undervaluation had been very much strengthened by the incidence of differential grants, makes us somewhat sceptical on the matter.<sup>1</sup> Much more probably the infrequent and spasmodic occurrence of revaluations was the main cause of differences in the level of assessment between different areas. But the discussion of this question must be deferred to a later stage. Until the last quarter of the nineteenth century the county rate was so small that it can hardly have been worth evading.

## CHAPTER II

### EFFORTS TOWARDS REFORM, 1850-1923

#### 1. UNDERVALUATION IN THE NINETEENTH CENTURY.

Whatever the respective importance of the various factors tending to depress valuations below rents, there is no doubt that it has always been characteristic in England for the basis of rating assessment to sag well below actual rents, although the extent of the divergence has varied greatly from place to place, and no doubt from time to time. The existence of such divergencies between law and practice was well recognized by administrators. To take a couple of early examples, the Poor Law Commissioners reporting in 1834 drew express attention to the lack of uniformity in the making of poor law assessments. Again Sir George Cornwall Lewis, appearing before a House of Lords Committee in 1850 in support of a bill on Rating Reform which he had just been compelled to withdraw, asserted that 'there is a constant struggle to keep the assessment of property below its full value, partly with reference to other classes of property in the same parish, partly with reference to the County Rate'.

After the re-introduction of the Income Tax, the Inland Revenue, whose own Schedule A valuation was based on actual rents, set themselves to screw up rate valuations, with a view to making them both more in accordance with the law, and less mutually divergent. In this task they were by no means unsuccessful.<sup>2</sup> If we compare rating and Schedule A valuations, county by county, it appears that in 1892 the rateable value of the median county was 75% of its Schedule A value, the lower decile was 66% and the upper decile 85%. By 1868 the median county had reached 84% of its Schedule A value,

<sup>1</sup> Cf. below, p. 67.

<sup>2</sup> Cf. *Reports of the Commissioners of Inland Revenue*. Some of the calculations were printed for private circulation only, and for the opportunity to examine these we are indebted to the Commissioners.

the lower decile was 79% and the upper decile 95%. Finally, by 1910-11 the median had risen to 91.6% of its Schedule A value, the lower decile was 84.2% and the upper decile 105.2%.<sup>1</sup> While not very much weight can be put on these figures, they do suggest that, even without reforming legislation, a fair degree of accuracy and uniformity had been imported into rating valuations. That this is true of the period immediately preceding the last war appears to be the opinion of valuers to-day. But even assuming that Schedule A valuations had no area variations parallel to those of rating valuations, the degree of accuracy was only fair, and it was by no means secure. It depended on the one hand on administrative pressure, and on the other on the absence of disturbances. The pre-1914 period was an exceptionally quiet one for rating. The output of new building was very moderate, and rents were stable. Rates were rising, but only slowly.

No one imagined that administrative pressure alone would be sufficient to bring rating valuations fully into line. From 1850 onwards administrators repeatedly attempted to get the law of rating tightened up. The campaign was carried out on three fronts, aiming respectively at securing rate consolidation, regular revaluations and uniform practice in respect of deductions. Let us see what success attended their efforts.

The situation from which reform had to start was described by Goschen in 1870.<sup>2</sup> It was little short of chaotic. Such rates as had existed in the early seventeenth century had been consolidated in 1739, but in total these early rates were very small indeed. Since that date there had been no consolidation. From the second quarter of the nineteenth century new rates began to accumulate in an ever broadening stream. Between the 40's and 60's expenditure out of rates more than doubled, but that was only the beginning of the real expansion.

The new rates were levied by a large number of different types of authority—Goschen was able to list sixteen of them. Many of the jurisdictions overlapped, and each was administratively independent of the others. The majority of these rates were nominally assessed on the full rateable value of the property, in the same way as the poor rate, but there were at least two important exceptions. The General District Rate (which provided for the sanitary expenditure of towns), and the Lighting and Watching rate were both levied on less than the full value in respect of agricultural land, market gardens, freight transport hereditaments, etc. Country property thus enjoyed preferential treatment even before the first instalment of general agricultural derating in the 'nineties. Those authorities which used the poor rate assessment not infrequently caused their rates to be collected with the poor rate, but there was no uniformity of practice. In any case overlapping jurisdictions and the different dates to which accounts were made up prevented anything like complete consolidation.

<sup>1</sup> This figure is to be explained by the fact that rate valuations were more inclusive than Schedule A. Income from mines was not assessed with the rest of Schedule A.

<sup>2</sup> *Loc. cit.*

## 2. EARLY PROPOSALS FOR REFORM.

The first determined effort at a general reform was the bill introduced by Sir G. C. Lewis and Sir G. Grey in 1850<sup>1</sup>—which as we have seen Sir G. Lewis subsequently put before a House of Lords Committee. The bill aimed at establishing 'a uniform mode of rating for all rates, for entire counties, including all towns and counties of boroughs'. By enlarging the unit of valuation in this way it should have been possible both to reduce valuation anomalies and to secure eventual consolidation.

The years following Sir G. C. Lewis's abortive attempt at general reform witnessed three useful, although limited, reforms. The Metropolitan Management Act of 1856 gave London a consolidated rate. The Annual Return of Rates Act of 1860 laid the foundation of local financial statistics, although for many years the returns were very defective (and in practice their usefulness is much reduced by the absence of any attempt to eliminate double counting). Thirdly came the Union Assessment Committee Acts (1862-4). These once more (fruitlessly) aimed at securing 'uniform and correct valuations of parishes in the Unions of England'. They did nevertheless succeed in providing for the revision of the valuations in the separate parishes by a committee responsible to the whole Union. This did something to promote uniformity over a wider area.

From 1867 the campaign for rating reform was carried on again in the grand style by local government administrators, irrespective of party. In the early 'seventies rates were still low, but they were already well started on their rapid upward movement. It was evident to those at the centre that the reorganization of rating must be tackled at once, since the problems of local finance would inevitably become very much more intractable in the course of a few decades. Unfortunately the campaign met with only very limited success. Only occasionally do local government questions arouse sufficient interest among members of Parliament to overcome the fierce defence of the *status quo* by local vested interests. At this time frequent political changes, and still more the transfer of the authors of bills to more important posts in the Government, further impeded the progress of legislation.

The first bill of the series was introduced by Ward Hunt<sup>2</sup> in 1867. It was ambitious enough to attempt 'to provide for a common basis of value for the purposes of government and local taxation, and to promote uniformity in the assessment of rateable value in England'. It was proposed to have a single assessment authority in each county, maximum rates of deduction laid down for each county, annual revisions of the valuation list and a complete revaluation every three years. The bill got as far as a Select Committee before it was withdrawn, and the next year its author was transferred to the Exchequer.

Although he did not get his reform bill through, Ward Hunt forwarded the cause of financial reform in two ways. He obtained an Order for a Report to the House of Commons on the State of Local Finances, which produced the

<sup>1</sup> For an account of the early efforts at reform see *Reports of the Commissioners on Local Government, 1899-1901*, First Report, Section xi, *passim*.

<sup>2</sup> Financial Secretary to the Treasury in Lord Derby's Administration.

first reasonably accurate review of the subject, and he secured the appointment of a Select Committee on the Assessment of the Poor Rates. This Committee reported in 1868 in favour of rate consolidation, with a unified Demand Note (planned to contain most of the details which are now supplied).

At the end of 1868 the Liberals returned to power, pledged to do something for the reform of local government. Their President of the Poor Law Board, G. J. Goschen, at once got down to tackling its problems vigorously. During the four years he was at the Board he issued two important Reports on questions connected with local finance, and introduced no less than four reform bills,<sup>1</sup> of which one actually became law.

### 3. THE GOSCHEN MEASURES.

The successful measure, the Valuation (Metropolis) Act of 1869, carried a stage further the reforms of the Metropolitan Management Act of 1856. In addition to the consolidated rate, uniform valuation practice and regular (quinquennial) revaluations were introduced. Further, the provision that valuation should be made in conjunction with the Inland Revenue, and the obvious intention to assimilate the basis of rates to the basis of Schedule A, ensured, at any rate at first, that rateable values could not diverge far from actual rents. This connection with the Inland Revenue was not formally severed until the Finance Act, 1930. Finally a schedule of maximum deductions for the whole metropolis secured uniformity in that direction also. By these reforms, a good many of the causes for variation in valuation, which have persisted in the rest of the country, were eliminated in London.

Goschen's first survey of local finances was contained in a Report to an Order of the House of Commons on the Increase in Local Taxation.<sup>2</sup> It traced the development of local expenditure and revenue from the beginning of the century, comparing not merely urban and rural areas, but also the broad distribution of rate burdens at different dates. The Report also contained a comparison of the relations between central and local finance in the United Kingdom and a number of foreign countries, the information for which had been collected by British Representatives abroad. Goschen's second Report was presented in his capacity as Chairman of a Select Committee (on the Division of Rates between Owner and Occupier) the appointment of which he secured in 1870. Besides the details of the formal incidence of the various rates in force, to which we have already alluded, it contained an excellent discussion on the shifting and effective incidence. The two Reports together are a unique source of information on the state of local finance in the nineteenth century.

Of more immediate interest to us here are Goschen's plans for rating reform, contained in a bill introduced in 1869 but withdrawn without debate, and in two mutually complementary bills introduced in 1871 (the Rating and Local Government Bill and the Rating and House Tax Bill). The first of these two measures contained an elaborate scheme for disentangling overlapping jurisdictions by going back to the smallest possible local government unit—the parish—and then arranging for the combination of parishes into such joint units as might be optimum for different services. Combination was to be

<sup>1</sup> Cf. *Reports and Speeches*, cit.

<sup>2</sup> Reprinted in *Reports and Speeches*, cit.

secured by means of committees consisting of the elected heads of parishes (chairmen of parochial boards). The most important of such combinations was planned to be a County Board, consisting of representatives of the Parochial Chairmen and of the County Justices. The County Boards were to be given very wide powers.

It would take us too far afield to discuss the merits of this solution of the local government problem. It does not appear that Goschen pressed it eighteen years later when the first instalment of representative local government (the County Councils Act) was introduced by his colleague Ritchie. The other governmental reforms proposed in the bills were indisputably admirable—the establishment of a strong central office in place of the Poor Law Board, and the completion of the chain of sanitary districts to cover the whole country. Of all these proposals the only one which became law at the time was that for a Local Government Board. Unfortunately when it was appointed it boiled down to little more than the Poor Law Board under a new name. The chain of sanitary districts did not come about until the Local Government (district councils) Act of 1894.

Goschen's more narrowly financial proposals were put forward in the second bill, and in the first two parts of the first bill. Rates were to be consolidated and levied on a single demand note. All exemption for rates were to be abolished, and Crown property was to be valued on exactly the same basis as other hereditaments. Provision was made for an alternative basis for property not normally rented (4% on the estimated purchase price). It is clear from the speech introducing the bills that Goschen had in mind in this connection the difficulty of finding a suitable basis for better class country houses. In view of the difficulty experienced to-day in finding rent evidence for many kinds of house property,<sup>1</sup> this proposal is not without topical interest.

A further important reform which Goschen attempted to introduce was the transfer of part of the formal incidence of rates from the occupier to the owner. This was to be brought about in the first instance by declaring void after a certain period all tenants' agreements to pay existing owners' rates, and secondly by providing that all future increases in rates were to be assessed equally on owners and on occupiers. If this proposal had been put into effect on the eve of the great rise in rates, as Goschen intended, it might well have had a beneficial effect both on the practice of valuation<sup>2</sup> and on the extent of the effective incidence on the occupier. This reform would have brought England and Wales into line with the system in force north of the Tweed. For the rest, Goschen proposed to adopt definitions of gross annual value and rateable value closely in line with those in use in London, but there was no immediate suggestion of extending the London system of uniform deductions to the rest of the country. Finally, of interest in connection with Goschen's later policy of Assigned Revenues, was the proposal to strengthen local financial resources by transferring the Inhabited House Duty from national to local purposes.

<sup>1</sup> Cf. below, p. 76.

<sup>2</sup> On the other hand the effect of rates on new building might have been more serious. See below, pp. 31-2.

Two years after the abandonment of Goschen's bills Stansfield, the first President of the Local Government Board, introduced a more modest scheme, merely proposing to extend the London System to the rest of the country. This proposal met with a similar fate, and the following year the Liberals went out of power. The change of government did not interrupt the campaign. In each of the years 1876, '77, '78, '89, Sclater Booth attempted to get bills through on rating reform. They were mainly concerned to secure uniformity of valuation practice, leaving other questions aside. They all met with the same fate as their predecessors.

Thus ended this phase of the struggle for rating reform. In the later years of the century, when the matter once more came up for urgent discussion, the setting had been somewhat altered—by Goschen's system of Assigned Revenues on the one hand, and on the other by the completion of the system of representative local government authorities by the Local Government Acts of 1888 and 1894. None of these changes had done anything to ease the rate problem, rather the opposite. On the one hand the Assigned Revenues proved less responsive to the expansion of local expenditure than the discontinued grants had been. On the other, the new authorities had more opportunities of spending than the old.

#### 4. THE OFFICIAL ENQUIRIES.

The next campaign for rating reform may be said to have opened with Sir H. Fowler's Report to an Order of the House in 1893. The purpose of this was to bring Goschen's statistics up to date, a necessary preliminary to re-awakening interest in the shortcomings of local finance. This was followed in 1898 by the appointment of a Royal Commission on Local Taxation (the Balfour of Burleigh Commission). Between 1899 and 1901 this Commission issued five reports, forming the most comprehensive review of local finance which has yet been made. The Commission also obtained from the Local Government Board a valuable statistical Memorandum on Health and Social Conditions. A decade later the (Kempe) Departmental Committee on Local Taxation examined the situation afresh, partly in the light of the Liberal programme of Land Value taxation. This is the most recent general enquiry specifically concerned with rates, the Departmental Committee on Valuation for Rating of 1938 being concerned only with one aspect.

Besides the reports formally devoted to local finance, the two examinations of the Poor Law system—the Royal Commission of the first decade of the century, and the Maclean Committee of the Ministry of Reconstruction on the Reform of the Poor Laws (1919)—both contain material which is very relevant to rating. Finally the Royal Commission on Local Government in the nineteen twenties, while not primarily concerned with financial questions, contains an excellent review of the rating and valuation situation, presented on behalf of the Ministry of Health by Mr I. G. Gibbon (now Sir Gwilym Gibbon).<sup>1</sup> Out of all this ferment there emerged eventually the important though by no means final reforms of 1925-9.

<sup>1</sup> Later Secretary to the Ministry of Health.

The Balfour of Burleigh Report which concerns us most is the first one of the series, on 'Valuation for Rating'. Like the nineteenth-century discussions, the Commission attached primary importance to the variations in valuation practice which existed between different districts within counties. The practice of putting new services on the counties rather than on the smaller districts or on *ad hoc* authorities was already underlining the necessity for uniform valuations in all districts contributing to the same county rate. The Commission also emphasized the 'chronic tendency to undervaluation' which was to be found everywhere—exactly as Sir G. C. Lewis had done fifty years previously. They examined the effects of the 'London System' and concluded that it had been successful in securing interlocal uniformity. They therefore, once again, recommended its extension to the rest of the country, together with general quinquennial revaluations. Their plan was for a Valuation Committee at least coterminous with each county and county borough, but with a strong preference for including the county boroughs within the county valuation (thus adopting the geographical rather than the administrative county as a valuation unit). The geographical county unit was to be adoptive anywhere, but compulsory in Lancashire where the large number of county boroughs almost contiguous to each other created special difficulties. Two attempts were made to implement some of the Commission's recommendations by legislation, but nothing came of them.

By the time of the Kempe Committee it is evident that the emphasis of the problem had shifted substantially. The crisis of 1907 had lifted the curtain on the modern problem of unemployment. The big strikes of 1911 occurred while the committee was sitting. Two questions in particular were referred to the Committee by Mr Lloyd George in its terms of reference: (i) the possibility of transferring valuation to a central office for the purpose of securing uniformity, and (ii) the desirability of giving differential grants in aid to compensate for differences in local wealth. The first of these was related to the recent establishment of a central valuation department in connection with the proposed land value tax. The second was a reflexion of the social and economic troubles of the first decade of the century.

At the time of the Balfour of Burleigh Report no particular attention seems to have been directed to variations in wealth and needs between one area and another. The Board of Education was the first department to realize the desirability of graduating its grants. (Indeed a very small measure of differentiation in education grants had been given on occasions as far back as 1840.) In 1906 a more comprehensive system of differential grants was introduced, and while the Kempe Committee was sitting, plans for greatly extending these were on foot. But up to that date the example of the Board of Education had not been followed by the Local Government Board. The Kempe Committee discussed the general question of inequalities of local wealth at length with a number of witnesses. They found little enthusiasm for anything in the nature of a differential block grant, but a considerable demand for differential specific grants for particular services.

It would appear that at that time the problem of 'necessitous areas' was viewed simply as one of the draining of the resources of towns by the removal



of the wealthier citizens to outlying districts. The situation in which all or most of the authorities in an area might be depressed together was apparently not contemplated. In accordance with this view the Kempe Committee believed that the solution was simply to allow towns to expand their jurisdiction indefinitely so as always to retain their citizens within their bounds. The Local Government (Adjustments) Act (1913) had just been passed to facilitate this process. Unfortunately it was too early for its shortcomings to be apparent. But even if the new legislation had provided the basis for an equitable financial arrangement between town and county authorities, it would have left the basic problem of poor areas unrelieved.

On the question of valuation the Kempe Committee concluded that administrative pressure had succeeded in considerably improving the level of assessments for the County rate, but that this improvement merely emphasized the differences between counties which had and those which had not reformed themselves. Since the formula on which the differential education grant was based depended partly on the produce of a 7*d.* rate, uniformity of valuation practice between counties had already become of considerable practical importance. On the other hand the Committee found that very little progress had been made in equalizing the level of assessments for the poor rate, on which most other rates depended. They attributed this want of progress first to the ineffectiveness of the appeal machinery, and secondly to the expense of revaluations, especially in poor areas.

No less than their predecessors, the Kempe Committee were strongly impressed with the paramount necessity of securing a uniform basis for rates throughout England and Wales. They therefore recommended that ratepayers should be compelled to make returns annually on prescribed forms, and that Valuation Lists for each parish should be prepared annually by the Central Valuation Office (already set up for Land Value purposes). New properties added during the year should be fully valued, not merely added to the list with an approximate value, pending the next revaluation. The Committee looked forward to seeing valuation almost wholly carried out by a staff of full time professional valuers. They thought this would be possible without undue expense, because centralization would enable the work to be spread over the year. Although these proposals did not go much beyond the system which had long been working smoothly in Scotland, there was an immediate outcry from all rating authorities. And there the matter rested, just as all previous attempts at reform had done. The war intervened before any legislative proposals could be introduced, and it was not until 1923 that any government found itself in a position to turn its attention once more to local affairs.

## CHAPTER III

### THE CHAMBERLAIN REFORMS

#### 1. THE RATING SITUATION AFTER THE WAR.

A first draft of the proposals which eventually emerged as the legislation of 1925-29 was circulated by the Government in 1923.<sup>1</sup> In the same year the Royal Commission on Local Government was appointed. Although its terms of reference were not directly concerned with the technique of rating, the evidence it obtained included a good account of the situation as it was on the eve of reform. To appreciate the substantial achievements of 1925-29 it is necessary to bear in mind the difficulties which had to be overcome, especially as they had been heightened by war and post-war disturbances.

In 1923 in many urban areas the rates whose valuation was on the Poor Rate basis, and those which used the District (Health services) rate basis, were still separately collected, as well as separately assessed.<sup>2</sup> Joint collection could be arranged by Provisional Order, but full consolidation required a Local Act. The obstacles to rate consolidation outside London were thus pretty considerable. The purposes for which the rates were required were sometimes stated on the demand note, but there was no compulsion in the matter and no uniformity in practice. Valuation was normally carried out by the (paid) Assistant Overseer, who was unlikely to have any particular qualifications for the job. Counties and boroughs were empowered to make a supplementary valuation for the county and borough rates respectively. This was by no means an adequate substitute for accurate valuation, since they could not alter the total sum coming from any Union. In practice the counties usually adopted the Poor Law Assessment Committee's valuation.

In 1923 the two chief causes of differences in the level of assessment were considered to be the differences allowed in deductions for repairs, etc., and the recency of revaluation. In respect of the former there was no more uniformity than there had been in the time of Goschen. Allowances of 25-30% below the estimated rental were not uncommon. In respect of the latter the situation had become much more serious than it had been at the time even of the Kempe Report.

In the first place the rise in the general price level since 1914 had created a gulf between pre- and post-war valuations. In the post-war situation there was very great reluctance to undertake a complete revaluation. Revision was an arduous and costly task, especially in large parishes. With the rise in costs, particularly labour costs, many areas found themselves in financial difficulties and were unwilling to undertake additional work, especially as a revaluation would put them in a worse position relatively to other districts. On the other hand the education grants had been substantially revised since 1913, giving more weight to rateable value. Moreover between 1913 and 1921 the foundations of a vast new health service had been laid, the burden of which fell mainly

<sup>1</sup> Cf. Clarke, *Local Government of the United Kingdom*, Section VII.

<sup>2</sup> Cf. Evidence of Mr I. G. Gibbon, *cit.*, Section XII.

on the counties and county boroughs. Thus at the same time as the technical obstacles to revaluation had become more formidable the need for a uniform rate basis had become much more pressing.

Since the various influences impeding revaluations all worked in the same direction, it is not surprising to find that the main complaint between areas in 1923 concerned recency of valuation. The practice of most authorities was to amend the old Valuation Lists from time to time, bringing in new properties and alterations as they occurred. It is easy to see that in a period of shifting values such as 1913-23 this practice might lead to very different levels of assessment in respect of property of different ages. The valuation of a Union would tend to be more or less in line with current values, according to the proportion of new property which it contained. This particular difficulty was mainly one of the early post-war years. As time went on areas which had not undergone a substantial revaluation since the war became fewer and fewer. But as we shall see, other hindrances to uniformity of valuation took the place of this one.

The Draft Proposals of 1923 planned to sweep away all existing valuation authorities—overseers, union assessment committees, county rate basis committees, and even the Inland Revenue Commissioners in respect of Schedule A valuations. The County rate was no longer to be collected through the Guardians, although there was no immediate proposal to abolish the Guardians themselves. Instead valuation was effectually to become the monopoly of the county authorities. To ensure uniformity the Inland Revenue was to be given a definite part in the machinery, and it was provided that the same valuation might be used for income tax and for rates. It appears to have been this part of the proposals which gave rise to the most opposition.<sup>1</sup>

## 2. THE RATING AND VALUATION ACT, 1925.

When they were re-introduced the Government's original proposals were found to be considerably altered, and they underwent still further modification before the Rating and Valuation Act, 1925, finally emerged. It was understood that this measure represented only a first instalment of the reform of local finance. The Local Government Act of 1929 embodied most of the rest of the scheme.

From our point of view the most important reforms of 1925 were, (i) the establishment of a consolidated rate in every area; (ii) provision for universal quinquennial revaluation; (iii) the regularizing of deductions by laying down a schedule of maximum allowances. We might also add (iv) the reduction in separate operating authorities from 15,546 to 1708. It will be seen that the first three provisions at last secured the chief points for which reformers had been striving for over seventy-five years. In themselves these improvements were not sufficient to secure uniformity in valuation practice, but other parts of the Act contained further measures with this aim. In discussing the effectiveness of the 1925 reforms we have to consider these, as well as the extent to which the main provisions were carried out.

<sup>1</sup> Although in practice this state of affairs has virtually come to pass. See below, p. 69.

Before attempting to estimate the effectiveness of the reforms of the nineteen twenties we must take account of the additional difficulties with which valuation was confronted when the new machinery was put into operation. In the first place the war-time restriction of the rents of all small and many medium sized houses to the pre-war level plus a 'permitted increase' made it impossible for valuers to fix a value which both represented a just rent in the sense of market values, and one which it was reasonable to expect would be paid. In spite of admonitions from the Central Valuation Committee and decisions in the Courts, that rent control should not affect valuation,<sup>1</sup> it was inevitable that it should have done so, in the absence of any objective figure to put in the place of the actual rent. The usual practice seems to have been to leave controlled houses at a valuation little if any higher than they had carried before the war.

To the loss of eligible rent evidence through rent control was presently added the quite separate difficulty of dearth of evidence due to the tardy recovery of the building industry. Moreover, when new houses came to be built in any numbers, they were either sold and not let, or else were built by local authorities for letting on special terms. When the building boom of the 'thirties flooded the country with new houses of every size, this difficulty was mitigated, but not removed. Though there were now a substantial number of new rented houses, the new houses were still largely for sale, this time on a hire-purchase system.

In the absence of adequate rent evidence for modern houses valuers were driven back in some cases on the rent evidence of the older houses of similar size—evidence that was still distorted by the effects of rent control. A situation was thus created in which it was very hard to get back to anything like correct valuations, even when rent evidence for new houses became more abundant. In other cases valuers seem frankly to have abandoned the search for rent evidence and to have adopted some criterion of physical measurement.<sup>2</sup> It is important to notice that since the owner-occupiers of new houses were predominantly of a more humble class than had hitherto been house owners, the traditional bias in favour of 'going easy' on the occupier of a new house was likely to be strengthened, whatever the method of valuation used. We shall have to examine later the effects of these new complications on the valuation of house property as revealed by the figures of the Departmental Committee. It is hardly too much to say that the traditional basis of rate valuation was in danger of breaking down completely.

Fortunately the effectiveness of two of the major reforms of 1925—the consolidation of rates, and the schedule of uniform deductions—was mainly unaffected by the new difficulties of valuation. In so far as undervaluation was more pronounced in the case of small houses an element of progression was inadvertently introduced, additional to that already allowed for in the schedule of deductions. But that was an effect to which little objection could be taken.

<sup>1</sup> The Increase of Rent and Mortgage (Restrictions) Act 1920 appeared to contemplate the controlled rent as the basis of valuation, but the Courts decided otherwise in the case of *Poplar v. Roberts* (1922).

<sup>2</sup> Cf. W. Randall, *Disparities between Rents and Gross Values in Dwelling Houses*, 57th Annual Meeting of I.A.R.V.O. 1939.

It was the machinery for bringing valuations up to the full legal level which was most thrown out of gear.

In place of the direct relation with Schedule A valuations of the Draft Proposals, the Act of 1925 contained three types of machinery designed to secure correct valuation. In the first place it was hoped to secure uniformity within the county by enlarging both separate rating areas and revising assessment areas, and also by the appointment of an (advisory) County Valuation Committee. It was expected that this would give county authorities the incentive to appoint a firm and active professional county valuer. Secondly, as between counties, there was the provision for the regular quinquennial revaluation, which included a duty to require returns from ratepayers on each occasion. Finally, as a coordinating body for the whole process, there was to be an advisory Central Valuation Committee, whose express purpose was to promote uniform and correct valuation practice. In the event none of these provisions turned out as effective as had been hoped.

### 3. LIMITED EFFECTIVENESS OF REFORMS.

The reduction in the number of separate operating authorities was undoubtedly useful, although it did not entirely eliminate the existence of differential parish rates. But the new assessment committee areas were not necessarily larger than the old union assessment areas. The new Committees may possibly have been more active, but whatever advantages they possessed must partly have been offset by the disappearance of a revising authority independent of the authority which spent most of the rates. On the other hand there was undoubtedly more stimulus to appoint competent County Valuation Officers under the new system than under the old. The Central Valuation Committee also exerted pressure in this direction, and by 1930 were able to report that thirty-eight counties had appointed such officers. But seventeen had not, and after all there was no compulsion to do so. The Committee was of the opinion, that as a result of the new machinery, especially of the exertions of the county valuation officers, the first revaluation under the Act marked a very definite step towards securing uniformity in the valuation of houses and shops. Unfortunately it was unable to say that this uniformity implied correct valuation, and it issued an express warning against 'watering down' of gross values after the 'reasonably expected' rent had been determined.<sup>1</sup>

A further limitation to the effectiveness of the reforms, within the period under review, were the difficulties which attended the early revaluations. The first valuation (the lists for which were prepared in 1927-28) was a colossal undertaking for which the operating authorities had no previous experience or training. They had little idea of either the time or the outlay which would be required, and in many cases seriously underestimated both. The result was that the revaluation was very far from being thorough. In addition the central government threw fresh obstacles in their way while the revaluation was in progress. The Rating and Valuation (Apportionment) Act of 1928 introduced an entirely new principle for the valuation of freight transport hereditaments.

<sup>1</sup> Cf. Memorandum of 30th May 1931 on *The Promotion of Uniformity in Valuation*.

About the same time extensive area adjustments in connection with the Local Government Act of 1929 began to occupy the attention of local administrators.

The second revaluation did not fare very much better. The lists fell to be revised in the darkest days of the Depression, when local authorities were being strongly pressed to economize. Needless to say many of them were glad enough to curtail an expensive and uncongenial task. It thus came about that five years later, on the eve of the third revaluation it was realized that much less progress towards correct valuation had been made than had been hoped or expected. On the other hand there was now sufficient rent evidence to make excuses for under-assessment somewhat unpalatable. The result was an impasse between the pressure of the Central Valuation Committee and the resistance of the local authorities, which led to the indefinite postponement of the third revaluation.<sup>1</sup> This postponement was of the nature of the traditional ill wind, since it led to the appointment of the Departmental Committee to enquire into the extent of hardship if correct valuations were to be immediately applied. As has been said, the work of this Committee enables us to draw for 1938 the only full and accurate picture of the valuation system which it has ever been possible to produce.

Before leaving the question of the effectiveness of the revaluations one further small point is worth noticing. The Act of 1925, as has been said, laid on operating authorities the duty of requiring from ratepayers for the purpose of the valuation 'such particulars as may be reasonably required' for the carrying out of the Act. Owing to disputes with ratepayers, and questions in the House as to the scope of 'reasonable particulars', this clause was watered down by fresh legislation in 1932,<sup>2</sup> from a duty to a power—a power which few authorities cared to exercise after the opposition which had been experienced. Thus the opportunity of establishing a definite onus on the ratepayer to make an accurate return of his property, parallel to that required for income tax, was unfortunately lost.

#### 4. THE CENTRAL VALUATION COMMITTEE.

It was clear from the outset that much of the success of the new legislation would depend on the effectiveness of the Central Valuation Committee in promoting uniform and correct valuations. The substitution of an advisory committee without statutory powers for the direct relation to the Inland Revenue valuation of the Draft Proposals was in itself somewhat ominous for the success of the reforms. The Central Valuation Committee has been criticized for its ineffectiveness, but in fact it seems to have carried out its work actively and conscientiously. In a long series of Representations<sup>3</sup> to the Minister of Health it has striven to lay down a code of principles for the use of local valuers, covering every type of property which comes within their purview. This is something quite new in the history of valuation.

In respect of house property the Committee has steadily endeavoured to get valuations nearer to actual rents. It allowed indeed that excessive purchase price or rentals (and *mutatis mutandis* abnormally low rentals) should be dis-

<sup>1</sup> Cf. above, p. 4.

<sup>2</sup> Cf. Clarke, *Local Government of the United Kingdom* (1933 ed.), pp. 530 ff.

<sup>3</sup> Consolidated edition published in 1934.

regarded in valuations *if they appeared to be out of line with similar property*.<sup>1</sup> It also suggested that in the absence of adequate rent evidence, purchase price with a suitable multiplier might exceptionally be substituted as a valuation basis.<sup>2</sup> (This suggestion would have been more useful if some indication of the probable range of suitable multipliers had been indicated.) But for all normal cases local authorities were repeatedly reminded that rent evidence is the only correct basis of valuation. For the first revaluation authorities were urged to compare ratepayers' returns with the Schedule A figures.<sup>3</sup> Just before the beginning of the second and third revaluations the Committee circulated special Memoranda on the Promotion of Uniformity in Valuation. It was the second of these which raised the storm which led to the postponement of the third revaluation.

That the most successful aspect of the Central Valuation Committee's efforts to improve valuation practice was not in respect of house property can hardly be ascribed to lack of effort. There is little doubt that the difference between actual post-war valuations and the correct level of assessment was much greater than was realized. If this is so it is questionable whether more drastic machinery would have been any more successful. A fairly long period was inevitably required to reach both uniformity and the full level of assessment, if sudden and large changes in individual assessments were to be avoided.

If we look back over the long series of unsuccessful attempts to secure even the first essentials of uniform valuation, the reforms of 1925-29 are seen in their true light, as very much the biggest step forward that has yet been taken. There may still be room for doubt on two points: whether the new machinery is sufficiently powerful to finish the job, and whether if it is, it will be allowed to do so. The set-back over the third revaluation has obviously cast some doubt on the second point, so much so that the question must at least be raised whether it is not the aim (100% level of assessment for rating) which is at fault, rather than the machinery for achieving it. It will be one of our tasks to see what light the Departmental Committee's figures for 1938 throw on this question.

## 5. THE SCOTTISH SYSTEM.

Before leaving the story of the struggle for rating reform in England it will be helpful to glance at the parallel system which has been traditionally in force in Scotland<sup>4</sup> and to which allusion has already been made.<sup>5</sup> It is claimed that the Scottish system does provide a legal and uniform basis for rates, and it certainly appears to work without noticeable friction.

It would obviously take us too far afield to attempt a detailed account of rating in Scotland. From the valuation point of view there appear to be three significant differences from English practice: (i) the formal incidence of rates is shared between owner and occupier, (ii) annual returns of all property are exacted from ratepayers, (iii) the basis of rating is the actual rent, whatever it may be, without having recourse to further considerations. Let us examine the implications of these.

<sup>1</sup> Representation 6 of 26 Nov. 1926.

<sup>4</sup> Cf. Clarke, *op. cit.*, pp. 716 ff.

<sup>2</sup> Representation 7.

<sup>5</sup> See above, p. 22.

<sup>3</sup> Resolution 29.

The sharing of formal incidence probably does not make any difference in the long run to the effective incidence of the tax. It has the not inconsiderable advantage that rates will continue to be collected from empty property, not merely in cases where the owner has compounded to pay on voids. But this of course could be provided for in some other way. From the valuation point of view the most important point is that the shared incidence practically eliminates the incentive to 'go easy' on the tenant, which has always been considered a potent cause of undervaluation in England.

The exaction of annual returns, together with the use of the actual rent basis, has in practice the effect of annual revision. In Scotland the process of re-valuation may be said to be in *motum perpetuum* and it seems to be generally agreed that this is effective. Identity with the Schedule A basis has the added advantage that local authorities can (and do) use the central valuation for their own purposes, and thus save themselves a great deal of expense. This eliminates another of the big obstacles to correct valuation in England. From the ratepayer's point of view, reliance on the actual rent has the advantage that rate liability can always be calculated in advance, even for a first occupancy.

It thus appears that most of the causes of the 'chronic tendency for undervaluation' which still beset the English system are simply absent in Scotland. It does not follow that the Scottish system is desirable on other than valuation grounds. Still less that it could now be transplanted south of the Tweed without considerable modification. In the first place it can plausibly be argued that when the English system comes off, it produces a more equitable tax than the Scottish system. As has so often been emphasized, actual rents may be an unfair basis because of circumstances peculiar to the individual tenancy. Again, in times of rapidly changing values or rents, such as just after the last war, or during the period of the relaxation of the Rent Restriction Acts, a strict application of the Scottish system must inadvertently create serious anomalies between properties. The English system endeavours to avoid such anomalies. The question is just whether, in striving for a higher justice, it ends in being unpracticable. In so far as this is the case it may well produce more anomalies than the Scottish system.

Finally it must be remembered that the proportion of rented to owner-occupied houses is much higher in Scotland than in England. In particular the boom in owner-occupier houses of the nineteen-thirties hardly appeared in Scotland. This difference implies that the traditional basis of rating is much easier to work in Scotland. Adequate rent evidence is more often available. The difference may also have another, more serious, implication. Where some of the formal incidence of rates falls on the landlord, he is likely to bear, within a short period at least, a larger share of the effective incidence also. Under such a system the effect of rates in checking building is much more likely to be serious than under the English method. The stern system of valuation may well have contributed to the aggravation of the housing shortage in Scotland, which is notoriously more serious than in England. This is a question to which we must return later when we have examined the effects of the English system on contemporary valuation practice.



# PART II

## UNDervaluation IN 1938

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### CHAPTER I

#### THE VARIABILITY OF VALUATION

##### 1. NATURE OF THE STATISTICAL MATERIAL.

The information on which our statistical analysis is based came into existence in the following way. As was explained in the last chapter, it was not until the third quinquennial valuation (1937-8) that a serious effort was made to get the valuation of dwelling-houses in England and Wales on to a uniform basis. For the purposes of this revaluation, information about the actual rents being paid for rented houses was collected on a large scale, with the result that a strict enforcement of the law, according to which the 'gross value' of a house for purposes of rating should (save in some exceptional cases) stand in a close relation to its actual rent, became for the first time conceivable. But when this happened, it at once became apparent that strict enforcement would involve a drastic alteration of the rate burden on large classes of houses; opposition to this drastic change became formidable. The third revaluation was postponed on account of this opposition; and a departmental committee was set up to find a way out of the impasse. As has been explained, war broke out before the report of this committee reached publication; but the returns collected for its use have been put at the disposal of the present investigators by the kindness of the Ministry of Health.

The nature of these returns is as follows. A questionnaire was sent to all local authorities, asking them to classify the dwelling-houses in their districts according to the following plan. In the first place, houses were divided into six classes, according to date of construction and type of tenure; and these classes were subdivided into five groups, according to their (nominal) gross value. In the initial classification, pre-war (i.e. pre-1914) and post-war houses were distinguished: the pre-war houses were divided into (1) rented houses with controlled rents; (2) rented houses with free rents; (3) owner-occupied. The post-war houses were divided into (1) council houses, (2) rented non-council houses, (3) owner-occupied. The five gross value groups were (1) not exceeding £20. 10s., (2) exceeding £20. 10s. but not exceeding £40, (3) exceeding £40 but not exceeding £60, (4) exceeding £60 but not exceeding £100, (5) exceeding £100. Combining these classes and groups, this gives in all thirty (6 × 5) categories of house. For each of the thirty categories, the following questions had to be answered by each district:

- (1) Number of houses in the category.
- (2) Total of gross values of all houses in the category.
- (3) Total of present rents of all houses in the category.

Obviously the last question could only be answered for the categories which consisted of *rented* houses.

Instructions were given that the particulars as to gross values were to be taken from the valuation lists then in force; the particulars as to present rents were to be ascertained from the returns which had been obtained for the purposes of the third new valuation lists (or for the purposes of provisional lists) or were to be such as had otherwise been ascertained by direct enquiry.

Two explanatory notes, which accompanied the questionnaire, deserve special attention. On the one hand, the return was only to cover dwelling-houses in a narrow sense. 'The expression *dwelling-house* should be regarded as including only premises which are treated for rating purposes as single dwelling-houses, and as excluding all separately rated flats, houses let wholly in tenements, and buildings occupied partly for purposes other than those of a dwelling-house.' The other concerned the exact interpretation of *present rents*. 'The expression *present rents* means the actual rents exclusive of any amount included therein for rates. In the case of a weekly letting the annual rent should, for the purposes of this return, be taken to be 52 times the net weekly rent.'

Answers to this questionnaire were received from nearly all the local authorities, and in nearly all cases the answers were in the form desired. There were a few cases, however, in which some of the information could not be provided; and some of these have caused us a little difficulty. But only one is sufficiently important to be worth mentioning. In the area of the London County Council, no information about the numbers of pre-war houses still subject to rent control seems to have been available. For this reason it has been impossible (in what follows) to make estimates for the London area on the same basis as we have made them for other areas. This is a very unfortunate gap, far more serious than any other which we encountered.

## 2. CALCULATING THE LEVEL OF ASSESSMENT.

It will be observed that of the six classes of house covered by the enquiry, there are only two for which we get information which throws any direct light upon the fullness of valuation. For the owner-occupied houses (pre-war and post-war) we have nothing but information about their number and their gross values; we have no direct means of estimating the relation between these nominal gross values and the true values of the houses (however reckoned). In the case of the controlled houses, we have the controlled rents; but it has been definitely decided by the courts<sup>1</sup> that a controlled rent, being an artificial rent, is *not* evidence for the level at which the gross value of a house *ought* to be fixed. Certainly it is not the rent which '*a tenant*' (not *the tenant*) would be 'prepared to pay'. The landlord is prohibited from charging the

<sup>1</sup> *Poplar v. Roberts* (1922). See also Resolution 5 of the Central Valuation Committee (1926), reprinted in *Consolidated Representations* (1934), p. 2. This resolution, with its insistence that 'rental value is governed by supply and demand', might naturally be understood to have the same meaning. It is therefore surprising to find the committee recommending what amounts to assessment in accordance with actual rents, without mentioning the question whether these actual rents are controlled or uncontrolled. The confusion of thought made evident in this resolution must bear a good deal of the blame for the confusion of practice which followed.

rent which *a* tenant (whom he might be able to find) would be prepared to pay.<sup>1</sup>

The same applies to the post-war council houses. Here again '*a* tenant' could usually be found who would be willing to pay a higher rent than the Council is willing to charge to the particular tenant it desires to house. The rents of council houses (it follows from the same principles) are not evidence for the rents on which gross values should be based.

We are left with the two classes of pre-war non-controlled and post-war non-council rented houses. In each of these cases we have evidence about an actual level of rents, which is *prima facie* evidence for the level which gross values ought to attain if the law were strictly enforced. It cannot indeed be claimed that a strict enforcement of the law would always result in the gross value of an uncontrolled rented house being exactly equal to the rent being actually paid by the occupier. As we saw in Part I, it does seem to be intended<sup>2</sup> that a valuer shall be at liberty to hold that particular circumstances (for example, a long lease) are causing the particular tenant to pay a rent which is higher or lower than the rent which '*a* tenant would be prepared to pay'. But it is not likely that the difference between the average level of actual rents and the average level of gross values (as assessed by an 'ideal' valuer) would often be considerable, if the average was taken over a considerable number of freely rented houses.<sup>3</sup> In the two classes of freely rented houses, the actual rents can be taken as at least fairly good evidence of what the level of gross values would be, if the law were strictly enforced. We are in any case obliged to accept them as such, since we have no other evidence; but it would seem, after considering the matter, that we can do so with quite a good conscience.

To this there is indeed one qualification. In the case of weekly tenancies, the 'present rents' given in the returns are stated to be the weekly rents converted to an annual basis by the multiplier 52. Now it has been generally recognized that a house on weekly tenancy cannot be expected to be occupied (on the average) for all the 52 weeks in the year. The true annual rent is therefore reckoned at something less than 52 times the weekly rent. An allowance of between two and four weeks probable vacancy is generally allowed by local authorities when it is a question of converting weekly rents to an annual basis. For simplicity, we have taken a uniform deduction of 5%. We have assumed that all the houses in the lowest value-group (under £20. 10s. gross value) are let on weekly tenancies; and that about half the houses in the next group (£20-£40) are so let. Consequently in order to estimate the actual *annual*

<sup>1</sup> It is clear from an inspection of the returns that the valuations of controlled houses do in fact follow their controlled rents fairly closely; but even if the gross value is 100% of the controlled rent, this does not mean that the house is fully valued.

<sup>2</sup> Pp. 15-16.

<sup>3</sup> The cases in which it might most plausibly be argued that the average level of actual rents in any district and category does not represent the average level of gross values, as it would be fixed by an 'ideal' valuer, are those of rapidly expanding or declining areas. In an expanding area, many people will probably be paying a rent which is lower than that which the landlord could get on a re-let; in a declining area, the actual rent may often be higher. The possibility of systematic divergences of this sort has to be recognized, but it makes very little difference to the argument of this chapter. For (as we shall see) the practice of almost all existing valuers is to diverge from the actual rent in the opposite direction.

rents, we have deducted 5% from the 'present rents' (as stated) in the lowest value group; and 2½% from the 'present rents' in the next lowest group. The others have been left uncorrected.

This correction having been made, it is only necessary to divide the total of gross values (as shown) by the total of actual rents in order to get a measure for the level of assessment of the gross values of a particular category of freely rented houses. If in the particular category and district houses were fully valued (in accordance with the principles just set out), this level of assessment would come out at 100%; if they were undervalued (as most often proves to be the case) it would come out at less than 100%. Whenever the level of assessment of gross values is less than 100%, it is clear that the houses are undervalued; but the level of assessment of gross values, calculated in this way, does not necessarily give an accurate measure of the degree of undervaluation. For there is still another complication to be allowed for before we can get a measure of the significant degree of undervaluation.

The rateable value of a house, on which the poundage is levied, is not the same thing as the gross value. Rateable value equals gross value *minus* a deduction, intended to cover cost of repairs. The deduction is proportionately larger, the lower the gross value of the house.<sup>1</sup> This dependence of the scale of deductions on the assessed gross value of the house means that if the gross value is underassessed, the percentage deducted (in order to proceed to the rateable value) tends to be larger than it should be. Consequently, if the gross value at which a house is assessed falls below the 'true' gross value by a certain percentage, the rateable value of that house will often fall below the 'true' rateable value by a larger percentage, because a larger percentage has been deducted for repairs than would have been deducted if the gross value had been assessed more accurately. In order to measure the *level of assessment of rateable value* (which is what really matters) some allowance has to be made for this. We have therefore calculated (1) the actual rateable value of the average house in each district and category with which we are concerned, by applying a scale of deductions<sup>2</sup> to the average gross values given; and we have calculated (2) the 'true' rateable value of that average house by applying the scale of deductions to the 'true' gross value. Taking (1) as a percentage of (2) we have our final measure for the *level of assessment of rateable value*.

These are the principles which we have followed in calculating the level of assessment for those two classes (pre-war and post-war houses let at free rents) for which a direct calculation of the level of assessment is possible from our material. So far the work is fairly straightforward, and the results achieved have a perfectly clear meaning. We assume that a strict enforcement of the law would have made gross values correspond with actual rents, and we enquire

<sup>1</sup> There is perhaps a sense in which the making of this deduction may be said to import a certain degree of progressiveness into the rating system; but rates are scarcely to be regarded in consequence as a progressive tax (even against rent, and certainly not against income), since the cost of repairs on a more expensive house is no doubt in fact proportionately less than on a cheaper house. Nevertheless, the existence of this system of deductions has considerable importance for the future of the rating system. For it means that rates could easily be made progressive against rent, to any extent desired, without any administrative change, merely by steepening the scale of deductions.

<sup>2</sup> See p. 38, note.

what is the relation between actual rateable values, as assessed in 1938, and rateable values, as they would have been assessed if the law had been strictly enforced in this sense. Whatever one's views may be on the question of what the law ought to be, it is fairly clear what the law is, so that a comparison between the actual level of assessments and the legal level must at the least be extremely instructive.

Unfortunately this is as far as the problem remains straightforward, and it is not very far. The two classes for which the level of assessment can be calculated in this way are only two out of six, and some of the remaining classes are very large ones. Actually only about one-quarter of all the houses in the returns were rented houses, let at free rents; for all the remaining three-quarters direct evidence is lacking.

If we had to resign ourselves to saying nothing about the houses in the other four classes, it would mean that we could only present results covering a very small part of the field; but the situation does not really seem to be so bad as that. For it is notorious that valuers (proceeding in this respect entirely in accordance with the law and with the representations of the Central Valuation Committee) do try to put a similar value on physically similar houses, at least when the similarity (in site, construction and amenities) is a close one. Now in most cases there does not seem much reason to suppose that the pre-war 'free rented' houses are altogether different sorts of houses from the controlled houses and pre-war owner-occupied houses in the same locality; nor that the post-war 'free rented' houses are altogether different from the council houses and post-war owner-occupied houses in the same locality. We do find marked differences in the level of assessment of the pre-war and post-war 'free rented' houses; so it is impossible to assume that the same level of assessment applies to all the houses in the same locality. But it does not seem unreasonable to assume that the level of assessment (of gross values) which we find to be typical for the pre-war 'free rented' houses (as a whole<sup>1</sup>) is also typical for all the other pre-war houses in that locality; and that the level of assessment which we find to be typical for the post-war 'free rented' houses is also typical for the other post-war houses. This is what a general knowledge of the process of valuation would lead one to expect. The results of using this assumption can hardly accord exactly with those which we should get if we really had information about the gross values which an 'ideal' valuer would have fixed in 1938; but it is nevertheless not likely that they will be far from the truth. It is most improbable that any marked tendency, revealed by the figures so calculated, would be absent if we had been able to base our calculations on material giving 'ideal' valuations of all houses.

The method by which our estimates of the levels of assessment in particular areas have been calculated will now be evident. We have treated the houses with 'free rents' as a sample of the whole number of houses. We have calculated the level of assessment of gross values of all the pre-war houses with free rents, and have applied this to the total of the gross values of all pre-war houses, so as to get an estimate of the 'true gross value' of all pre-war houses.

<sup>1</sup> The numbers in a category are often too small for it to be feasible to take value groups separately (as would be theoretically desirable).

We have then converted this to 'true rateable value' by using the rate of deduction appropriate to the average true gross value of these houses.<sup>1</sup> The 'true rateable value' of the post-war houses has been worked out in a similar way. The nominal rateable value of each class of house has been worked out by applying the appropriate rate of deduction in a similar way to the nominal gross values. The nominal rateable value of all houses together as a percentage of the 'true rateable value' of all houses together then gives the *level of assessment* for the area.

### 3. THE SELECTED AREAS.

This is how the level of assessment for each particular district was calculated; there remained to be considered the question of the number of districts for which this calculation should be performed. Since, as has been explained, we could not feel perfect confidence in the assumptions involved in the calculation (though they seemed to be reasonable assumptions) we did not feel that it was necessary to attempt a calculation of the level of assessment for all the local government areas for which we had returns. The task would have been enormous, and the results we should have got would hardly have had commensurable importance. It seemed sufficient to take a sample.

What sort of a sample? In a problem such as this, random sampling seems to have less to be said for it than usual. Each of our local government areas has its place on the map, and its place on the map is significant. Further, there are enormous differences in size of population between local government districts, and these differences have to be taken into account. There are also exceedingly important differences between districts in occupational make-up.

For these reasons, we decided in favour of a system of geographical sampling. We took nine 'selected areas', each containing a number of contiguous local authorities differing among each other very appreciably, but such that each selected area was on the whole of a distinct type. Each area included authorities from more than one administrative county. We chose our areas so as to include examples of mainly industrial, mainly mining, mainly residential, and mainly agricultural districts.

The selected areas may be described in the following way:

1. *London Ring*. Owing to the defects in the returns for the Metropolitan Boroughs, we were not able to include London itself among the selected areas. We decided, therefore, to take as one of our areas that part of Greater London which is not included in the L.C.C. area. Even without pushing the frontier

<sup>1</sup> Since all we know is the *average* gross value and *average* present rent of the houses included in a particular category or value-group, and have no information about the distribution of gross values within that group, we cannot say how many houses would in fact experience a reduction in their percentage deductions for repairs if the level of assessment of their gross value were raised to 100%. The only way of allowing for this factor has therefore been to smooth the scale of deductions, making it vary continuously with gross value, not discontinuously (in jumps) as it does in fact. The scale of deductions assumed for this purpose was as follows:

G.V. (£)	10 and less	20	25	35	60 and more
R.V. as percentage of G.V.	60	65	70	75	80

For intermediate gross values, the percentages were calculated by linear interpolation.

of 'Greater London' very far afield, this provided us with a very large group of authorities in Middlesex, Essex, Hertfordshire, Kent and Surrey.

2. *Manchester area.* The area we have called by this name includes authorities in both Lancashire and Cheshire, all of them in the neighbourhood of Manchester.

3. *Black Country.* This includes authorities in Staffordshire, Warwickshire and Worcestershire, in the neighbourhood of Birmingham.

4. *Merseyside.* Authorities in Lancashire and Cheshire, in the neighbourhood of Liverpool.

5. *Tyneside.* Authorities in Northumberland and Durham, in the neighbourhood of Newcastle.

6. *South Wales.* Authorities in Glamorgan and Monmouth, including the coal mining districts (but not the anthracite districts), and the corresponding parts of the coastal region.

7. *Sussex Coast.* Authorities in East and West Sussex, mainly watering-places.

8. *Fens.* Largely agricultural districts in Ely and Lincolnshire. This was chosen as an area mainly dependent on arable farming, and known to have been much affected by derating.

9. *Marches.* Largely pastoral districts in Shropshire and Montgomery. We chose this as our other agricultural area, in order to represent a different type of farming.

The relative sizes of these nine selected areas will appear from the following table.

TABLE I. The Selected Areas

	Number of authorities	Total number of houses in returns (thousands)
1. London Ring	68	953
2. Manchester area	33	483
3. Black Country	23	448
4. Merseyside	11	245
5. Tyneside	16	191
6. South Wales	25	186
7. Sussex Coast	16	103
8. Fens	14	38
9. Marches	12	25

There are thus included in our selected areas about 2.7 million houses, which is approximately one-third of the total number of houses for which returns were received. The proportion of the total number of authorities covered is of course far lower (only 15%). It seemed desirable to include a more than proportional number of the larger authorities, since the behaviour of such authorities is of particular importance.

#### 4. COMPARISONS BETWEEN THE SELECTED AREAS.

Some comparisons between the selected areas (each taken as a whole) are shown in Table 2. The average level of assessment for the whole of a selected area is calculated in just the same way as the level of assessment for a particular district—by dividing the total of nominal rateable values by the total of 'true' rateable values. These levels of assessment for each selected area as a whole are shown in the first column of the table.

Although the County of London is not included among our selected areas, the defects in the London figures are not such as to make it impossible to estimate the level of assessment for the County of London as a whole. The missing figures (as we have observed above) concern the proportion of pre-war rented houses which were still subject (in 1938) to rent control. We have made two alternative assumptions about this proportion<sup>1</sup> and derived from them two alternative estimates for the level of assessment in the County of London. It is highly probable that the 'true' figure (which would be strictly comparable with the figures for other areas) lies between these limits. So far we can go; but this method of estimation is too rough for it to be available for the study of variations in assessment within London County.

TABLE 2. Levels of Assessment—Comparisons between Areas

	Level of assessment (all houses)	Percentage of post-war houses	Levels of assessment	
			Pre-war houses separately	Post-war houses separately
1. London Ring	62	56	67	59
2. Manchester area	79	30	86	69
3. Black Country	65	44	72	59
4. Merseyside	74	37	80	66
5. Tyneside	81	35	88	73
6. South Wales	80	19	85	67
7. Sussex Coast	69	48	73	66
8. Fens	70	27	77	59
9. Marches	74	22	86	56
London County	81-4	13	82-6	69

The second column of the table shows percentages of post-war houses in the various areas. It is evident that this is an important factor making for differences in the degree of underassessment. All those areas having a level of assessment under 70 have an abnormally high percentage of new houses, while both South Wales and London County, with a level of assessment over 80, have an abnormally small percentage of new houses. But this cannot be the sole explanation of the differences in level of assessment between the areas, as is evident by comparing the cases of Merseyside and Tyneside, for example.

The third and fourth columns show levels of assessment for pre-war and post-war houses taken separately. Levels of assessment for post-war houses are always lower than for pre-war, usually much lower. This clearly explains the tendency for the areas with large percentages of post-war houses to have low levels of assessment, when all houses are taken together. But remarkable variations in the levels of assessment between different areas still persist, even when the pre-war and post-war houses are taken separately.

We do not pretend to be able to offer any complete explanation of these differences in the levels of assessment between different areas, though some

<sup>1</sup> According to assumption A, 50% of the houses in the lowest value group and 75% of those in the next value group were decontrolled, the ratio of gross value to rent (controlled or decontrolled respectively) being 30% lower for the decontrolled than for the controlled houses; according to assumption B, 70% of the houses in the lowest value group and 90% of those in the next value group were decontrolled, the ratio of gross value to rent being 10% lower for the decontrolled than for the controlled houses. Assumption A gives the lower, assumption B the higher, figure for the level of assessment. Attention had also to be paid to the different scale of deductions in force in London.



partial explanations will be found in a later chapter.<sup>1</sup> For the present it will merely be useful to notice that there is a distinct correlation between the levels of assessment of pre-war houses and the proportions of post-war houses in the respective areas—the latter is of course an indication of the rate of expansion of the area in question. Table 3, which follows, is a rearrangement of Table 2, putting the areas in the order of their rate of expansion (so defined).

TABLE 3. Areas compared by Rate of Expansion

	Percentage of post-war houses	Levels of assessment	
		Pre-war houses	Post-war houses
London Ring	56	67	59
Sussex Coast	48	73	66
Black Country	44	72	59
Merseyside	37	80	66
Tyneside	35	88	73
Manchester area	30	86	69
Fens	27	77	59
Marches	22	86	56
South Wales	19	85	67
London County	13	82-6	69

It will be seen that the order of the levels of assessment of pre-war houses fits the order of rates of expansion very closely. The only serious exception is the 'Fens' area, and that is a small area, which may easily be a freak. The levels of assessment of the post-war houses, on the other hand, appear from this point of view to be completely erratic.

It will also be useful to confront the levels of assessment of the different areas with a measure of the relative wealth or poverty of the areas. For purposes of local government study, rateable value is itself the best measure of relative wealth or poverty; for it is on the rateable value of a district that the wealth or poverty of its local authority depends. But when we are comparing levels of assessment, it is 'true' rateable value which is the significant basis of comparison, not nominal rateable value. For nominal rateable value itself depends on the assessment level.

TABLE 4. Areas compared by Relative Wealth

	Index of rateable value per house		Level of assessment		Relative under- assessment of post-war houses
	True	Nominal	Pre-war houses	Post-war houses	
Sussex Coast	159	164	73	66	90
London Ring	148	137	67	59	88
London County	130-126	157	82-6	69	84-80
Merseyside	93	102	80	66	82
Black Country	69	67	72	59	82
Tyneside	65	78	88	73	83
Manchester area	64	75	86	69	80
South Wales	50	59	85	67	79
Marches	50	55	86	56	65
Fens	42	43	77	59	77

In Table 4, the selected areas are thus arranged in descending order of 'true' rateable value per house. The first column sets out the average 'true' rateable value for each area, expressed (for convenience of comparison) as a

<sup>1</sup> Pp. 53-63.

percentage of the average level in all the selected areas taken together. The second column sets out the levels of nominal rateable value per house, expressed as percentages of the average nominal rateable value in all the selected areas taken together. Comparisons by means of this second column are less significant than comparisons by means of the first; nevertheless the second column is worth including, since these figures are certain, and it must be remembered that the figures in the first column are to some extent hypothetical.

Columns 3 and 4 repeat once again the (separated) levels of assessment. Column 5 shows the *relative* undervaluation of the post-war houses—that is, it expresses column 4 as a percentage of column 3.

The order of the areas, arranged according to their relative wealth, is not so very different from their order according to rates of expansion (Table 3). This is of course what we should expect. There is therefore a distinct tendency for the pre-war houses to be more undervalued in the richer areas than in the poorer areas—but the fit is not so good as it is when the areas are arranged by rates of expansion.

The levels of assessment of the post-war houses remain as erratic as before. But if we compare the levels of assessment of the post-war houses with those of the pre-war houses (as is done in column 5), we find a distinct tendency for the post-war houses to be more undervalued (relatively to the pre-war houses) in the poorer areas. This is of course in part a reflection of the tendency for the pre-war houses to be absolutely more undervalued in the richer areas. But it is worth noticing that the relative undervaluation of the post-war houses accords more closely with the wealth of the areas than with their rates of expansion.

Thus the tentative conclusions which we derive from a comparison of the selected areas are the following:

(1) When all houses are taken together, the poorer areas usually appear the less undervalued.

(2) This is largely, but by no means wholly, due to the fact that the poorer areas contain a smaller percentage of post-war houses.

(3) The pre-war houses, taken by themselves, are more undervalued in expanding areas; this generally means in richer areas.

(4) The gap between the valuations of pre- and post-war houses appears to be narrower in the richer areas.

We must now turn to see how far these conclusions are verified *within* the selected areas.

## 5. COMPARISONS WITHIN THE SELECTED AREAS.

The nine diagrams which form Chart I show, for each of the selected areas taken separately, the relation between the level of assessment of rateable value in each component district and the average 'true' rateable value per house in that district. Each dot represents a particular local authority (county borough, borough, urban or rural district). Its position on the diagram shows its average 'true' rateable value per house (measured horizontally) and average level of

assessment for all houses together (measured vertically). It will be evident from a glance at the diagrams that in most areas there is a strong tendency for the districts with the lower 'true' rateable value per house to have the higher level of assessment.

It has not been practicable to distinguish on the diagrams between those local government areas (county boroughs, for instance) which are relatively important (in the sense of having a large population) and those which are relatively unimportant. But in order to ensure that this treatment of large and small authorities on the same basis does not have misleading effects, regression lines have been calculated in which the size of the respective districts has been allowed for.<sup>1</sup> It will be seen that these regression lines, which are drawn on the diagrams, follow in every case almost exactly the course which the eye would naturally follow in summarizing the general trend of the dots. We may therefore accept the general impression we get from these diagrams as being on the whole a correct one.

There can be no doubt that the lower levels of assessment in the wealthier districts are again largely due to their higher percentages of new houses. This is confirmed by the fact that the two selected areas which do not exhibit any such tendency (the London Ring and the Sussex Coast) are precisely those for which the *relative* undervaluation of new houses is abnormally low. But again it is not the case that this is the only cause of the tendency. A tendency in the same direction is usually found when pre-war and post-war houses are considered separately.

The nine diagrams on the left of Chart II show levels of assessment of pre-war houses only, plotted against average true rateable value per house of all the houses (*not* pre-war houses only) in each district. Since we are using the true rateable value as an index of the wealth of the district, we must continue to take the average over all houses. The nine diagrams on the right show levels of assessment of post-war houses, similarly plotted against true rateable value per house of all houses.<sup>2</sup>

Comparing the diagrams for the various selected areas, we see first of all that in the *London Ring* there is no evidence that levels of assessment bear any relation to the wealth of the district. The range of variation in the levels of assessment is not wide, but the variations appear almost completely random. The one phenomenon in this area which does seem worthy of note is the

<sup>1</sup> The regression lines have been calculated by taking the *true* rateable value per house of each district ( $T$ ) as independent variable, and the nominal rateable value per house ( $N$ ) as dependent variable. The linear regression equation thus takes the form  $N = aT + b$ , where  $a$ ,  $b$  are constants, chosen so as to make the sum of the squares of differences of the observed and calculated total nominal rateable values (for all the houses in the returns in each district) a minimum. Since the level of assessment  $L = N/T$ , the regression curves shown in the diagram are of the form  $L = a + b/T$  which is the equation to a rectangular hyperbola.

<sup>2</sup> Regression curves have been calculated for Chart II in the following way. For each district a calculation has been made of what the average nominal rateable value per house would have been if all houses in the district had been valued at the same level of assessment as the pre-war houses only. Call this  $N_1$ . Then in order to get the regression curves for the pre-war houses, a regression equation  $N_1 = aT + b$  has been fitted, using the same weights as before. In order to get the regression curves for the post-war houses, we have fitted a regression equation  $N_2 = aT + b$ , where  $N_2$  is what the average nominal rateable value per house would have been if all houses had been valued at the same level of assessment as the post-war houses only.

existence of a distinct group of rather poor districts with unusually low levels of assessment (under 60% even for pre-war houses). This special case which is responsible for the upward slope of the regression curve in the London Ring is worth mentioning, because it may well provide the basis of fact which underlies the impression that high rates are a *consequence* of undervaluation. In this special case the impression may be correct, but the rest of our diagrams indicate how very wide of the mark it is in general.

In the Manchester area, in the Black Country, on Tyneside, in South Wales and in the Marches, the tendency for the wealthier districts to have lower valuations is quite clear, both for pre-war and post-war houses. In the Fens area it is clear for pre-war houses, perhaps less clear for post-war houses (but the numbers of post-war houses let at free rents are too small to be significant in many districts of this area). On Merseyside there is no clear tendency either way.

The Sussex Coast is an odd case. When the area is taken as a whole, there is no recognizable trend; nevertheless (and this becomes very clear when pre-war and post-war houses are distinguished) the absence of trend is due to three or four exceptionally wealthy districts—some of the wealthiest districts in the country—whose levels of assessment are distinctly higher than might have been expected from their great wealth. If this small group is removed, the same downward trend would be visible on the Sussex Coast as in other areas.

It thus appears that in five of our nine areas there is a clear tendency for levels of assessment to diminish with increasing wealth, and that in two more there are at least recognizable traces of such a tendency. This is probably as much as we should expect. The tendency appears in pre-war houses and in post-war houses taken separately, being nearly as clear in the latter case as in the former. The downward slope of the regression curves in Chart I was certainly not wholly due to the larger percentage of post-war houses in the richer districts.

We have also tested the selected areas separately to see if there appears to be any connection between the levels of assessment of pre-war houses and the rate of expansion (measured by percentage of post-war houses). But the results are rather indecisive, and we have therefore not troubled to reproduce the diagrams used for this test. They are, of course, very similar to those on the left-hand side of Chart II, since there is a close correlation between the rate of expansion of a district and its true rateable value per house. But the correlation between the rates of expansion of the different districts within an area and the levels of assessment of pre-war houses in those districts is rather less close than we might perhaps have expected from what we found when we were comparing the different selected areas in the last section.

There is probably a reason for this. When we are comparing distinct regions of the country, the percentage of new houses is a fair indication of the rate of expansion of that region. But when we look at things more narrowly, and compare the various districts composing a region, it is by no means so certain that a rapidly expanding area (in the sense of one whose wealth is rising) will have an abnormal percentage of new houses. There may be no room for the

new houses in this particular district, because it is already built up; the new houses, which belong to the district economically, may therefore be found outside its boundaries. It is therefore hardly surprising if we get a rather disappointing result when we measure rates of expansion by the percentage of new houses—and yet there is no other measure available to us.

The evidence is not inconsistent with the view that low valuations accompany rapid rates of expansion; but the main statistical support for that conclusion has to rest on the comparison *between* the selected areas.

Within the selected areas, the relation between the *relative* undervaluation of post-war houses and the wealth of the district seems to be entirely random. The narrower gap between pre-war house and post-war house valuations which we found on the Sussex Coast and in the London Ring must therefore be considered to be a characteristic of those areas, rather than of wealthy districts as such.

We have now presented our evidence on the variation of valuation between different districts and different parts of the country; before we can offer any explanation of these tendencies, there are a number of related matters which have to be discussed.

#### 6. LEVELS OF ASSESSMENT FOR HOUSES OF DIFFERENT VALUES.

In the process of calculating the levels of assessment in particular districts, estimates had to be made of the levels of assessment for the various value-groups in those districts. As it is clearly a matter of considerable social interest to know whether the more expensive houses are more or less underassessed than the cheaper houses, the results we have obtained in this direction are summarized in Table 5 below.

It should first be explained that the levels of assessment in this table (but in this table only) are levels of assessment of *gross values*; they will thus average a little higher than the levels of assessment of *rateable values* shown in previous tables. Our ignorance of the way in which gross values and actual rents are distributed within value-groups makes it hazardous to attempt in this particular case the further refinement involved in proceeding to levels of assessment of rateable value. When we were concerned with an average of all value-groups (as in the previous sections of this chapter) the error which might arise from this ignorance could not be serious; here, where we are concentrating upon the particular value-groups, it might easily be very serious. We have therefore confined ourselves to stating the levels of assessment of *gross value*.

Further, in order not to stretch our information more than is necessary, we have weighted the levels of assessment of each value-group, in the different districts of an area, by the number of houses let at free rents, not by the total number of houses in that value-group. The table which follows thus contains a smaller element of hypothesis than some of its predecessors. It shows, without any special 'assumptions' being necessary, the ratio of the nominal gross values of all the freely rented houses in an area to the total of their actual 'annual' rents, pre-war and post-war houses being shown separately. The table thus represents a direct summary of the returns for freely rented houses;

it is probable that the relations between nominal gross values and true gross values for other houses would not be so very different—but of that we cannot of course be certain.

In some of the smaller, and in some of the poorer, of our selected areas, the numbers of rented houses in the higher value-groups are naturally very small; a level of assessment derived from a very small sample may easily have no significance. We have therefore excluded from the table all cases where the number of rented houses, on which the level of assessment would be based, is less than 100. And we have printed in heavy type all those cases where the number of houses is less than 250, intending this as a suggestion that the significance of the figure is doubtful. There is no reason to doubt the significance of the other figures.

It will be seen from the table that there is, on the whole, a quite well marked tendency for the levels of assessment to rise as one goes up the scale of gross values. Within the class of pre-war houses, and within the class of post-war houses, it is usually the cheaper houses which are the more underassessed. The tendency here thus seems to run in the opposite direction to that which we found when comparing different districts. So long as we confine our attention to the same district, it can be said that underassessment does usually have a 'progressive' character; it softens the burden of rates on the cheaper houses, and presumably therefore on the smaller incomes.

TABLE 5. Levels of Assessment (of Gross Values) by Value-groups

PRE-WAR HOUSES						
Gross value ... ..	Under £20. 10s.	£20. 10s. to £40	£40 to £60	£60 to £100	Over £100	
1. London Ring <sup>1</sup>	67	67	75	83	90	—
2. Manchester area	86	89	96	98	—	—
3. Black Country	75	75	88	94	—	—
4. Merseyside	86	81	93	98	—	—
5. Tyneside	88	91	98	99	—	—
6. South Wales	89	81	90	92	—	—
7. Sussex Coast	68	70	75	84	88	—
8. Fens	78	78	—	—	—	—
9. Marches	91	84	85	—	—	—
POST-WAR HOUSES						
1. London Ring <sup>1</sup>	60	61	67	71	78	—
2. Manchester area	70	74	78	—	—	—
3. Black Country	69	63	65	58	—	—
4. Merseyside	67	70	75	78	—	—
5. Tyneside	79	76	81	—	—	—
6. South Wales	85	68	72	84	—	—
7. Sussex Coast	67	66	68	73	78	—
8. Fens	64	63	—	—	—	—
9. Marches	70	57	—	—	—	—

There are, it is true, some significant exceptions to this general tendency. South Wales, the 'Marches', and (for pre-war houses only) Merseyside temper

<sup>1</sup> For the purposes of this table only, the figures for the 'London Ring' were calculated on a basis confined to those localities in the area which are outside the county of Middlesex. The reason for this exclusion was that the value-groups, into which houses are classified, are different in Middlesex from what they are in other areas. It can however be said that the *probable* levels of assessment for different value-groups in the county of Middlesex are not significantly different from those in the rest of the London Ring.

the wind to the greatest extent not for the lowest value-group, but for the next lowest. The reason for this generally is that the two lowest value-groups in these areas are found predominantly in different districts, so that the higher assessment levels of the cheaper houses are a reflection of the higher assessment levels in the poorer districts. It remains a nearly universal rule that in the same district the level of assessment is higher, the higher the value of the house—so long as one stays within the class of pre-war, or within the class of post-war, houses. But the relative underassessment of post-war houses is such that the most expensive post-war house is often assessed more generously than the cheapest pre-war house.

## 7. SUMMARY.

As the analysis of this chapter has been a little intricate, it may be found convenient if the broad results we have reached are set out in summary form. Most of the statements in such a summary have to be made subject to some qualification; consequently this summary must not be taken to be a full statement of conclusions, but merely as a guide to the conclusions which have been set out in detail earlier in this chapter.

(1) We have defined the *level of assessment* of any group of houses to be the total rateable value of those houses expressed as a percentage of what this total rateable value would have been if the gross values of the houses had been equal to the actual annual rents, *provided* those rents were established in a free market. In the case of controlled houses, council houses, or owner-occupied houses, where there is no free rent, we have assumed that their levels of assessment are the same as the most nearly comparable group of freely rented houses in the district.

(2) Our enquiry has not attempted to cover the whole country, but has been based upon a sample of nine selected areas, chosen so as to represent regions of different geographical and occupational types.

(3) The first thing which becomes apparent from the most cursory inspection of our material is the almost universal tendency for the levels of assessment of houses built after 1918 to be considerably lower than those of houses built before the first world war.

(4) The average level of assessment in expanding areas which have a relatively large number of new houses is therefore considerably lower than in the stationary or contracting areas where the proportion of new houses is low.

(5) This, however, is not the only reason why there are lower levels of assessment in the expanding areas. Even when pre-war houses are taken by themselves, there is a very distinct tendency for expanding areas to have lower levels of assessment. This is quite clear between one of our selected areas and another; it is not so clear within the selected areas, but there is probably a good reason why this should be so. When a district is fairly built up, the proportion of new houses ceases to be an index of the expansiveness of the district. Variations in level of assessment with rate of expansion are much less marked in the case of post-war houses.

(6) If we look, not at the expansiveness of the area, but at its wealthiness (measured by the level of 'true' rateable value per house), we find very similar

tendencies, for expansiveness and wealth are closely related. Pre-war houses are more undervalued in the wealthier regions and (excepting in the most prosperous regions) they are more undervalued in the wealthier places in each region than in the poorer places. With post-war houses, there is no marked tendency between the selected areas, but in several of the less prosperous of these regions the same tendency for a greater degree of undervaluation in the wealthier places appears even for the post-war houses. Thus, in spite of exceptions, we may say that there is a recognizable general tendency for similar houses to be more undervalued in prosperous places than in poor places.

(7) This is the situation as between one place and another; but within the area of a single local authority there is a distinct tendency for the smaller and cheaper houses to be more generously assessed than the larger and more expensive houses. This tendency holds for pre-war houses and for post-war houses taken separately; but it has to be crossed with the other tendency (at least equally powerful) to undervalue post-war houses relatively to pre-war. Thus the most expensive post-war house is often more undervalued than the poorest pre-war house.

These are the general tendencies which we have discovered; before seeking to explain them, we must examine the effects of these varying degrees of under-assessment on the true burden of rate poundages.

## CHAPTER II

### UNDERASSESSMENT AND RATE POUNDAGES

#### 1. THE GENERAL EFFECTS OF VARIABILITY IN VALUATION ON THE SPREAD OF RATE POUNDAGES.

It is well known that one of the main causes of high rate poundage is low rateable value. The differences in the levels of rateable value from one district to another are much greater than the differences in standards of local expenditure which public opinion (and the central government) think to be justifiable. Since the grants-in-aid of the central government are still far from sufficient to bridge this gap, the poorer authorities are unable to maintain even a very moderate standard of services, except by imposing high rate poundages. There are of course other reasons for high poundages in particular cases, but there can be no doubt that this is the main cause.

If it were the case that low rateable value is generally a result of low levels of assessment, then it would only be necessary for valuations to be made uniform in order for a large part of the problem of unequal rate poundages to disappear. We have, however, seen in the last chapter that the truth is on the whole the other way about. It is the districts with low rateable value per house which ordinarily have the higher levels of assessment, the districts with high rateable value per house which are the most underassessed. Since the districts with low rateable value per house are also (except in purely rural areas, where standards of expenditure are lower) the districts with the high rate poundages, it follows that the spread of poundages—the difference between the poundages



attained in the highly rated poor districts and those attained in wealthy districts with low rates—is actually a good deal wider than it appears.

In what follows we shall use the term 'true poundage' to mean the ratio between the amount actually paid in rates by the houses in a particular district and the 'true' rateable value of those houses; just as the nominal poundage of a district is the ratio between the amounts actually paid in rates by the houses in that district and their nominal rateable value. When 'true' and 'nominal' poundage are defined in this way, the definitions can be readily extended to wider areas than those covered by a single local authority; applying exactly the same definitions to the wider area, we get the average true poundage, and average nominal poundage, over the area. The ratio between *true* and *nominal* poundage is the same as the ratio between *nominal* and *true* rateable value—what we have called the level of assessment of rateable value.

Since levels of assessment are usually less than 100%, true poundage is ordinarily less than nominal poundage; in a sense, therefore, rates are 'not so high as they look'. It is doubtful, however, whether the *general* difference between the levels of nominal poundages and the levels of true poundages ought to be pressed very far. Suppose that rates in a particular district are 10s. in the £; a particular person's house may be assessed at no more than 70% of its 'true' rateable value, and we may therefore say that his *true* poundage is no more than 7s. But this does not make him pay any less rates. He is in the habit of thinking of his rate burden as the sort of burden which is represented by a 10s. poundage. If all houses were equally undervalued, comparisons between the nominal poundages in different districts would not be misleading; it would only confuse matters if we persisted in translating all the nominal poundages into true poundages.

True poundages do become very significant, however, when levels of assessment differ. Suppose that there were another house whose assessment was 90% of its *true* rateable value; then the true poundage paid by this other house would be 9s., not 7s. (assuming the nominal poundage to be the same). From the point of view of the first householder, the true poundage paid by the second is higher than his poundage in the proportion of nine to seven; thus if he is in the habit of thinking of his poundage as 10s., we can bring home to him the position of the other householder if we tell him that the other householder is paying at a rate which would seem to him like a poundage of 9/7 of 10s., that is, nearly 13s. If however we wanted to explain to the second householder the position of the first, we should have to say that the other fellow is paying at a rate which would seem to him like a poundage of 7/9 of 10s., that is, only about 7s. 9d.

In view of this relativity among poundages, we shall find it best to give in the following tables, not the actual figures for true and nominal poundages, but the ratios of each to a certain standard level. The most convenient standard level is the average poundage (true or nominal respectively) over the whole of our selected areas taken together and treated as a single region. The average nominal poundage in 1938 for the whole of our selected areas was 12s. 11d. The average 'true' poundage was 8s. 9d. (It is not probable that either of these figures differs appreciably from the average for the country as a whole.) We

shall compare the nominal poundage in any district or area with this average of nominal poundages, and the true poundage with this average of true poundages.

The significance of a comparison of this sort can be seen in the following way. Suppose that in 1938 all dwelling houses had been uniformly assessed, but that in order to prevent too great a disturbance in nominal valuations, the uniform level had been fixed at about 67%, instead of 100%, of *true* rateable value. Suppose that it was desired to raise exactly the same revenue in rates from dwelling-houses<sup>1</sup> in each local government area as was actually raised in 1938. Then the poundage which would have to be fixed in each district would be proportional to its true poundage, but the average poundage over all districts would be the same as before—that is, 12s. 11d. Those districts whose *true* poundage (as we have defined it) exceeded the average of true poundages by so much per cent would have a poundage exceeding 12s. 11d. by the same percentage. Thus if we compare the number of districts whose true poundage differs from the average of true poundages by so much per cent with the number whose nominal poundage differs from the average of nominal poundages by the same percentage, we do get a correct picture of the effect of variations in valuation on the spread of poundages.

We begin by setting out a table showing the distribution of poundages over all our selected areas taken together. Table 1 shows the number of local government districts whose poundages (nominal and true respectively) were so much per cent above or below the respective general averages. The districts do of course vary in size very greatly; but when we take a large sample such as this, that is not likely to affect the picture appreciably.

TABLE 6. Distribution of Rate Poundages (all selected areas together)

	Number of districts with <i>nominal</i> poundage	Number of districts with <i>true</i> poundage
60-40% below average	1	4
40-20% below average	33	36
Less than 20% below average	81	74
Less than 20% above average	56	37
20-40% above average	20	24
40-60% above average	12	11
60-80% above average	5	6
80-100% above average	6	6
100-120% above average	4	3
120-140% above average	—	9
140-160% above average	—	3
160-180% above average	—	1
180-200% above average	—	1
200-220% above average	—	1
220-240% above average	—	2
	218	218

The tendency of variability in valuation to increase the spread of true poundages comes out very forcibly in this table. The average of nominal poundages, as we have seen, was 12s. 11d. in 1938; the highest nominal

<sup>1</sup> Any revaluation of dwelling-houses would of course in fact have an effect on the distribution of the rate burden between dwelling-houses and other (commercial or semi-commercial) property. Here it must be supposed that steps have been taken to prevent any shift of rates to or from dwelling-houses as a whole.

poundages reached were in the neighbourhood of 27*s.* The average true poundage was only 8*s.* 9*d.*; but the highest true poundages reached were still in the neighbourhood of 27*s.* or 28*s.* Thus in order to explain to the 'average' ratepayer, who was paying a true poundage of 8*s.* 9*d.* (but regarded it as a poundage of 12*s.* 11*d.*), what was actually being paid in the most heavily burdened districts, we should have to put the 'true' rate in those districts at more than 220% above 12*s.* 11*d.*—that is, at more than 40*s.* in the £.

2. COMPARISONS BETWEEN THE SELECTED AREAS.

It is well known that the highest rate poundages in the country are to be found in South Wales and in the County of Durham; it is of course in these areas that the districts which provide the appalling 'tail' of our last table are to be found. It may well be that these extreme cases have rather more weight in that table than they should have, seen against the background of the country as a whole; but there can be no doubt that the general tendency for the variability of valuation to conceal the true dispersion of poundages holds for the country as a whole, though the 'tail' may be proportionately less impressive when it is seen against a wider background than that of our selected areas.

The effects of undervaluation on poundage are further illustrated in Table 7, which gives the average of nominal poundages and the average of true poundages (each of them shown, once again, as a percentage of the respective general average) for each selected area taken separately. The areas are arranged in increasing order of true poundage. It will be seen that the order of true poundages is roughly similar to the order of nominal poundages, but the dispersion of true poundages is on the whole wider.

TABLE 7. Average Poundages over the Selected Areas

	Nominal	True
Sussex Coast	74	75
London Ring	90	83
Marches	95	103
Fens	100	103
Black Country	115	110
Merseyside	112	122
Tyneside	102	124
Manchester area	110	128
South Wales	155	182
Average of all selected areas	100	100

It will also be of interest to compare these average poundages with the index of rateable value per house, given in Table 4 of the preceding chapter. On the left of Table 8 below, the areas are set out in order of nominal rateable value per house, with nominal poundage set against it; on the right they are set out in order of true rateable value per house, with true poundage set against it.

We should expect to find that the 'Marches' and 'Fens', being agricultural areas, would have relatively low rate poundages; so they need hardly be taken into the comparison. Otherwise we find a much better agreement between the order of rateable values and the order of poundages when we take the 'true' figures than we do if we take the 'nominal' ones. There is indeed only one discrepancy between the order of true rateable values and the order of true

poundages, and that is readily explicable. The Black Country, though still a relatively poor area, is an expanding area, and expansion reduces the cost of many social services.<sup>1</sup> Merseyside, on the contrary, though still relatively rich, has many of the characteristics of a declining area, such as having an abnormal problem of poverty. Once we have made allowance for this, we see that the rule of lower rateable value making for higher poundage holds for true rateable value and true poundage without exception.

TABLE 8. Average Rateable Value and Average Poundage

	Index of nominal			Index of true	
	Rateable value per house	Poundage		Rateable value per house	Poundage
Sussex Coast	164	74	Sussex Coast	159	75
London Ring	137	90	London Ring	148	83
Merseyside	102	112	Merseyside	93	122
Tyneside	78	102	Black Country	69	110
Manchester area	75	110	Tyneside	65	124
Black Country	67	115	Manchester area	64	128
South Wales	59	155	South Wales	50	182
Marches	55	95	Marches	50	103
Fens	43	100	Fens	42	103
Average of all selected areas	100	100	Average of all selected areas	100	100

### 3. COMPARISONS WITHIN THE SELECTED AREAS.

The rule does not only hold between one area and another; it also holds within the areas with remarkable uniformity. Chart III displays a series of diagrams, constructed along the same lines as those in the previous chapter, but now showing the relation between true rateable value per house and true poundage. As in the case of Chart I, regression lines have been drawn in which the size of the respective districts has been allowed for.<sup>2</sup> The regression lines do not follow the visible trend of the dots quite so closely as those in Chart I; this is due to the tendency for rates to be higher in large centres of population. But there is undoubtedly a good general correspondence.

It will be noticed that all the regression lines in Chart III slope downwards without exception. But not only do they all slope downwards, they exhibit a very high degree of uniformity. If one takes a level of true rateable value equal to the average true rateable value per house over the whole of the selected areas (this is about £28), and enquires what would be the 'probable' true poundage which would rule in a district with this level of true rateable value

<sup>1</sup> It has frequently been held that rapid expansion makes for high rate expenditure, but from our studies we are quite unable to believe that this is generally the case. An expanding area may have greater costs in the making of highways and similar amenities; but this is nothing to what it saves, as a result of its picked population, in poor relief, in health, and even in education expenditure.

<sup>2</sup> These regression lines have been calculated by taking true rateable value per house ( $T$ ) as independent variable, and amount paid in rates per house ( $R$ ) as dependent variable. The linear regression equation thus takes the form  $aT + b$ , where  $a$ ,  $b$  are constants chosen so as to make the sum of the squares of differences of the observed and calculated rate receipts from dwelling-houses (for each district as a whole) a minimum. Since the true poundage  $P = R/T$ , the regression curves in the diagrams take a hyperbolic form.

if it were placed in each of the selected areas in turn (these probable poundages can be read off directly from the regression curves), it is found that the figures for the different areas differ remarkably little. In South Wales it is as high as 9s. 6d.; in the Marches it is as low as 7s.; but in all the other areas it is between 7s. 6d. and 8s. 9d. The slopes of the regression curves through this 'average' point (this slope is the other factor which determines the form of the curve) do indeed differ very considerably; but even here there is a strong tendency towards conformity with a recognizable rule. There are exceptions to this rule in the cases of Merseyside and the Black Country (but we are prepared for them to be the wrong way round); and also in the case of the Fens area (but the regression line in that case is very imperfectly determined, owing to the great homogeneity of the area). With these exceptions, we can say that the regression line always slopes downward more steeply when the bulk of the area consists of districts whose true rateable value per house is less than the general average, than it does when the bulk of the area consists of relatively wealthy localities. This suggests that a regression curve, of slightly more complicated form, but substantially similar in shape, could have been found which would have given a remarkably good fit over the whole of our selected areas taken together.

What our figures suggest is that the representative relation between true rateable value and true poundage is something of this sort. When the wealth of a district is very low, the need for many sorts of local services will often be high, so that expenditure out of rates will be rather high, and poundage will be high for the double reason of high expenditure out of rates and low rateable value. At a rather higher level of wealth, these special causes for high expenditure become less pressing; expenditure out of rates falls, and with higher rateable value, poundage falls very steeply. At a higher level again, expenditure begins to rise, as the local authority is able to indulge in a higher level of services, and is apparently very ready to do so. Consequently the fall in poundages, which one would expect to result from the higher rateable value, is appreciably slowed up.

It may be that this swelling of the rate expenditure of the richer authorities is partly due to the tapering-off of government grants. But it is very evident that the equalizing tendency of grants has not been carried very far, and has been far from sufficient to relieve the strain under which the poorest authorities labour.

### CHAPTER III

## THE CAUSES OF VARIABILITY IN VALUATION

### 1. AN OLD PROBLEM OR A NEW ONE?

Before we can reach any satisfactory explanation of the variations in assessment levels which have been described in the previous chapters, it is necessary to make up our minds on a question of fact—a question about which we unfortunately possess exceedingly little positive information. Are the tendencies we have discovered new tendencies, or old tendencies? Did they come into existence during the nineteen-twenties and nineteen-thirties, or does their

origin stretch back into the mists of the nineteenth century? We do not know, and it is hard to think of any really promising way of finding out.<sup>1</sup>

It is of course quite certain that the valuation problem, as such, is no new one. We have seen in Part I that even early Victorian reformers were already concerned about the defects of the valuation system, and plans for a more unified control of valuation, at least on a county basis, were put forward in the most responsible quarters as long ago as 1850. What we cannot tell is whether the particular tendencies we have discovered—the relative underassessment of new houses, and the lower levels of assessment in the richer and more expanding districts—go back to that remote date. It would be quite consistent with the evidence to suppose that, although valuations were no doubt already very erratic in the days of Queen Victoria, the pattern of their eccentricities was different from what it is at the present day.

We have to make our choice, and to make it almost blindfold. That being so, it seems safest to guess that the Victorian problem—the problem with which Cornwall Lewis and Goschen were concerned—was not a problem of any particular influences distorting the structure of valuations; it was a mere matter of slackness in administration. We know that the reformers of that epoch were fighting administrative slackness in numerous other fields; it would seem highly probable that the same was the case here. Slack valuations would be revised insufficiently often, and in remote regions hardly revised at all. We know that this is what happened to public valuations in other fields (for example, to valuations of imports and exports before 1850); it is not very much to assume that it was this same disease that the reformers were fighting in the case of valuation for rating.

That is our hypothesis; it can only be tested by seeing whether we are able to construct a coherent story on that basis. Even if we succeed in doing so, it will not verify the hypothesis completely; but it will perhaps establish some probability that the hypothesis is not very far out.

## 2. THE OLD PROBLEM RECONSTRUCTED.

If (it is almost a contradiction in terms) returns of a similar character to those we have been analysing had been collected for a 'slack' system of the kind supposed, what would they have shown on analysis? We can deduce an answer fairly easily. Valuations would have been based, not on current rents, but upon rents as they were at various dates in the past; if rents were generally rising (as seems usually to have been the case in the nineteenth century) these past rents would typically be lower than current rents, and therefore valuations would be lower than current rents. There would thus be a general tendency to underassessment from this cause alone. But since the rise in rents would

<sup>1</sup> It cannot be done by questioning valuation officers. For it is very clear from a study of what has been written on the subject in professional quarters, that valuation officers have never had the opportunity of acquiring that wide experience of practice over the whole country, which would be necessary before an opinion could be given on these wide issues. A good officer knows his own practice, and perhaps that of his neighbours—but this is far from enough. The tendencies we have discovered are not revealed before the facts are submitted to statistical analysis; and there was no opportunity for that analysis before 1938.

A more promising line might be the study of Rate Books. But that would be a herculean task, far beyond our resources.

have proceeded more rapidly in some areas than others, the level of assessment (measured against current rents) would be lower in these more rapidly expanding areas than it would be in the more stagnant areas. There would thus be a tendency for lower levels of assessment in the more expanding (which presumably means in most cases richer) areas—which is precisely what we find in 1938.

There are, on the other hand, several features of the 1938 structure of assessment levels which we should not expect to find in a system which was merely suffering from 'slackness'. In the first place, the spread of assessment levels between rich and poor districts (as we have found it) seems a good deal too wide to be readily attributable to this cause alone. Although slackness would lead to lower levels of assessment in the richer districts, the spread would be unlikely to be very wide; for it is very probable that the slackness of valuation would be greater in the more stagnant districts—assessments would be still more antediluvian than they would be in the more prosperous areas. It is in fact very hard to believe that the remarkably high levels of assessment which we have found to be almost the rule in 1938 for the case of very poor districts can have already existed in the nineteenth century.<sup>1</sup> We might, of course, have found particular cases of poor districts where valuations were not particularly slack, and these would be the districts with the highest levels of assessment; but they would be balanced by other cases of exceptional slackness, in which a poor district might have a level of assessment as low as that of an expanding district.

Another feature which we should expect to find in a 'slack' system offers a more striking contrast. A slack system might leave the valuations of old houses unrevised for excessively long periods, but new valuations for new houses would still be necessary at the times when they were put up. Now there can be no doubt that the low levels of assessment of the old houses would have some tendency to drag the levels of assessment of the new houses down with them, since new houses would often be valued on the analogy of the old houses to which they were similar. But if any attention at all was paid to legal principle, the valuations of the new houses would be influenced to some extent by their actual rents, and would therefore be *relatively* higher than the valuations of the old houses. Certainly there seems to be no reason why a *lower* level of assessment for new houses than for old houses should arise in a 'slack' system; yet this lower level is what we find—quite unmistakably and as a very general rule—in 1938.

Thus if we assume that the main trouble with the valuation system prior to 1914 was 'slackness', it follows that the structure of valuations, as it existed at that time, must have differed to an appreciable extent from the structure of

<sup>1</sup> What looks at first sight like a contradiction to this conclusion is found in the figures for rateable value and property assessed to Schedule A which we do possess analysed by counties for certain dates prior to 1914. (See above, p. 18). It was already the case in 1910 that the ratio of rateable value to Schedule A value was abnormally high in the mining counties (Durham, Glamorgan and Monmouth), precisely the counties in which some of the highest levels of assessment are found in 1938. But this phenomenon is readily explained by the fact that coal mines, although assessed for rating, are not assessed for income tax under Schedule A. It does not imply any relative overassessment of house property.

valuations as it is to-day. It would of course be too much to suppose that the valuation system of to-day has altogether overcome a tendency to 'slackness'—though the prodding of the central valuation committee and of county valuation officers must have made it appreciably harder for local officials to rest on their labours than it was for their predecessors fifty years ago.<sup>1</sup> What is certain is that modern valuations are being distorted by some more positive influence than a tendency to inertia. It is not hard to guess what that influence is.

### 3. THE RISE IN PRICES OF 1914-1920 AND THE IMPOSITION OF RENT RESTRICTION.

The obvious source of the disturbance in the modern structure of valuations is the great rise in prices and money incomes which took place during the last war. This affected the valuation system in at least two distinct ways—through the imposition of rent control and through the rise in poundages. As we shall see, the two phenomena were closely connected; but it will be convenient to consider them separately.

Rent restriction introduced an altogether novel element into the valuation problem. Up to 1914, when all rents were free, the valuation officer's task had been, in principle, a simple one. He had to fix the gross value of a house (or gross estimated rental, as it was then called) at the rent which 'a tenant' would be prepared to pay for the right to occupy the house under the conditions of tenure laid down in the law. Usually this meant the net rent (exclusive of rates) which the actual tenant was actually paying, or something thereabouts. But when rents were controlled, this ceased to be the case. 'A tenant' could generally be found who would be prepared to pay a far higher rent than the actual tenant was paying, but the landlord was prohibited from letting the house to this potential tenant at the rent the potential tenant was prepared to pay. Was this potential tenant 'a tenant' within the meaning of the law?

It is quite certain that nearly all valuation officers decided in the first place that he was not. This can be established quite conclusively in the following way.

The total rateable value of all property assessed to rates in England and Wales is known.<sup>2</sup> Expressing the total for each year as a percentage of the total for 1914, we get the following table.

TABLE 9. Index of total Rateable Value of all Property  
(England and Wales)

1914	100	1925	115
1920	104	1926	117
1921	106	1927	121
1922	111	1928	122
1923	113	1929	126
1924	112	1930	128

It does not seem useful to go beyond 1930, owing to the discontinuity which results from derating. (The 1930 figure is before derating.)

<sup>1</sup> As we have seen above (p. 18) the Inland Revenue did some quite effective prodding for Schedule A purposes before 1914.

<sup>2</sup> *Rates and Rateable Values* (any issue).



We cannot of course deduce from this table what happened to the total rateable value of *all houses*, but it is unlikely to have moved in a very different way from this total for all property—at least up to 1925. Further, up to 1925 the amount of new building was not very considerable. It follows therefore that up to 1925 the rateable value of pre-war houses increased by a little less than the permitted increase in controlled rents (this permitted increase was 15% after 1920). Values cannot have gone beyond the controlled rents, but must have lagged a little behind them. It was this extraordinary stickiness of valuations, lasting well into the post-war period, which transformed the whole problem of valuations and of rating.

How great was the disturbance introduced into the rating system by this lack of adjustment in valuations can be made evident by the following calculation.

According to the calculations of Professor Bowley,<sup>1</sup> the level of incomes in 1924 was about 75% higher than in the pre-war year 1911. The cost of living had also risen by about 75%; thus the average standard of living was about the same (quite a creditable achievement, in view of the reduction in the working week which took place very generally in 1919). If there had been no rent restriction, one can therefore say with some confidence that the level of rents (including rates) would have been unlikely to have settled at much less than 75% above the pre-war level—since this is the rise which would have been necessary to correspond with the changed value of money, and which would have reproduced the same effective economic situation as existed in 1914. In view of the shortage of houses due to the cessation of house building during and immediately after the war,<sup>2</sup> it is very probable that the rise in rents (in the absence of restriction) would have been actually more than this 75%. A 75% rise is however quite sufficient for our argument.

The rise in working class rents (including rates) which actually took place up to 1924 was about 45%. Much the greater part of this was due to the increase in rate poundages. If we assume that in 1914 rates on working-class house property were on the average about 25% of inclusive rents (this is the figure which seems most consistent with other information), a net rent of 75 in 1914 might have been raised to about 87 (15% higher) in 1924. Valuations, as we have seen, do not appear to have risen more than 10%, but rate poundages had on the average nearly doubled; thus it is reasonable to assume that rate payments would have increased from 25 to nearly 55. Inclusive rents would thus have risen from 75 + 25 (= 100) to 87 + (say) 53, which is about 140. The difference between this 40% rise and the 45% which is the Ministry of Labour's figure for the rise in inclusive rents by 1924 is probably to be explained by additional costs for repairs which could be added to rents under the Rent Restriction Acts.

What would have happened if rents had not been controlled, but inclusive rents had risen to the level of 75% above 1914, which (as we have seen) is the

<sup>1</sup> *The National Income, 1924.*

<sup>2</sup> The shortage actually experienced must have been due, to some extent, to the rent restriction itself, which increased the demand for house-room (for example, by making people less willing to take in lodgers).

lowest figure which can be put upon the probable rise in the absence of restriction? Inclusive rents would then have risen from  $75 + 25 (= 100)$  to 17 and this 175 must have included approximately the same 55 for rates (since the amount of money needed to be raised in rates would not have been appreciably affected by the absence of rent restriction). Net rents (excluding rates) would thus have risen from 75 to 120 ( $175 - 55$ ), which is a rise of 60%. The difference between this 60% (which is a minimum figure) and the 'permitted increase' of 15% measures the extent to which the level of net working class rents was kept down in the early nineteen-twenties by the rent restriction.

Since the volume of purchasing power was clearly sufficient to support a level of net rents at least 60% above 1914, but the rents of pre-war houses were limited to a 15% rise, it was inevitable that such houses as were available outside the control (especially new houses) should be able to command a rent which was more than 60% up. And so a position was reached in which all dwelling-houses could be classified into four types: (1) houses with controlled rents; (2) council houses, whose rents also were obviously artificial; (3) owner-occupied houses, which have always set an awkward problem to the valuer, but which were now—again as a result of the rent restriction—appearing in increasing numbers; (4) rented houses outside the control, still relatively few in number, whose rents appeared to be—and in some sense certainly were—inflated beyond any reasonable figure.

Now it is clear that *none* of these types of house provided any secure evidence to serve as a basis of valuation. None of them gave any indication of the level which rents would actually have reached in the absence of restriction, nor of the level at which rents might be expected to settle as restriction was relaxed. Largely as a result of the rent restriction, the rents of the few freely rented houses were indeed abnormally high, and it seemed impossible to believe that these 'scarcity' rents could be used as a basis for the assessment of all houses. It was much easier and safer to base valuations on the controlled rents, and to value other houses (so far as possible) by analogy from the controlled houses.

The first group of houses for which a decision of principle had to be made was usually (it may be supposed) the new houses, not many in number, put up in the early nineteen-twenties. It must have been with reference to these houses that the fateful decision was so generally made to disregard their rents altogether (or, if they were owner-occupied, their cost or selling value), and to value them by analogy—often a very remote analogy—from the controlled houses. It was a fateful decision, yet one can easily see that no other road seemed open.

From this will have sprung the tendency, which we have found to be so universal, to value new houses so exceedingly generously. Between one new house and another, rent (or selling value) may indeed have been given some weight in the determination of gross value for rating; but new houses had established their claim to a level of assessment a long way below 100% of rental value.

Thus it is evident that at this stage the representative valuation officer had answered his problem in the following way. For the controlled houses, he

accepted the controlled rents as true rents; all other houses were valued by analogy from the controlled houses. This meant that any pre-war houses which were exempt from control were treated as if they were still controlled; their gross value was only allowed to rise by a small percentage above the pre-war level. New houses were allowed a very handsome deduction from their actual rental value.

This is the position which (we suggest) had been reached by the middle 'twenties. There can indeed be little doubt that this was the position, since no other hypothesis is consistent with the extraordinarily small increase which we find on comparing the total rateable value of the country in the years 1924-28 with the total rateable value in 1914.

It does not follow, however, that this was the position in 1938. Between 1928 and 1938 there was time for many things to happen. And some relevant things clearly did happen.

The most important thing was the expansion of new building. Largely as a result of this expansion, the 'scarcity' of houses was considerably alleviated, and the rent restriction could in consequence be largely relaxed. By 1938 the number of owner-occupied houses had of course been greatly increased, but the numbers of freely rented houses (both post-war and pre-war) had also increased very greatly. It was therefore possible to contemplate a reversion to the old practice of valuing on a basis of actual (free) rents; and an effort was made by the Central Valuation Committee to bring about this reversion. It is however evident (from what we have seen) that their efforts met with very limited success. Between 1930 (after derating) and 1938, the total rateable value of the country increased by rather more than another 20%. Most of this increase is doubtless to be explained by the extensive new building of the 'thirties; some of it may be due to revaluations, but the total increase of round about 50%<sup>1</sup> above 1914 is much less than would have occurred if the 1914 basis of valuation had been generally restored. An increase of 50% is certainly no more than would have been necessary to allow for the changed value of money, even if the number of houses (and number of householding families) had remained unchanged. But the number of houses had largely increased; so that if valuations had been on the same basis as in 1914, total rateable value must have been at least 20% higher than it was. There must have been a marked fall in levels of assessment between 1914 and 1938.<sup>2</sup>

How then are we to interpret the 1938 situation, of which (at last) we have the facts? We have seen that new houses had established a claim to a level of assessment far below their actual rents; it is clear that this claim was maintained, and that the new owner-occupied houses were substantially valued on the same basis. In the case of the controlled houses, there had been a slight breakaway from the practice of valuing them on their controlled rents; nevertheless that practice was still generally followed. There remains the case of the decontrolled houses, whose valuations (as we have seen) were systematically

<sup>1</sup> It is impossible to give a close figure, because of the derating discontinuity.

<sup>2</sup> We have seen that the average level of assessment in 1938 (over the country as a whole) was probably between 65 and 70%. It would thus seem plausible to assume that the average level of assessment in 1914 was between 85 and 90%. This is about what we should expect if the main trouble at that date was 'slackness'.

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higher than the valuations of the new houses, when compared with their actual rents. How is this striking discrepancy between the levels of assessment of old and new freely rented houses to be explained?

It is probably to be explained in two ways. By the time that pre-war houses began to come out of control in large numbers (mainly after 1933) the intensity of the housing shortage was considerably diminished. (It was of course for this reason that the decontrol was possible.) In consequence, the end of the rent restriction did not result in a large increase in the rents of the decontrolled houses, but (on the whole) only in a very moderate increase. There was therefore not much pressure to disturb their valuations, which continued at something approaching 100% of the old controlled rents, and therefore at perhaps 80% of their new free rents. This is precisely what we have so often found to be the typical situation.

This seems satisfactory as an explanation of the valuations of the decontrolled houses, but in a way it proves too much. For if the housing shortage was diminishing, why was there no narrowing of the gap between the valuations of the post-war houses and their actual rents? The actual rents of the post-war houses were surely becoming less extortionate, and this might have been expected to raise their levels of assessment, if the valuations of the post-war houses were still based—ultimately—upon the level of controlled rents. But this is not what we find. The gap between the levels of assessment of pre-war and post-war freely rented houses remains very wide indeed.

An explanation can probably be found in one of the consequences of the abandonment of actual rental value as a basis of assessment. When once the actual rent has been abandoned as evidence, there is no basis for the comparison of one house with another except purely physical characteristics (size, number of rooms, and so on). Now it is obvious that the main advantage of living in a more modern house—the advantage which enables it to command a higher rent—does not consist in size, but in convenience. It commands a higher rent because of its more attractive fittings, and most of all because of the general arrangement which makes it more appropriate for a modern way of life. It is almost inevitable that in a system of rating valuation which has come to depend on physical characteristics, this advantage of convenience should be underestimated. The lower level of assessment of the new houses had thus become by 1938—whatever it was at first—a consequence of the crude physical methods of valuation on which valuers had been driven back as a result of the breakdown of the traditional basis in the nineteen-twenties.<sup>1</sup>

<sup>1</sup> An interesting confirmation of this conclusion is to be found in a phenomenon which is noticeable in some of our selected areas, and which at first sight seemed perplexing. The absence of any correlation between the wealth of a district and its level of assessment, such as we found in the wealthiest of our selected areas (the London Ring and the South Coast), is largely due to the fact that in several of the wealthiest districts in these areas levels of assessment are comparatively high. Is it not probable that these are districts in which the controlled rents never dominated the situation as they did in the rest of the country, so that they never experienced anything like the same complete breakdown of the traditional basis of assessment?

#### 4. THE PRESSURE OF RATE POUNDAGES.

Our explanation of the extraordinary variability of valuations in 1938 is beginning to take shape; but we have not yet explained the most remarkable of the phenomena which have been disclosed by our statistical analysis—the widespread tendency towards lower levels of assessment in richer than in poorer districts. We have seen that this tendency is by no means entirely a consequence of the lower assessment levels of new houses; it applies to pre-war and to post-war houses taken separately.

In part, it is no doubt to be explained along the same lines as the similar tendency in a 'slack' system which we began by discussing. The rise in rents which accompanied decontrol must undoubtedly have been a good deal more marked in expanding and wealthy areas (where the demand for houses was still intense) than it can have been in poor and depressed areas. In so far as valuations remained governed by the old controlled rents, this would result in a lower level of assessment in the rich areas than in the poor areas.

This takes us a good deal of the way; but an argument of this sort is less convincing when it is applied to post-war houses, and yet we have seen that a lower level of assessment in wealthy districts is nearly as general a rule with post-war as with pre-war houses. Besides, it is very doubtful if the explanation is strong enough to account for such a very decided and well-marked tendency.

There is, however, another explanation which has to be considered. It is most unlikely that it is the whole explanation; some part of the tendency must undoubtedly be ascribed to the cause we have just been considering; but this other influence may well have had some effect in the same direction.

One of the most striking effects of the failure of rateable value to rise with the general price-rise of 1914–20 was the rise in rate poundages. Rate poundages had to rise, because the expenses of local authorities naturally expanded more or less in proportion to the rise in the price-level, and since the basis of taxation expanded so little, the only way of getting the necessary revenue was to raise poundages. It might have been thought, however, that with the gradual expansion of rateable value in the direction of a more 'normal' level, the pressure on poundages would have relaxed. This was not so, because of the great expansion in the functions of local government which was induced by the legislation of the nineteen-twenties and 'thirties.

A rise in poundages which is induced by a change in the value of money, accompanied by revision of valuations, is likely to affect all authorities more or less similarly; but a rise in poundages due to a widening of the functions of local government weighs disproportionately upon the poorer authorities. It costs nearly as much to run a clinic of given size in a poor district as in a rich one with the same population; but the rateable value on which the cost has to be raised is much lower in the poor district, so that the necessary increase in poundage is much higher. It is thus not surprising to find that while the general level of poundages was much higher in the 'twenties and 'thirties than it was in 1914, the spread of poundages was also much wider. This is illustrated in the following table. It includes only the county boroughs, but in this

case the county boroughs are quite representative. It gives the numbers of county boroughs with low, moderate and high poundages (and also the percentages of the total rateable value of all county boroughs falling into each group, so as to take into account differences in size) for one pre-war and two post-war years.

It will be seen that the spread has increased very greatly since 1914, and the improvement brought about by the introduction and development of the block grant has been very moderate.

TABLE 10. Distribution of Nominal Poundages for the  
83 present County Boroughs

Poundage	1913-14		1927-8		1938-9	
	No.	Percentage	No.	Percentage	No.	Percentage
More than 20% below average	9	9	15	12	17	20
20% below to 20% above average	68	85	52	74	52	67
More than 20% above average	6	6	16	14	14	13
	83	100	83	100	83	100

Since the highly rated areas are, to a very large extent, the poor areas, it follows that the districts which we have found to have relatively high levels of assessment are also the districts with the high poundages. This can be tested directly, as is done in Chart IV. In the diagrams which compose this chart, the level of assessment (as before) is plotted against the true poundage of each district (that is, the nominal poundage corrected for level of assessment<sup>1</sup>). It seemed best to take the true poundage, as being a better measure of the pressure of rates than the nominal poundage.<sup>2</sup>

Inspection of the diagrams will show that in this case there is a positive relation between level of assessment and true poundage in every one of the selected areas. In the London Ring and on Merseyside, both poundages and levels of assessment are too close together for the connection between them to be very clearly marked; but so far as a relation can be detected, it is still in the same direction.

Is there any reason why districts with high poundages should so systematically have high levels of assessment? It is not hard to think of one. The effect of the high levels of assessment in the poor areas has been, as we have seen, to keep down the nominal poundage in those areas; if assessments had been more uniform, the poundages in the highly rated areas would have appeared even higher than they do. As we shall see in the next chapter, there are some ways in which the poor areas have lost by their high levels of assessment; but these are rather recondite reactions, and it is not surprising to find that it is exceptional for them to be taken into account. The obvious effect of lower valuations is that they would diminish revenue at a given poundage, and so might make it necessary to raise the (nominal) poundage; when the poundage is already high, it is not surprising that the weight of local influence should be thrown against any generosity in assessment. A wealthy area, whose

<sup>1</sup> See above, p. 49.

<sup>2</sup> Regression lines have been calculated, in this case, by taking a linear regression of level of assessment on true poundage as independent variable, weighting (as is here quite convenient) by the true rateable value of all houses in the returns in each district. The regression lines therefore make due allowance for the size of the districts, as the plotted points cannot do.



poundage is low, can afford to underassess; a poor area, whose poundage is already high, and perhaps staggering, cannot risk its being raised still further.

These considerations ought not to affect the assessment of rateable value. The process of assessment consists in the carrying out of certain legal rules; it should thus be almost judicial in character. But so long as the valuation officer remains the servant of the local authority, he cannot be expected to be indifferent to the effect on the local council of the decisions he makes. If the council is in easy circumstances, generosity in the level of assessments may go down with it very well; but if its means are already straitened, then it will probably feel that there are better ways of spending money than in using it to let people off lightly with their rates.<sup>1</sup> It is indeed true that so long as valuation remains under local control, underassessment is in essence a form of expenditure; and it is not surprising that wealthy authorities, or those with few calls on their purses, are able to indulge themselves in this expenditure more liberally than those which are poor or embarrassed.

We have no means of telling how far influences of this sort are really operative; all that can be said is that the evidence is consistent with their being operative, and that if they are, it would help to explain what happens. There is of course no reason why they should not have been at work for a long time—indeed the suspicions of the Victorian reformers about the *local* control of valuation would suggest that they may well have been in existence long ago. But there are two reasons why they are likely to have increased in importance. One is the greater intensity of the burden of rates in poor districts which has been a feature of the period after 1920; the other is the general chaos in the basis of valuation, which has made it infinitely easier for every authority in the country to adopt that valuation policy which seems to it good.

## CHAPTER IV

### THE EFFECTS OF UNDERVALUATION ON INTER-LOCAL FINANCES

#### 1. METHODS OF ESTIMATION.

It is a commonplace that if the finances of an area were entirely self-regarding it would be a matter of indifference whether it chose to raise its rate revenue by means of a low valuation and a high poundage or a high valuation and a correspondingly low poundage. But from as far back as 1815, when contributions to the County rate began to be calculated on the basis of relative rateable values, local finances have never been entirely self-regarding. Throughout the nineteenth century relative undervaluation was a frequent source of inter-local complaint. As the century advanced the additional weight placed by Parliament on county services enhanced the inequity of differences in assessment practice within counties, by increasing the importance of the County precept in local demand notes. The sharp rise in prices at the end of the war of 1914-18

<sup>1</sup> It should be remembered that whenever the matter attracts any attention, it is always particular people's assessments which are being considered.

greatly added to the seriousness of differences in assessment levels by creating a large spread between revised and unrevised valuations.

Even so, up to 1929 the effects of inter-local differences in assessment levels were confined to intra-county finances, except for a small factor in the education grant which depended on relative rateable values. By introducing a weight for low rateable value, the Block Grant formula of the Local Government Act of that year greatly extended the field in which differences in assessment levels would produce inter-local inequities. From that time it became absolutely essential on grounds of equity, not merely that areas within a county should follow the same assessment practice, but that there should be no differences in level between county areas, whether county boroughs or administrative counties. Before we proceed to discuss the ways in which this uniformity in practice might be brought into being it is clearly necessary to examine the quantitative importance of the effects of present variations in assessment levels on the equity of the distribution of contributions to county rates on the one hand, and of the allocation of the Block Grant on the other.

With the information available it is unfortunately not possible to calculate the precise changes in Block Grant allocations which would occur if all areas were valued correctly. This is because the grant consists of two elements, one dependent on 'weighted population' which is the result of the formula calculation; the other representing compensation for derating. The proportion in which these two elements are combined in the grant differs from area to area, depending on the amount of derated property in the area. There is no particular difficulty however in calculating the change in 'weighted population' which would result from a correct valuation, at least if we confine our attention to the County Boroughs. If we express the result as a poundage it should give us a measure of the maximum change in the Block Grant allocation which any County Borough would experience. In practice the change would be considerably smaller because of the damping effect of the compensation for derating element, which would remain unchanged. Within the administrative counties the effect would be still further damped down by other elements.

In order to get an estimate of the effect of correct valuation on Block Grant allocations we have therefore calculated the changes in 'weighted population' which would occur in the twenty-seven County Boroughs in our selected areas as the result of a revaluation. The calculations give the true relative changes in this element of the Block Grant. The translation into poundages is much more dubious, but it seems worth attempting since it gives a measure of the change the magnitude of which is at once obvious. From the nature of our sample it can be concluded fairly safely that no greater change in Block Grant allocation would be experienced by any area in the country.

In comparison with the complications of the Block Grant formula the calculation of the readjustment of county rate contributions is a simple matter. Since the contributions of the component areas are determined solely on the relative rateable values, the calculation of true rateable values for each area in a county at once shows the correct relative shares in the county rate which should be allocated to the different areas. Confronting these with the actual shares at present paid, we get the extent of the change which would occur in

each area, assuming that the amount to be collected in county rates remained the same as before.

We have carried out the county rate calculation for three counties, which lie partly within and partly without our selected areas. The first (A) is a relatively poor county in the north-west, partly industrialized, largely suburban, and partly still entirely rural. It is one in which we know the variations in inter-local assessment levels to be rather exceptionally wide. (B) and (C) are both relatively wealthy counties in the south-east, but differ in character to a considerable extent. One is a member of the London Ring, the other is not. While variations in inter-local assessment levels are considerable, in both there is evidence that a real effort has been made in recent years to attain a greater correctness. While such a small sample cannot be fully representative, we believe that these three counties between them will fairly illustrate the magnitude of the changes in county rate contributions which would occur as the result of revaluation.

## 2. THE EFFECT ON COUNTY RATE CONTRIBUTIONS.

Before we proceed to the calculations it is necessary to make certain assumptions to supplement our information which, it will be remembered, refers only to separate dwelling-houses. We have accordingly based our calculations on two alternative assumptions. The first is that all property in a district is as much undervalued as the dwelling-houses in it are shown to be undervalued in the Returns. The second is that only dwelling-houses are undervalued, all the remaining property in the district being correctly assessed. (Our information does not cover quite all the dwelling-houses in any area. We have also assumed that those not included in the Returns were valued at the same level as houses of their class for which returns were made.) The true answer for any area will lie somewhere between the figures obtained by using the two assumptions. The effect of the assumptions will naturally vary from area to area, depending on the proportion of house to other property in the area. In some areas it may be possible to say which of the two assumptions gives the more plausible answer.

It will be apparent that the effect of the first assumption (that all property is equally undervalued) is to distribute an extra burden—or *mutatis mutandis* relief—over all the property in the area, without putting any special weight on house property. Under the second assumption the change in the rateable value of the area will be much less, but the change in contribution will be concentrated on the dwelling-houses in the area. What the effect on the rate liability of any particular house or class of houses will be depends on the extent to which the valuations of such houses may be out of line with the valuations of other types of houses in the district. This is a very important matter, but one which we may leave aside at this stage of our investigations.

The results of the calculation of the redistribution of county rate burdens in the three sample counties is shown overleaf. It will be observed that by far the greater proportion of areas would experience only a small change in either direction. On the average of the three counties 76% of the areas would have to make adjustments of no more than 10%—in many cases very much less than this. Nor does the position differ much from county to county. County A, where the assessment levels are known to differ substantially,

naturally makes the worst showing. Under Assumption I where the change would be greatest, 27% of the areas would require an adjustment of 10% or over. Even this is not very serious. On the other hand some of the poor areas in this county would derive substantial benefit from the change. Nearly 16% of them would receive relief of 15% or more in their contributions. Altogether it can safely be concluded that in most areas the adjustment would be of quite manageable proportions.

TABLE II. Changes in County Rate Contributions as a Result of Revaluation

Percentage change in county rate contribution	Areas in County A		Areas in County B		Areas in County C	
	If all property undervalued	If dwelling-houses only undervalued	If all property undervalued	If dwelling-houses only undervalued	If all property undervalued	If dwelling-houses only undervalued
- over 20	4	—	—	—	—	—
- over 15 to 20	2	4	2	—	2	—
- over 10 to 15	3	2	2	3	—	2
- over 5 to 10	4	8	9	10	2	2
- 5 or under	10	9	5	6	6	4
0	1	—	2	—	—	—
+ 5 or under	5	5	5	4	2	2
+ over 5 to 10	4	7	5	8	1	4
+ over 10 to 15	4	1	2	1	1	—
+ over 15 to 20	1	2	—	1	—	1
+ over 20 to 30	—	—	1	—	—	—
+ over 30	—	—	—	—	1	—
Number of areas	38	38	33	33	15	15

Nevertheless it will be seen that in each county there are one or two areas where the increase in contribution would be fairly substantial—of the order of 20% or over. This looks more serious. When we examine these areas in detail it appears that they are all either areas which are in general quite abnormally undervalued, or areas which have expanded very rapidly in recent years, and which have consequently an abnormal number of new houses which are undervalued. Undervalued areas and expanding areas are usually relatively wealthy, and it is probable that most areas of this type—there must be a considerable number up and down the country—could support the additional burden without much difficulty. By finding the proportion which the county rate bears to total rates in the area it is possible to estimate what change in poundage, at the existing level of assessment, the increased contribution would represent. It appears that it would rarely be more than about 1s. in the £, even in semi-rural areas where the county rate forms a high proportion of total rates. Actually poundages would rise less than this, because the revaluation would also increase the yield of a penny rate for local purposes.

Besides these moderately hard cases there appears among the three sample counties one much more serious case, where the increase in contribution would be over 30% under assumption I, and 18.5% under assumption II. The district is a rapidly expanding industrial area on the outskirts of a large county borough. The level of assessments is exceedingly low—under 55% for both new and old houses. It would seem probable from the nature of the district

that industrial and other property may also be undervalued, so that the correct answer would lie nearer to assumption I than assumption II. If this is so the increase in terms of poundage at present assessment levels would be of the order of 2s. in the £. This is a serious matter in an area which contains a mainly working class population including a large number of owner-occupiers of small new houses. There may be a few other areas in the country which are similarly placed. There are not likely to be very many of them, and still fewer are likely to be as serious as this one. In spite of the fact that areas like this have clearly been shirking their financial responsibilities, they would seem to call for some special assistance of a temporary nature. Fortunately the problem seems to be small enough to be dealt with on an individual basis.

Apart from these exceptional areas we may conclude that the rise in rates consequent on a readjustment of county contributions would not lead to an intolerable burden. On the other hand many poor areas, especially in the north, would experience a not inconsiderable relief. It may be remarked that the figures lend scant support to the contention that there has been deliberate undervaluation in order to reduce the amount of the county contribution. If any deliberate action can be attributed it would appear rather that it has been prompted by the desire to attract factories (and population) by offering exceptionally favourable terms to industrialists.

### 3. THE EFFECT ON BLOCK GRANT ALLOCATIONS.

The calculation of the re-allocation of the Block Grant is again made under the alternative assumptions—I, that all property in the district is equally undervalued, and II, that all dwelling-houses are undervalued to the degree shown in the Returns. Unfortunately the results cannot be stated with quite the same precision as those for the county rate readjustment, because of a difficulty inherent in the formula. The weight given for rateable value ceases to operate at a level of a rateable value of £10 per head. It is a weight which only functions when a district is below a certain level of wealth. Now since all areas are in some degree undervalued, the result of a revaluation is inevitably to push up the general level of rateable value per head. A greatly increased number of areas would therefore come within the limit of the 'ceiling' and would lose the advantages of the weight, or the full effect of the advantage, in the calculation of their grant allocation. If the ceiling were left undisturbed the equalizing effect of the grant would consequently be reduced, and it is hardly reasonable to assume that the ceiling would not be adjusted consequentially.

In our calculations we have therefore aimed to make a readjustment of the ceiling to the rateable value level which would give approximately the same results at correct valuations as the £10 level does in existing assessment conditions. It is clear that if we are working on the assumption that all property is equally undervalued the change in rateable value per head will be greater than under assumption II, and that consequently the ceiling will need to be higher if it is to give the same result. In our calculations we have taken £15 per head as the limit for the low rateable value weight on the assumption that all property is undervalued, and £12. 10s. per head on the assumption that dwelling-houses only are undervalued.

The result of the calculation definitely establishes that even when the ceiling is raised in this way the effect of revaluation on the 'weighted population' of any area is only small. This is natural since the rateable value weight is only one of several elements in the formula. The main benefit from the reallocation would clearly occur in those areas which are now relatively highly assessed, especially those in which rateable value is well below the ceiling, so that the weight will exert its full effect. Individual losses in grant allocation would on the whole be smaller, because relatively under-valued areas tend to be wealthy, and hence the rateable value weight is in any case of only minor importance.

For the County Boroughs in our selected areas we find in the first place that the correction of valuations would make no difference whatever to the grant allocations of the wealthy towns on the South Coast. Their rateable value is, and remains, above the ceiling, so that the rateable value weight exerts no influence. Secondly, we find that only three of the twenty-seven boroughs—less than 12%—would sustain an alteration of as much as 8% in weighted population. These three county boroughs are all highly industrialized areas of fair to moderate wealth. The two (in the north) which are relatively over-assessed would have their weighted populations increased by 10.4% and 8% respectively. The one (in the south) which is relatively under-assessed would have its weighted population decreased by just over 8%. (These differences are calculated on assumption I; on assumption II they would be smaller.) Thirdly, the poorest towns would only experience a quite moderate increase in their weighted population—the poorest of all would get no more than 5% under assumption I, and 3.1% under assumption II. This is a good illustration of the limited powers of the present formula.<sup>1</sup>

Since the towns which would experience the largest percentage changes in weighted population are all relatively wealthy, and hence their rateable value per head is not far from the ceiling, and their block grants small in relation to rates, when translated into poundages the effects of revaluation on block grant allocations would be extremely limited. In no case could the change in poundage be worth as much as a 3*d.* rate, even if the whole of the Block Grant were distributed according to the formula. The poor towns would gain relatively more because the rateable value weight affects them more. The poorest of all might be assisted to the extent of an eightpenny rate (under assumption I, which is probably here justified). This would be but a minute proportion of its notoriously high poundage.

It thus appears that correct valuations would make only a slight difference to Block Grant allocations. It may be that the smallness of the weight for low rateable value, and the low ceiling at which it ceases to operate, were chosen with an eye on suspected variations in the level of assessment. With the present structure of the formula it is impossible for any area to gain from persistent undervaluation, whether deliberate or merely the result of inertia. On the other hand if assessments were correct and reliable it would no longer be necessary to limit the operation of this simple and useful way of compensating for inter-local inequalities of wealth.

<sup>1</sup> For a general discussion of the working of the formula, cf. our paper, 'The Beveridge Plan and Local Government Finance', *Review of Economic Studies*, Winter 1943.

#### 4. THE EFFECT ON INCOME TAX, SCHEDULE A.

In addition to the direct effects of difference in rate assessment levels on inter-local financial liabilities, there is one further effect which must also be mentioned, although it is indirect, and, in a sense, accidental. This is the distortion which must arise in Income Tax Schedule A assessments from the fact that Schedule A valuations now follow valuations for rating.

At an earlier stage we saw<sup>1</sup> that in the second half of the nineteenth century the Inland Revenue made an independent valuation for Schedule A, based directly on rents. This was used as a means of screwing up rate valuations towards a uniform and correct level. Revaluations for Schedule A were made roughly quinquennially, and opportunity was taken to compare Schedule A and rate values, county by county. The results were circulated, and usually also published. Gradually, as Schedule D came to take the place of Schedule A as the most important revenue producer, the Inland Revenue appear to have lost interest in the independent valuation, and came more and more to base Schedule A on valuations for rating. It was the opinion of the Kempe Committee that by the first decade of the present century Schedule A valuations had already degenerated into an amalgam of rents and poor rate valuations, without independent status. It is not without significance that the Inland Revenue made its last set of county comparisons in 1910-11. While the discontinuance of the series from that date was considered a war economy, one cannot help feeling that if the Inland Revenue had felt that it still served a useful purpose, means would have been found to enable the calculation to be continued.

The degeneration of Schedule A valuations has had an unfortunate effect in two directions. It removed a useful check on inter-county variations in assessment levels just at the moment when they were becoming really serious. It would also seem that some of the inter-local inequities in rate contributions must be carried over into income tax. It may well be that the distortion in Schedule A is not so great as in rates. In the first place Schedule A districts are not usually coterminous with rating areas. Where a Schedule A district overlaps two or more rating districts with very different levels of assessment, presumably some sort of evening out of Schedule A assessments must be made. In the second place, Schedule A still tries to stick more closely to actual rents than is now the case with rates—perhaps than has ever been the case. Thus if any properties are obviously assessed at a very different level from their rents some adjustment at least will be made in the Schedule A assessment.

The conclusion seems inescapable nevertheless that, broadly speaking, areas which contribute less than their due to the county rate, or receive more than their due in Block Grants, also contribute less than their due of income tax revenue. Variations in the level of rate assessments upset not merely local and inter-local finances, they also tamper with national finances. The converse of this somewhat disturbing reflection is that the correction of rate assessment levels would automatically restore the inter-local equity of Schedule A. It is to be hoped that it would also lead to the revival of the very suggestive series of inter-county comparisons.

<sup>1</sup> Cf. Part I, chap. II, above.

## PART III

# TOWARDS A NEW BASIS OF VALUATION

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### 1. THE PROBLEM IN THE LIGHT OF THE EVIDENCE.

Our analysis of the Departmental Committee's returns has shown that in 1938, thirteen years after the Act which was confidently expected to achieve uniformity in rating, valuation practice was still in a condition which can only be described as chaotic. For this situation we have been able to detect two main causes. In the first place, the Act of 1925 was itself insufficiently drastic. The Central Valuation Committee, which it set up, was only advisory, and the appointment of county valuation officers was not compulsory. The prime responsibility for valuation remained in the hands of the local authorities,<sup>1</sup> and local variations between energy and inertia were still liable to affect the level of assessments. In spite of the good work done by the new officials, the old causes of variation in assessments were in consequence not removed; and in one respect their effect was intensified. For the diversity in the levels of rates between needy and prosperous districts, which developed in the 'twenties and 'thirties on a scale hitherto unknown, made a sharp division between those authorities which could afford to be generous with their assessments, and those which could not. Thus in spite of the efforts which were made to bring some sort of uniformity into standards of assessment, they remained divergent, because there were such strong forces pushing them apart.

This, however, is only one part of the problem, and perhaps the easier part. Serious attempts were made to overcome these difficulties, and at the time when the third revaluation was planned, resolution seemed to have been mustered for a frontal attack. That attack failed; it failed (as we can now clearly see) because the other side of the problem had not been sufficiently considered.

The change in the value of money, which took place during the first World War, had completely undermined the traditional methods of valuing house property. In the years immediately after 1918, the great majority of houses were controlled houses, with rents fixed by law at a level considerably lower than they would have commanded in a free market. In spite of the admonitions of the Courts, there can be no doubt that nearly all valuers treated these controlled rents as true rents, and fixed the gross values of the controlled houses at a level based on their controlled rents. The legality of this proceeding was doubtful, but, so long as non-controlled houses were exceptional, there was clearly nothing else to be done. Further, so long as the controlled houses were valued on this basis, it would have created a disparity between controlled and non-controlled houses (additional to that intended by the law) if the 'free' houses had been valued on the basis of their actual rents—in their case free rents. For if this had been done, it would have meant that two almost identical houses, one of which chanced to have come out of control, while the

<sup>1</sup> This was so, even more precisely than before, after the Local Government Act of 1929. Under the old system the Guardians spent only a part of the rates which they collected. Since 1929, the spending authority and the valuation authority have been exactly the same.



other had not, would have been assessed at perhaps very different values. In order to prevent this from happening, the 'free' houses were not assessed according to their actual rents, but at an artificial level, designed to bring them into line with the controlled houses.

We have seen that there can be little doubt that this is what happened. In the early 'twenties it was excusable, and probably unavoidable. But when the same policy was prolonged for ten, and still more for twenty years, it had disastrous consequences. For there was plenty of time during twenty years for great changes to take place in the relative wealth of different districts. Yet so long as valuations in general continued to be based upon the controlled rents, rateable values were in fact governed, not by the wealth of the district as it had become by 1930 or 1938, but by the wealth of the district as it was in 1914. Declining districts were therefore systematically overvalued, expanding districts systematically undervalued. And the process had gone so far that it seemed impossible to set it right without a rude shock.

Something, however, needed to be done; and something will have to be done as soon as government is again free to attend to such matters. For the situation which has been disclosed by our analysis is clearly intolerable. Not only does it involve a considerable amount of gross unfairness, but by depriving the basis of rating of any relation to actual existing conditions, it makes impossible any coherent planning of local government affairs. A satisfactory basis of comparison between local government areas must be established if any degree of justice in the distribution of local taxation is to be achieved. Under the system which had grown up by 1938 such a basis of comparison was wholly lacking.

And yet—in spite of the damning indictment which can be brought against it—that system was not altogether without its good points. Rigid enforcement of the law is a good thing, but it can achieve no more than that degree of justice which is enshrined in the letter of the law. If the law ceases to be strictly enforced, very often this degree of justice will not be achieved; but on the other hand it is possible that the mere human sense of what is right and proper, on which the individual executive officer has to fall back, will sometimes lead him to take account of considerations which the law has neglected. Thus, when the time for reform draws near, it is reasonable to enquire whether the law itself may not have something to learn from the years of lawlessness—lawlessness which arose, to a considerable extent, from the defects of the law. It is possible, as we shall show, that some elements in the structure of valuations, as it was in 1938, are defensible and are worth preserving. And it is also possible that if these elements were preserved—and legalized—enforcement of a reformed code of law would present fewer difficulties than enforcement of the old law which practice had outgrown.

It is indeed hard to make a case for the disturbance of existing assessments merely in order to conform to old principles which practice has abandoned. If assessments are to be disturbed, there must be a solid reason for the disturbance. In the present case, there is a solid reason for a major disturbance in a large number of assessments. It is necessary to correct the relative over-assessment of the poor areas, in order that the extent of their poverty should be

correctly measured, and the help which they need—to which they have a right—should not be so seriously underestimated as it has been in the past. But it is desirable that the correction should be carried through without more disturbance than is necessary. We shall consider in this chapter how that aim could be achieved.

To consider how the situation, which had arisen in 1938, could be put right is itself a large task. But it does not complete all we have to do. For since 1938 there has been a second War, and it threatens to repeat (let us hope to a smaller extent) the same disturbances which upset valuations after 1918. When the time for the reform of valuation arrives, it will be in a new post-war situation, with a new wave of controlled houses, and a new rise in prices. We have therefore to consider not only how the 1938 situation could be put right, but also how the 1938 disease can be prevented from occurring again. The whole question of the reform of valuation has to be considered in this new setting.

The problems we have to consider in this chapter may thus be examined under three heads. First of all, what is the new valuation machinery which is needed? Secondly, what can be learned from the 1938 situation about the principles on which valuations should be made in order to achieve a fair and rational system without unnecessary disturbance? Thirdly, how could a new machinery, working on these principles, be introduced in the particular circumstances which we must expect in the years following the present war? We shall examine these questions in turn.

## 2. THE REFORM OF VALUATION MACHINERY.

The very first step in any effective reform must be the transference of the responsibility for valuation to a central authority. For this there are two reasons, one political, the other financial.

It is exceedingly undesirable, as a matter of political principle, for an essentially judicial office, such as that of valuation, to be under the direct control of a democratically elected council. It is perfectly natural and proper for councillors to bear in mind their appeal to the electorate. But this means that they cannot rise to the standards of objectivity which ought to be demanded of those who are responsible for valuation. The subjects which are suitable for local control are those on which it is proper for each autonomous district to have a *policy* of its own; but valuation ought not to be a matter of policy. As we have seen, there are distinct signs that in the past and in the present, the valuations fixed by local valuers have been influenced by the policy of the local council—no doubt often unconsciously influenced, but nevertheless influenced. As long as this remains the case, the degree of fairness achieved as between the citizens of a single local authority must be rather doubtful; but it is even more important that fairness as between one local authority and another—in the absence of any reliable measuring-rod of relative wealth—will be impossible to attain.

Central valuation is no less necessary on financial grounds. In the past, one of the biggest hindrances to adequate valuation has been the expense of making reassessments—a really formidable expense to a poor authority. Correct valuation is not a thing of merely local importance; it is an inter-local and even a national interest. It is not right that this expenditure should fall with par-

particular weight on particular areas; it should be spread over the whole country. It is now fully realized that valuations can only be made correctly (and kept correct) if they are carried out under the close supervision of trained valuers. The impossibility of affording full-time professional assistance, and the difficulty of making satisfactory part-time arrangements, have been further stumbling-blocks in the way of correct valuation. Central administration should prove a great economy in this respect. By spreading and dovetailing the work, a staff of professional valuers could be kept fully employed in a way which would hardly be possible at present even for the largest single authorities.

The importance of a high degree of professional competence among valuation officers is undoubtedly increasing. It is more essential now than it was in the past, and it may well become yet more essential in the future. So long as it was possible to keep the valuations of most houses very close to their actual rents, the business of valuation was in principle a simple matter. Even then there must have been many cases which could not easily be settled by analogy, and the decisions given in the Courts were rarely put clearly enough to be helpful. The beginnings of a national code of rules, such as we find in the Representations of the Central Valuation Committee, marked a definite step in advance. But much more than this is now needed. However thorough-going future reforms may be, it is most unlikely that any simple determination of valuations by actual rents, such as was possible before 1914, will be possible again in the measurable future. The basis of valuation will have to be more complicated; and just for that reason it will need a closer watch kept upon it. All this points to the need for greater coordination of methods and technique such as could only be provided by a central office. One of the main functions of such an office would be the collection and digestion of the statistical material by which alone the practice of one area can be measured against that of others.

The centralization of valuation machinery need not imply a revolution in local personnel. As was the case when the Poor Law administration was transferred to the County authorities, the present valuation officers would merely change their employers. But instead of having to rely on their own wits and to defer to the wishes of local councillors, they would work to a schedule of definite rules. And for all cases which appeared to fall outside these rules there would be the opportunity of reference to officials whose experience covered the whole country, being thus much wider than that which is available to any valuation officer to-day.

Centralization of this sort is an urgent and necessary reform. But it must be recognized that there is no department now in existence which is competent to undertake the task of reorganizing rating valuations. A new department would have to be created. In forming it the experience which has been gained by the Central Valuation Committee and by the County Valuers would be of the first importance.

Another question of machinery, which needs consideration before we leave that topic, is the question of appeals. It has been widely held, and with reason, that one of the principal causes for the persistence of inequitable valuations is the ineffectiveness of the machinery of appeal. This has led to the suppression

of complaints which would otherwise have been made. As there was little hope of an appeal to the Courts resulting in a lower valuation there has been no incentive to incur the expense of appeal, however flagrant overvaluation might appear to be in comparison to neighbouring property. Apart from the perpetuation of inequitable valuations the jamming of the machinery of appeal has had unfortunate effects. Had the machinery been working smoothly the ventilation of hard cases would have provided a useful check for valuers. The absence of appeals has too often led those in authority to assume that things were going smoothly when that was not so at all.

The considerable expense which must be incurred is often held to be the cause of the disinclination to lodge appeals. While this may be very important in some cases it is unlikely to be the root of the trouble. If there was a reasonable chance of appeals being successful ways of sharing the cost could surely be found. It has also been argued that Quarter Sessions are inherently unsuitable as a court of appeal against rating valuations. Their members are not experts in the technique of valuation, any more than district councillors are. It is true that appeals against rating valuations have resulted in a welter of conflicting judgements; valuers can hardly be blamed if they have paid little attention to such 'guidance' as this. In view of the ill-success of Quarter Sessions the Uthwatt<sup>1</sup> Committee go so far as to recommend the substitution of a special arbiter for rate appeals. There is however a strong *prima facie* case against removing particular classes of litigation from the ordinary jurisdiction of the Courts. If the present machinery of appeal can be revitalized, it would be much better to make no change in its organization.

The real trouble would appear to lie not in the machinery of appeal but in the nature of the assessments against which the appeal is made. If (as is virtually the case to-day) all property is valued at something less than the legal level, then any machinery of appeal is rendered powerless. Suppose, for example, that the general level of assessment in a particular area is at 70% of the legal level, but that a certain house is valued at 80%. The occupier (or owner) of that house is then being unfairly treated in that he is being made to pay an undue proportion of the local rates. He is in fact being penalized to exactly the same extent as he would be if the other houses were valued at 100% of the legal level, but his house was valued at about 114%. But in this latter case he could have recourse to the Courts, and could expect to have his assessment reduced, if his case was a good one. In the other case (which in fact represents the present situation) he can only be told that legally he is underassessed, and he will be lucky if his assessment is not further raised.

The general tendency to underassessment thus has the unexpected effect of depriving the ratepayer of legal protection. No wonder that there are so few appeals! The system of appeals would at once be revitalized if a *general* harmony between law and practice were restored. In a properly working valuation system, it ought to be no more likely that a particular house should be valued at less than the legal level than that it should be valued at more. In consequence the Courts would again be confronted with a problem which would be within their capacity. It would seem reasonable to let them try their

<sup>1</sup> Expert Committee on Compensation and Betterment, Cmd. 6386 of 1942.

hand at this problem before supplanting them by an alternative, which, if confronted with the present chaos, would in all probability be equally ineffective.

Once law and practice were restored to general harmony, and central control of valuation was instituted, it is probable that most individual complaints would be rectified by reference to the central valuation department, without it being necessary to invoke the Courts at all. Where the Courts would come in would be over questions of interpreting the law, questions which would affect considerable classes of property. In such cases the appeal to Quarter Sessions would of course be a mere formality; the case would ordinarily go on to a higher Court. On such questions it is in fact never left to the individual householder to take action. If the allegation was one of overvaluation, it would be taken up by such groups as building societies and ratepayers' associations; if it was one of undervaluation, then (once valuation had passed from local control), it would often be taken up by the local authorities themselves. Indeed it may be said that one of the great advantages of the centralization of valuation machinery would be to enable local authorities to appear formally as parties to the process of assessment, instead of (as now) being in the invidious position of being judges in their own cause.

### 3. THE LONG-RUN PRINCIPLES OF VALUATION.

So much for machinery; but what sort of a system is the machinery to carry through? In view of the exceedingly complicated situation we are confronted with, it will be best to begin by laying down some general principles, which seem to follow from the experience we have been analysing. We shall suggest that the aim of reform should be the ultimate establishment of a system based on these principles; but that, in the situation we may expect when this war is over, the needed reform can only be carried through in stages. We have therefore a double task before us—to lay down the long-run principles on which an equitable system of valuation might be based, and to sketch out a programme by which that desirable object might be attained as soon as is conveniently possible.

The first principle which seems to follow from the experience of the 'twenties and 'thirties is a confirmation of traditional doctrine. Whenever a house is let for a free or uncontrolled rent to any tenant who cares to take it, the rent so determined is the best basis for the valuation of that house that can possibly be found. As has always been recognized, this does not mean that gross values should follow even free rents in a mechanical manner. Circumstances may arise in which a valuer is justified in concluding that a rent, although apparently established in a free market, is abnormally high or abnormally low.<sup>1</sup> But such cases ought to be very exceptional; they ought always to refer to particular houses, not to large classes of houses, still less to the majority of houses in a particular area. In the case of freely rented houses gross values ought to follow rents, so that if the rent goes up, the gross value will go up also, and if the rent falls, the gross value will go down.

<sup>1</sup> See above, p. 16.

This is the traditional principle; but it is not in any way outmoded. Indeed, its importance has become clearer than ever, now that we have seen the consequences of departing from it on a large scale. As soon as the 'free rent' basis is abandoned, it is inevitable that valuations should become conventional—that is to say, they lose touch with existing conditions. A system of valuations based upon free rents has the supreme advantage that it can be relied upon to go on revising itself—to go on bringing itself up to date. Conventional valuations may seem reasonable enough when they are introduced, but they have no power of adjusting themselves—time passes, and before long they have become outrageous.

The only other conceivable basis of assessment which would possess this power of self-adjustment would be one based on selling values—and this is an alternative which needs serious consideration. Capital values are in fact occasionally used to-day for the assessment of some institutional buildings and large houses; there appears at first sight to be a good case for using them more widely in the assessment of owner-occupied houses—houses in respect of which direct rent evidence is never likely to be forthcoming. Nevertheless the case against regular assessment according to selling values seems to be overwhelming. The only direct evidence which can be derived from the selling value of a particular house will refer to the time at which it last changed ownership; and that may be so long ago as to have no relevance to existing conditions. Even more important is the fact that selling values are more liable to fluctuate than rental values—it would be monstrous if a house went on indefinitely being assessed at a high level, just because the owner had happened to buy it at a time of great scarcity or price inflation. The selling value criterion could in fact only be used when times were fairly normal, and even then it would only be evidence derived from a recent sale which could reasonably be admitted. With these safeguards, there is indeed something to be said for allowing selling values to have some influence—not even then a dominant influence—in the determination of rating assessments. There can be little doubt that as it is there is a chronic tendency to undervaluation of owner-occupied houses; this could be guarded against if there was some formal way, not of basing their assessments on selling value, but of using selling value as a check. It might be laid down, for instance, that while owner-occupied houses should ordinarily be valued by analogy from similar rented houses, the gross value of a house should never fall below a certain statutory percentage on its selling value (which might be 2 or 3%) if it had in fact been sold at a date within the previous five years. But such a safeguard, although it might play a valuable part in the ordered system of valuations at which we should ultimately aim, would be impossible of introduction until several years have elapsed after the end of the present war.

We are thus brought back to the principle of assessment according to rents—actual *free rents*. For it must continually be emphasized that it is only to free rented houses that the principle should apply. It should not apply to those rented houses the rents of which are not established by a free bargain between landlord and tenant—that is to say, to council houses or to controlled houses.

In this enquiry we have said very little about council houses. This is because

the assessment of council houses is on quite a different footing from that of houses in private ownership. The rent of a council house is usually paid to the same authority as that to which its rates are paid; what matters therefore is the inclusive rent—how much of that inclusive rent is reckoned as rent and how much as rates is only a question of form. It would, however, seem very desirable for council houses to be assessed for rating purposes in exactly the same way as other houses, merely in order to introduce a greater degree of comparability into rating statistics. If council houses are underassessed it means that they are being given a concealed subsidy, in addition to the overt subsidy; but concealed subsidies are a mark of bad accounting. It would be much better to reckon their contribution to the rates at its full value, but to make an adjustment in the 'rent' payment (which may be as differential as is considered necessary) in order to make the inclusive rent no higher than that which is judged to be proper and equitable on grounds of social policy.<sup>1</sup>

For council houses, for controlled houses, and for owner-occupied houses (except in so far as these last may be checked by use of their selling values) there is really nothing for it but to value them by analogy from the freely rented houses. This sounds a gigantic task; but when it is realized that from 1920 to 1939 all houses were in fact valued by analogy from the controlled houses, it will be seen that we are not suggesting any more than that the existing machinery should be put, as it were, into reverse. Except in the period immediately after this war (whose special problems we shall be discussing later) it would in principle be actually easier to value from the free rented houses than from the controlled houses, since the class of houses with free rents is likely to contain more kinds of house than the class of controlled houses. The valuer would therefore be less dependent on purely physical measures, since he would usually be able to say that a particular house, which he had to value by analogy, was clearly worth less than another, for which he had rent evidence, and clearly more than a third, for which he also had rent evidence. Nevertheless, since the houses whose valuations would be more or less automatic would be relatively fewer, it must be admitted that this method of assessment would put a greater responsibility upon the valuation officer. He would also have more to do, since the valuations of nearly all houses would be called in question at fairly frequent intervals (presumably at each quinquennial revaluation). It is very probable that this more flexible method of valuing could not be carried out efficiently except by a centrally organized service. But that, as we have seen, is desirable on other grounds.

So far we have been discussing the assessment of gross values, on which (as will be seen) we are in favour of a rigid and uncompromising policy. Up to this point we are convinced that the old law is completely right; what is needed is that it should be rigidly enforced both in the letter and in the spirit. It is very probable that the laxity of enforcement which has prevailed in the past has often been due to the highest motives; but this is not the place where

<sup>1</sup> It does occasionally happen that a local authority builds council houses outside its own area, so that the rates are paid to a different authority. This does not seem to affect the principle. It is still desirable that the building authority should look to the inclusive rent, and that the rates which (effectively) it has to pay to the other authority should be determined on a basis as objective as possible.

such motives can be properly effective. It ought not to be in the power of a valuation officer to underassess a particular house because he does not think that the householder can afford to pay high rates—any more than it should be in the power of a collector of taxes to underassess a particular person's income because he knows that person to have exceptional family responsibilities. The stage at which these things should be allowed for comes later. The assessment of gross values should be made as objective as possible, not in order to pass an undue amount of taxation on to the poor, but in order to provide a firm basis for social policy, which in itself may be as progressive (or redistributive) as is desired.

There can be little doubt that one of the reasons for the present chaos of valuations is the fact that under the present law rates vary nearly proportionately with gross values; so that the only way of preventing rates from falling on the poor to an extent which is more and more felt to be intolerable is to underassess their houses. We have seen that there is in fact a distinct tendency (in most particular areas) to set a higher level of assessment for 'wealthy' houses of a given class than for 'poor' houses; the cause of this tendency is obvious. What seems to be needed is not that it should be abolished, but that it should be put on to a legal basis. The means of doing so lie ready to hand.

The rateable value of a house, on which rates are actually paid, is not the gross value, which we have hitherto been discussing, but the gross value minus a deduction for repairs. By the Act of 1925, this deduction became statutory on a 'progressive' basis (smaller percentage deductions were allowed for the houses with higher gross values, on the ground that the cost of repairs would probably be lower on a house that was better built). Deductions had however been made, as a matter of custom, long before that date. It would appear that very handsome allowances used to be made in some cases of rate-compounded property; allowances as high as 50% of gross value seem to have been not unheard of.<sup>1</sup> If allowances like this were at all general, the 1925 legislation may have effected a reduction instead of an extension in the progressive element in rates, so that if the allowances were made more generous it would only restore a previously existing state of affairs. There does therefore appear to be a very good case for insisting on a rigid and full assessment of gross values, while tempering the wind to the smaller householder by giving houses of less than a certain gross value an additional deduction which would bring their *rateable value* down to a more tolerable figure.

There can be little doubt that this device would be a considerable help in the construction of a rating system which was both orderly and worthy of public confidence; nevertheless we should notice that there are distinct limits to its effectiveness. The proportion of 'poor' to 'wealthy' houses varies very much from area to area; but whereas in a rich area partial 'derating' of the smaller houses would shift an increased proportion of the rates on to the wealthier houses, in a poor area it would mainly stultify itself in an increase of rate poundage. When this is borne in mind, it would seem to follow that the additional allowance for small houses which could be safely made would be

<sup>1</sup> See above, p. 17.



quite moderate. For as conditions are likely to remain for some time to come, the allowance would be much more effective in the richer areas than in the poorer areas. A concession which can only be made to those persons of limited means who live in rich districts, but cannot be made to those (probably still poorer) who live in poor districts, does not seem to have much to recommend it.<sup>1</sup>

Some derating of small houses does nevertheless seem very defensible; but if it is to be a legal derating, then there does not seem to be much case for making it apply to some classes of house only—for example, to controlled houses. Since its purpose is social differentiation, it should apply to all houses of less than a certain gross value (that gross value being determined, as we have throughout insisted, as objectively as possible). By this means it could be made a great deal fairer than the rather haphazard concessions in this direction which have been made in practice outside the law.

When we go over from this point of view what we have learned in earlier chapters about actual valuation practice, we are of course impressed by the prevalence of another sort of concession—perhaps even more important in practice than the concessions which have been made for small houses. This is the concession to *new houses*—the extremely prevalent tendency to value new houses (that is, houses built after the last war) at a relatively lower level than old houses. This tendency runs, as we have seen, up and down the value scale; it is clearly not 'social' in intent, but is to be explained in a quite different way.<sup>2</sup> Now if gross values were assessed in the way we have been proposing, and no greater concessions were made in the determination of rateable value than a slight derating of small houses, the differential treatment of new houses would disappear. It is clear that the fear of its disappearance (particularly on the part of owner-occupiers) was one of the main reasons for the breakdown of the third revaluation; but that does not mean that it should be retained if it is really indefensible. On social grounds, it certainly is indefensible; there is no direct social reason why the fact that a person is living in a new house should be a ground for treating him differentially in the matter of rates. But it does not follow that it would be an unmitigated advantage if the differentiation were removed.

The undervaluation of new houses, as it has existed in recent years, must have been a very considerable stimulus to building. It has in fact acted as a concealed building subsidy. Taking the country as a whole, it appears from the Departmental Committee's returns that the relative undervaluation of new houses has been of the order of 20%. By estimating the proportions of total rate revenue contributed by dwelling-houses as a whole, and by new and old houses respectively, it is possible to calculate what was the total value of the

<sup>1</sup> The same argument applies, with perhaps even greater force, to the proposal which is often made for adjusting the rates on poor houses in direct accordance with the income of the occupier. There is in fact no doubt that rates do fall with particular weight on the relatively small class of the exceptionally poor; it is therefore exceedingly important that social security payments should be graded in such a way as to take some account of *inclusive* rents. But this is the side from which the problem ought to be tackled, not from the side of rates. For if concessions are made from the side of rates, the burden will only be transferred from the very poor on to those, only a little less poor, who are scarcely better able to bear it.

<sup>2</sup> See above, p. 60.

annual rate rebate given to the new houses—the difference between the sum actually paid by them and what they would have paid if they had been assessed on the same basis as similar old houses. It comes out to between £ and £9 millions. This, we may say, is the value of the additional housing subsidy which has been given by the local authorities as a by-product of their valuation habits. It is very considerable. We can appreciate its importance if we compare its magnitude with that of the official housing subsidy of the central government, which amounted in 1938 to about £15 millions in England and Wales.

The policy of encouraging housing by subsidies has presumably come to stay; if so, there appears to be no more reason for the total abolition of this unofficial subsidy than for abolishing the regular subsidies. But once again it is desirable that the concession should be legalized, and put upon a regular basis. In this case, the concession should be recognized for what it is—a housing subsidy—and should be treated as such. This would be done if each local authority were permitted to make rate rebates on new houses, up to a maximum of (say) 20% of the rate payment which would otherwise be fixed. This rate rebate would reckon as a part of the authority's housing expenditure. It should be strictly optional—no authority should be obliged to lay out its money in this way unless it desired to do so.

Once it is recognized that the concession to new houses is nothing else but a housing subsidy, it would seem to follow that it should be treated like the regular subsidies in another respect as well. There does not seem to be any case for giving particular houses preferential treatment *in perpetuity*, just because they happened to be built at some particular date. The rate rebate therefore, like the regular housing subsidies, should be limited to a definite period (say 20 or 30 years). The power which would be given to the local authorities would be to allow a rate rebate on any new house for a period of not more than so many years after its construction.

It is a matter of some importance that the rate rebate on *new* houses should be kept well distinguished from the allowance to *small* houses, which we have suggested might be made *before* arriving at their rateable value. The rateable value of the new houses should be reckoned *before* allowance is made for the rate rebate; their gross liability for rates should be calculated directly from their rateable value, and then net liability arrived at by deducting the rebate. This looks a formal point, but it has substantial significance. For if the rebate on new houses were deducted before arriving at rebateable value, it would mean that the present underassessment of wealthy areas, with a large proportion of new houses, would be continued; on the plan just described it would be stopped. The rebate on new houses would be an optional form of local expenditure, in which those wealthy areas could indulge or not according to choice. But they would not be enabled to secure more favourable terms in inter-local adjustments (whose importance may be expected to increase) by writing down their rateable values as a result of their indulgence in what is really a form of subsidy.

#### 4. HOW THE REFORMS WOULD HAVE WORKED IN 1938.

We have now set out our long-run principles; but it will be obvious that in the situation which we may expect after the war, those principles could only be applied after considerable delay. Everything depends on there being a sufficient number of freely-rented houses; it will be some time before this condition is at all likely to be adequately fulfilled. We have therefore the additional task of enquiring what should be done in the nearer future—in the short run; but before we approach that problem, it will be convenient to test out our principles by enquiring what would have happened if they had been applied to a situation to which they could have been applied—the situation which we have studied so much, of the year 1938. The situation which will exist after the war will be different in many respects from the 1938 situation, but many of the features of 1938 will nevertheless persist. We shall therefore learn a good deal if we examine this admittedly hypothetical, but manageable, problem. Suppose that in 1938 valuations could have been reformed without delay, on the lines we have been laying down; what would have happened?

For the purpose of answering this question, we have taken a small sample of local government areas, and worked out the actual consequences of a reformed system of valuation on the rates paid by various classes of house. The task of recalculating rate burdens for a number of house-categories under (as we shall find to be necessary) a number of alternative assumptions is fairly laborious; we have thus been unable to perform it for more than a small number of areas. From the selected areas previously discussed, we have picked out a small sample of twelve local authorities, including four large county boroughs (each of the nature of a local metropolis), the rest being industrial, residential and agricultural districts of various types. The sample was not picked at random, but our knowledge of the conditions of valuation in different regions was used to ensure that examples of most of the sorts of situation which would arise had been covered. We do in fact know that the vast majority of the districts included in our large selected areas would turn out similarly to one or other of the districts included in our small sample.

The first question which we asked of the material included in the sample was the following. Assuming that all houses were to be fully valued, on the basis of free rents, but no concessions were to be made (to small or new houses) what would be the effect on the rate burden for each category of house? Revaluation on this basis would of course have raised the rateable value of nearly all houses; but we may suppose that no more revenue than before would be needed from the rates<sup>1</sup> so that the increase in rateable value would permit of a reduction in poundage. What we have to consider is the *net* effect of the rise in rateable value and the fall in poundage. Those categories of house the rateable value of which rose more than the poundage fell would experience a rise in rate burden; those whose rateable value rose less would experience a fall. Thus in order to discover which houses would fall into each class, we have to calculate the extent of the fall in poundage in each area—

<sup>1</sup> Excepting in so far as greater contributions were needed on account of the inter-local adjustments discussed in the preceding chapter. These are not being considered here.

and that depends on the total change in rateable value for all houses taken together.

If all the rated property in a particular area were house property, then a rise in the rateable value of that property would make possible a fall in rate poundage which would just compensate on the average for the rise in rateable value. Particular classes of house would benefit, particular classes would lose; but the rate burden on the average house would be unaffected. It is however uncommon for more than three-quarters of the rateable value of any area to come from dwelling-houses. If the rateable value of all dwelling-houses were to be raised in a certain proportion, the whole rateable value of the area would be raised in a much smaller proportion, unless the rateable value of other property (shops, offices, factories, etc.) were raised at the same time. Thus if the *other* property is not revalued at the same time as the houses are revalued, the revaluation of the houses will indeed permit of a reduction in rate poundage, but the reduction in poundage will reduce the actual payments of rates from the non-house property. If total rate revenue is to remain unchanged, total rate payments from dwelling-houses would have to be increased. It thus becomes quite possible that revaluation would not operate to the advantage of any class of houses—all *householders* would find that they had to make a larger payment in rates than before.

As will appear from the figures we shall be giving below, this consideration is one of the greatest importance; it suggests that it would be most unwise and inequitable to embark upon an extensive revaluation of house property without calling into question the valuations of other property at the same time. It is however quite uncertain what would be the result of a drastic revaluation of non-house property. We have no figures which bear on the question. Nevertheless (so far as one can tell) it would seem likely that non-house property is not so extensively undervalued as we have found dwelling-houses to be. It is only the valuation of house property which has been so disastrously upset by the effects of rent control; although it seems not unlikely that the consequent disorganization of the valuation system has had some effects outside the field of dwelling-houses, they have presumably been more remote.<sup>1</sup> We have therefore to contemplate the possibility (perhaps the probability) that a drastic revaluation of all property would raise the valuations of dwelling-houses relatively to those of other rateable property, and would therefore cause a shift in the rate burden away from commercial property (in the broadest sense) on to dwelling-houses.

It seems therefore that the best assumption on which to base our calculations is to assume that the revaluation of dwelling-houses would not be accompanied by any change in the rateable value of non-house property. This might come about either because the commercial property was not revalued, or because (in spite of a more searching enquiry into its correct valuation) its rateable value was not, over each area as a whole, marked up. If this happened, the rise in the rateable value of dwelling-houses would cause a general fall in rate poundages (usually of the order of 10%); and this fall in poundages would

<sup>1</sup> It would also appear that the valuation of commercial property has received more attention from the Central Valuation Committee than the valuation of house property.

diminish the share in the rate burden borne by commercial property. In almost all districts houses, as a whole, would have to pay more rates than before. How would the rise be distributed among the different categories of houses?

It will be remembered that we are at present assuming that no concession is made to any particular class of houses. It is therefore not surprising to find that the houses whose rate burden would have been most drastically increased, if valuations had been reformed on this basis in 1938, would have been the smaller post-war houses. If we classify houses into *small* and *large* according as their 1938 gross value was less or greater than £40, we can set out the results we get in the following way.

#### ASSUMPTION I

*Small pre-war houses.* Affected very variously. In a few cases their rate burden would be actually reduced; usually it would rise, but not considerably—10% is fairly normal. The only serious cases for this category would be in wealthy areas, which have been undervaluing generally, and giving special concessions to small houses. In these residential or rapidly expanding districts, even the small pre-war houses might have found their rates increased by 20–30%.

*Large pre-war houses.* These are houses which in many parts of the country have been notoriously going down in the world; it is not surprising to find that they are so overvalued relatively to others that even on the drastic assumptions we are making, they would usually gain from revaluation. But even here the gain would not be considerable; and the case is often different with large old houses in rural areas. In some of these rural areas it is quite likely that the larger old houses have been going up in value; in others one cannot help suspecting that undervaluation may be due to more feudal influences.

*Small post-war houses.* This is the serious case. An increase of 30% in rate burden would be quite normal. It is only in a few relatively overvalued areas that it would be as low as 20%. And there appear to be some (probably freak) cases where the rise would be much more than 30%.

*Large post-war houses.* These would also experience a general rise, but it would be proportionally less than with the small post-war houses.

This is what would have happened if a drastic revaluation had been carried through in 1938, and no concession had been made to any class of house. Although such a revaluation would have removed a number of anomalies—some of them scandalous anomalies—its general effects must surely be judged to be extremely unsatisfactory. It would have hit the small house more than the large house, the new house more than the old house, the owner-occupier more than the landlord; and it would have benefited the owner of commercial property at the expense of the owner of house property. Industrial property would in fact have enjoyed a second (this time unintentional) derating; and since the derating would have taken place amid a general *reduction* in nominal poundages, it is perhaps improbable that the pill would have been gilded by a block grant from the Treasury!

Reform of valuation would indeed not have involved this great increase in the average burden of rates on dwelling-houses, if the valuations of non-house

property had been written up at the same time; but if the valuations of non-house property could not be written up, then it could only be avoided by giving some special concession to dwelling-houses. There are here two alternatives: either there might be a general concession to all dwelling-houses (which would in effect recognize and legalize the *average* undervaluation of dwelling-houses as it existed in 1938, but would enforce a rigorous standard of valuation of each particular dwelling-house as against all other dwelling-houses); or alternatively there might be a concession to particular classes of dwelling-houses only, for example to small houses or new houses. For the reasons which we have set out in the preceding section, our own view is that the second alternative would have been preferable; but it is obviously desirable to show the effects of both alternatives, so that they can be compared.

According to the first of these alternatives, the relative positions of the different categories of dwelling-house would be the same as they were under assumption I, but the general increase in the rate burden on dwelling-houses would be moderated. A 25% concession to all dwelling-houses (the rateable value of all dwelling-houses to be written down by 25% from the strict figure assumed for assumption I) would be nearly sufficient to prevent an increase in the total rate burden on all houses; it is therefore the figure on which we have worked. The consequences of a 25% concession to all dwelling-houses may be set out as follows.

#### ASSUMPTION II

*Small pre-war houses.* Usually benefited, with a fall in rate burden of from 5 to 10%, except in extremely undervalued areas. Cases would however be found (such as the residential areas referred to under the corresponding heading under assumption I) where the rate burden on these houses would be increased by as much as 10-20%.

*Large pre-war houses.* Always benefited, except in the erratic rural areas. The benefit to these houses would in most cases be very considerable, very usually as much as 20%.

*Small post-war houses.* These would remain the serious case. Their rate burden would always rise, though much less extravagantly than under assumption I. In the relatively overvalued areas, the rise would be practically negligible; but 15-20% would be normal.

*Large post-war houses.* Diversely affected. Sometimes benefited, but rate burden might occasionally rise about 15% in the most undervalued areas.

*Non-house property.* On this assumption, rate poundage would be lowered in the relatively undervalued areas (so that commercial property would benefit) but raised in the relatively overvalued areas. The changes would however not be considerable in the great majority of cases; they could be offset almost completely by a redistribution of the block grant, which (since it would usually involve giving more to poor areas, and less to wealthy areas) would be in a direction which is desirable on other grounds.

It will be seen that on assumption II the situation would have been much less intolerable than on assumption I; but the rise in rates on the small post-war house is still disquieting. It is much less serious than on assumption I,

but it remains more than seems to be readily defensible. Let us therefore examine whether the position could be improved by special concessions, such as those discussed in the previous section of this chapter. Under assumption III we shall consider the effect of a concession to small houses. The most convenient form to assume for this concession is that the 25% deduction, which under assumption II we applied to all houses, should now only apply to the houses with less than £40 gross value. This gives us the following results.

### ASSUMPTION III

*Small pre-war houses.* Always benefited, except in wealthy areas. The reduction in rate burden would usually be from 10–15%. Even in those cases where there was a rise, it would be negligible. For in a wealthy area, extra rates from the larger houses would bring in sufficient revenue to enable the position of the smaller houses to be greatly eased.

*Large pre-war houses.* Their rate burden would rise, but only to a small extent, except in the residential areas, where it might rise by 20%, and in the erratic rural areas, where the rise might sometimes be large (50% or more). This latter rise would however be nothing but the removal of a serious anomaly.

*Small post-war houses.* The position of these houses, which we have found to be so dangerous on the other assumptions, would be very appreciably eased. In some relatively overvalued areas, there would actually be a fall in the rate burden on these houses; most usually there would be a rise, but it would be negligible (not more than 5%). There would however remain a certain number of special cases where a rise of 15% or so might still occur.

*Large post-war houses.* For these there would be a large increase in the rate burden. It would scarcely ever be less than 20%, and in some undervalued areas it might be as much as 50 or 60%. The change is drastic, but it can hardly be denied that these houses have been in the past grossly under-rated; and it can hardly be claimed that even a rise of this magnitude would inflict 'undue hardship'.

*Non-house property.* The position here would not be significantly different from that under assumption II, except that in the wealthy residential areas the fall in rate poundage would be appreciably greater.

It will hardly be denied that the concession to small houses, which we have introduced in assumption III, does for the first time give us a set of results which might possibly have been found acceptable. If valuations had been reformed in 1938 on the lines of assumption III, the change would not merely have removed the glaring inequities between individuals and between localities, which persisted in the actual structure; it would also have maintained and extended those efforts in the direction of wider social equity which valuers had been making under the old system, though in such a blind and chaotic way. There is of course nothing sacred about the particular form of concession which we have assumed. A large concession to all houses under £40 gross value and no concession above that figure gives almost certainly too sharp a break at the £40 level; in practice the concession would have had to be more carefully graduated. But there is no reason to suppose that this would

necessarily have made much difference to the effects of the concession, save in one respect.

Small post-war houses usually have higher gross values than small pre-war houses (just because they are better houses); if the gross values were rigorously assessed, the difference would be still more striking. It follows therefore that if a concession to small houses were arranged on a graduated basis (giving a larger percentage concession to houses with lower gross values), the result would be more favourable to the small pre-war houses and less favourable to the small post-war houses, than the results of the ungraduated concession we have assumed. Now it will be noticed that even with an ungraduated concession there would be a number of areas in which the extra burden on the small *new* houses would not be negligible. If the concession was graduated, it is probable that these cases would be increased in number. It thus becomes unlikely that a concession to small houses, unaccompanied by any differential concession to new houses, would be sufficient to prevent the occurrence of hard cases among the small new houses.

We have not attempted, however, to calculate the consequences of a special concession to new (or post-war) houses. As has been explained, our view is that such a concession, if it were introduced, should be permissive only; if it were compulsory, it might create as many anomalies as it removed. Even if the concession to small houses were graduated, it is not likely that extra burdens upon small new houses would be at all general; they would only occur in particular cases, though probably in a considerable number of special cases. It is for the sake of these special cases that a safety-valve seems to be necessary; and we have seen that it could be provided in a way which seems to be quite defensible on general grounds.

All this elaborate enquiry into the consequences of a possible revaluation which did not take place, and now cannot take place in this form, is perhaps the economics of Never-Never Land. But it can hardly be denied that it does help us to see the problem. When the matter is taken up again after the war, many of the features which we have found in this 'historical' problem will persist, and will be capable of being dealt with in similar ways. But the problem will also have developed new features; something about these must be said in conclusion.

##### 5. THE ACTUAL POSSIBILITIES OF REFORM.

In the years which immediately followed 1918, the most striking feature of local finance was an extremely rapid rise in rate poundages. It is extremely probable that in the years which follow the present war this phenomenon will be repeated, at least to some extent. For it has very deep-seated causes. During actual war-time, the provision of services by local authorities is at a sub-normal level; thus in spite of the rise in prices, expenditure in money terms does not appreciably increase. But after the war, services recover to normal; and at the higher level of prices, which must be expected to persist,<sup>1</sup> it costs more to finance those services than it did before the war. Local

<sup>1</sup> It will be remembered that the Beveridge Report assumes a 25% rise in prices as a permanent result of the war.



expenditure must be expected to rise in money terms, even if there is no net expansion of services as compared with the pre-war situation. And if there is no corresponding increase in valuations, this must mean a rise in poundages.

It cannot in any case be expected that valuations of rateable property can be marked up rapidly enough to prevent an initial rise in poundages. A general revaluation is a complicated matter, which takes time to put through; in the period immediately following the end of hostilities, trained valuers will be scarce, and the problems confronting them will be so abnormally difficult, that there is likely to be some delay before even a beginning is made. We have seen that after 1918 the post-war revaluation was not merely delayed; over the greater part of the field it can hardly be said that it ever took place. It is to be hoped that so disastrous a postponement will not be repeated; nevertheless such speed in reassessment as to prevent a rise in rate poundages is probably unthinkable.

When the reassessment comes, it is most important that it should not take place piecemeal, but that at the least there should be a regular revaluation, of the kind envisaged by the Act of 1925, but never thoroughly executed in the years before 1939. It can hardly be doubted that this would be the most convenient moment at which to introduce the centralization of valuation machinery, for which, as we have seen, there is such a strong case. The first post-war revaluation will be an exceedingly important matter, not only in connection with rating, but also in connection with all those other matters for which standardized legal valuations of property are likely to be so important during the period of reconstruction—war damage compensation, town planning and so on. There will thus be a strong case for making a beginning with the reform of valuation as early as the first post-war reassessment; and it should be noticed that at a time when rate poundages are likely to have become rather fluid, a drastic change in valuation methods might well be easier to introduce than it was in 1938.

It is however unfortunately clear that the first revaluation could hardly be more than a beginning. For it will be so badly needed that it will be impossible to delay it longer than is absolutely necessary; and if it takes place as soon as (say) three years after the end of hostilities, it is unlikely that there will yet have emerged a sufficient number of houses with free rents to serve as a basis for regular valuation on the 'long-run' principles we have described above. This is not to say that there will be no such houses. Although during the war all rented houses are controlled, it is surely reasonable to expect that the houses in higher value groups will be decontrolled, if not at once, then at least with no considerable delay after the war is over. There is little social reason for controlling the rents of these houses; while the maintenance of rent control in these categories merely forces people to purchase their homes, and this in its turn imposes a serious obstacle against desirable mobility of population. As there would be this strong argument in favour of decontrol, and no strong argument against, one may perhaps assume that the better-class houses would be decontrolled at the time of the first revaluation. This would provide some rent evidence; but obviously it would not go very far, and would not enable the first revaluation to be carried through systematically on the basis of valuing

from free rents, which we have argued to be necessary as the long-run principle.

It is therefore impossible to conceive of a first revaluation which would not be to some extent provisional. At the time of the first revaluation, rented houses (apart from council houses) would fall into three categories: A, Old Controlled Houses, controlled since 1914, whose rents will therefore reflect the rents of 1914 plus the permitted increase; B, New Controlled Houses, whose rents will reflect the free rents of 1939 (these will include houses built before the last war, which were controlled after 1914, but came out of control in the 'twenties or 'thirties); C, Uncontrolled Houses, including those which have been decontrolled before the revaluation, and also any non-council rented houses which may be built after this war. Valuation on the basis of A is what we want to get away from; valuation on the basis of C will be desirable, but as yet will hardly be practicable; while valuation on the basis of B, while practicable and having something to be said for it, is yet open to the crushing objection that it would merely crystallize 1939 values, which are no more likely to be appropriate to the conditions of 194-, than 1914 values were appropriate to the conditions which existed in the years after the last war.

Thus we must face the fact that at this stage there will be no basis on which a really coherent and objective system of valuations can be built up. There will be nothing for it but to make a rather unsatisfactory compromise. In making this compromise, it is not likely that much attention could be paid to C values; they would be too unstable. But a serious attempt could be made to put right the more flagrant cases of undervaluation with respect to B values; this would not mean that the gross values of B houses should be marked up into full accordance with their actual B rents, but the gap between rents and gross values should be greatly narrowed. Further, in all those localities where the result of this adjustment was a decided upward revaluation of B houses, the valuations of A houses should be called into question and brought into line.

In post-war conditions, this upward revaluation need not involve any increase in the share of the rate burden borne by dwelling-houses as a whole; for there will be other reasons why there should be a simultaneous rise in the rateable value of non-house property. It is to be expected that the market values of that other property will rise as a consequence of the general rise in prices, and it is most important that the assessments of such property should be marked up in some relation to the rise in market values (as will be perfectly possible for the non-house property, because of the absence in its case of any complication with respect to controlled rents). If there is no such mark-up of the non-house property, it will undoubtedly cause a further long-run deterioration in the equity and orderliness of the whole valuation system. But if the non-house property is revalued, and there is no simultaneous increase in the valuations of house property, this would shift a considerable proportion of the rate burden away from houses, in a way that is unlikely to be acceptable. Some revaluation of house property is therefore very desirable at this stage, in order to facilitate the maintenance of reasonably correct valuations of the other property.

But even the moderate revaluation of house property, which is all that is

likely to be possible at the first revaluation, would undoubtedly cause some of the difficulties which we have analysed in the preceding section with reference to 1938. There would be some areas, at present relatively overvalued, whose house assessments would not be marked up by such a moderate revaluation as we have proposed, so that they would experience the full force of the post-war rise in poundages, whose effects in other areas would be damped down by the rise in assessments. But this effect of revaluation would merely disclose an evil that has been present in disguise for many years. These areas have in fact had higher poundages than they appeared to have; they have in fact had a better claim to differential assistance than they appeared to possess. When their true situation was disclosed, there would be an obvious case for a redistribution of grants so as to give them greater help.

This is not all. Even a partial revaluation, such as we are suggesting, would probably involve some increase in the gross values of small houses relatively to large houses, and of new houses relatively to old. It might therefore be desirable to make a beginning with the special concessions to small (and perhaps new) houses which we have outlined. But, unless the revaluation possible at this stage proved to be more thoroughgoing than we anticipate, any concessions granted should be quite moderate; the greater part of what might ultimately be done in this direction should be kept in reserve.<sup>1</sup>

If, as we may reasonably suppose, revaluations continue to be conducted in the future at quinquennial intervals, then by the time of the second revaluation (perhaps about eight years after the end of hostilities), the situation should be considerably improved. By this time the programme of house-building, which the Government already envisages, should have substantial achievements to its credit; and as a consequence the number of free-rented houses should be increased in two ways. In the first place, although a large proportion of the new houses (to be built after the war) will of course be council houses, it does seem to be accepted that non-subsidized (or only indirectly subsidized) houses will be produced as well; it may reasonably be hoped that a good proportion of these will be available for renting. In the second place, the increased supply of houses should reduce free market rents considerably, and should thus facilitate a wide extension of decontrol. We may thus reasonably suppose that by the time of the second revaluation, the number of B houses will be much contracted, while the numbers of C houses will be expanded to a much more than corresponding extent. It should therefore at last be possible to envisage a thoroughgoing adoption of what we have described as the 'long-run prin-

<sup>1</sup> Another reason why it would be desirable that the concession to houses of low gross value should, at this initial stage, be kept moderate, is its possible effect on the housing programme. As we have seen, it would be the small old houses which would be the main beneficiaries from a large concession; but a considerable proportion of these would be sub-standard houses, which it would presumably be desired to replace by better houses. Now if higher rates have to be paid on the better houses, that is an obstacle against the desired movement, which may well cause trouble from the point of view of housing policy. It is thus not very desirable to make an actual reduction in the rates on the sub-standard houses, if the occupiers of those houses are soon after to be induced (or compelled) to move out of them. It is in principle desirable to make concessions to the older and cheaper houses, because at present their occupiers are bearing an undue share of the rates; but care should be taken about extending concessions to houses whose supersession is a social objective.

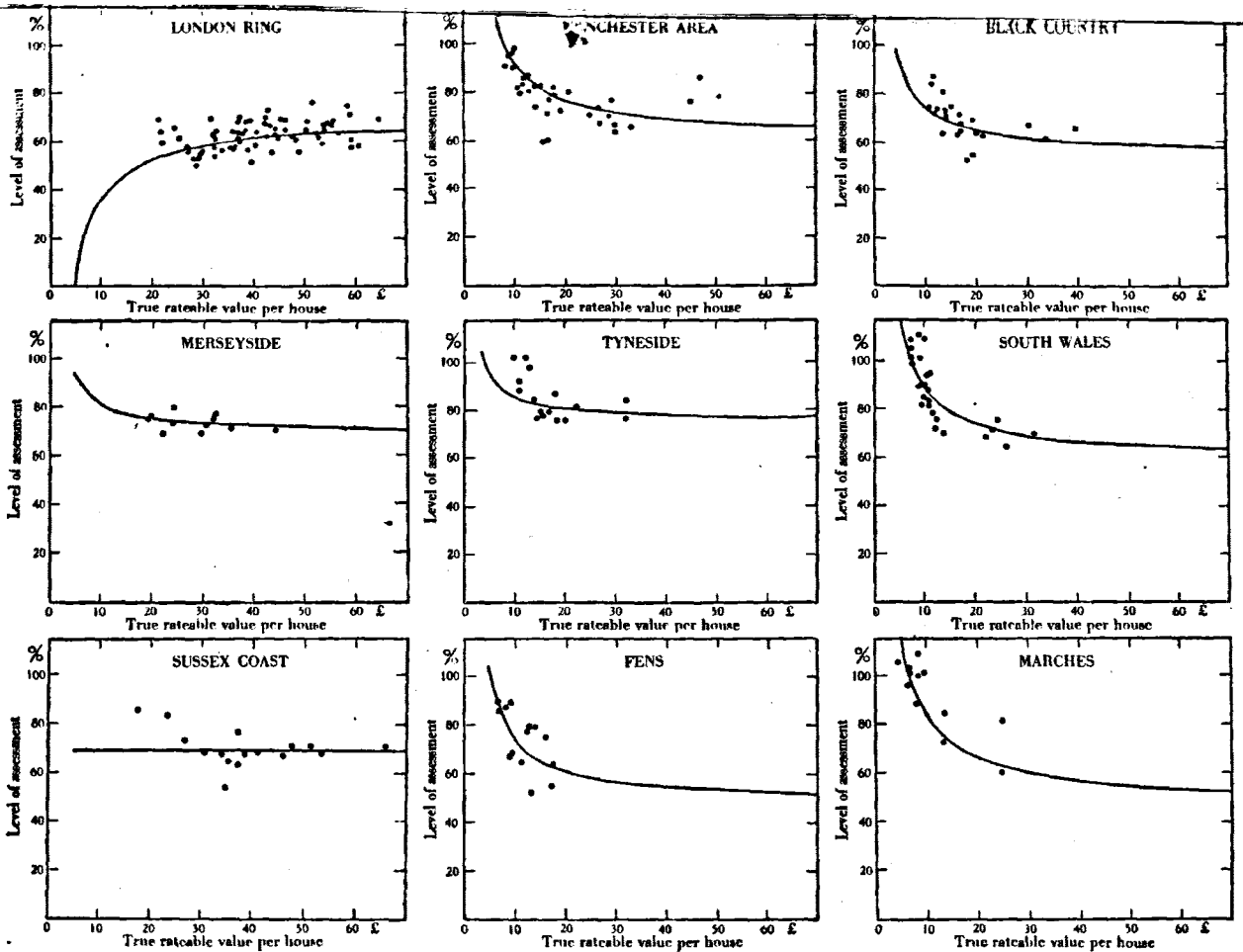
ciples'—a systematic valuation of all houses on the basis of free-rented (C) houses.

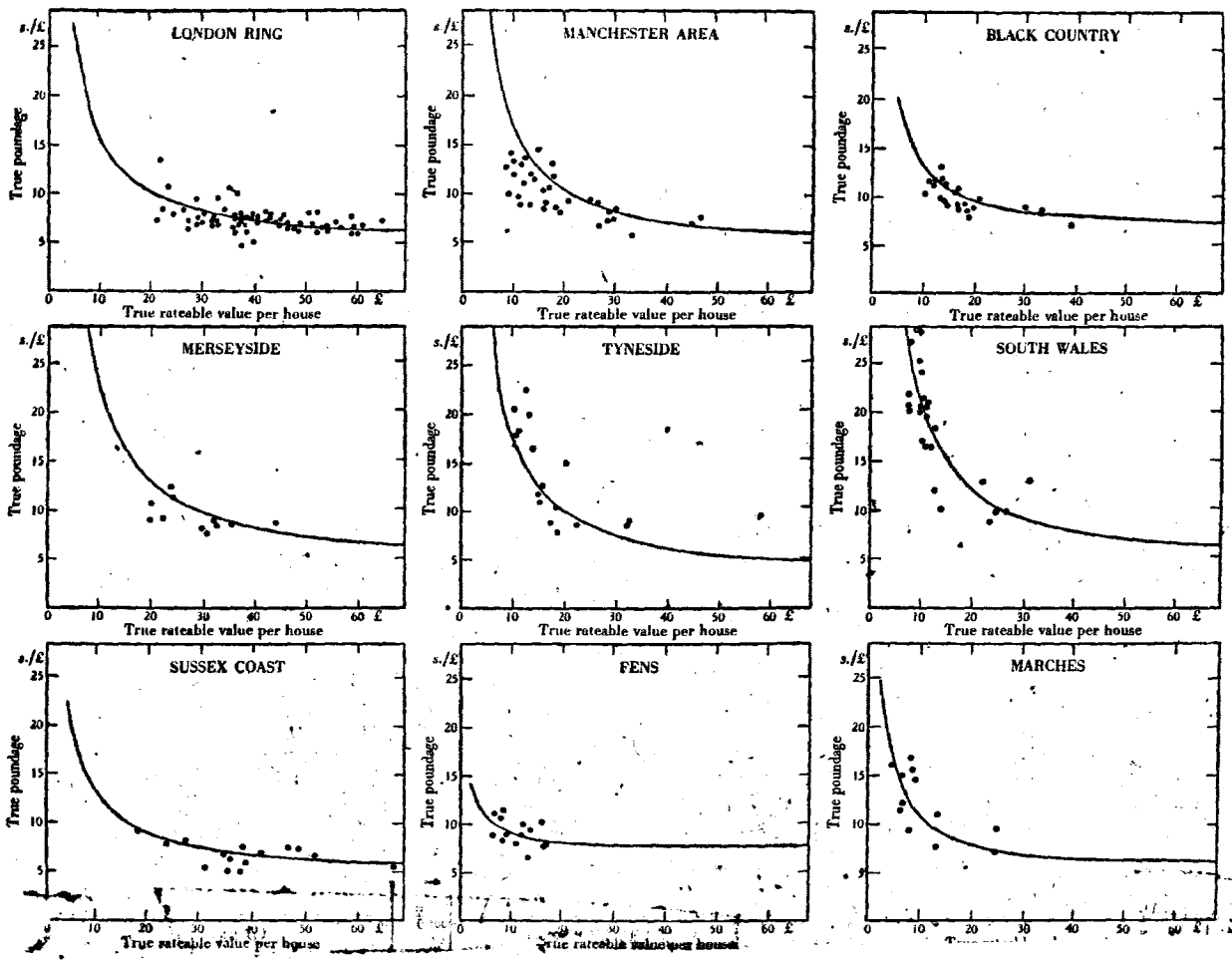
We must however recognize that in 195- (whenever it is), just as in 1938, the sudden change-over to the new objective methods of valuation will administer a shock. If the first post-war revaluation has been well managed, the extent of that shock may be reduced, but it cannot altogether be eliminated. It would therefore seem particularly desirable that when the second revaluation is carried through, it should be made perfectly plain that its first object is to fix gross values, such as are needed for the purposes of public policy in general (compensation, town planning, inter-local adjustments, etc.); and that the relation of rateable value to gross value will be determined by legislation *after* the gross values have been fixed. We have seen that in 1938 it would have been possible to reduce the shock of the new valuations to very manageable dimensions by making appropriate concessions—concessions which were themselves quite defensible as a matter of principle. There is no reason to doubt that the same would be possible in 195-. But the actual scope of the concessions which would be necessary—still more the amounts—cannot be foretold in advance. Certainly they cannot be foretold so long in advance as the time at which this book is being written!

The conclusion to which we have come—that the present disorder in the system of valuations is one which cannot be put right except by a prolonged course of treatment—is disappointing, but hardly surprising. It must nevertheless be emphasized that although the treatment cannot be concluded speedily, it is most important that it should be begun without undue delay. For if nothing is done, if valuations are allowed to slide after this war as they were allowed to slide after 1918, things will be worse than they were then. With the confusion left by one war superimposed upon the confusion left by another, the rating system will get into such a tangle that there is a grave danger of its having to be swept away altogether. And, as we emphasized at the beginning of this book, if it is swept away, the prospects of independent local government are black indeed.

Levels of assessment in wealthy and poor areas

Chart I.





True rate poundages in wealthy and poor areas

Chart III.

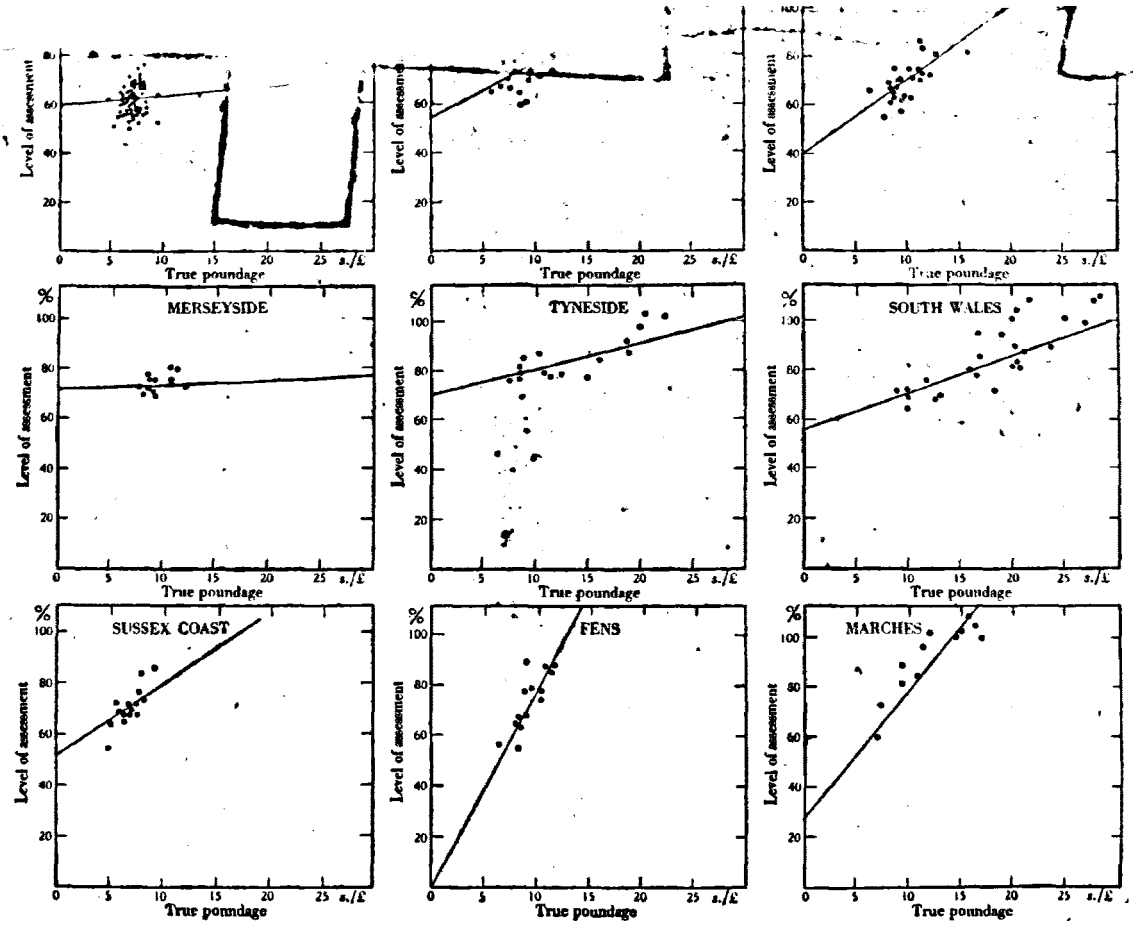


Chart IV.  
Levels of assessment and true rate poundages