



Department of the Environment  
Scottish Office

THE REPORT OF THE EXPERT ADVISORY  
COMMITTEE CHAIRED BY MR DEREK  
WOOD QC WHICH HAS REVIEWED THE  
RATING OF PLANT AND MACHINERY

# **Rating of Plant and Machinery: a Report by the Wood Committee**

Presented to Parliament by the Secretary of State  
for the Environment and the Secretary of State  
for Scotland by Command of Her Majesty  
March 1993

LONDON : HMSO

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## CHAPTER 1—INTRODUCTION

### APPOINTMENT OF THE COMMITTEE

1.1 We were appointed by the Secretaries of State for the Environment and for Scotland with the agreement of the Secretaries of State for Wales and Northern Ireland, with the following terms of reference:

To consider the present law and practice in regard to the rating of plant and machinery in the United Kingdom; to make recommendations as to the principles that should be prescribed to comprise the extent of rateable property, having regard to the financial and other considerations involved, and with a view to removing inconsistencies and harmonising the law and practice in all parts of the United Kingdom; and to make proposals for giving effect to the recommendations.

1.2 The terms of reference and the appointment of the Chairman were announced in the House of Commons by Mr Michael Portillo MP, then the Minister for Local Government and Inner Cities, on 11 June 1991. The appointment of the other members of the Committee was announced on 8 October 1991. The members and officers of the Committee are listed in Annex A.

1.3 When he announced the terms of reference, Mr Portillo said: 'Much of the existing law has remained substantially unchanged for almost 30 years and has become outdated as a result of technological change.' In announcing the membership of the Committee, the Government reaffirmed its commitment to harmonising rating practice in the United Kingdom.

1.4 In the period running up to the appointment of the Committee, the Government had received representations from various groups of occupiers of non-domestic property complaining that the law on the rating of plant and machinery was inconsistent and inequitable. The complaints were levelled at the different systems operating within the four parts of the United Kingdom and at variations in the law and the valuation practices used in each country. The Valuation Office Agency (formerly the Inland Revenue Valuation Office) and the Scottish Assessors' Association had formed a Steering Committee to prepare for the 1990 revaluation with a view to achieving harmonisation of valuation for rating. This was a direct result of the Green Paper 'Paying for Local Government' (Cmd 9714) which was presented to Parliament in January 1986. The Northern Ireland Valuation and Lands Office became part of the Steering Committee at a later stage even though it was not involved in the 1990 revaluation. The Steering Committee also identified particular problems with regard to the rating of plant and machinery.

1.5 We were asked to report by 31 December 1992, so that any recommendations could be implemented for the 1995 revaluation of non-domestic property, for which there will be an antecedent valuation date of 1 April 1993.

### METHOD OF WORKING

1.6 In order to carry out our terms of reference we wrote on 11 October 1991 to over 500 bodies requesting written evidence. The text of our letter is at Annex B. A press notice issued by the Department of the Environment on 8 October 1991 indicated our willingness to receive evidence from all sources. We asked for evidence to be submitted by 31 December 1991. Some submissions were received after these deadlines but were nevertheless fully considered. We received written evidence from 70 bodies and individuals who are listed at Annex C. We are grateful to all those who responded to our request for evidence.

1.7 In addition we commissioned papers from members of the Committee and the Secretary and carried out a number of case studies into the operation of the present rules governing the valuation for rating of plant and machinery. We also undertook a series of visits in England, Scotland and Northern Ireland to look at the implementation of those rules on the ground. We met on ten occasions, held 11 further sessions over five days to take oral evidence and spent eight days on site visits. We heard oral evidence from those listed at Annex D. We consulted the Secretary of State for the Environment's Property Advisory Group and visited

sites occupied by the companies set out in Annex E. We are grateful to those who gave us access to their property and those who made available to us detailed information about their plant and machinery. We also gathered information about the local taxation systems in other European countries.

#### FORM OF THE REPORT

1.8 We have taken account of the specific nature of our terms of reference and have prepared our report to address the separate heads raised. Chapters 2 to 4 look at the history of the rating of plant and machinery in England and Wales (where the same system applies), in Northern Ireland and in Scotland. Chapters 5 and 6 deal with the way in which the present systems operate and might be harmonised, viewed from both practical and theoretical points of view. Chapter 7 is a brief look at the taxation of plant and machinery in other European countries. Chapters 8 to 10 are our conclusions about a new system of plant and machinery rating in the United Kingdom and the rules that should give effect to those conclusions. Chapter 11 deals with harmonisation of the valuation methods used for plant and machinery. Chapter 12 is an assessment of the financial implications of our recommendations. Chapter 13 is a summary of our conclusions and recommendations.

#### ACKNOWLEDGEMENTS

1.9 We have already noted the contribution to the Committee's deliberations made by those who submitted evidence, those who appeared to give oral evidence, those who hosted our site visits and those who provided information for the case studies. In addition, we should like to thank Jeffrey Owens of the Organisation for Economic Co-operation and Development for his help on international comparisons and the staff in the organisations from which we are drawn for their efforts in drafting and producing papers of quality and substance for our consideration often to short deadlines. In particular, we should like to express our appreciation of the work done by David Raley of the Valuation Office Agency, by Philip Clint of ICI, by Nick Axford of Gerald Eve and by Bill Redpath and Roy McDermott of the Northern Ireland Valuation and Lands Office.

1.10 The Committee has been particularly well served by an able secretariat: Andrew Ramsay, Richard Neville-Carlé, Roger Spall and Judith Tracey of the Department of the Environment and Michael Sivell of the Scottish Office. We are grateful for their help in all aspects of our work. Their efficient and amiable administration has made a significant contribution to the timely production of this report.



## CHAPTER 2—THE RATING OF PLANT AND MACHINERY IN ENGLAND AND WALES

### HISTORY

2.1 The foundation of local taxation in England and Wales is the Poor Relief Act 1601, which empowered local overseers to levy, by taxation of every inhabitant and occupier of land, houses and other property within a parish, sufficient sums of money to set the poor to work; and sufficient sums for the relief of the old, disabled and poor of the parish and their children.

2.2 The Poor Rate Exemption Act 1840 prohibited overseers from taxing inhabitants in respect of their means derived from their profits or stock-in-trade or other property, but provided that nothing in the Act should affect the liability of occupiers. So far as rating has been based on the occupation of land, the basis of assessment has always been the letting value of the property in question. Since the Parochial Assessments Act 1836 this principle has been enshrined in legislation. The statute currently in force is the Local Government Finance Act 1988, which now confines the principle to non-domestic property. Schedule 6 para 2.1 of that Act provides that:

‘The rateable value of a non-domestic hereditament shall be taken to be an amount equal to the rent at which it is estimated the hereditament might reasonably be expected to let from year to year if the tenant undertook to pay all usual tenant’s rates and taxes and to bear the cost of repairs and insurance and the other expenses (if any) necessary to maintain the hereditament in a state to command that rent.’

2.3 From the 1870s onwards there was a debate as to whether plant and machinery and other items attached to buildings or land should be taken into account in the assessment. If the items were attached to the property in such a manner that, according to the common law of fixtures, they formed part of the freehold, there could be no doubt; but the position in law and practice of plant and other items which were not so attached, but would be removable by the tenant, was far from clear. After a lengthy series of cases, the House of Lords finally held in *Kirby v Hunslet Assessment Committee*<sup>1</sup> that all the tenant’s machinery placed in a factory, whether or not it had become part of the freehold, should be taken into consideration so as to increase the amount assessed. The essence of the decision is encapsulated in these words of Lord Halsbury:

‘Can you, or can you not enhance to any extent the amount of the assessment which you make upon buildings in which there is machinery adapted for the purpose of the manufacture, whether the manufacture is carried on in them, although the machines do not, as a matter of fact, form part of the freehold of the premises? I am of the opinion that after a long line of decisions which have been arrived at, you can do so.’<sup>2</sup>

2.4 This decision was followed in *S. Smith and Sons (Motor Accessories) Limited v Willesden Union Assessment Committee*<sup>3</sup> in which it was held that the net annual value must be ascertained by estimating the rent which would be paid for land, buildings and machinery on the assumption that all the machinery and plant was provided by the landlord, and that the tenant would pay a rent which reflected the fact that he would have the benefit of the use of it. Despite these decisions, there was in practice no uniformity throughout the country in applying them. Sometimes assessments took no account of the decisions or even took no account of plant and machinery at all. Elsewhere ratepayers were assessed on their plant and machinery. The inconsistency of the application of the law resulted in considerable dissatisfaction among industrialists. They also challenged the underlying principle that ‘tools of the trade’ should be subject to tax at all; and they demanded exemption from rating of all process plant and machinery.

<sup>1</sup>[1906] AC 43.

<sup>2</sup>*ibid* at 49.

<sup>3</sup>[1919] 89 LJKB 137.

## THE SHORTT COMMITTEE REPORTS AND THE 1925 ACT

2.5 In 1923 a Committee under the chairmanship of the Rt Hon Edward Shortt KC was set up to inquire into the rating of plant and machinery in England and Scotland. The resulting Report of the Inter-Departmental Committee on the Rating of Machinery and Plant in England and Scotland 1925 recommended that loose tools and machines operated only by hand or foot power should be entirely exempted from rates but that all other machinery and plant which under the existing law was required to be taken into account in assessing a hereditament should be deemed to be part of it. The Committee also recommended that rateable plant and machinery should be divided into two classes: that in Class 1 should be rated in full, and all other rateable plant and machinery (Class 2) should be rated at 25%.

2.6 The Rating & Valuation Act 1925 incorporated with some modifications the Shortt Committee's recommendations as to Class 1 plant and machinery: section 24 (1)(a) stated:

‘All such plant or machinery in or on the hereditament as belongs to any of the classes specified in the Third Schedule to this Act shall be deemed to be a part of the hereditament.’

2.7 However, contrary to the Committee's recommendations as to Class 2, the 1925 Act exempted *all* other plant and machinery: section 24 (1)(b) stating:

‘subject as aforesaid, no account shall be taken of the value of any plant or machinery in or on the hereditament.’

This measure had the great merit of clarity and simplicity. Plant and machinery which appeared in the list would be rated. If it was not in the list, its value would not be taken into account.

2.8 The Third Schedule to the 1925 Act indicated the classes of plant and machinery which were to be deemed a part of the hereditament. In accordance with Section 24 (3) a Committee (again under the chairmanship of the Rt Hon Edward Shortt KC) was set up to prepare a statement of all the plant and machinery which appeared to the Committee to fall within any of the classes specified in the Third Schedule. The Committee reported in 1926 and their recommendations (subject to some modifications) were incorporated in the Plant and Machinery (Valuation for Rating) Order 1927 made under powers in Section 24 of the 1925 Act.

2.9 The 1925 Act introduced two other provisions which have been reproduced with some modifications in subsequent relevant legislation. First, it was expressly stated that the provisions of Section 24 relating to the plant and machinery deemed to be part of the hereditament were to have no effect with respect to the valuation of a hereditament the value of which is ascertained by reference to the accounts, receipts or profits of the undertaking (subsequently referred to as the profits basis). Second, Section 24(2) of the 1925 Act required the Rating Authority or the Assessment Committee (after 1950, the Valuation Officer) to provide particulars of the machinery or plant treated as forming part of the hereditament if requested by the occupier.

## THE RITSON COMMITTEE REPORT AND THE 1960 ORDER

2.10 Although Section 24(6) of the 1925 Act provided that the list of rateable plant and machinery under the Third Schedule should be reviewed at appropriate intervals (as directed by the Minister), no review took place until the appointment of a Committee under the chairmanship of Sir Edward Ritson in 1957. In the intervening thirty years there had been little justification or pressure for a review: there was little technological change (except in the latter part of the period) and there was only limited litigation over the application of the 1927 Order (although this may have been because of the introduction of industrial derating in 1929 which was finally abolished in 1963).

2.11 The Ritson Committee made its recommendations to the Government in 1959. Its terms of reference had required a revised statement to be prepared as to the machinery and plant which appeared to the Committee to fall within any of the classes specified in the Third Schedule to the 1925 Act. Its report reflected the fact

that litigation had related mainly to the rateability of items in Class 4 of the 1927 Order (process plant) although electrical apparatus under Class 1(a) had also been in dispute.

2.12 Most of the Committee's recommendations were incorporated in the Plant and Machinery (Rating) Order 1960 (again made under the powers in section 24 of the 1925 Act) which amended the 1927 Order by including revised definitions under Class 1(a) and the addition (with some deletions) of plant items in Class 4. The Committee had recommended that "main pipe-lines" should be included in Class 4. Although this recommendation was not adopted immediately, the Pipelines Act 1962 added pipelines to the 1960 Order as a separate Class 5. Its recommendation on the exemption of process drainage plant under Class 1(b) was implemented by section 5 of the Rating and Valuation Act 1961, which also made provision for the Minister to make further orders. The Committee's recommendations on an exemption for process plant and machinery limited in size or weight or which moved or rotated were further considered by the McNairn Committee in 1971 and 1972.

#### THE McNAIRN COMMITTEE REPORT AND THE 1974 ORDER

2.13 The General Rate Act 1967 consolidated the law on rating and valuation in England and Wales. Section 24 and the Third Schedule to the 1925 Act were replaced by Section 21 and the Third Schedule to the 1967 Act.

2.14 Following the abolition of industrial derating in 1963 further representations were made by industry in particular as to what were considered to be inconsistencies and anomalies in the rating of process plant under Class 4. In 1971 the Secretaries of State for the Environment and for Scotland appointed a Committee under the chairmanship of Mr E S McNairn, the terms of reference of which were restricted to a consideration of Class 4 only.

2.15 The McNairn Committee reported in 1972. Section 18 of the Local Government Act 1974 and the Plant and Machinery (Rating) (Amendment) Order 1974 (made under Section 21 of the 1967 Act and Section 18 of the 1974 Act) gave effect to the Committee's recommendations (as modified). A new Class 4 was introduced which exempted from rates specified classes of plant and machinery. The significant change was the exemption of certain process plant under 200 cubic metres in volume.

#### THE PRESENT POSITION

2.16 With minor variations in the wording (but not in the items of plant and machinery themselves) the 1960 Order (as amended) was remade under the new non-domestic rating system as the Valuation for Rating (Plant and Machinery) Regulations 1989 which came into force on 7 April 1989. The 1989 Regulations were made under powers in Schedule 6 to the Local Government Finance Act 1988 and are reproduced in Annex F.

2.17 In considering the relevance to a rating valuation of any plant and machinery in or on the hereditament it is necessary first to have regard to the method of valuation to be adopted. If the hereditament is valued on the profits basis, the 1989 Regulations have no effect and the plant and machinery is assessed in accordance with the law which existed before 1925 (see the 1989 Regulations para 2).

2.18 However, if the hereditament is assessed by the comparative or contractor's method, the valuer needs to adopt a two stage approach. First, it is necessary to determine whether the item is plant or machinery at all. There is no statutory definition of 'plant', but a considerable body of case law has accumulated on the meaning of the word. Most of the cases have been concerned with claims for capital allowances, in the context of income and corporation tax. A distinction is frequently made between items forming part of the premises (or setting) *in* which a business is conducted, and those forming part of the plant or equipment *with* which the trade or business is carried on<sup>4</sup>.

<sup>4</sup>See for example *J Lyons Ltd v A-G* [1944] Ch 281 and *Jarrold (Inspector of Taxes) v John Good & Sons Ltd* [1963] 1 WLR 214.

2.19 Second, if it is concluded that an item is plant or machinery, it is necessary to establish whether it can be identified with an item named in the Schedule to the Regulations. It will only be rateable if it can be so identified.

## CHAPTER 3—RATING OF PLANT AND MACHINERY IN NORTHERN IRELAND

### BACKGROUND

3.1 In Ireland the levying of local taxes began in 1635. The Poor Relief (Ireland) Act 1838 established the tenement as the unit of assessment for poor rate purposes. Subsequent legislation culminating in the Valuation (Ireland) Act 1852 provided a uniform basis of valuation for all rating purposes throughout the country. Houses and buildings were assessed on the basis of their net annual letting value, while agricultural land was assessed by reference to a schedule of prices for agricultural produce.

3.2 The 1852 Act remained the basis for rating in Northern Ireland for 120 years during which time it was amended or added to by 24 Acts of Parliament. The Rates (NI) Order 1972 (made under section 1 of the Northern Ireland (Temporary Provisions) Act 1972) consolidated this legislation. It also made important changes in connection with exemptions, including the removal of agricultural land from the valuation list. Valuation is now undertaken under a system of continuous revision by the Valuation and Lands Office of Northern Ireland.

### PLANT AND MACHINERY—THE 1860 ACT

3.3 The first legislative provision relating to the valuation of plant and machinery for rating purposes in Ireland was contained in Section 7 of the Valuation of Rateable Property (Ireland) Act 1860. It provided, inter alia, that:—

‘in making the valuation of any mill or manufactory, or building erected or used for any such purpose, the Commissioner of Valuation shall in each case value the water or other motive power thereof, but shall not take into account the value of any machinery therein, save only such as shall be erected and used for the production of motive power.’

### DEASEY’S ACT

3.4 In cases to which the 1860 Act did not apply, it was necessary to distinguish between plant or equipment which had become part of the hereditament—and thus rateable—and mere chattels. It was also relevant to consider what trade fixtures a hypothetical tenant would be permitted to remove on quitting the premises. In all jurisdictions this has often been a difficult question to answer but some guidance was derived from Section 17 of the Landlord and Tenant Act (Ireland) 1860 (commonly referred to as Deasey’s Act). It provided for the removal of the following:—

‘personal chattels, engines and machines and buildings accessory thereto, erected and affixed at the tenant’s own expense for any purpose of trade, manufacture or agriculture, or for ornament or domestic convenience, and so attached to the freehold that they can be removed without substantial damage to the freehold or to the fixture itself.’

3.5 These principles were applied in rating cases. It was therefore accepted that the degree of attachment and its purposes would have a bearing on rateability. If, for example, the purpose of annexation was permanently to improve the premises as such, then it would be assumed that a tenant or owner could not remove the item on quitting or on sale, and it would be regarded as a fixture, or item of plant, to be included in the valuation for rating purposes.

### THE 1972 ORDER

3.6 The 1860 Act was amended by (among others) the Valuation Act Amendment (Northern Ireland) Act 1946 which made provision for the valuation of machinery associated with the generation of motive power outside the hereditament. The 1860 Act was finally repealed by the Rates (NI) Order 1972 which was made under powers in Section 1 of the Northern Ireland (Temporary Provisions)

Act 1972. In the context of the valuation of plant and machinery the 1972 Order provided that :—

‘In estimating the net annual rental value of any factory, the Commissioner or the District Valuer shall not take into account the value of any machinery except machinery erected and used for the production of motive power’.

3.7 Where the motive power was derived from electric current generated elsewhere than on the hereditament, the machinery to be valued was to:—

‘include all cabling, transformers, switch gear and other electrical apparatus, plant and equipment which is used for or in connection with the transmission or transformation of electrical energy between the point at which it passes into the hereditament up to and including the distribution switchboard...’.

3.8 The legislation made no provision, however, for the valuation of plant. The only reference was to machinery erected and used for the production of motive power, and then only in factory premises. In other cases, it continued to be accepted by the courts that any item of plant, other than a mere chattel, which was so constructed as to become part of the hereditament was to be included in the valuation for rating, irrespective of whether the hereditament was a factory or not.

#### THE PRESENT POSITION

3.9 The legislative position on the valuation of plant and machinery for rating purposes was radically altered with the enactment of the Rates (NI) Order 1975, the provisions of which are now embodied in the Rates (NI) Order 1977. Both Orders were made under powers in Paragraph 1 of Schedule 1 to the Northern Ireland Act 1974. The effect of these changes was to introduce a system which mirrored that existing in England and Wales with the result that the same items of plant and machinery are deemed to form part of the hereditament and liable to be included in the rating assessment.

## CHAPTER 4—THE RATING OF PLANT AND MACHINERY IN SCOTLAND

### BACKGROUND

4.1 The practice of valuing land for the purpose of raising taxes in Scotland can be traced back to the 12th Century. A general revaluation was held in 1357 and coincided with the appointment of Inquisitors throughout Scotland to determine the true amount of the profits of both temporal and spiritual lands and all other types of property and possessions. Rents and profits from land were to be taxed according to their true value with the taxation being renewed annually.

4.2 In 1643, the Convention of Estates determined that a tax should be raised from lands in accordance with a roll made up by commissioners nominated for every county or sheriffdom. The commissioners were enabled to inform themselves of the value of all persons, their present rents and crops. The valuation was based on the net rent which the landowner was entitled to receive after the deduction of permanent burdens. By 1670, the valued rent became the only recognised basis for the taxation of land and subsequently for other rights and burdens as well.

4.3 Over time, the valued rent ceased to represent the true annual value of heritable property. In addition, rolls did not include the emergence of industrial property. The Poor Law Amendment (Scotland) Act 1845 was passed to correct this situation. Provision was made for rates to be levied according to the annual value of lands and heritages. But no provision was made for the systematic creation of assessment rolls in parishes. Individual authorities could levy rates on their own rolls compiled on different bases. This led to considerable confusion, finally resolved by the passing of the Lands Valuation (Scotland) Act 1854, which is regarded as the foundation of the modern system of land valuation in Scotland.

### THE 1854 AND 1902 ACTS

4.4 Section 42 of the Lands Valuation (Scotland) Act 1854 defined the lands and heritages subject to rates. It included within the definition 'all machinery, fixed or attached to any lands or heritages' but did not specify the requisite degree of fixation or attachment. At first, machinery which was capable of removal without injury to itself or the building was excluded from the assessment, but later decisions of the courts<sup>1</sup> led to the rating of plant and machinery which was only slightly attached and could easily be removed. Thus, by a somewhat different route, the Scottish rules had, by the end of the last century, reached almost exactly the same point which had been reached in England and Wales<sup>2</sup>.

4.5 Reaction in Scotland to what was perceived to be an unfair burden of rates imposed on the occupiers of mills arrived at an earlier stage than in England. The Lands Valuation (Scotland) Amendment Act 1902 was passed, section 1 of which added a proviso to the 1854 definition as follows:

'Provided that in any building occupied for any trade, business or manufacturing process, the expression "machinery fixed or attached" shall be construed as including all machinery, machines or plant in or on the lands or heritages for producing or transmitting first motive power, or for heating or lighting such building but save as herein provided shall not include machines, tools or appliances which are only so fixed that they can be removed from their place without necessitating the removal of any part of the building.'

4.6 It is important to notice that this proviso opened up a distinction between different types of building. Those occupied for a trade, business or manufacturing process could claim the benefit of the proviso, which restricted liability to certain items of plant only. Buildings not so occupied remained subject to the pre-existing and more all-embracing rules. Although the proviso has been amended subse-

<sup>1</sup>See *Cowan v Assessor for Midlothian Region* (1894) 21 R 812 (no. 160) and *Assessor for Dundee v James Carmichael & Co Ltd* (1902) 4 F 525 (no.221).

<sup>2</sup>See paras 2.3 and 2.4 above.

quently, this distinction still persists in Scotland. It has never been applied elsewhere in the United Kingdom.

4.7 The 1902 Act provided the rules for the rating of plant and machinery for a considerable time. However, during this period the Government undertook three reviews of the rating of plant and machinery described in detail in Chapter 2: the Shortt, Ritson and McNairn Committees.

#### THE 1975 ACT

4.8 Following the McNairn review, the Government changed the operation of the Scottish rules to accord with one of the Committee's recommendations. With effect from the rating year 1977/78, the Local Government (Scotland) Act 1975 excluded from rating 'any electric motor used in an industrial or trade process whether in a building or not'. The 1975 Act made another change to the wording of the condition inserted by the 1902 Act, but the effect of this was found by the Lands Valuation Appeal Court in 1982 to exclude from the valuation roll plant and machinery for transmitting first motive power or for heating and lighting the building where that plant and machinery could be removed without requiring the removal of any part of the building. This second change was therefore repealed by Section 1 of the Lands Valuation Amendment (Scotland) Act 1982.

#### THE 1982 ACT

4.9 Concern grew that a heavy burden was placed on industrial plant not situated within a building, particularly in the petrochemical industry where almost all the substantial items of plant are not normally contained in buildings. Furthermore it was considered that comparison with the burden in England was unfavourable to Scottish properties. The Government therefore enacted section 4 of the Local Government and Planning (Scotland) Act 1982, which gave the Secretary of State the power to amend the proviso in section 42 of the 1854 Act. The amendment was made in the Valuation (Plant and Machinery) (Scotland) Order 1983, the text of which appears at Annex G.

#### THE PRESENT POSITION

4.10 The present position is that the proviso contains a general definition of rateable plant and machinery, gives a positive definition of some plant which is included in rating, and then lists some plant that is not rateable. The positive definition is not exhaustive and there may be rateable machinery which is fixed or attached to a property even though it is not mentioned in the definition. The overall picture is therefore somewhat complex. It appears that the following questions have to be addressed:

- (1) Is the subject property occupied for any trade business or manufacturing process?
- (2) If Yes (a) is there plant or machinery on the premises (or possibly fixed or attached to the premises)<sup>3</sup> which is within the *positive* list of rateable items; and (b) is there other plant or machinery, affixed or attached, which is not contained within the *negative* list of exclusions? The aggregate of the plant falling within (a) and (b) will be rateable.
- (3) If No, what items of plant and machinery are affixed or attached? All are rateable.

#### TRADE, BUSINESS OR MANUFACTURING PREMISES

*Property that is included within the positive definition*

Machinery for producing or transmitting first motive power or for generation

4.11 First motive power in any system occurs at the first point where there is mechanical motion. Where electricity is generated on the premises, first motive power stops at the coupling between the engine and the generator, with all plant up to that point rateable, that is including the turbine, steam lines, boilers, water treatment plant, fuel and supply lines, instrumentation and control systems. Where

<sup>3</sup>The case-law is not entirely consistent: see Armour on Valuation for Rating 5th Edition, para 7-10.



electricity is imported onto the property, the transmission system consisting of the transformers, high tension circuit breakers, switchboard and cabling up to the electric motor is all rateable. The position of electric motors themselves is described below. Power generated by the former nationalised generators solely for export from premises would have had a value under the profits basis of valuation before the introduction of formula valuation. This was recognised and included as part of the formula used to prescribe the values of power stations in valuation rolls. Power generated for export as an ancillary to a primary process also would have had a value attributed to it.

#### Service plant

4.12 Service plant includes all plant and machinery inside or outside a building which is used wholly or mainly in connection with, for example, heating and ventilating the property. The plant need not be provided solely for the comfort of the workforce in the property. But the plant must 'serve' the property: it is not sufficient simply for plant to give off heat as part of its process, thus incidentally raising the temperature of the building in which it is situated.

#### *Property that is excluded by the negative definition*

##### Electric motors

4.13 Any electric motor used in an industrial or trade process is excluded, including those used for providing or transmitting first motive power.

##### Items within a building

4.14 Unless they fall within either of the categories which are specifically included within the definition of lands and heritages, items which are located wholly or mainly within a building and can be removed without necessitating the removal of any part of the building are not rateable. Much may therefore depend upon the design and construction of the building, rather than the nature of the item itself.

##### Items outside a building

4.15 Plant which is wholly or mainly external to a building is not rated if it has a total cubic capacity not exceeding 200 cubic metres and can be removed from its place without substantial damage to itself or any surrounding or supporting structure and can be re-assembled elsewhere. If the plant is used wholly or mainly in connection with heating, cooling, ventilating, lighting, draining, supplying water or protecting from fire, it must be so used in an industrial or trade process.

##### External pipes

4.16 Unless they are concerned with first motive power, external pipes, within the curtilage, are excluded if they are used for an industrial trade process and are connected to machines, tools, appliances or plant on the premises. Pipes used wholly or mainly in connection with heating, ventilating or other services are excluded only if they are used in an industrial or trade process.

## VALUATION BY PROFITS METHOD

4.17 The Scottish legislation does not contain any provision corresponding to the rule which excludes from the operation of the English Regulations property valued by reference to accounts, receipts or profits—in Scotland called the 'revenue' method of valuation. The difference is of no practical significance as valuers in Scotland regard the revenue method as being extremely limited in scope and it has fallen into desuetude. Much property which might be valued by that method is currently subject to prescribed assessment.



## **CHAPTER 5—COMPARISON OF THE DIFFERENT SYSTEMS: CASE STUDIES**

5.1 Chapters 2 to 4 have shown that there are markedly different sets of rules governing the rating of plant and machinery in different parts of the United Kingdom. Their aim is supposed to be the same, and earlier Committees reviewing those rules have been asked to look at the harmonisation of their application. However, as can be seen from our brief survey, and as many of our respondents have pointed out, the rules applicable in Scotland in particular are different from those applicable elsewhere in a number of respects, and they lead to dissimilar results when applied to property of nearly identical character.

5.2 Some of the more readily recognisable differences are as follows:

(1) Scotland has a separate regime for different types of premises: those which are occupied for a trade, business or manufacturing process and those which are not. Institutional premises therefore such as hospitals, schools, colleges and universities, and many others are in a separate and less favoured category.

(2) In Scotland a distinction is drawn between plant inside and outside a building. If it is inside, it will not be rated (regardless of its size) if it can be removed without demolishing the building housing it. If it is in the open, and does not exceed 200 cubic metres in capacity, it will not be rated if it can be removed without causing substantial damage to itself and any surrounding or supporting structure, and can be re-assembled elsewhere. In the rest of the United Kingdom a threshold of 200 cubic metres is applied to named items of process plant and machinery irrespective of their location.

(3) In England, Wales and Northern Ireland plant which moves or rotates as part of the process of manufacture receives a special exemption.

(4) The Regulations in force in England, Wales and Northern Ireland are expressly disappplied to property valued on the profits basis.

5.3 In addition many specific items are treated differently. This is partly the result of the different form in which the legislation has been cast. In Scotland, plant and machinery on premises used for a trade, business or manufacturing process is rated either (a) because it appears on a specific list of items which must be rated or (b) because it is attached or affixed to the premises and is not within a list of exclusions. In England, Wales and Northern Ireland it is rated if, but only if, it appears on a statutory list. Over and above all this, there are other exclusions and inclusions favoured by the different jurisdictions which can only have been brought about by the accidents of case-law and legal history.

5.4 It is widely held that this state of affairs leads to inequity in the burden of taxation falling in different parts of the United Kingdom which is only partially solved by the current de-rating in Scotland and Northern Ireland. In order to demonstrate in practical terms how the different systems operate we carried out a series of case studies. We took a representative range of different types of industrial property with varying amounts of plant and machinery. We applied to a selection of important items of plant and machinery typical of each subject first the rules applicable for the determination of liability in England, Wales and Northern Ireland and then those applicable in Scotland. The studies, which are summarised in Annex H, provide a vivid illustration of the way in which the different systems can produce completely different results.



## CHAPTER 6—HARMONISING AND REFORMING THE DIFFERENT SYSTEMS

6.1 Our terms of reference ask us to make recommendations as to how such inconsistencies in the law can be removed, and the law and practice in all parts of the United Kingdom be harmonised. Differences in the substantive law of real property between Scotland and the rest of the United Kingdom, and the existence of separate judicial systems, which always carries the theoretical risk that the courts in different jurisdictions may give opposing answers to the same question, may be thought to be obstacles to full harmonisation. There are however many examples of the imposition of uniform or near-uniform systems of statute-law throughout the whole of the United Kingdom in the field of property and taxation.

6.2 These possible objections therefore appear to us to be slight. We can see no logical or policy reasons why the treatment of plant and machinery in rating should be different between the four countries. The differences which we have identified have led in the past to confusion and uncertainty among ratepayers and their advisers about what plant and machinery in industrial properties in the different jurisdictions is likely to be assessed, and has acted as a disincentive to industrial development and to investment, particularly in Scotland. These differences may also mean that some industries, already located in particular regions or countries, are unable or unwilling to move from them, and are accordingly at a competitive disadvantage compared with others.

6.3 We therefore conclude that in all four countries of the UK the rules of rating plant and machinery should be the same.

### THE VALUATION HYPOTHESIS

6.4 The common thread which connects all three valuation systems is the basis upon which the rateable value of property is arrived at: namely its annual letting value in the open market on a number of stated assumptions. The fact that the various systems begin from the same starting-point lends powerful aid to the task of harmonisation.

6.5 Against that we have to set, as our predecessor Committees have done, an inherent difficulty in adapting this valuation approach to our particular subject-matter.

6.6 Since rateable values are derived from hypothetical letting values, valuers base their assessments on rents being paid on the property itself, or comparable property in the locality. This practice works well in sectors of commerce and industry where a rental agreement between landlord and tenant is the normal way of providing accommodation and there is therefore sufficient reliable evidence of rents paid from which to derive a rental value. Service plant and machinery which is installed in the bulk classes of property—offices, shops, warehouses and light industrial buildings—and which is essential to its beneficial use, is taken into account in the passing rent. The assessment derived from rents, in such cases, therefore includes some element of service plant and no special valuation method has to be followed for this type of plant and machinery.

6.7 However, much industrial property, particularly that occupied by heavy industry, where the plant and machinery represent a substantial part of its value, is traditionally owner-occupied. Rarely if ever does it form the subject-matter of a letting. In order to fit it into the rating system, some robust assumptions have to be made. First, an artificial unit of letting has to be postulated, for the purpose of deriving a rental value, and the question of how much plant and machinery should be deemed to form part of that unit cannot be answered by reference to what, in the open market, a landlord would provide. In the open market there are no landlords letting this type of property.

6.8 Further, it follows that once the subject-matter of the valuation has been defined, there are no comparative rents which will give a guide as to value. It is therefore necessary to use the contractor's basis of valuation, which takes into account the actual or estimated construction costs of the hereditament or subject. Those costs are adjusted, an addition is made for the value of the site and the total

is decapitalised and expressed as an annual figure which is considered to represent the annual rental value. Recently, the decapitalisation rate has been prescribed by the Government to be the same throughout Great Britain. The proposition that rental values can be derived from construction costs in the real world does not command the same measure of support from practitioners in the valuation of commercial or industrial property as other methods of valuation.

6.9 We therefore have to acknowledge, as our predecessors did, that we are trying to make sense of an imperfect system. The rules for the rating of plant and machinery must be pragmatic rather than logically exact, and compromises must be made to achieve overall fairness. In our search for a sensible solution we have adopted a number of explicit guidelines.

#### CERTAINTY OF APPLICATION

6.10 Some of the present rules for the rating of plant and machinery, in all jurisdictions, are of such a complex and esoteric nature that there is no certainty about their application without detailed specialist knowledge of them. The evidence we have received made it clear to us that the complexity and obscurity leads to uncertainty on the part of ratepayers about the likely burden of rates arising from configurations of any plant and machinery they might wish to instal.

6.11 It is our firm opinion that the rules for the rating of plant and machinery should have a certainty of application that will permit a clear view of the likely rates burden on plant and machinery and thereby avoid disputes.

#### FAIRNESS BETWEEN RATEPAYERS

6.12 The evidence submitted to us shows that there is considerable concern among ratepayers and trade associations that the present rules for the rating of plant and machinery do not result in a fair burden of rates falling on all sectors of trade and commerce. It is argued that in some sectors of industry a proportionately larger amount of process plant is rateable than in others, simply by reason of the particular activity which the ratepayer happens to carry on. It has been said that a relatively large burden of rates is borne by the occupiers of property used for heavy industry, including the chemical, petro-chemical, iron and steel industries, as opposed to light manufacturing industry or high technology.

6.13 We see no merit in a taxation system which imposes an unjustifiably greater burden on some sectors than others. We have therefore tried to devise a set of rules which achieves a reasonable parity between different types of industrial and commercial ratepayer.

#### COST EFFECTIVENESS IN OPERATION

6.14 Throughout the United Kingdom the amount of plant and machinery which is separately valued (as opposed to being reflected in an overall value derived from a comparative rental valuation) is relatively small. It is estimated that separately valued plant and machinery accounts for approximately 2% of rateable value in England, Wales and Northern Ireland, and about 3% in Scotland. However, as a result of the complexity and obscurity of the rules governing this small area of rating expertise, the amount of time invested by valuation officers, assessors and ratepayers' agents in identifying and valuing individual items of plant and machinery can be considerable and in some cases may be out of proportion to the yield.

6.15 We believe that the rules for the rating of plant and machinery should be framed so as to achieve a greater degree of cost-effectiveness in terms of yield derived, in comparison with the manpower resources presently consumed. We do, however, recognise that concerns with cost-effectiveness should not take priority over considerations of fairness and equity in the application of the relevant rules.

#### EASY AND REGULAR REVIEW

6.16 There has not been a fundamental review of the rules governing the rating of plant and machinery for a considerable period of time. From the evidence we have received we know that ratepayers feel that the rules have got out of date and do not address or take account of newly developed technologies. Although ad-

vances in industry do not always lead to greater rateability of plant and machinery, the absence of a regular review of the issue engenders a feeling of grievance among some ratepayers who consider that they have to bear an unfair burden of rates on their plant and machinery.

6.17 This is a position which the Government should seek to avoid, because the rating system must be capable of adequately adapting itself to a changing situation. Otherwise its credibility will be undermined, and it will become and be seen to be unfair. We conclude that the rules for the rating of plant and machinery should be cast in a form which renders them capable of regular review in the future to adapt to changing needs.

#### ADDITIONAL LIMITATIONS

##### *Property valued by the profits method*

6.18 The present rules governing the rating of plant and machinery were not devised to apply to all methods of valuation. As mentioned in paragraph 2.9 above, the rules for the rating of plant and machinery in England and Wales do not apply to property assessed by the profits method of valuation. The same is true in Northern Ireland. In Scotland the legislation does not contain any express provision to this effect, because the point has never seemed important in practical terms. The logic of the profits method, in the narrow fields in which it is applicable, overrides the necessity for a separate consideration of the rateability of plant and machinery. The new harmonised system should not apply to property valued by the profits or revenue method, and the legislation in every jurisdiction should, as it presently does in England, Wales and Northern Ireland, contain an express provision to that effect.

##### *Formula-rated property*

6.19 In addition the usual rules of rating do not apply to property which is assessed by prescription by the Secretaries of State—the formula-rated industries. Much of the property subject to prescribed assessment was in fact valued under the profits method when it was last conventionally assessed in the 1950s and 1960s, and its plant and machinery has not been scrutinised for rating purposes for many years.

6.20 The Government is currently undertaking pilot studies to examine the feasibility of using conventional assessment in the 1995 revaluation for much of the property which is currently formula-rated. Because the nature of the plant and machinery used by formula-rated industries is often very specialised, it sits even less comfortably with the existing legislation and case law governing plant and machinery than many of the items with which we have been concerned.

6.21 Much of the plant falling within this category belongs to industries which were previously nationalised. For example, all pipes occupied by a public gas supplier were formula-rated when there was only one such supplier, British Gas. Increasing competition in the gas industry means that new entrants may become public gas suppliers in the medium term. At that stage the equity of the rules which would exclude any gas pipes from a more conventional type of valuation may be called into question.

6.22 We have not attempted to anticipate the detail of the outcome of the Government's review of these cases; but we have tailored our proposals so far as possible so that they will accommodate the items of plant and machinery which are currently included in prescribed assessment if and when they are to be valued by conventional methods.





## CHAPTER 7—INTERNATIONAL COMPARISONS

7.1 We commissioned a survey of the relative burdens of local taxation on plant and machinery in the UK and in Europe to see whether UK industry is placed at a competitive disadvantage. Such a survey is difficult to undertake without profound research into the overall taxation systems in each of the countries. In different countries, local taxes on property make up varying proportions of overall taxation on industry.

7.2 The Research Department of Gerald Eve carried out the work through both published material and personal contacts in the surveying profession abroad. The results, for which we are most grateful, are contained in Annex J.

7.3 We also had a valuable discussion with Professor Robert Bennett of the London School of Economics who, together with Mr Günther Krebs, has undertaken a very detailed study of the taxation systems in Britain and Germany<sup>1</sup>.

7.4 These enquiries reveal that there is no regime of local taxation among our competitors which, in terms of its structure, is comparable to ours. Because the taxation systems are conceptually so diverse, no firm conclusions can be drawn. These enquiries do not reveal any evidence that industry in the UK is placed at a major competitive disadvantage by our rules of taxation on plant and machinery compared with our European competitors.

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<sup>1</sup>Bennett, R J and Krebs, G (1988) Local Business Taxes in Britain and Germany. Baden-Baden: Nomos Verlagsgesellschaft



## CHAPTER 8—THE NEW SCHEME—COMPETING PRINCIPLES

### GENERAL APPROACH

8.1 In Chapter 6 we set out guidelines with which any new harmonised system should comply. We have considered whether there might be, as some of our witnesses have suggested, one single principle of rateability which would satisfy all the tests. We have concluded that there is no magic formula. A fair and workable system, in our opinion, must combine a number of different principles. We have however tried to keep the formula as simple as possible.

8.2 It is convenient to start with the law as it stood in Scotland before 1902, and England and Wales before 1925: anything physically attached to the heritage or land, including all plant and machinery, was rated, irrespective of whether the degree or purpose of annexation was such that it formed part of the real estate. This principle had the great merit of simplicity. Disputes would be limited to simple questions of fact: was the item attached or was it not? It also accorded with one of the fundamental principles of rating that you take the property as you find it, and value it as it stands.

8.3 It was, however, rightly in our opinion seen that this simple approach bore inequitably upon some industrial and business occupiers. Because it caught up all the items of equipment which would be introduced onto the premises for the purpose of the occupier's manufacturing process, save of course for those which were not attached at all, it was in effect a tax on the ratepayer's 'tools of the trade'. The comprehensive rating of tools of the trade would clearly give rise to serious inequalities between different ratepayers. If the nature of the ratepayer's business was such that it did not depend upon tools of the trade physically attached to the premises, the burden of rates would be significantly lower than that imposed upon a ratepayer whose trade or business depended upon plant and machinery which was so attached.

8.4 It seems to us that with the development of high technology and other advanced industrial and trade processes this inequality would be likely to become even more exaggerated. Far more industries, now, are based upon the use of computers and other instrumentation which would not be rated under the old law. Ratepayers in heavy and the more traditional industries, and in the petro-chemical industries, would have even stronger grounds for complaint than did their predecessors at the end of the last and in the early decades of this century, if the old law were applied.

8.5 Industrialists have always suggested that the remedy is to adopt as a basic principle of rateability the proposition that the property should be rated as it stands with all its existing physical attributes, subject to a blanket exception that anything in the nature of a tool of the trade should be excluded. This exclusion can be expressed in one of two ways. Either it can be expressed in legalistic terms (as previously occurred in Northern Ireland) so that the land and all fixtures forming part of it would be rated except those fixtures which were in the nature of tenant's removable trade fixtures; or there could be a straightforward statutory rule that all process plant and machinery should be excluded without going into the question whether it was a tenant's fixture at common law. It was strongly urged upon us by some representatives of industry that this is the course which we should adopt.

8.6 Every Committee from Shortt onwards has rejected the idea that there should be a blanket exemption in respect of all process plant and machinery. Such an exemption would take out of rating altogether some of the largest installations in the United Kingdom which, apart from the bare land upon which they stand, consist almost entirely of massive structures which serve or are bound up with a trade process. The principle of fairness between ratepayers, which is of paramount importance, if the business rating system is to retain any political credibility, would be seriously breached if, because of a general 'tools of the trade' exemption, refineries, gas and petro-chemical installations, and substantial parts of iron and steel works were deemed not to form part of the hereditament.

8.7 Therefore, like all our predecessors, we accept that a 'tools of the trade' exemption is legitimate up to a point; but there are some items of plant and

equipment which are of such a size and nature that, out of fairness to other ratepayers, they must be taken into account. In Chapter 10 we indicate in detail where, in our opinion, the line ought to be drawn. In broad terms, we have included all substantial items which are undoubtedly in the nature of a building or structure, or perform the function of a building or structure, and we endorse the approach of our predecessors that a test of size is used for certain items.

8.8 What we have said so far relates to plant and machinery which is used for the purpose of a trade or industrial process. There is also the problem of plant and machinery which is introduced for the purpose of providing services for the premises, or which forms part of its infrastructure. This type of equipment has never given rise to any difficulty as a matter of principle. In the letting market landlords typically provide the services and infrastructure, and it has been taken for granted that such items should always be deemed to form part of the hereditament, even in the case of property which is not normally found in that market.

8.9 The difficulty arises in the practical application of the principle, again as our predecessors have found, because it is extremely unusual, in the case of large-scale industrial property, to find plant and machinery which is installed exclusively for the purpose of providing general services, such as light, heat and ventilation, and is not also closely bound up with the trade process. In the existing regulations in each of the countries of the United Kingdom it has therefore proved necessary to draw some fairly arbitrary line in order to indicate the point up to which such plant and equipment can fairly be rated, by analogy with commercial hereditaments generally, and beyond which rateability should cease, because at that stage it is impossible in practical terms to disentangle the service from the process function. We have looked at the boundaries which have been drawn in the past, and have re-drawn them in order to simplify the task of valuers, assessors and agents and to reflect some of the technical changes which have taken place in industry since they were last reviewed.

#### GENERAL SUMMARY

8.10 We conclude thus far that the underlying conceptual approach of the existing regulations in each country is soundly based. Rateability should continue, in our opinion, to be determined in accordance with the following rules:

- (1) that the land and everything which forms part of it and is attached to it should be assessed;
- (2) that process plant and machinery which can fairly be described as 'tools of the trade' should be exempt within certain limits;
- (3) that process plant or machinery (in certain cases exceeding a stated size) which is or is in the nature of a building or structure or performs the function of a building or structure should, however, be deemed to be part of the hereditament or subject;
- (4) that service plant and machinery, and items forming part of the infrastructure of the property should be rated; and
- (5) that, in the case of plant and machinery which performs both a service and a process function sensible lines have to be drawn which will indicate exactly how much falls to be rated and how much does not.

#### SOME FURTHER DISTINCTIONS

8.11 In the working out of these principles in more detail the courts in the various jurisdictions and our predecessors have developed sub-rules and further distinctions which, with the benefit of hindsight, appear to have complicated the law, increased uncertainty and produced some unintended results. We believe that they can be dispensed with.

##### *Plant which moves or rotates as part of the process of manufacture*

8.12 We have pointed out that in England, Wales and Northern Ireland, but not in Scotland, moving or rotating plant is excluded from rateability under Class 4. The background to the making of this exception is interesting. In *Cardiff Rating*

*Authority v. Guest Keen Baldwin's Iron and Steel Company Limited*<sup>1</sup> the Court of Appeal held that tilting furnaces and certain moveable gas mains and hot and cold blast mains were rateable. In particular it was held that an item could be a structure, or in the nature of a structure, for the purposes of Class 4 of the Regulations then in force, notwithstanding the fact that it was moveable.

8.13 This point was considered by the Ritson Committee in paragraphs 41–43 of its Report, and by a majority of three to two they decided that the ruling of the Court of Appeal on this point ought to be repealed. The distinction made in the present Regulations derives from that decision. The result is that whereas items such as brick kilns are rated because they are fixed, substantial structures such as rotary kilns used in the cement industry are not rated because they move. We find the distinction irrational, and recommend that it should not be reflected in new Regulations.

*Plant inside and outside a building*

8.14 In Scotland, a distinction is drawn between plant ‘wholly or mainly within a building’ and that which is ‘wholly or mainly outwith any building’. In the former case, it will not be rated if it ‘can be removed from its place without necessitating the removal of any part of that building’. In the latter case it will not be rated if it has a total cubic capacity not exceeding 200 cubic metres, and ‘can be removed from its place without substantial damage to itself or to any surrounding or supporting structure and can be re-assembled elsewhere’. (There is a further special case for plant used for the provision of heating, cooling, ventilating and other services, which is not at this point relevant.)

8.15 We cannot see any reason why items which are outside a building should be treated in a manner different to those which are inside. It would appear that the Scottish rules have been framed as a kind of proxy for removable tenants’ fixtures, but the result is unsatisfactory. If the item is within a building, rateability would appear, as we have previously pointed out, to depend not upon the nature of the item but the design of the building in which it stands.

8.16 With regard to outside plant, the test which is applied is similar to that which is applied under Class 4 of the Regulations in force elsewhere, exception (e), to all plant irrespective of its location. We prefer this approach, and would apply the same test of rateability to both inside and outside plant.

‘INTEGRAL’

8.17 In Class 4 of the English Regulations, process plant which is part of a building or structure must be an ‘integral part’ of it to be rateable (see paragraph (b) of Class 4). For the purpose of deciding whether an item of plant falls below the minimum size prescribed in Class 4 paragraph (e), any foundations, settings, supports and any other thing which is not an ‘integral part’ of the item must be ignored. In Scotland, there is no comparable reference in legislation to the integrity of an item and the issue has been addressed in certain cases. Where the size test is applied to Scottish items outwith buildings, a similar test is applied to that used in England (see paragraph (2)(c)(i) of the amended proviso in Article 3 of the 1983 Order).

8.18 There has been a significant difference in the interpretation of the word ‘integral’. In England it means an essential structural element, but in Scotland it suggests a functional dependence. In England (under paragraph (b) for example) it means that, after an item of process plant has been identified as rateable, all the parts needed to make it operate are disregarded if they are not a structurally integral part of the item.

8.19 There is a sound argument for saying that, having established that an item is deemed to be rateable, the subordinate parts of it are rateable too. To argue otherwise requires an assumption that a hypothetical tenant would provide all the essential non-structural parts that ‘happen to fit’ the item. Further, because such items are usually provided as a complete single entity, it is difficult to apportion costs between the structural and non-structural parts.

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<sup>1</sup>[1949] 1 KB 385

8.20 However, if this perhaps more realistic approach were adopted, there would be a substantial increase in the rate liability of industries with rateable process plant. We therefore recommend that the new scheme should be expressed in such a manner as will ensure that there will be no extension of rate liability beyond its present limit. Harmonising the legislation across the UK in this respect will reduce the rate liability for the affected industries in Scotland.

#### DIFFERENT TYPES OF PROPERTY

8.21 In paragraph 4.6 we draw attention to the fact that, in Scotland only, the rules are more favourable to occupiers of buildings occupied for a trade, business or manufacturing process than to occupiers of other types of building. We believe that distinction to be unfair. It should not be perpetuated in the new harmonised system.

#### PLANT INSTALLED TO COMPLY WITH STATUTE OR CODES OF PRACTICE

8.22 Some of our witnesses suggested that we should make a further exception in the case of plant which is installed not because it is necessary to aid the trade or industrial process, from a commercial or operational point of view, but because there are statutory requirements or codes of good practice, for example connected with the environment (such as conditions attaching to planning permissions), or with security or health or safety which oblige the occupier to provide them. This argument also has been considered and rejected by our predecessors, and it does not find favour with us. We find it difficult to justify with reference to any principle, and believe that it would open up considerable areas of uncertainty in the law.

#### FORMAT

8.23 Having reached the conclusion that the new harmonised system should, as previous statutory schemes have done, operate selectively, that is to say that some items of plant and machinery should be assessed for rating purposes but others not, we can state our views as to the form in which any new legislation should be cast. All those who gave evidence to us, from every part of the United Kingdom, were unanimously of the view that the style of Regulations in force in England and Wales since 1925 should be followed everywhere. There should be an exhaustive statutory list of items of plant and machinery which are rated. If an item is on the list, it falls to be assessed; if it is not, it is disregarded. We wholeheartedly agree. We believe that there should be a single set of Regulations applicable throughout the United Kingdom (or parallel Regulations which so far as legally practicable are in identical form) which follow this formula. While some divergence of interpretation in the courts of the different jurisdictions may be anticipated, the risk is minimised if the new scheme takes this form.

8.24 Regulations cast in this form are also the more easily susceptible to regular review and therefore satisfy the requirement set out in paragraph 6.17. Such a review should regularly be carried out in parallel with the quinquennial revaluation exercise.

## **CHAPTER 9—POWER PLANT, SERVICE PLANT AND INFRASTRUCTURE (INCLUDING PIPES)**

9.1 In this Chapter (and Chapter 10) we take the existing provisions for the rating of plant and machinery in England, Wales and Northern Ireland as a framework for looking at the more detailed content of the new scheme. We address separate Scottish issues as they arise in that agenda. For convenience, we refer in the text to the English Regulations: where we suggest an amendment, we imply an equivalent provision in replacement legislation.

### **POWER (Class 1A and Table 1A of the English Regulations)**

9.2 In England, Wales and Northern Ireland under the present rules, plant and machinery used for the generation, storage, primary transformation or main transmission of mechanical, electrical or other power is rated up to the first point of transformation. In Scotland under the present rules, rateability of plant used to transmit imported power continues up to a motor used in a trade or business process. For power generated on the premises, rateability ends at the point of first motive power only (for instance, the turbine which is coupled to an electricity generator).

9.3 We have looked again at the amount of plant and machinery which ought to be rateable beyond the basic power plant. Landlords of hereditaments or subjects which are typically let only provide the necessary generation, storage, primary transformation and main transmission of power to enable the property to be used. The value of the plant and machinery used to service the property is reflected in the rental bid made by the tenant, and is therefore included in the rating assessment.

9.4 We believe that the same yardstick of rateability should apply to service plant and machinery for importing electricity and for generating it on site. To ensure comparability of treatment between light and heavy industries, we considered whether it might be fairest to rate all electrical plant to the socket or busbar to which non-rateable process plant is connected. We concluded that it would more appropriate to reduce the amount of plant and machinery beyond the primary power plant that is rated. In this way we could achieve greater consistency of treatment and considerable simplification of the rules.

9.5 We therefore recommend that, regardless of its relationship with any transformers, power plant should be rateable up to the first distribution board, which in an electrical power plant would apply to the first board in any circuit. The current definition of 'Main Transmission of power' should be amended accordingly.

9.6 In England, Wales and Northern Ireland, this will result in a reduction in the amount of plant and machinery presently rated under Class 1A. In Scotland, it will lead to a greater reduction of rated plant in this category because the present Scottish rules include more plant and machinery used for transmission of power. These different effects are a consequence of harmonisation.

9.7 We also make the following detailed points and accompanying secondary recommendations. If electric power is valued to the first point of distribution, rateability should not be resuscitated where electricity is used to create power by compressed air or hydraulic means. In England under the present Regulations, where power in the form of compressed air is generated by electric motor, the motor is not rateable (if it is beyond the point at which main transmission of electric power comes to an end), but the compressor and its associated main transmission pipes become rateable up to the point at which the main supply of pneumatic power ceases. In a similar configuration of plant in Scotland, the electric motor, the compressor and its main distribution system are all exempt because they are not 'first motive power'. We prefer the approach adopted in Scotland and recommend that the new Regulations exempt all these items.

9.8 Steam produced in a multi-purpose boiler should be subject to the same rules as other power generation even where the electricity generated is at a different voltage from the rateable circuit for imported power. While the present paragraph

(iii) in Class 1A of the English Regulations deals with forms of power that are now largely obsolete, it should remain in an amended form to cover all eventualities. Because of new technology, references to aero-generators and to solar power should be added to table 1A.

9.9 So far, we have discussed power plant employed for the production or transmission of power on the site for use by the occupier. Concern has been expressed by the power generation industry, whose property is currently subject to prescribed assessment, that when that form of assessment is discontinued, and the normal rules of rating apply, their plant and machinery too will be caught by the provisions of Class 1A as it is currently worded, or by its new equivalent if drafted in the same manner. They argue that it would be more appropriate if their plant and machinery were to be treated as process plant and machinery currently within Class 4 in England and Wales. This change would effect a very considerable reduction in the rates burden of the power generation industry and, by transference, an increase in that of other industrial and business ratepayers.

9.10 The sums involved are considerable. Our own view is that while we accept that there may be some logic in the argument which has been advanced, the logic does not go one way, and there are overriding considerations of fairness and equity between ratepayers which would point away from any such amendment to the current rules. In our view all businesses importing or generating power for consumption on site or any other purpose should be subject to the same regime.

#### OTHER SERVICES (Class 1B and Table 1B of the English Regulations)

9.11 We have stated that there is a distinction between plant and machinery which services property and that provided for use in connection with the trade process being undertaken. But many services in non-domestic property, which might be found whatever the use of the property, are also used incidentally for manufacturing operations in some instances.

9.12 At present, the English Regulations treat service plant and machinery as rateable under Class 1B in the following circumstances:

(1) it must be 'used or intended to be used mainly or exclusively in connection with the heating, cooling, ventilating, lighting, draining or supplying of water to the land or buildings of which the hereditament consists or for the protection of the hereditament from fire'; but

(2) the fact that any 'machinery or plant which is in or on the hereditament for the purpose of manufacturing operations or trades processes ... is used in connection with those operations or processes for [services] ... shall not cause it to be treated as falling within the classes of [rateable] machinery or plant.'

It appears to us that the underlying purpose of this lengthy definition is to ensure that service plant or machinery, other than plant which mainly or exclusively provides services for manufacturing operations or trade processes, is rated. The definition is not, however, free from ambiguity, and it has opened the door to disputes about when plant should be treated as falling under Class 1B. An example of the problems created is in the treatment of air-conditioning plant. This may have been installed to facilitate a particular process—for instance computer suites or clean rooms—or to enhance the working conditions of employees but it is impossible to distinguish between these purposes.

9.13 In Scotland the same result is achieved by the use of less ambiguous language: see paragraphs (1)(b) and (2)(c)(iii) of the amended proviso contained in Article 3 of the 1983 Order. However, the problem of apportionment between different service functions remains.

9.14 We have considered whether the current definition should be amended or dropped altogether. For example, we discussed whether it might be preferable to exclude from rateability only that service plant which 'solely' supports a process function. However to treat plant as process plant only if it was wholly for process purposes would increase the rateability of this type of plant and machinery. Such plant is rarely met in practice. As an alternative, we considered whether it would



be possible to apportion the value of the plant between Classes 1B and 4 reflecting the relative use for service and process activity. But this would run contrary to our desire for cost-effectiveness of valuation effort and could create new opportunities for dispute.

9.15 We therefore conclude that notwithstanding the difficulties which have been encountered in deciding the degree to which plant is used for process purposes the law as we understand it in both England and Scotland should remain unaltered but that the draftsmanship should be improved to eliminate the difficulties inherent in the English Regulations.

#### *Fire and other hazard protection*

9.16 Some dispute has occurred as a result of the distinction between equipment provided to protect items of non-rateable process plant and machinery from fire or other hazards, and systems providing general protection to a building which, it is accepted, should remain rateable<sup>1</sup>. It could be argued that fire protection equipment attached to or provided specifically for non-rateable plant and machinery also protects the remainder of the property from the hazard and should be reflected in the rating assessment. However, we consider that it is possible to identify equipment provided to protect the hereditament or subject as a whole from hazard as opposed to that provided mainly or exclusively to protect a non-rateable item of process plant and machinery—to which it is often attached—and the latter should not be included in the rating assessment.

#### *General*

9.17 In addition the following changes should be made to the existing provisions. In the interest of clarity, we recommend that ‘air-conditioning plant’ should be inserted in the list of service plant instead of being regarded as covered by references to heating and ventilation. The list of accessories should include an express reference to computers at paragraph 2(viii). The present Table 1B subparagraph (h) should be updated to include reference to developments in fire protection equipment, for example halon systems.

9.18 We consider that the existing definition of plant and machinery which services the hereditament requires an addition to deal with ‘Security’. Under this heading would come plant and machinery that is used to protect the property from trespass or criminal damage, for example, security and alarm systems.

#### INFRASTRUCTURE

9.19 Plant and machinery that is part of the infrastructure of a hereditament or subject is commonly found in Classes 2 and 3 of the English Regulations. In general we have taken the view that plant and machinery that provides infrastructure to a site and/or buildings on that site should be regarded as having been provided by the hypothetical landlord of the property since the plant facilitates a wide range of possible uses and therefore enhances the rental value of the property. We therefore conclude that these items should be included in rating assessments.

9.20 With regard to plant and machinery covered by the existing Class 2 of the English Regulations, we see no justification for the present distinction between passenger lifts which are rateable and goods lifts which are not. We recommend that Class 2 should be reworded to incorporate lifts, elevators, hoists, escalators and travelators without distinction as to their use provided that they serve a building or structure which is itself rateable. Elevators and hoists are currently named items under Class 4, Table A of the English Regulations and can be deleted from that Table if this recommendation is adopted.

9.21 The existing Class 3 of the English Regulations deals with railway and tramway tracks and lines which the Committee consider are indistinguishable in essence from roads which are rateable as part of the site rather than as plant. Such tracks should therefore continue to be assessed together with all fixed accessories and equipment directly associated with them.

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<sup>1</sup>See para 8.18 above

*Pipes* (Class 5 of the English Regulations)

9.22 At present cross-country pipe-lines are assessed under Class 5 of the English Regulations. There is an exemption for pipes within a factory or some other types of property that may contain a large amount of pipework, for example, petroleum storage depots. Drains, sewers and pipes vested in a public gas supplier or other statutory undertaker are also exempt.

9.23 We have considered the extent to which pipe-lines within a hereditament or subject may be regarded as part of the infrastructure of the property. It could be argued that pipe-lines perform a similar function to lifts, roads or railway tracks in that they effect the movement of materials within the hereditament or subject and, *prima facie*, therefore should be rateable as infrastructure. The alternative view is that pipes are an integral part of a particular process and are not suitable for a wide range of possible uses. This tends to suggest that they are tools of the trade. Furthermore, they are often very small and are frequently moved, adapted or changed, and monitoring these alterations is wasteful of time and money.

9.24 On balance, we recommend that the present exemption afforded to pipes within a hereditament (other than pipes which are rateable under Classes 1A and 1B) should continue. For the same reasons, we do not seek to include conveyors (other than those which are rateable under Classes 1A and 1B) as rateable items because they perform a similar function to pipes. The structural parts of a conveyor system may nevertheless be rateable under Class 4 and we are content that this should continue.

9.25 However, we do not consider that a pipe-line which is rateable outside a factory or petroleum storage depot should cease to be rateable at the point where it crosses the curtilage of the property. It is more logical that pipe-lines conveying materials should continue to be rateable up to the point where the material they are conveying becomes involved in a trade process or similar operation. Similar considerations apply to the export of a product off the premises into a rateable network. We believe that this can be given effect by making the limit of rateability the receiver and launcher valves on hereditaments or subjects, because in practice they are the points where pipe-lines can be sealed off from trade processes.

9.26 We therefore recommend that—

- (1) all cross-country pipe-lines should continue to be rateable;
- (2) all pipe-lines within the curtilage of relevant hereditaments or subjects for the purpose of conducting substances onto the site should be rateable up to and including the first control valve, and those used to conduct substances away from the site should be in assessment at and from the last control valve; and
- (3) all pipe-lines (other than those rateable under Classes 1A and 1B) between the first and last valves should not be rated.

#### PROPERTY SUBJECT TO PRESCRIBED ASSESSMENT

9.27 The current UK provisions do not apply to plant that is currently subject to prescribed assessment. We know that the Government is currently exploring the possibility that at the 1995 revaluation there will be no prescribed assessment. This means that certain property may fall within the ambit of any rules on the rating of plant and machinery for the first time in many years. As mentioned in paras 6.19–6.22 above, we have considered whether changes should be made to cope with this eventuality.

9.28 Currently, class 5 of the English Regulations exempts any system of pipes occupied by a public gas supplier or a successor to an electricity board. Unless this exemption were removed, any pipes of these ratepayers would be exempt from rates under conventional assessment. Pipes belonging to new competitors would not be. This would be inequitable and we recommend that the exemption should be removed. This would treat newcomers to the gas and electricity market on the same basis.

9.29 The present Regulations do not deal specifically with the type of equip-

ment, particularly network cables, that form an essential part of the infrastructure of some of the industries subject to prescribed assessments. There should be provision for this property if it were not subject to prescribed assessment. Under conventional assessment, this property might be valued on a profits basis to which the Regulations would not apply, but nonetheless it is desirable to make specific provision for such equipment, particularly network cabling, to be treated as rateable plant.

9.30 We therefore recommend that network cables and pipe-lines should be rated following the conclusions set out above for site infrastructure. They would be rateable up to and including the first valve, meter or isolation point on the property of the customer.



## CHAPTER 10—PROCESS PLANT

10.1 As in Chapter 9, we use the existing provisions in England, Wales and Northern Ireland as our framework, addressing separate Scottish issues as they arise.

10.2 Class 4 and Tables A and B to Class 4 of the Regulations list a series of specific items which are rateable, subject to their not falling within a list of exceptions (a) to (d). The object of the list of exceptions is to exclude from rateability items which are not in some sense structural (exceptions (a) and (b)); which move or rotate (exception (c)); which are refractory or other linings which require regular renewal (exception (d)). In addition, items within Table B are not rateable if they are too small and are moveable (exception (e)). The rateability of any item of process plant therefore depends upon two questions:

- (1) is it on the list;
- (2) does it fall within any of the exceptions?

If the answer to (1) is Yes and (2) is No, it is rateable.

### THE EXCEPTIONS

10.3 *The structural test: (a) and (b).* In paragraph 8.7 we affirmed the principle that items of process plant—tools of the trade—should not qualify for rateability at all if they were not in some manner structural. We therefore recommend the retention of exceptions (a) and (b).

10.4 *Moving or rotating plant: (c).* In paragraph 8.13 we recommended that this exception, not recognised in Scotland, should be removed.

10.5 *Refractory or other linings: (d).* We see no reason for removing this exception.

10.6 *Size and mobility: (e).* We have discussed the scope of this exception at some length, and consider that the size limit can without any serious loss of rate income, be enlarged and that the test of mobility should be simplified.

10.7 The size test started as an informal *de minimis* cut-off at 100 cubic metres, and was converted into a prescribed limit at 200 cubic metres applying to Table B of Class 4 after McNairn's recommendations. It was seen as a simple proxy for an item which was not a structure and as such it would meet our objectives of finding a rating solution that is cost-effective, reduces litigation and cuts down the valuation time spent on small items. The existing size test is based on cubic capacity and is therefore limited in its application to those items which are in the nature of a container.

10.8 Technology for designing and moving plant has advanced since the 200 cubic metre threshold was set, and the practical experience of individual members of the Committee suggests that items as large as 400 cubic metres can now be moved with ease. Partly in response to this advance, and partly with a view to cutting out excessively detailed items from our new scheme, we looked at a variety of different industries, to examine the effect in practice of increasing the minimum size for items in Table B from 200 to 400 cubic metres. Our conclusion was that this alteration could result in the exclusion of some process plant, ie genuine tools of the trade, which in terms of rate yield was not insignificant. The raising of the threshold from 200 to 400 cubic metres would not however have any effect on major items of plant such as storage plant which were truly comparable in terms of their function and their design to the more traditional buildings and structures occupied by ratepayers in other industries. It would not therefore result in unfairness between different ratepayers.

10.9 Of course, any size test can lead to the apparent anomaly of two almost identical items of plant falling on different sides of the line being treated differently. We therefore considered whether a sliding scale of rateability could be introduced, whereby plant would be rated proportionally to the extent that it exceeded the stated size. We believe however that the introduction of such a test would lead to complicated and time-consuming arguments over apportionment,

and our recommendation is that the minimum size in Table B simply be increased from 200 to 400 cubic metres.

10.10 We have also concluded that the second requirement of exception (e)—mobility—should be amended. At present the test is:

‘any item .... which is readily capable of being moved from one site and re-erected in its original state on another without the substantial demolition of the item or of any surrounding structure.’

The requirement that the item should be capable of being moved and re-erected without substantial demolition of the item itself appears to us to be unnecessary. Our suggested amendment is that the item, to be excluded, should be ‘capable of being moved without the substantial demolition of the surrounding structure’. If this latter test were also dispensed with, we would be exempting from rateability items which were manifestly structural, and we have already stated that such items should remain within assessment<sup>1</sup>.

10.11 A size test does not apply to items in Table A. However, in respect of such items it remains the fact that Valuation Officers, Assessors and ratepayers’ agents can be involved in the meticulous measurement of many small items of little value. Accordingly, we also considered whether some individual items in Table A could be subject to a different size test, varying between tonnage or other cubic measurement depending on the nature of the item being measured. It would not be feasible to frame an additional general exception (f) to deal with these items. In such cases the appropriate size criterion would have to be denoted against the item in question as it appeared in the list. On balance we felt that the implementation of such tests would create further practical problems of identification and measurement, and we decided not to propose any additional exemption based on size. We do, however, urge Valuation Officers and Assessors to take a commonsense view when confronted with minor items whose rateable value is insignificant.

#### THE LIST

10.12 Our approach to the list has been to shorten and simplify it, by omitting all items which are obsolete or very rarely encountered, all items which will in all probability fall within one or more of the exceptions in any event, and all items whose status as structures is questionable.

10.13 We have also taken the opportunity to eliminate repetition, and delete some items which were simply a species of a genus already itself listed. However, we have not carried this practice to the point where removal of items would introduce ambiguity where the law at present is clear.

10.14 Our recommended list of rateable items of process plant, to which the new list of exceptions will apply, is set out in Annex K.

#### CONCLUSION

10.15 Having completed our consideration of the new rules, we compared them with the operation of the existing ones as tested in our worked examples presented in Annex H. We have set out the results in Annex L.

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<sup>1</sup>See para 8.10

## CHAPTER 11—VALUATION

11.1 As part of our deliberations, we considered the manner in which the contractor's basis of valuation is applied in practice to plant and machinery within the various jurisdictions.

### BACKGROUND

11.2 There do not appear to be fundamental problems in the valuation of plant and machinery in buildings which are valued by the comparative rental method. In such cases, plant is either reflected in market rents or evidence can be adduced to take account of more unusual types of plant—for instance, enhanced services. Again, plant and machinery is not separately assessed in a profits valuation. However, there are perceived current differences in the approach to the contractor's basis of valuation taken by Assessors in Scotland on the one hand and Valuation Officers elsewhere on the other in cases where that is the only method of valuation available.

### THE CONTRACTOR'S BASIS OF VALUATION

11.3 Although not set out in statute, it has been accepted by the courts that there are five stages to the contractor's basis of valuation in rating. They are:

- (1) estimating the cost of replacing the subject property, that is, the existing buildings, structures and rateable plant and machinery, at prices ruling at the relevant valuation date;
- (2) making allowances for obsolescence and other factors, to produce an adjusted replacement cost;
- (3) adding the market value of the land at its current use to arrive at an effective capital value;
- (4) applying the decapitalisation rate (now prescribed) to convert this into an annual value; and
- (5) considering the resultant valuation and making any further adjustments necessary.

### CRITICISMS OF THE APPLICATION OF THE CONTRACTOR'S BASIS OF VALUATION TO PLANT AND MACHINERY

11.4 Many respondents said that, because of differences in the application of the contractor's basis of valuation, property of a similar nature and scope is given a higher rateable value assessment in Scotland than in England. Leaving aside the differences in the poundage between the countries of the UK (which is a matter outside our terms of reference), this is regarded as inequitable and an undesirable influence on choice of location.

11.5 In general there has been no comment about differences in the techniques used by Assessors and Valuation Officers in respect of the final four of the stages of the contractor's basis of valuation. Indeed the prescription for the 1990 rating lists and valuation rolls of the decapitalisation rate to be applied in this approach has achieved harmonisation of this element in the valuation.

11.6 However, it has been asserted that the first stage of the technique is approached differently. In Scotland it has been suggested that actual contractual costs of construction are frequently used to reach the value of the buildings and plant and machinery. The contractual costs are adjusted to prices prevailing at the valuation date using indices. On the other hand, in England, Wales and Northern Ireland unit costs of buildings, structures and any rateable plant and machinery are used to arrive at the replacement cost. The costs are averages from samples of manufacturers prices across the country adjusted by indices for location to take account of different regional contract prices. The differences apply to the assessment of all property on the contractor's basis, but it appears that there are greater differences in resulting assessments for plant and machinery than for other types of property.

11.7 The Scottish system has been criticised as leading to higher values and thus

higher assessments on a number of counts. First, the achieved cost of a contract includes costs which should not be attributed in the assessment of rateable value. An example is extra contract cost that might be incurred through mismanagement or other supervening events. However, in practice we have been assured that unremunerative expenditure is generally excluded from such assessments.

11.8 Second, the attribution of costs peculiar to a location may have a significant impact on the rating assessments of property. Often the effects are counter-intuitive: where property might be expected to be less in demand—and hence have a lower letting value—the assessment may be higher. For example, unexpected or unusual site works may lead to exceptional site development costs. Construction in remote locations usually produces higher costs because materials have to be transported further. In Scotland, the climate and shorter winter days can increase the building costs. However, we gather from the Assessors that unusual features of properties are disregarded when contractor's basis valuations are undertaken.

11.9 Finally, it is difficult, if not impossible, to attribute correctly the costs of non-rateable items in contract prices. Without a full and laborious breakdown of all the sub-contract prices, it has been suggested that incidental costs and some non-rateable property, including chattels, may incorrectly be increasing the capital value of rateable buildings and plant.

11.10 On the other hand, the use of averaged regional unit costs adopted in the English approach to the contractor's basis could be said to fail to match the actual construction costs of the subject property. In any event, it must rely on the availability of an adequate supply of cost information which may not always be forthcoming. It is acknowledged that the provision of up-to-date, reliable cost information from occupiers of property on actual contracts is essential to the credibility of the approach.

#### THE COMMITTEE'S CONCLUSION

11.11 We have considered carefully the arguments put to us and have also referred to our own experience of assessments done using the contractor's basis of valuation. We also used our case studies described in Chapter 5 to test the results of the different approaches. Our work on property in Scotland involved some subjects where assessments were said to be higher as a result of the way the contractor's basis was applied. In our studies of property in England and Northern Ireland, we looked at the differences between the prevailing unit costs used in assessments and the actual costs of construction.

11.12 Having considered this evidence we have concluded that the difference of approach between Scottish Assessors and Valuation Officers elsewhere has been exaggerated. We have reached this conclusion for the following reasons.

11.13 First, the responses we received gave a mistaken impression of the way in which the contractor's basis of valuation is applied in Scotland. A number of highly specialised properties have been valued using actual costs (updated where necessary), including some substantial assessments of rateable value for some of the largest installations in the petro-chemical industry in Scotland. However the majority of contractor's basis assessments are done using a unit cost approach similar to that employed elsewhere in the UK.

11.14 Second, in any event, the last stage of the contractor's basis of assessment—the 'stand back and look stage' (see paragraph 11.5(e))—gives an opportunity to decide whether a suggested assessment is correct.

11.15 The Committee prefers the use of reliable average costs wherever possible. It recognises that there may be a residue of cases in which such costs cannot be a safe guide. It is not in our opinion feasible to legislate on this matter: the law is too inflexible a tool for this purpose. We note that the Steering Group on Harmonisation has already made important strides in harmonising this valuation technique and we welcome the work done so far. We recommend that they should establish a Code of Valuation Practice in time for the 1995 revaluation. Ministers should monitor progress towards that goal.

11.16 We believe that the professional institutions, which represent all interests



in valuation matters, have an important part to play in achieving harmonisation. We express the hope that they too will be able to initiate discussions with their own membership which will assist in developing more consistent valuation standards.

11.17 On the question of information provided to and by the valuer we have the following views. We recommend that, to ensure fairness in the assessment of all plant and machinery, there should be a duty on all occupiers of property (backed by appropriate penalties for non-compliance) to supply information—including costs—relating to their plant and machinery reasonably required by Valuation Officers and Assessors. We also considered the present correlative obligation on the Valuation Officer under the English Regulations to give the occupier, when requested to do so, particulars of the plant and machinery included in the assessment of the property. This seems to accord with open Government and we recommend that this obligation should be applied throughout the UK.



## CHAPTER 12—FINANCIAL IMPLICATIONS

12.1 There are cost implications of changing the rating of plant and machinery. We therefore asked the Department of the Environment, with the help of other Government Departments, to advise us on the changes in burden that were likely to occur. We have accepted their advice as a fair picture of the implications.

### BACKGROUND

12.2 The national poundage in England for 1992/93 is 40.2 pence, in Wales it is 42.5 pence and in Scotland the average poundage is 54.8 pence. It is the Government's policy to bring the poundage in Scotland broadly into line with the poundage in England and Wales by the 1995 revaluation or shortly thereafter to match the harmonisation of law and valuation technique being attempted in other areas, including the rating of plant and machinery.

12.3 The level of poundage in Northern Ireland is much higher than in the rest of the UK (the average poundage in 1992/93 is 231.7 pence) because there has been no recent revaluation of property in the Province.

12.4 As a guide to the current levels of income from rates, the yield in England is approximately £12 billion from an aggregate rateable value of £32 billion. The exact yield from a given rateable value depends on the amount of property subject to mandatory and discretionary rate reliefs, how much is liable to empty property rates and to other variable factors, such as bad debts. In Wales, the rate yield is approximately £530 million from an aggregate rateable value of £1.25 billion. The equivalent Scottish figures are a yield of £1.5 billion and an aggregate rateable value of £2.7 billion. The rate yield in Northern Ireland is £490 million from an aggregate rateable value of £220 million, including exempt properties.

### AMOUNT OF RATEABLE VALUE IN PLANT

12.5 Evidence from the Valuation Office Agency suggests that approximately 2% of rateable value shown in 1990 local rating lists in England and Wales is attributable to separately identified and valued plant and machinery. The effect on rateable values derived from the comparative method of valuation of the presence of plant in property (generally service plant) is not included in our estimates. In Scotland, an analysis by the Assessors shows that approximately 3% of total rateable value in the 1990 valuation rolls is in separately valued rateable plant and machinery. The greater proportion of value in rateable plant and machinery may also result from the different approach to the contractor's basis of valuation used in Scotland. The DOE estimates that a further 4½% of total rateable value in English 1990 rating lists is attributable to plant and machinery subject to prescribed assessment and that the respective amounts for Wales, Northern Ireland and Scotland are approximately 6%, 4% and 4% respectively.

12.6 There is no detailed analysis of rateable plant by sector or individual industrial ratepayers, but in general, it has been suggested to us that heavy industry bears a greater burden.

### EXPECTED CHANGES OF BURDEN IN 1995

12.7 The timing of the Committee's report is such that, if Government were minded to implement any of its recommendations, it could do so at the time of the next revaluation of non-domestic property due in England, Wales and Scotland in 1995. In Northern Ireland, there has been no announcement about a revaluation of non-domestic property. So the changes in rates burden on plant and machinery would occur in addition to other effects of the revaluation, including the proposal to end formula valuation for the public utilities and changes in rental values in the period 1988–93 (the respective valuation dates for the 1990 and 1995 revaluations).

12.8 Any change in aggregate rateable value in 1995 would imply changes in the poundage. In England and Wales, the law requires the poundage to be recalculated after a revaluation to produce the same yield in real terms as in the previous year.

In Scotland, administrative action would ensure that the same burden of local taxation fell on the non-domestic sector after the revaluation.

12.9 The amount of rateable value in plant is not equal among all ratepayers: some have little or no separately valued plant and machinery; others have substantial amounts. Any changes to the rating of plant and machinery will have differential effects.

12.10 The retail and office sectors are widely expected to get the benefit of a fall in their relative rates burden in 1995. Although these sectors have little separately valued plant and machinery, any increase in the poundage could mean that the reduction for this group will not be as great as it otherwise would be. Ratepayers in light engineering or industry located in the north of England expect their property to maintain its rental value (and hence rateable value) in 1995. If the poundage were to increase, some ratepayers in this sector would face increases in their rates bills.

#### COST ESTIMATES

12.11 We estimate that using the relativities that exist in the 1990 rating lists and valuation rolls our recommendations would reduce aggregate rateable value by no more than 0.5% in England and Wales and by approximately 1.5% in Scotland. In Northern Ireland, based on the change in England where the rules are broadly similar, the reduction in the current valuation list would be of the order of 0.5%. As we said in paragraph 10.8, there is little reduction in rateable value caused by the recommendation to increase the size threshold applying to process plant. Some reduction in value would be caused by redefining certain of the categories of such plant that we believe is not in the nature of a building or structure. The reductions would be offset by increases in liability caused by the abandonment of certain tests which confer exemption at present which would particularly affect some groups of ratepayers. Because of the way in which assessments were prescribed for the 1990 lists and rolls, there would be little or no effect of our recommendations on the formula-rated industries. The bigger shift of value in Scotland is because there is currently proportionately more rateable plant and machinery there and we are suggesting that some plant is valued in a different way in future.

12.12 In England this would suggest a shift of rateable value of no more than £150 million away from industrial ratepayers with plant and machinery that would no longer be assessed under our recommendations. The increase in the poundage to maintain a constant yield would be approximately 0.2 pence at 1992/93 price levels over the current poundage of 40.2 pence. This poundage would, of course, apply to those who had reduced rateable values as a result of the changes to the rules on the rating of plant and machinery as well as all other occupiers of non-domestic property. In Wales a shift of rateable value of up to £7 million would require an increase in the poundage of approximately 0.2 pence. The equivalent figures for Scotland are an approximate loss of £40 million of rateable value with a rate poundage increase of around 1 penny on this year's poundage of 54.8 pence. In Northern Ireland, the changes imply a 1 penny increase in the poundage from 231.7 pence.

## CHAPTER 13—CONCLUSIONS AND RECOMMENDATIONS

13.1 We summarise our conclusions and recommendations as follows:

13.2 There are markedly different sets of rules governing the rating of plant and machinery in different parts of the United Kingdom (para 5.1).

13.3 The rules applicable in Scotland are different from those applicable elsewhere in a number of respects, and they lead to dissimilar results when applied to property of nearly identical character (para 5.1).

13.4 It is widely held that this leads to inequity in the burden of taxation falling in different parts of the United Kingdom which is only partially solved by the current de-rating in Scotland and Northern Ireland (para 5.4).

13.5 We can see no logical or policy reasons why the treatment of plant and machinery in rating should be different between the four countries and conclude that in all four countries of the UK the rules of rating plant and machinery should be the same (paras 6.2 and 6.3).

13.6 The rules for the rating of plant and machinery must be pragmatic rather than logically exact, and compromises must be made to achieve overall fairness (para 6.9).

13.7 The rules for the rating of plant and machinery should have a certainty of application that will permit a clear view of the likely rates burden on plant and thereby avoid disputes (para 6.11).

13.8 The new system must be based on a set of rules which achieves a reasonable parity between different types of industrial and commercial ratepayer (para 6.13).

13.9 The rules for the rating of plant and machinery should be framed so as to achieve a greater degree of cost-effectiveness in terms of yield derived, in comparison with the manpower resources presently consumed; but concerns with cost-effectiveness should not take priority over considerations of fairness and equity in the application of the relevant rules (para 6.15).

13.10 The rules for the rating of plant and machinery should be cast in a form which renders them capable of regular review in the future to adapt to changing needs (para 6.17).

13.11 The new harmonised system should not apply to property valued by the profits or revenue method, and the legislation in every jurisdiction should, as it presently does in England, Wales and Northern Ireland, contain an express provision to that effect (para 6.18).

13.12 So far as possible the new scheme should accommodate the items of plant and machinery which are currently included in prescribed assessment if and when they are to be valued by conventional methods (para 6.22).

13.13 Our enquiries do not reveal any evidence that industry in the UK is placed at a major competitive disadvantage by our rules of taxation on plant and machinery compared with our European competitors (para 7.4).

13.14 A fair and workable system, in our opinion, must combine a number of different principles (para 8.1).

13.15 The underlying conceptual approach of the existing regulations in each country is soundly based. Rateability should continue, in our opinion, to be determined in accordance with the following rules:

- (1) that the land and everything which forms part of it and is attached to it should be assessed;
- (2) that process plant and machinery which can fairly be described as 'tools of the trade' should be exempt within certain limits;
- (3) that process plant or machinery (in certain cases exceeding a stated size) which is or is in the nature of a building or structure or performs the function of a building or structure should, however, be deemed to be part of the hereditament or subject;

(4) that service plant and machinery, and items forming part of the infrastructure of the property should be rated; and

(5) that, in the case of plant and machinery which performs both a service and a process function sensible lines have to be drawn which will indicate exactly how much falls to be rated and how much does not (para 8.10).

13.16 The distinction drawn in England, Wales and Northern Ireland between plant which moves or rotates as part of the process of manufacture and that which remains stationary is irrational, and it should not be reflected in new Regulations (para 8.13).

13.17 There is no reason why items of plant and machinery which are outside a building should be treated in a manner different to those which are inside and the same test of rateability should apply to both inside and outside plant (paras 8.15 and 8.16).

13.18 The new scheme should be expressed in such a manner as will ensure that there will be no extension of rate liability beyond structural parts (para 8.20).

13.19 The distinction drawn in Scotland between buildings occupied for a trade, business or manufacturing process and other types of building should not be perpetuated in the new harmonised system (para 8.21).

13.20 No exception should be made in the case of plant which is installed because there are statutory requirements or codes of good practice connected with the environment or with security or health or safety which oblige the occupier to provide them (para 8.22).

13.21 The new scheme should be embodied in an exhaustive statutory list of items of plant and machinery which are to be rated. If an item is on the list, it falls to be assessed; if it is not, it is disregarded (para 8.23).

13.22 There should be a regular review of the new rules carried out in parallel with the quinquennial revaluation exercise (para 8.24).

13.23 Regardless of its relationship with any transformers, power plant should be rateable up to the first distribution board, which in an electrical power plant would apply to the first board in any circuit (para 9.5).

13.24 If electric power is valued to the first point of distribution, rateability should not be resuscitated where electricity is used to create power by compressed air or hydraulic means (para 9.7).

13.25 Steam produced in a multi-purpose boiler should be subject to the same rules as other power generation even where the electricity generated is at a different voltage from the rateable circuit for imported power (para 9.8).

13.26 The present paragraph (iii) in Class 1A of the English Regulations should remain in an amended form to cover all eventualities and references to aero-generators and to solar power should be added to table 1A (para 9.8).

13.27 All businesses importing or generating power for consumption on site or any other purpose should be subject to the same rating regime (para 9.10).

13.28 The definition of rateable service plant currently stated in Class 1B should remain unaltered but the draftsmanship should be improved to eliminate the difficulties inherent in the English Regulations (para 9.15).

13.29 Air-conditioning plant should be inserted in the list of service plant instead of being regarded as covered by references to heating and ventilation; the list of accessories should include an express reference to computers at paragraph 2(viii); and the present Table 1B sub-paragraph (h) should be updated to include reference to developments in fire protection equipment, for example halon systems (para 9.17).

13.30 The existing definition of plant and machinery which services the hereditament should include items intended to provide security (para 9.18).

13.31 Class 2 should be reworded to incorporate lifts, elevators, hoists, escalators and travelators without distinction as to their use provided that they serve a

building or structure which is itself rateable. Elevators and hoists can be deleted from Table A of Class 4 (para 9.20).

13.32 Railway and tramway tracks and lines should continue to be assessed together with all fixed accessories and equipment directly associated with them (para 9.21).

13.33 All cross-country pipe-lines should continue to be rateable; all pipe-lines within the curtilage of relevant hereditaments or subjects for the purpose of conducting substances onto the site should be rateable up and including to the first control valve, and those used to conduct substances away from the site should be in assessment at and from the last control valve; and all pipe-lines (other than those rateable under Classes 1A and 1B) between the first and last valves should not be rated (para 9.26).

13.34 Network cables and pipe-lines should be rated following the conclusions set out above for site infrastructure. They should be rateable up to and including the first valve, meter or isolation point on the property of the customer (para 9.30).

13.35 In Class 4, the structural test of process plant should be retained; the exemption of moving or rotating plant should not be perpetuated; and refractory linings should continue to be non-rateable (paras 10.3–10.5).

13.36 The minimum size of rateable items of process plant in Table B to Class 4 should simply be increased from 200 to 400 cubic metres (para 10.9).

13.37 The requirement that items of process plant are not rateable if they are capable of being moved and re-erected without substantial demolition appears to us to be unnecessary. However, an item should continue to be excluded if it is capable of being moved without the substantial demolition of the surrounding structure (para 10.10).

13.38 Our recommended list of rateable items of process plant, to which the new list of exceptions will apply, is set out in Annex K (para 10.14).

13.39 The Steering Group on Harmonisation should establish a Code of Valuation Practice on the contractor's basis of valuation in time for the 1995 revaluation. Ministers should monitor progress towards that goal (para 11.15).

13.40 There should be a duty on all occupiers of property to supply information—including costs—relating to their plant and machinery reasonably required by Valuation Officers and Assessors (para 11.17).

13.41 The present obligation on the Valuation Officer under the English Regulations to give the occupier, when requested to do so, particulars of the plant and machinery included in the assessment of the property should be applied throughout the UK (para 11.17).





**MEMBERS AND OFFICERS OF THE COMMITTEE REVIEWING  
THE RATING OF PLANT AND MACHINERY**

Derek Wood QC (Chairman), Principal of St Hugh's College, Oxford

Michael Barclay, Partner, Gerald Eve

Alistair Borthwick, Property Division, Shell (UK) Ltd

John Charman, Rating and Property Manager, ICI

Ken Formby, Property Management, Rugby Cement

Billy Jenkins, Deputy Commissioner, Northern Ireland Valuation and Lands  
Office

Ian Rogers, Assessor, Lothian Region (John Robertson attended one meeting  
because of Mr Rogers' indisposition)

Paul Sanderson, Superintending Valuer, Valuation Office Agency (David  
Johnson attended one meeting before Mr Sanderson was appointed to the  
post of Superintending Valuer)

John Stephenson, Partner, Fuller Peiser

Andrew Ramsay, Department of the Environment (observer)

Michael Sivell, The Scottish Office (observer)

Richard Neville-Carlé, Department of the Environment (Secretary)



TEXT OF THE COMMITTEE'S LETTER REQUESTING  
WRITTEN EVIDENCE

11 October 1991

Dear Sir or Madam

REVIEW OF THE RATING OF PLANT AND MACHINERY

I have been appointed to chair a committee to review the rating of plant and machinery in the United Kingdom and make recommendations to the Government.

The committee's terms of reference are:

'To consider the present law and practice in regard to the rating of plant and machinery in the United Kingdom; to make recommendations as to the principles that should be prescribed to comprise the extent of rateable property, having regard to the financial and other considerations involved, and with a view to removing inconsistencies and harmonising the law and practice in all parts of the United Kingdom; and to make proposals for giving effect to the recommendations.'

I am writing to ask you whether you would like to submit written evidence. The committee may later invite certain of those who have written to give oral evidence. The notes attached list some of the main topics on which the committee would particularly welcome views and information. The notes are not, however, intended to be exhaustive, and if there are other issues raised by our terms of reference which you feel we should address, I hope you will let us know about them.

If you wish all or part of your evidence to be given in confidence, please say so; the committee will observe strict confidentiality and, for example, will not refer directly to such evidence in its proceedings or report. Where confidence is not requested, the committee will assume that it is free to quote from the evidence in its report if it wishes to do so.

In order to meet the timescale which the committee has been set, I must ask for your evidence by 31 December 1991. It should be sent to:

Richard Neville-Carlé  
Finance Local Taxation Division  
Department of the Environment  
Room N6/05  
2 Marsham Street  
London SW1P 3EB  
Tel 071-276 3097  
Fax 071-276 3090.

Yours faithfully

DEREK WOOD QC

## TOPICS FOR EVIDENCE

The Government is fully committed to harmonising the rating systems in Great Britain and will seek to make further progress towards that objective in the 1995 revaluation of non-domestic property. They are also committed to harmonising rating practice in Northern Ireland. The committee would therefore welcome views on how harmonisation might be achieved.

The rules for the rating of plant and machinery have not undergone a fundamental review for several decades. They have therefore become out of date in relation to the technology they refer to. The committee would welcome views on the philosophy that should lie behind the rating of plant and machinery.

The committee would welcome views on the following options (or any other that are suggested) for prescribing the rating of plant and machinery:

*a) to state a principle of rateability alone;*

*b) to list all rateable plant—which would follow the current practice in England, Wales and Northern Ireland;*

*c) to set out a principle and any exclusions—which would follow the Scottish model;*

*d) to prescribe a principle and expand on it by setting out some typical examples of plant and machinery that satisfy it—which would involve seeking to clarify the stated principle by saying “anything in the nature of a [generic description]” is regarded as rateable.*

**BODIES FROM WHOM THE COMMITTEE RECEIVED WRITTEN EVIDENCE***Professional Associations*

Commission for Local Authority Accounts in Scotland  
 Incorporated Society of Valuers and Auctioneers  
 Institute of Revenues Rating and Valuation  
 Institute of Revenues Rating and Valuation, Scottish Branch  
 Royal Institution of Chartered Surveyors  
 Royal Institution of Chartered Surveyors in Scotland  
 Scottish Assessors' Association  
 Woking District Council (on behalf of the Society of Local Authority Chief Executives)

*Trade Associations and other similar bodies*

Association of Independent Electricity Producers  
 The Brewers' Society  
 British Automatic Sprinkler Association  
 British Independent Steel Producers' Association  
 British Wind Energy Association  
 Central Council for Physical Recreation  
 Chemical Industries Association/UK Petroleum Industries Association  
 Cold Storage and Distribution Federation  
 Combined Heat and Power Association  
 Committee of Vice-Chancellors and Principals of Universities in the United Kingdom  
 Confederation of British Industry  
 Electricity Association  
 Engineering Industries Association  
 Hotel Catering and Institutional Management Association  
 The Loss Prevention Council  
 Machinery Users Association  
 National Association of Warehousekeepers  
 National Association of Water Power Users  
 The Scotch Whisky Association  
 Scottish Council Development and Industry  
 Society of Motor Manufacturers and Traders

*Industrial companies*

BP Chemicals  
 BP Exploration  
 BP Exploration, Poole  
 BP Exploration, Sullom Voe  
 BP Oil UK Limited  
 British Gas plc  
 British Steel plc  
 British Telecommunications plc  
 Civil Aviation Authority  
 Cutts Brothers (Doncaster) Ltd  
 Elf Oil Ltd  
 Exxon Chemicals, Fife  
 ICI plc  
 Inco Europe Limited  
 The International Drilling and Downhole Technology Centre, Aberdeen  
 London Electricity plc  
 Manweb plc  
 Marks and Spencer plc  
 Alfred McAlpine Slate Products, Bethesda

Mercury Communications Ltd  
Midlands Electricity plc  
National Power plc  
Norweb plc  
PowerGen plc  
Safeway, Belshill  
Scottish Hydro-electric plc  
Scottish Power plc  
SEEBOARD plc  
Shell (UK) Ltd  
Texaco, Pembroke  
WWM Mainsprint Joint Venture, Wigan  
Wilks Head and Eve (on behalf of Coal Products Limited)  
Yorkshire Electricity plc

*Professional rating surveyors*

Beesley, Thomson and Sons, Manchester  
Bernard Thorpe, Oxted  
Henry Butcher & Co, Bristol  
Deane and Curry, Belfast  
Debenham, Tewson and Chinnocks Ltd, London  
Fuller Peiser, London  
G L Hearn & Partners, London  
Kenneth Smith Esq, Cheltenham

**BODIES FROM WHOM THE COMMITTEE RECEIVED ORAL EVIDENCE**

*Professional Associations*

Incorporated Society of Valuers and Auctioneers  
Institute of Revenues Rating and Valuation  
Institute of Revenues Rating and Valuation, Scottish Branch  
Royal Institution of Chartered Surveyors  
Royal Institution of Chartered Surveyors in Scotland

*Trade Associations and other similar bodies*

Association of Independent Electricity Producers  
British Independent Steel Producers' Association  
Chemical Industries Association/UK Petroleum Industries Association  
Confederation of British Industry  
Electricity Association  
National Association of Warehousekeepers

*Industrial companies*

British Steel plc

*Individuals*

Professor Robert Bennett, London School of Economics





**SITE VISITS BY MEMBERS OF THE COMMITTEE**

- 5 December 1991 — ICI, Wilton
- 5 December 1991 — ENRON power station, Wilton
- 5 December 1991 — ICI Billingham
- 6 December 1991 — British Steel, Teesside
  
- 17 March 1992 — Harland and Wolff, Belfast
- 18 March 1992 — Ford (Northern Ireland), Belfast
- 18 March 1992 — Short Brothers, Belfast
- 19 March 1992 — Bushmills Distillery, Co Antrim
  
- 25 March 1992 — Rugby Cement, Southam
  
- 6 July 1992 — GEC-Ferranti, Edinburgh
- 6 July 1992 — Digital Equipment (Scotland) Ltd, South Queensferry
- 6 July 1992 — Shell (UK) Ltd, Mossmorran
- 6 July 1992 — Exxon, Fife Ethylene Plant
- 7 July 1992 — Safeway Main Distribution Centre, Belshill



## STATUTORY INSTRUMENTS

1989 No. 441

## RATING AND VALUATION

The Valuation for Rating (Plant and Machinery)  
Regulations 1989

<i>Made</i> - - - -	<i>12th March 1989</i>
<i>Laid before Parliament</i>	<i>17th March 1989</i>
<i>Coming into force</i>	<i>7th April 1989</i>

The Secretary of State for the Environment as respects England, and the Secretary of State for Wales as respects Wales, in exercise of the powers conferred on them by sections 143(2) and 146(6) of and paragraph 2(8) of Schedule 6 to the Local Government Finance Act 1988(a), and of all other powers enabling them in that behalf, hereby make the following Regulations:

1. These Regulations may be cited as the Valuation for Rating (Plant and Machinery) Regulations 1989 and shall come into force on 7th April 1989.
2. In relation to any hereditament other than a hereditament which is valued on the profits basis, in applying the provision of sub-paragraphs (1) to (7) of paragraph 2 of Schedule 6 to the Local Government Finance Act 1988—
  - (a) all such plant or machinery in or on the hereditament as belongs to any of the classes set out in the Schedule shall be assumed to be part of the hereditament; and
  - (b) the value of all other plant and machinery in or on the hereditament shall be assumed to have no effect on the rent to be estimated as required by paragraph 2(1).
3. The valuation officer shall, on being so required in writing by the occupier of any hereditament, supply to him particulars in writing showing what machinery and plant, or whether any particular machinery or plant, has been assumed in pursuance of regulation 2(a) to form part of the hereditament.

9th March 1989

*Nicholas Ridley*  
Secretary of State for the Environment

12th March 1989

*Peter Walker*  
Secretary of State for Wales

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(a) 1988 c.41.

**CLASSES OF PLANT AND MACHINERY TO BE ASSUMED TO BE PART  
OF THE HEREDITAMENT**

**CLASS 1A**

Machinery and plant specified in Table 1A (together with any of the appliances and structures accessory to such machinery or plant and specified in the List of Accessories) which is used or intended to be used mainly or exclusively in connection with the generation, storage, primary transformation or main transmission of power in or on the hereditament.

“Transformer” means any plant which changes the pressure or frequency or form of current of electrical power to another pressure or frequency or form of current, except any such plant which forms an integral part of an item of plant or machinery in or on the hereditament for manufacturing operations or trade processes.

“Primary transformation of power” means any transformation of electrical power by means of a transformer at any point in the main transmission of power.

“Main transmission of power” means all transmission of power from the generating plant or point of supply in or on the hereditament up to and including—

- (i) in the case of electrical power, the first transformer in any circuit, or where the first transformer precedes any distribution board or there is no transformer the first distribution board;
- (ii) in the case of transmission by shafting or wheels, any shaft or wheel driven directly from the prime mover;
- (iii) in the case of hydraulic or pneumatic power, the point where the main supply ceases, excluding any branch service piping connected with such main supply;
- (iv) in a case where, without otherwise passing beyond the limits of the main transmission of power, power is transmitted to another hereditament, the point at which the power passes from the hereditament.

**TABLE 1A**

- (a) Steam boilers (including their settings) and chimneys, flues and dust or grit catchers used in connection with such boilers; furnaces; mechanical stokers; injectors, jets, burners and nozzles; superheaters; feed water pumps and heaters; economisers; accumulators; deaerators; blow-off tanks; gas retorts and charging apparatus, producers and generators.
- (b) Steam engines; steam turbines; gas turbines; internal combustion engines; hot-air engines; barring engines.
- (c) Continuous and alternating current dynamos; couplings to engines and turbines; field exciter gear; three-wire or phase balancers.
- (d) Storage batteries, with stands and insulators, regulating switches, boosters and connections forming part thereof.
- (e) Static transformers; auto transformers; motor generators; motor converters; rotary converters; transverters; rectifiers; phase converters; frequency changers.
- (f) Cables and conductors; switchboards, distribution boards, control panels and all switchgear and other apparatus thereon.
- (g) Water wheels; water turbines; rams; governor engines; penstocks; spillways; surge tanks; conduits; flumes; sluice gates.
- (h) Pumping engines for hydraulic power; hydraulic engines; hydraulic intensifiers; hydraulic accumulators.
- (i) Air compressors; compressed air engines.
- (j) Windmills.
- (k) Shafting, couplings, clutches, worm-gear, pulleys and wheels.
- (l) Steam or other motors which are used or intended to be used mainly or exclusively for driving any of the machinery and plant falling within this Class.

**CLASS 1B**

Machinery and plant specified in Table 1B (together with the appliances and structures accessory to such machinery or plant and specified in paragraph 2 of the List of Accessories) which is used or intended to be used mainly or exclusively in connection with the heating, cooling, ventilating, lighting, draining or supplying of water to the land or buildings of which the hereditament consists, or the protecting of the hereditament from fire: but in the case of machinery or plant which is in or on the hereditament for the purpose of manufacturing operations or trade processes, the fact that it is used in connection with those operations or processes for the purposes of heating, cooling, ventilating, lighting, draining, supplying water or protecting from fire shall not cause it to be treated as falling within the classes of machinery and plant specified in the Schedule.

## TABLE 1B

### (a) GENERAL

Any of the machinery and plant specified in Table 1A and any steam or other motors which are used or intended to be used mainly or exclusively for driving any of the machinery and plant falling within paragraphs (b) to (h) of this Table.

### (b) HEATING

- (i) Water heaters.
- (ii) Headers and manifolds; steam pressure reducing valves; calorifiers; radiators; heating panels; hot-air furnaces with distributing ducts and gratings.
- (iii) Gas pressure regulators; gas burners; gas heaters and radiators and the flues and chimneys used in connection therewith.
- (iv) Plug-sockets and other outlets; electric heaters.

### (c) COOLING

- (i) Refrigerating machines.
- (ii) Water screens; water jets.
- (iii) Fans and blowers.

### (d) VENTILATING

Air intakes, channels, ducts, gratings, louvres and outlets; plant for filtering, washing, drying, warming, cooling, humidifying, deodorising and perfuming, and for the chemical and bacteriological treatment of air; fans, blowers; gas burners, electric heaters, pipes and coils when used for causing or assisting air movement.

### (e) LIGHTING

- (i) Gas pressure regulators; gas burners.
- (ii) Plug-sockets and other outlets; electric lamps.

### (f) DRAINING

Pumps and other lifting apparatus; tanks; screens; sewage treatment machinery and plant.

### (g) SUPPLYING WATER

Pumps and other water-lifting apparatus; sluice-gates; tanks, filters and other machinery and plant for the storage and treatment of water.

### (h) PROTECTION FROM FIRE

Tanks; pumps, hydrants; sprinkler systems; fire alarm systems; lightning conductors.

## LIST OF ACCESSORIES

1. Any of the following machinery and plant which is used or intended to be used mainly or exclusively in connection with the handling, preparing or storing of fuel required for the generation or storage of power in or on the hereditament—

Cranes with their grabs or buckets; truck or wagon tippers; elevating and conveying systems, including power winches, drags, elevators, hoists, conveyors, transporters, travellers, cranes, buckets forming a connected part of any such system, and any weighing machines used in connection therewith; magnetic separators; driers; breakers; pulverisers; bunkers; gas-holders; tanks.

2. Any of the following machinery and plant which is used or intended to be used mainly or exclusively as part of or in connection with or as an accessory to any of the machinery and plant falling within Class 1A or Class 1B—

- (i) Foundations, settings, gantries, supports, platforms and stagings for machinery and plant;
- (ii) Steam-condensing plant, compressors, exhausters, storage cylinders and vessels, fans, pumps and ejectors; ash-handling apparatus;
- (iii) Travellers and cranes;
- (iv) Oiling systems; earthing systems; cooling systems;
- (v) Pipes, ducts, valves, traps, separators, filters, coolers, screens, purifying and other treatment apparatus, evaporators, tanks, exhaust boxes and silencers, washers, scrubbers, condensers, air heaters and air saturators;
- (vi) Shafting supports, belts, ropes and chains;
- (vii) Cables, conductors, wires, pipes, tubes, conduits, casings, poles, supports, insulators, joint boxes and end boxes;
- (viii) Instruments and apparatus attached to the machinery and plant, including meters, gauges, measuring and recording instruments, automatic controls, temperature indicators and alarms and relays.

## CLASS 2

Lifts and elevators mainly or usually used for passengers.

## CLASS 3

Railway and tramway lines and tracks.

## CLASS 4

The following items, except—

- (a) any such item which is not, and is not in the nature of, a building or structure;
- (b) any part of any such item which does not form an integral part of such item as a building or structure or as being in the nature of a building or structure;
- (c) any such item or part of such item which is moved or rotated by motive power as part of the process of manufacture;
- (d) so much of any refractory or other lining forming part of any plant or machinery as is customarily renewed by reason of normal use at intervals of less than fifty weeks;
- (e) any item in Table B the total cubic capacity of which (measured externally and excluding foundations, settings, supports and anything which is not an integral part of the item) does not exceed two hundred cubic metres, and which is readily capable of being moved from one site and re-erected in its original state on another without the substantial demolition of the item or of any surrounding structure.

## TABLE A

Aerial ropeways, supports for;  
 Blast Furnaces;  
 Bridges;  
 Chimneys;  
 Coking Ovens;  
 Cooling Ponds;  
 Elevators and Hoists;  
 Fan Drifts;  
 Floating docks and pontoons, with any bridges or gangways not of a temporary nature used in connection therewith;  
 Flues;  
 Flumes and conduits;  
 Foundations, settings, fixed gantries, supports, platforms and stagings for plant and machinery;  
 Headgear—  
     Mine, quarry and pit;  
     Well.  
 Masts (including guy ropes) and towers for—  
     Radar;  
     Television;  
     Wireless.

Pits, beds and bays–  
   Acid neutralising;  
   Casting;  
   Cooling;  
   Drop;  
   Inspection or testing;  
   Liming, soaking, tanning or other treatment;  
   Settling.  
 Racks;  
 Slipways, uprights, cradles and grids for ship construction and repair;  
 Stages, staithes and platforms for loading, unloading and handling material;  
 Telescopes, including radio telescopes;  
 Tipplers;  
 Transversers and turntables;  
 Walkways, stairways, handrails and catwalks;  
 Weighbridges;  
 Well casings and liners;  
 Windmills.

## TABLE B

Accelerators;  
 Acid concentrators;  
 Bins, hoppers and funnels;  
 Boilers;  
 Bunkers;  
 Burners, Bessemer converters, forges, furnaces, kilns, ovens and stoves;  
 Chambers, vessels and containers for–  
   Absorption of gases or fumes;  
   Aerographing and spraying;  
   Bleaching;  
   Chemical reaction;  
   Conditioning or treatment;  
   Cooling;  
   Diffusion of gases;  
   Drying;  
   Dust or fume collecting;  
   Fibre Separation (wool carbonising);  
   Fuming;  
   Impregnating;  
   Mixing;  
   Refrigerating;  
   Regenerating;  
   Sandblasting;  
   Shotblasting;  
   Sterilising;  
   Sulphuric Acid;  
   Testing.  
 Condensers and scrubbers–  
   Acid;  
   Alkali;  
   Gas;  
   Oil;  
   Tar.  
 Coolers, chillers and quenchers;  
 Cupolas;  
 Economisers, heat exchangers, recuperators, regenerators and superheaters;  
 Evaporators;

Filters and separators;  
 Hydraulic accumulators;  
 Precipitators;  
 Producers, generators, purifiers, cleansers and holders of gas;  
 Reactors;  
 Refuse destructors and incinerators;  
 Retorts;  
 Silos;  
 Stills;  
 Tanks;  
 Towers and columns for—  
     Absorption of gases or fumes;  
     Chemical reaction;  
     Cooling;  
     Oil refining and condensing;  
     Treatment;  
     Water.  
 Vats;  
 Washeries and dry cleaners for coal;  
 Wind tunnels.

### CLASS 5

A pipe-line, that is to say, a pipe or system of pipes for the conveyance of any thing, not being—

- (a) a drain or sewer;
- (b) a pipe or system of pipes vested in a public gas supplier, in a board established by the Electricity Act 1947, or in the Central Electricity Generating Board;
- (c) a pipe or system of pipes forming part of the equipment of, and wholly situate within, a factory or petroleum storage depot or premises comprised in a mine, quarry or mineral field;

and exclusive of so much of a pipe or system of pipes forming part of the equipment of, and situate partly within and partly outside, a factory or petroleum storage depot or premises comprised in a mine, quarry or mineral field as is situate within, as the case may be, the factory or petroleum storage depot or those premises.

In this paragraph—

- (i) “factory” has the same meaning as in the Factories Act 1961(a) ;
- (ii) “mine” and “quarry” have the same meanings as in the Mines and Quarries Act 1954(b) ;
- (iii) “mineral field” means an area comprising an excavation being a well or bore-hole or a well and bore-hole combined, or a system of such excavations, used for the purpose of pumping or raising brine or oil, and so much of the surface (including buildings, structures and works thereon) surrounding or adjacent to the excavation or system as is occupied, together with the excavation or system, for the purpose of the working of the excavation or system;
- (iv) “petroleum storage depot” means premises used primarily for the storage of petroleum or petroleum products (including chemicals derived from petroleum) or of materials used in the manufacture of petroleum products (including chemicals derived from petroleum); and
- (v) “public gas supplier” has the same meaning as in Part I of the Gas Act 1986(c) .

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(a) 1961 c.34.

(b) 1954 c.70.

(c) 1986 c.44.



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 STATUTORY INSTRUMENTS
 

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1983 No. 120 (S.10)

## RATING AND VALUATION

**The Valuation (Plant and Machinery) (Scotland) Order 1983**

<i>Made</i>	- - -	11th January 1983
<i>Laid before Parliament</i>		17th January 1983
<i>Coming into Operation</i>		
<i>For the purposes of articles 4 and 5</i>		4th February 1983
<i>For all other purposes</i>		1st April 1983

In exercise of the powers conferred on me by sections 4(1) and 65(1) of the Local Government and Planning (Scotland) Act 1982(a) and of all other powers enabling me in that behalf, I hereby make the following order:

*Citation and commencement*

1. This order may be cited as the Valuation (Plant and Machinery) (Scotland) Order 1983 and shall come into operation for the purposes of articles 4 and 5 on the day after the day on which it is approved by resolution of each House of Parliament and for all other purposes on 1st April 1983.

*Interpretation*

2. In this order:
- “the 1854 Act” means the Lands Valuation (Scotland) Act 1854(b);
  - “the 1975 Act” means the Local Government (Scotland) Act 1975(c).

*Amendment of the 1854 Act*

3. In the proviso to section 42 of the 1854 Act which relates to the construction of the expression “machinery fixed or attached” in the definition of “lands and heritages” in that section—

---

(a) 1982 c.43.

(b) 1854 c.91 (section 42 was amended by the Lands Valuation (Scotland) Amendment Act 1902 (c.25), section 1, by the Local Government (Scotland) Act 1966 (c.51), section 20, by the Local Government (Scotland) Act 1975 (c.30) Schedule 6 Part II, paragraph 5 and Schedule 7 and by the Lands Valuation Amendment (Scotland) Act 1982 (c.57), section 1).

(c) 1975 c.30.

- (a) for the words "any building" there shall be substituted the words "so far as it relates to lands and heritages";
- (b) for the words from "as including" to "building or not" there shall be substituted the words—

“—

(1) as including, subject to paragraph (2)(a) below, all machinery, machines, tools, appliances or plant in or on the lands and heritages—

- (a) for producing or transmitting first motive power; or
- (b) subject to paragraph (2)(c) and (d) below, used or intended to be used wholly or mainly in connection with the heating, cooling, ventilating, lighting or draining of, or the supplying of water to, the lands and heritages, or the protection of the lands and heritages from fire; and

(2) as not including—

- (a) any electric motor used in any industrial or trade process;
- (b) subject to paragraph (1) above, any machinery, machine, tool, appliance or plant, wholly or mainly within a building, which can be removed from its place without necessitating the removal of any part of that building;
- (c) subject to paragraph (1)(a) above, any machinery, machine, tool, appliance or plant in or on the lands and heritages, but wholly or mainly outwith any building where such machinery, machine, tool, appliance or plant—
  - (i) has a total cubic capacity (measured externally and excluding foundations, settings, supports, and any other things not integral to it) not exceeding 200 cubic metres;
  - (ii) can be removed from its place without substantial damage to itself or to any surrounding or supporting structure and can be re-assembled elsewhere; and
  - (iii) if used wholly or mainly in connection with heating, cooling, ventilating, lighting, draining, supplying water, or protecting from fire is so used in an industrial or trade process; and
- (d) subject to paragraph (1)(a) above, so much of any pipe or system of pipes as is outwith any building and within the curtilage of premises which are used for an industrial or trade process where that pipe or system—
  - (i) forms an external part of, or is connected to, any machinery, machine, tool, appliance or plant in or on such premises; and
  - (ii) if used wholly or mainly in connection with heating, cooling, ventilating, lighting, draining, supplying water, or protecting from fire is so used in an industrial or trade process.”.

4. Notwithstanding sections 1(2) and 2(1) of the 1975 Act (which provide respectively for a valuation roll remaining in force until superseded by a new valuation roll and for alterations to a valuation roll in force) the assessor for any valuation area shall alter the valuation roll in force as respects that area in so far as such alteration is required to give effect to the amendments made by this order.

5. Section 3 of the 1975 Act (which makes supplementary provision as regards an alteration to a valuation roll in force) shall have effect in relation to an alteration under article 4 of this order as that section has effect in relation to any such alteration as is mentioned in subsection (1) thereof.

*George Younger,*  
One of Her Majesty's  
Principal Secretaries of State.

New St. Andrew's House,  
Edinburgh.  
11th January 1983.

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#### EXPLANATORY NOTE

*(This Note is not part of the Order.)*

This Order amends the proviso relating to "machinery fixed or attached" in the definition of "lands and heritages" in section 42 of the Lands Valuation (Scotland) Act 1854. The principal amendment excludes from valuation for rating in Scotland certain external plant and machinery which has a cubic capacity of 200 cubic metres or less and also certain associated pipework (Article 3).



## SUMMARY OF WORKED EXAMPLES

Typical item of plant and machinery	Rateability	
	England, Wales and Northern Ireland	Scotland
Industry—(a) Petrochemical		
Distillation column (377 m <sup>3</sup> )	Yes	Yes
Trays in rateable columns	No	Yes
P&M for transmission of electrical power beyond first distribution board/transformer	No	Yes
Turbo-alternator	Yes	No
Chemical storage tank (410 m <sup>3</sup> )	Yes	Yes
Ducts	No	Yes
Industry—(b) Iron and Steel Works		
Blast furnace	Yes	Yes
Tilting arc furnace (310 m <sup>3</sup> )	No	Yes
Tipler	Yes	No
Rail track	Yes	Yes
Oven within building (270 m <sup>3</sup> )	Yes	No
Rolling Mill	No	No
Industry—(c) Shipyard		
Travelling crane	No	No
Fixed gantry	Yes	Yes
Weighbridge	Yes	No
Turntable	Yes	No
Furnace within building (220 m <sup>3</sup> )	Yes	No
Chamber (192 m <sup>3</sup> )	No	No

Typical item of plant and machinery	Rateability	
	England, Wales and Northern Ireland	Scotland
Industry—(d) Cement Works		
Kiln in building (210 m <sup>3</sup> )	Yes	No
Rotary kiln outwith building (412 m <sup>3</sup> )	No	Yes
Silo (536 m <sup>3</sup> )	Yes	Yes
Hopper in building (320 m <sup>3</sup> )	Yes	No
Conditioning tower (336 m <sup>3</sup> )	Yes	Yes
Stirring blades within tank	No	Yes
Industry—(e) Retail distribution		
Racking	Yes	No
Dock leveller	No	Yes
Refrigeration plant	No	Yes
Sprinkler system	Yes	Yes
Storage tank (312 m <sup>3</sup> )	Yes	Yes
Goods lift	No	Yes
Industry—(f) High tech		
Air conditioning plant	Yes	Yes
Security alarm system	No	No
Chimney (160 m <sup>3</sup> )	Yes	No
Dust extractor	Yes	No
Feed tank (360 m <sup>3</sup> )	Yes	Yes
Experimental sphere within building (220 m <sup>3</sup> )	Yes	No

Notes:

- (1) The table is based on various assumptions as to rateability of individual items and is simplified for the purposes of presentation.
- (2) In Scotland, plant and machinery inside a building may be rateable if it cannot be moved without necessitating the removal of any part of the building.

## LOCAL TAXATION IN EUROPE—A SUMMARY

### INTRODUCTION

1. International comparisons of local taxes on businesses are difficult to undertake. Across Europe, a wide range of different methods are used to measure, value and tax business interests. Some relate to property, some do not, and the treatment of plant and machinery differs considerably between countries.
2. Even within the UK, the implications of local business taxation are poorly understood. Relatively little information exists concerning the differential impact of non-domestic rates upon different sizes of enterprise or different sectors of the economy. Furthermore, the person who eventually carries the burden of business taxes remains unclear.
3. Basic information concerning local property taxation elsewhere in Europe is very difficult to obtain. The differences in approach between nation states (and even between regions within states) mean that an objective comparison of the burden of local taxation in different parts of Europe is impossible without considerable detailed research. We are aware of only one such detailed study by Professor Robert Bennett and Mr Günther Krebs (1988).
4. This Annex provides an outline of local taxation in various European countries. It is based on a variety of published sources, and on correspondence (and a brief questionnaire) with thirteen individuals throughout the continent. The information derived is somewhat generalised (due to local/regional variations and problems of data availability), and we have borne this in mind when seeking to draw conclusions from the analysis.

### LOCAL TAXATION IN A NATIONAL CONTEXT

5. The Fraser of Allander Institute (1986), in a comprehensive attempt to consider local taxation across Europe, comments that local property-based taxes 'generally form only a small portion of local taxes in European countries, and ... the share of local taxes in general business taxes is very variable' (p.39). It is therefore meaningless to consider local property taxes in isolation from the wider national taxation regime. As an illustration of this, Figures 1 to 3 show the variation across Europe in three different taxes: national 'corporation tax'; tax on property transfers; and 'payroll' tax in the form of employers' social security contributions (or their equivalent).
6. However, the FAI report highlights two important features of property taxes. First, as a fixed cost (independent of any measure of turnover or profit) they may impact particularly heavily upon firms with low profit margins. Second, they are levied on some measure of property value (either capital value or value of space occupied) and thus may penalise capital intensive industries. Research currently being undertaken for the Department of the Environment (Gerald Eve, 1992) is looking at the implications of these issues, but no firm conclusions have yet been reached.
7. To these considerations must be added several further points. Just as property taxes may penalise capital industries, so high levels of social security contributions would penalise labour intensive companies; the importance of considering the wider tax regime is reinforced. Second, the international trading economy means that multinational corporations have some ability to move capital around the world so that they pay profits-related taxes in the most financially advantageous location. However, they remain liable to pay a local property tax in all countries where they have invested. Countries where high local property taxes are 'offset' by lower national taxation rates will appear less attractive as investment locations to such corporations.

## LOCAL PROPERTY TAXATION IN EUROPE

### 8. (a) *Belgium*

Local Real Estate Tax is levied on the property owner, and is based on 'cadastral income': the assumed net annual rental income from land, buildings and equipment. This value is then taxed by different levels of the state at different rates, the tax being centrally collected:

CI x 1.25% by the central state;

CI x approx 5% by the province (this is variable, set locally); and

CI x 20–35% by the commune (variable, set locally).

No information was available regarding the specific treatment of plant and machinery. In general, the tax is not regarded as influential upon investment decision-making.

### (b) *Denmark*

Properties are valued to open market value (OMV) every four years by local officials, identifying two values: the Property Value (of the site and buildings) and the Land Value (cash value of undeveloped land). Between revaluations, values are adjusted annually by reference to averages for particular uses and areas. These values are used as the basis for two local taxes on owners:

- Land Tax* — at 1% of Land Value (centrally fixed) payable to the country;
- at a variable rate to the local authority (set locally within limits);
- Service Tax* — on the Property Value, set locally within centrally fixed limits.

No information was available regarding the specific treatment of plant and machinery. In general, the tax is unlikely to be influential upon investment decision-making.

### (c) *France*

Property and other asset values are calculated on the basis of rental value at time of purchase indexed to the present using official tables (which distinguish between locations and uses)—the resulting value is usually well below OMV. They are revalued every three years. Between revaluations, a national co-efficient is used to uplift values. This assessment is incorporated (to varying degrees) in two local taxes:

- Tax Professionnelle* — An annual business tax levied on the occupier. The basis of assessment includes proportions of: indexed property rental value; gross salaries; other assets (including plant and machinery). Taxed at a locally determined rate, which may be limited to 3.5% of turnover. Reductions for new/young businesses.
- Tax Foncière* — An annual property tax charged on 50% of the indexed rental value (and 16% of the cost of plant and machinery), taxed at a locally determined rate. Levied on owners, this is usually passed to occupiers.

Local tax rates are sufficiently high (and variable) to affect investment decisions, varying between 5% and 15%, and sometimes as high as 35%. Local Equipment Tax is also levied on property construction, reconstruction and enlargement.

### (d) *Germany*

Trade Tax (*Gewerbesteuer*) is charged on income and capital at a locally set rate. It is higher than Land Tax (see below) and more influential on investment decisions, but is only indirectly property related.



Land Tax (*Grundsteuer*) is similar to UK rates, levied on property. The rateable value is based on the 1964 rental value (uplifted by 40%), which is generally 20–25% of market value. Plant and machinery is usually included on the basis of a depreciated (replacement) cost. The rateable value is multiplied by a “use multiplier” (0.35% for business properties) and then a local multiplier (eg 340 in Munich). Land tax is rarely high enough to influence investment decision-making.

(e) *Italy*

Industrial/Commercial Activity Tax is paid to the municipality at a centrally determined rate. This is based upon type of activity, floor area and the occupier’s taxable revenue. Waste Collection Tax is paid to the municipality, based on floor area. Buildings Tax is also paid to the municipality by the owner, based upon some form of property valuation. Reliable details of tax rates and basis of assessment were unavailable. These taxes appear not to influence investment decisions.

(f) *Netherlands*

Real Estate Tax (*Onroerend goed belasting*) is a small tax levied on both owner and occupier and set by the local authority. It is based on the capital value of the property and the depreciated value of plant and machinery, as assessed by the local authority. The tax rate varies widely between authorities, but is relatively low in absolute terms and is not a significant influence on investment decisions.

(h) *Norway*

Property tax is levied by the municipality on either the owner or the occupier of all property within ‘urban areas’. It is based on ‘tax value’, usually approximately 25% of the market value of land and buildings. The tax value may be increased by 10% each year. The tax rate varies between 0.2% and 0.7%, and some municipalities choose not to levy the tax at all. Plant and machinery are included in the tax value, at a proportion of the cost, but machinery is only included if it is an integral part of the structure of the land or buildings. Almost all elements of the tax equation are open to local interpretation, leading to wide variations in the tax burden. However, absolute amounts tend to be small and irrelevant to investment decisions.

(g) *Spain*

Urban Land Tax is levied by municipalities on owners (though increases due to revaluation may be passed on to occupiers). It is based on the real or potential income from land and buildings (including plant but not machinery), revalued to market value every five years. It is not sufficiently high to affect investment decisions. Owners and companies may also be subject to: Activity Tax depending upon business activity; a form of municipal Capital Gains Tax on the sale of urban land; and New Property Tax on construction of new premises.

(h) *Sweden*

Property Tax is levied upon the owner but usually passed to the occupier. It is set and collected centrally, and based on property value as assessed by local boards (usually to around 75% of market value). No specific information is available on the treatment of plant and machinery. The tax rate varies from 0% to 2.5% depending upon property type, with considerable reductions or exemptions for property less than 10 years old, and does not influence investment decisions. However, from January 1993 property tax on industrial and commercial buildings is to be abolished altogether; no information is available as to whether this burden will be transferred to other forms of business tax.

## CONCLUSIONS

9. It is possible to draw broad conclusions regarding local business taxation in Europe.

10. The main conclusion is that local taxes are rarely considered influential in investment decisions. This may relate more to variations within countries rather than between them.

11. However, the fact that property taxes are higher in the UK than in most European countries assumes some importance in certain circumstances, and for some industries. As an example, Exxon Chemical Olefins Inc point out that the key to competitiveness in the manufacture of petrochemicals lies in fixed cost overheads per tonne of production. The most recent data from the Solomon Study (an industry standard, relating to 1989 and published in 1990) indicates that the fixed cost attributable to local taxes of producing one tonne of Ethylene, is significantly higher at Mossmorran than it would be at a plant of the same capacity elsewhere in Europe. Admittedly, local tax is only one of many fixed cost overheads.

12. In all of the countries discussed, some form of local taxation exists which involves some measure of property value. However, the differences in valuation basis, valuation method and tax rate charged make further comparison difficult.

#### REFERENCES AND SOURCES OF INFORMATION

**Bennett, RJ and Krebs, G** (1988) *Local Business Taxes in Britain and Germany*. Baden-Baden: Nomos Verlagsgesellschaft.

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**Farrington, C.(ed)** (1991) *Local Government Taxation*. Proceedings of the First European Conference on Local Government Taxation, Paris, May 1991. London: Institute of Revenues Rating and Valuation.

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**Gerald Eve** (1992) *Measuring the Burden of Non-Domestic Rates*. Report submitted to the Department of the Environment. Unpublished.

**Harthill, ET** (1992) *Property Taxation*. Paper presented to the RICS Property Valuation Seminar, Prague, January 1992. Unpublished.

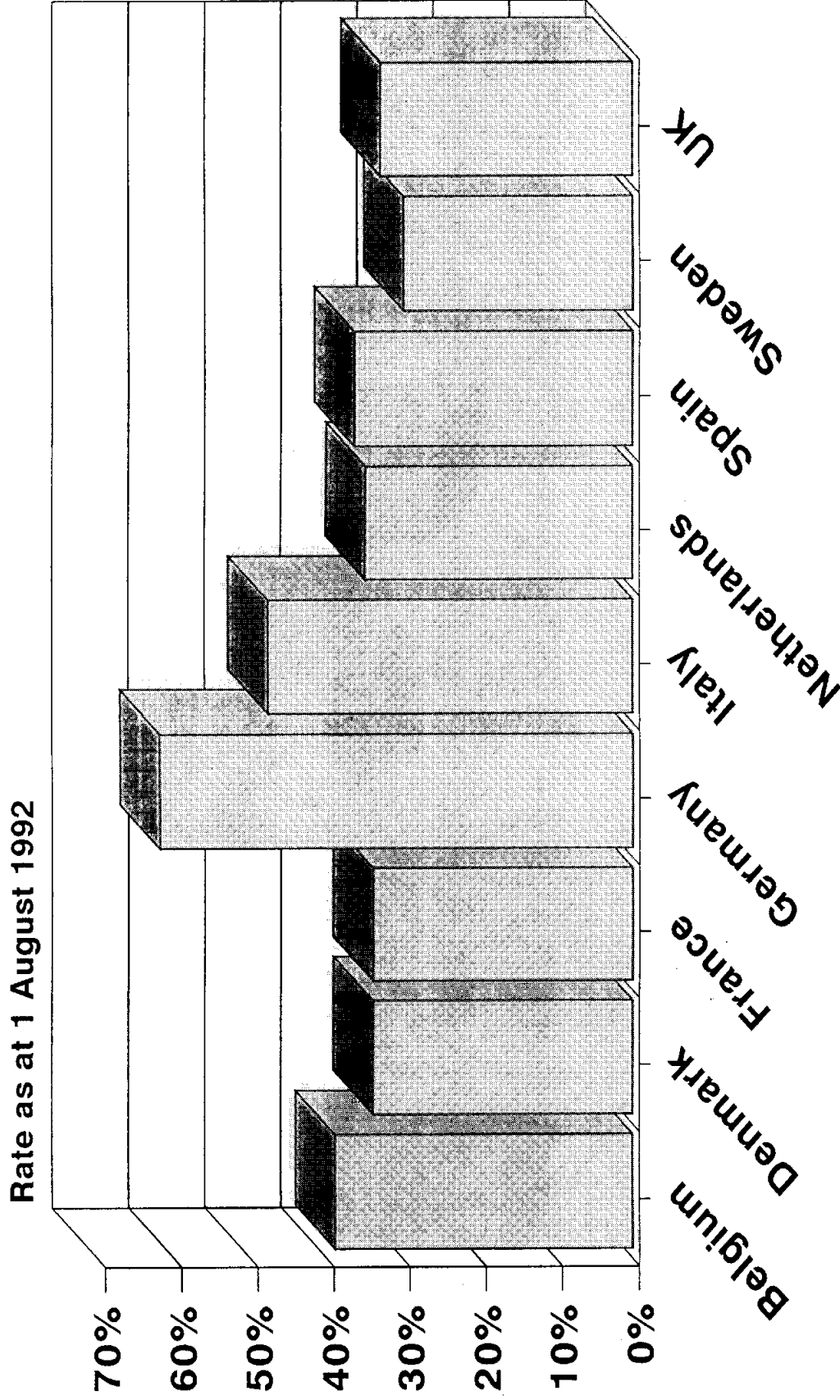
**Price Waterhouse** (1992) *Corporate Taxes—A Worldwide Summary*. New York: Price Waterhouse.

#### **Additional Correspondence between the Committee and:**

- Board members of EUROVAL
- staff of Exxon Chemical Olefins Inc
- staff of Rohm and Haas (Scotland) Ltd
- David Ironside (Jones Lang Wootton, Germany)

# Figure 1 Effective corporation tax rates in EC countries

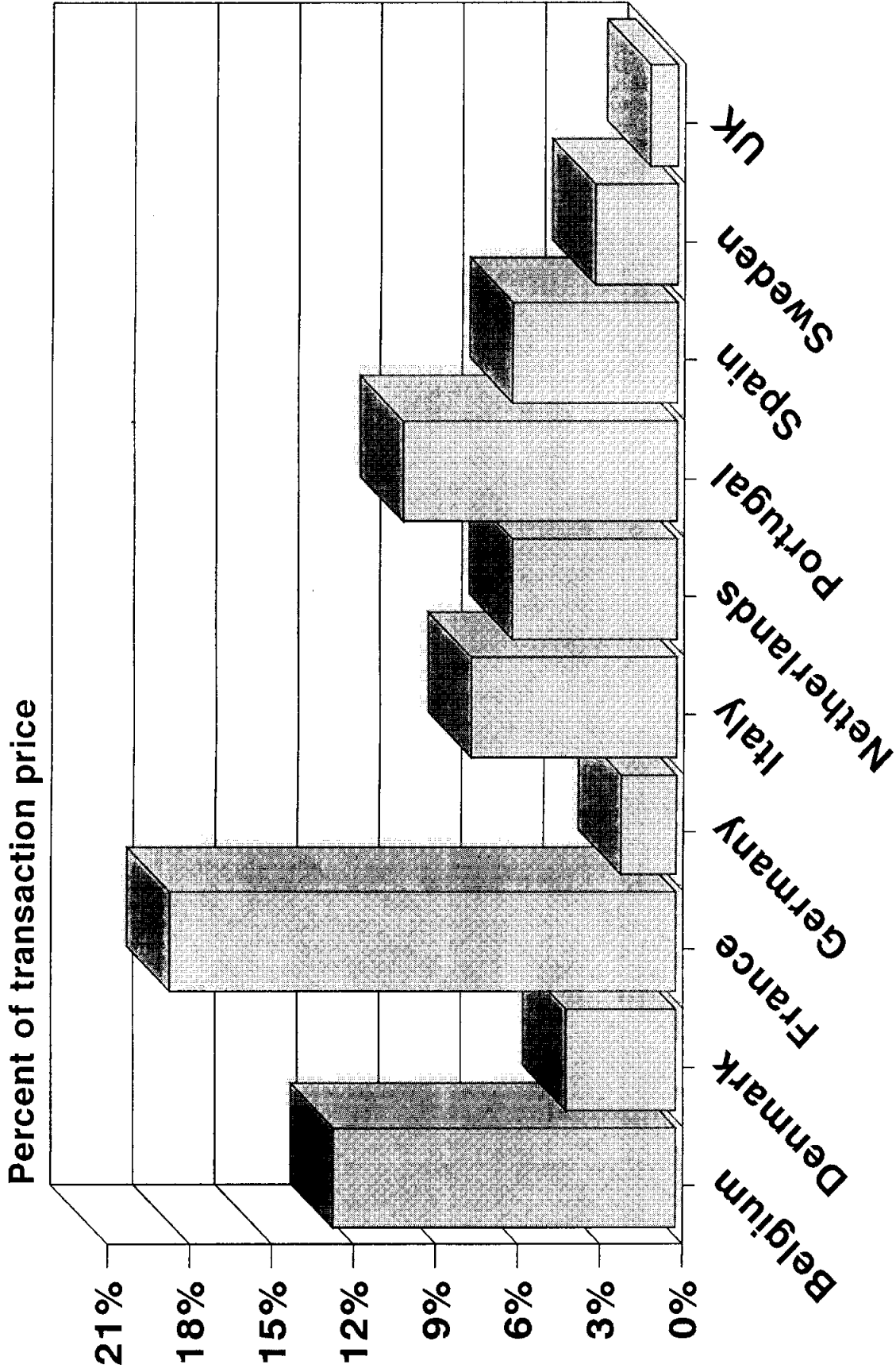
Includes local corporation tax where applicable



Source: Gerald Eve Research  
(from Inland Revenue data)

Gerald Eve Research

**Figure 2 Property transfer taxes in EC countries**

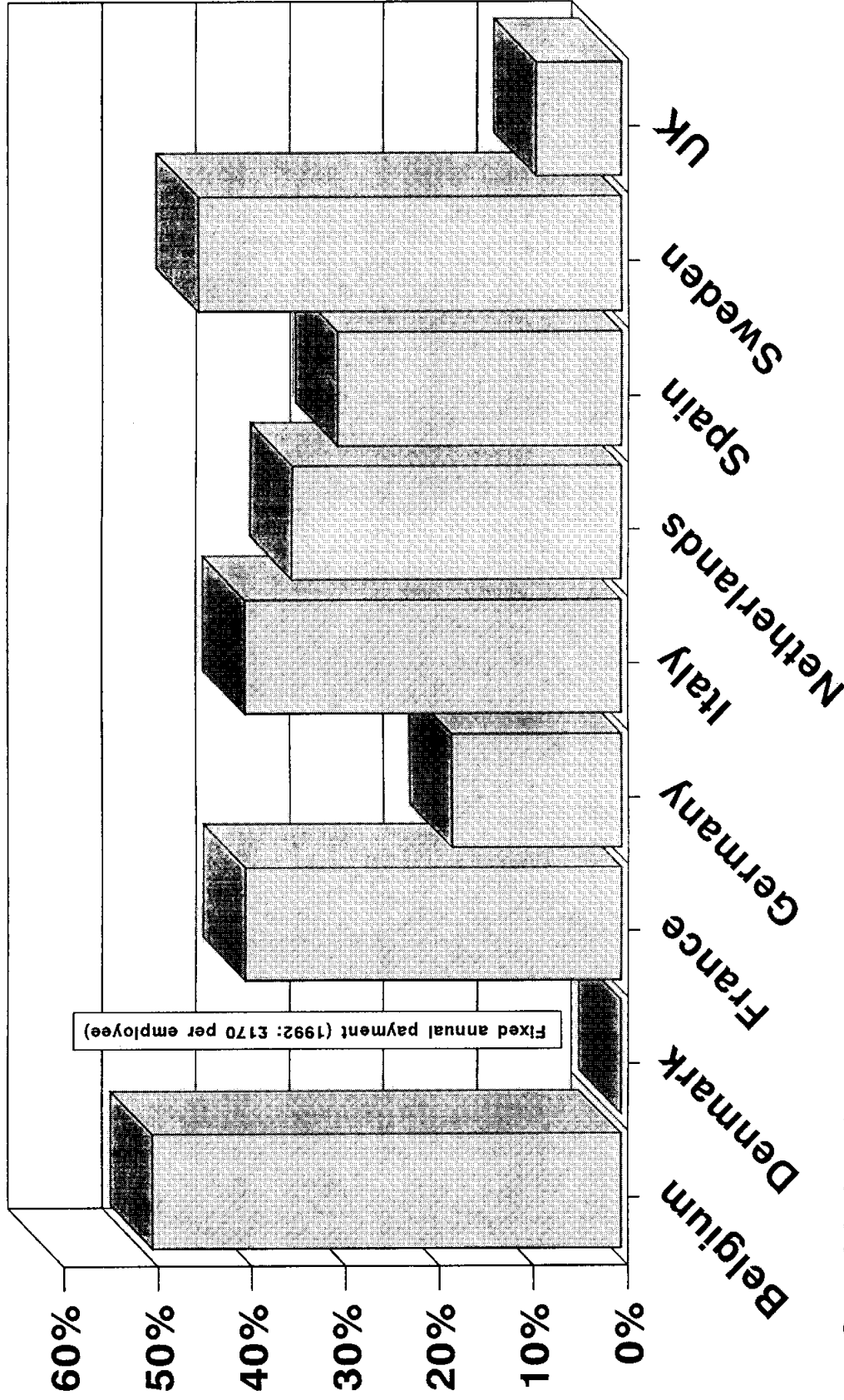


Source: Gerald Eve Research

Gerald Eve Research

# Figure 3 "Payroll" taxes in EC countries

Average/estimate figures given where differential rates apply  
Employers' contributions only, as a proportion of total payroll



Fixed annual payment (1992: £170 per employee)

Source: Gerald Eve Research  
from Coopers & Lybrand (1992)

Gerald Eve Research



CLASS 4 OF THE PRESENT ENGLISH REGULATIONS ANNOTATED WITH THE WOOD COMMITTEE'S CONCLUSIONS  
TABLE A

Aerial ropeways, supports for		Delete—see foundations
Blast furnaces	Retain	
Bridges	Retain Add Bunds	
Chimneys	Add Flues	
Coking Ovens	Retain	
Cooling Ponds	Retain	
Elevators and Hoists		
Fan Drifts		Delete—see Class 2
Floating docks and pontoons, with any bridges or gangways not of a temporary nature used in connection therewith	Retain but delete 'docks and'	Delete—obsolete
Flues	See Chimneys	
Flumes and conduits	Retain and add Ducts	
Foundations, settings, fixed gantries, supports, platforms and stages for plant and machinery	Retain but delete 'for plant and machinery'; add walkways, stairways, handrails, catwalks, stages, staithes and platforms	
Headgear— Mine, quarry, pit; Well	Retain	
Masts (including guy ropes) and towers	Retain	

TABLE A—Continued

Pits, beds and bays— Acid neutralising; Casting; Cooling; Drop; Inspection or testing; Liming, soaking, tanning or other treatment; Settling	Retain but delete the specific list	
Racks		Delete—regarded as in the nature of non-rateable process plant; clad racking will be assessed as part of building structure
Slipways, uprights, cradles and grids for ship construction and repair	Up date to new shipbuilding and repair technology by reference only to 'shiplifts and building berths'	
Stages, staithes and platforms for loading, unloading and handling material	See Foundations, etc	
Telescopes, including radio telescopes	Retain, but delete 'Telescopes including'	
Tipplers	Retain	
Transversers and turntables	Retain	
Walkways, stairways, handrails and catwalks	See Foundations, etc	
Weighbridges		Delete—only rateable part covered under Pits, beds and bays
Well casings and liners	Retain	
Windmills		Delete—process plant not widely used



TABLE B (To which a 400 cubic metre lower limit of rateability will apply)

Accelerators	Retain
Acid concentrators	Retain
Bins, hoppers and funnels	Retain, but delete 'and funnels'
Boilers	Retain
Bunkers	Retain
Burners, Bessemer converters, forges, furnaces, kilns, ovens and stoves	Retain, but delete 'Bessemer', 'forges' and 'ovens and stoves' to bring up to date with technology and to remove small plant items
Chambers, vessels and containers for— Absorption of gases or fumes; etc.	Retain, but delete 'and containers' and list of specific items covered by generic description
Condensers and scrubbers— Acid; Alkali; Gas; Oil; Tar	Retain, but delete specific list covered by generic description
Coolers, chillers and quenchers	Retain
Cupolas	Add Cyclones
Economisers, heat exchangers, recuperators, regenerators and superheaters	Retain

TABLE B—Continued

Evaporators	Retain
Filters and separators	Retain
Hydraulic accumulators	Retain
Precipitators	Retain
Producers, generators, purifiers, cleansers and holders of gas	Amend to read 'gas holders' to accord with modern technology
Reactors	Retain
Refuse destructors and incinerators	Retain
Retorts	Retain
Silos	Retain
Stills	Retain
Tanks	Retain
Towers and columns for— Absorption of gases or fumes; Chemical reaction; Cooling; Oil refining and condensing; Treatment; Water	Retain, but delete specific list covered by generic description
Vats	Retain
Washeries and dry cleaners for coal	Retain but delete 'and dry cleaners' because now obsolete
Wind tunnels	Retain

SUMMARY OF WORKED EXAMPLES WITH WOOD COMMITTEE  
RECOMMENDATIONS

Typical item of plant and machinery	Current Rateability		Recommended Rateability
	England, Wales and Northern Ireland	Scotland	
Industry—(a) Petrochemical			
Distillation column (377 m <sup>3</sup> )	Yes	Yes	No
Trays in rateable columns	No	Yes	No
P&M for transmission of electrical power beyond first distribution board/transformer	No	Yes	No
Turbo-alternator	Yes	No	Yes
Chemical storage tank (410 m <sup>3</sup> )	Yes	Yes	Yes
Ducts	No	Yes	Yes
Industry—(b) Iron and Steel Works			
Blast furnace	Yes	Yes	Yes
Tilting arc furnace (310 m <sup>3</sup> )	No	Yes	No
Tippler	Yes	No	Yes
Rail track	Yes	Yes	Yes
Oven within building (270 m <sup>3</sup> )	Yes	No	No
Rolling Mill	No	No	No
Industry—(c) Shipyard			
Travelling crane	No	No	No
Fixed gantry	Yes	Yes	Yes
Weighbridge	Yes	No	No
Turntable	Yes	No	Yes
Furnace within building (220 m <sup>3</sup> )	Yes	No	No
Chamber (192 m <sup>3</sup> )	No	No	No

Typical item of plant and machinery	Current Rateability		Recommended Rateability
	England, Wales and Northern Ireland	Scotland	
Industry—(d) Cement Works			
Kiln in building (210 m <sup>3</sup> )	Yes	No	No
Rotary kiln outwith building (412 m <sup>3</sup> )	No	Yes	Yes
Silo (536 m <sup>3</sup> )	Yes	Yes	Yes
Hopper in building (320 m <sup>3</sup> )	Yes	No	No
Conditioning tower (336 m <sup>3</sup> )	Yes	Yes	No
Stirring blades within tank	No	Yes	No
Industry—(e) Retail distribution			
Racking	Yes	No	No
Dock leveller	No	Yes	No
Refrigeration plant	No	Yes	No
Sprinkler system	Yes	Yes	Yes
Storage tank (312 m <sup>3</sup> )	Yes	Yes	No
Goods lift	No	Yes	Yes
Industry—(f) High tech			
Air conditioning plant	Yes	Yes	Yes
Security alarm system	No	No	Yes
Chimney (160 m <sup>3</sup> )	Yes	No	Yes
Dust extractor	Yes	No	Yes
Feed tank (360 m <sup>3</sup> )	Yes	Yes	No
Experimental sphere within building (220 m <sup>3</sup> )	Yes	No	No

Notes:

- (1) The table is based on various assumptions as to rateability of individual items and is simplified for the purposes of presentation.
- (2) In Scotland, plant and machinery inside a building may be rateable if it cannot be moved without necessitating the removal of any part of the building.







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