PO-CH/NL/0251

PART M

Part. M

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Begins: 9/1/89.
Ends: 26/1/89.

PO -CH /NL/0251
PART M

Chancellor's (Lawson) Papers:

THE COMMUNITY CHARGE AND SETTLEMENT OF THE RATE SUPPORT GRANT SYSTEM

DD's: 25 Years

15/11/95.

PO -CH /NL/0251
PART M

CH/EXCHEQUER
REC. 09 JAN 1989
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The Rt Hon John Major MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON
SW1

Ch

9 January 1989

Rsh:

This needs to be rejected out of hand. Grant/head in Scotland already 50% > than in England

AA

Dear John,

THE BURDEN OF BUSINESS RATES IN SCOTLAND

In a minute of 28 June to the Prime Minister Nicholas Ridley drew attention to the fact that, even when rateable values north and south of the Border have been harmonised, businesses in Scotland would still be paying far more rates than in England because rate poundages would be far higher than the English UBR. I agreed with him that it would be impossible to defend these differences and that officials should pursue the matter further, so that I might in due course put proposals to colleagues. My officials have now discussed the background with yours and those of DOE and it has been agreed that the most appropriate way forward is that I should write to you setting out how I propose that the problem should be tackled. I envisage that the proposals in this letter, together with your response, should provide the basis for consideration of the matter by E(LF) colleagues - and I hope that arrangements can be made for a meeting to be held if necessary by around the end of January.

RIFKIND → CST 9/1

It is quite clearly our policy as a Government that we should have level playingfields, in relation to business rates throughout Great Britain. I therefore propose that I should take powers to control rate poundages in Scotland with a view to bringing them progressively into line with the UBR. It may be politically tolerable for some modest contribution towards the costs of this to be made by community charge payers but there are clear limits to the amount of this. I propose therefore that the bulk of the excess, reflecting in the main higher valuation practices in Scotland which we expect to be improved by harmonisation, should be met by grant on a basis which we will have to consider year by year in the context of successive grant settlements. A more detailed discussion of the background and of these proposals is set out in the Annex to this letter.

I have already written to Nicholas Ridley on 8 December with proposals for the inclusion of certain Scottish community charge, valuation and rating provisions in the forthcoming Local Government Housing Bill, on a basis which would provide sufficient scope for that Bill to be amended to include these rate poundage proposals. I would simply emphasise at this stage that this approach in relation to the scope of the Bill does not in any way pre-empt your consideration and that of E(LF) colleagues of my proposals in this letter. It is, however, important that we should clarify the position soon, so that any necessary detailed preparatory and drafting work can be done. I would therefore be grateful for an early response to this letter.

I am copying this letter to the Prime Minister, Nicholas Ridley and other Members of E(LF), and to Sir Robin Butler.

Yours ever,

Malcolm

MALCOLM RIFKIND

THE BURDEN OF BUSINESS RATES IN SCOTLAND

Proposals by the Secretary of State for Scotland

The need for action

1. The reform of business rates is based on the principle that in future businesses should pay the same rates wherever they are geographically situated and that their liability should not depend on the spending policy of their local council.

2. Official discussions have now taken place and it is common ground that Scottish business ratepayers are "overpaying" rates by comparison with their counterparts in England, by about £300 million per annum, equivalent to about 25% of non-domestic rates. This calculation is based on our present expectations of the average increases in rateable values north and south of the Border at the 1990 Revaluation. These estimates are to some extent dependent on the progress made towards harmonisation of valuations, and if this leads to a lower increase in rateable values in Scotland the excess rate burden (compared with changing the UBR poundage on these lower valuations) would correspondingly increase.

3. The factors which lead to the excess rates burden in Scotland interact in a complex way, and no single explanation is possible. Local authority expenditure per head is higher in Scotland than in England, very largely because of technical differences in the coverage of local authority services and because needs in Scotland are higher. There is evidence that rateable values for at least certain classes of industrial and commercial premises are higher in Scotland: for example it is estimated that the additional rateable value attributable to higher decapitalisation rates is around £80 million, while higher valuations in the commercial sector may account for additional rateable value of up to £200 million. Downward harmonisation in these areas alone, other things being equal, would reduce the rates paid by business by around £200 million. With business rateable values higher than they should be, and with a higher level of grant than in England, Scottish local authorities have been able to maintain their level of spending while keeping the burden on domestic local taxpayers at broadly the same level per adult as it is in England.

4. Scottish business ratepayers are well aware of the scale of the excess burden, and are exerting very strong pressure on us to do something about it. They can claim, with some justification, that our policies now amount to treating rates as a national business tax and that our commitment to 'level playing fields' in taxation matters means that Scottish businessmen should be taxed on the same basis as those south of the Border. They have been mollified by the commitment which the Prime Minister gave in a recent letter to the President of the Glasgow Chamber of Commerce, which has been widely quoted in Scotland, in which she said:-

> 'In our Green Paper, 'Paying for Local Government' we made clear that we saw advantage in moving to a common non-domestic poundage in all areas and since then our policies have been aimed in that direction. We have no intention of going back on what we have set out to accomplish'.

5. The problem cannot be disposed of on the argument that local authorities in Scotland overspend. Certainly their level of spending is higher per head than in England and Wales and there is no doubt that

their expenditure policy contributes substantially to the burden to which I have referred. But on the basis of our national policy it does not follow that Scottish business ratepayers should therefore pay more. The introduction of the UBR means that the rates burden on businesses will no longer be influenced by the spending policies of the local authorities where they are located: for example, business ratepayers in the major cities in the north of England can expect to see a reduction in their rate poundages, as well as in many cases a relative reduction in their rateable values, nothwithstanding the continued high-spending of the local authorities there. We clearly need to put business ratepayers in Scotland on an equal footing and the proposals in this paper are designed to achieve that.

6. In future pressure on high-spending local authorities throughout Great Britain will come through the mechanism of accountability created by the community charge system.

The way forward

7. The objective of my proposals is to move over the next few years to a position where business ratepayers in Scotland are paying rates on the basis of harmonised rateable values and at the same rates poundage as in England.

8. The process of harmonisation of valuation is already well underway as a result of discussions between the Inland Revenue Valuation Office and the Scottish Assessors' Association. The indications we have are that for the bulk of properties, which are valued on the basis of rental evidence, a very substantial degree of harmonisation should be achieved in the 1990 Revaluation. There is also reason to hope that some of the other conspicuous gaps between practice north and south of the Border will be closed. For example we are considering prescribing a uniform structure of decapitalisation rates for use in contractor's principle valuations. I do not rule out the possible need to make further use of the powers I have taken to prescribe principles of valuation if significant continuing gaps are identified which it would be possible to close before 1990, and it is clear that further steps will be necessary after 1990, for example in relation to the valuation of Plant and Machinery. But I am confident that, in a period of a few years following the 1990 Revaluation it will be possible to achieve an acceptable degree of harmonisation of valuation.

9. Turning now to rate poundages, it is clear that a straightforward Scotland-only UBR would not help solve the problem. It would mean higher rates for the low-rated areas in Scotland, although their rate levels at present are already generally higher than south of the Border. It would be inconsistent with the commitment the Prime Minister has given. The establishment of a GB-wide rates pool, with a common rate poundage would be one solution. This would, however, require complex legislation and result in a considerably higher level of rates in England and Wales. It would be a logically more consistent solution in the longer term, but does not seem attractive in the immediate future.

10. Instead I propose to modify the power of prescription of rate poundages in the Abolition of Domestic Rates Etc (Scotland) Act 1987 in order to be able to prescribe the poundages for each local authority. This would enable me, over a transitional period of several years, to adjust poundages so that they gradually moved into line with the English UBR. Plainly, those with the highest poundages at present would move

downwards more rapidly but I think there would be benefits for all, or virtually all ratepayers as a result of this process and that it would ensure a smooth transition to a position where my objectives are met.

11. I envisage that this process would start in 1990-91, the year in which the Revaluation takes effect, and would be completed by the time the 1995 Revaluation takes effect. It would thus broadly match the transitional arrangements which I expect will be made south of the Border to phase in the combined effects of revaluation and the introduction of the UBR for those ratepayers facing large losses or large gains.

12. I think it would be appropriate to make the necessary legislative provision in 1988-89, and I suggest that the most appropriate vehicle would be the forthcoming Housing and Local Government Bill. This will extend to Scotland, and will contain provisions about community charge, rating, valuation and grant matters. I am in touch separately with the Secretary of State for the Environment and the Lord President about the Scottish contents of that Bill. I would not envisage an immediate announcement of my plans since quite a bit of work will be required on the detail, but have it in mind to make a statement at an appropriate time in the first half of this year, at which point I would bring forward the relevant Government amendments to the Bill.

Finance implications

13. My proposals imply a reduction over a period of five years in the contribution which business ratepayers will be making to local authority expenditure in Scotland of the order of £300 million. This section of the paper discusses how we might deal with that.

14. In principle there are 3 possible directions in which we might move:-

14.1 We could hope for a corresponding reduction in local authority spending. I am anxious to see that happen, but we must recognise that is hardly feasible. I, and George Younger before me, have fought hard to bring Scottish local authorities into line through grant penalties, sometimes draconian and much more substantial than in England, and by forcing through rate reductions whenever we could do so without serious risk of legal challenge. All that has achieved is to stabilise spending in volume terms. We must hope that, in time, the pressures imposed by the community charge will help. But it is unlikely that local authority attitudes will change significantly in the short term: and the scale of reduction that would be required to remove the excess burden of £300 million is not going to be achievable in practice;

14.2 We could shift the burden to community charge payers. If we were contemplating transferring the whole of the £300 million of additional expenditure the average community charge in Scotland would have to increase by approximately one-third. This does not seem acceptable and would be incompatible with the UBR in England and Wales where the cost in high spending authorities will not fall on local community charge payers.

14.3 We could redistribute the existing total of Revenue Support Grant to Scotland's benefit. This would imply a single uniform business rate applying to the whole of Great Britain. In effect this would afford extra revenue to Scottish authorities at the direct expense of non-domestic ratepayers in England and Wales. I can understand the reasons why this approach is likely to be unacceptable to colleagues.

15. The following paragraphs outline my own basic approach to this problem.

16. Clearly, a proportion of high spending by Scottish authorities is justified by reference to such factors as Scottish high levels of social deprivation and the high costs of providing services in sparsely populated areas. An additional problem in Scotland, which has been insufficiently quantified previously, is the lower level of rating resources available to Scottish local authorities. Further information on the details of this will become available as 1990 approaches. I therefore start from the position that some level of higher spending, but not the present level, can be justified, and that we must compensate for the effects of the low level of rating resources.

17. In the light of these factors I propose a balanced approach. Although it does not follow from the logic of this approach to business rates that the costs in areas of high spending authorities should fall on the community charge payer, it might be politically tolerable for some modest contribution by the community charge payer to meeting the overall problem to be phased in over a period of years. The main point of the cost of reducing excess business rate payments would however have to come from grants. This will mean that in successive negotiations with the Treasury over the amount of Revenue Support Grant in Scotland in the coming years I shall want to illustrate the likely impact of particular grant settlements on community charge payers. In this way it should be possible to moderate the burden on business ratepayers and I will have to look to the the Treasury to temper the grant settlement to produce results which we can jointly defend to community charge payers.

Conclusion

18. I propose:

18.1 That I should take statutory power to prescribe the levels of local authority rates, with a view to moving in the period 1990-1995 to a situation where Scottish and English ratepayers are paying a common rate poundage;

18.2 That officials should be asked to work out the details of this approach, with a view to an announcement being made at an appropriate time in the first half of this year, at which point the necessary amendments would be introduced in the Housing and Local Government Bill.

18.3 That the cost should be met largely by grant, on a basis to be considered in the context of the annual RSG settlements, with some modest further contribution from community charge payers.

SCOTTISH OFFICE
January 1989

chex.ps/aa/11 **CONFIDENTIAL**

FROM: A C S ALLAN
DATE: 10 January 1989

PS/CHIEF SECRETARY

cc Sir P Middleton
Mr Anson
Mr Phillips
Mr A J C Edwards
Mr Potter
Mr Fellgett
Mrs Chaplin

THE BURDEN OF BUSINESS RATES IN SCOTLAND

The Chancellor has seen Mr Rifkind's letter of 9 January. He feels that we should reject out of hand Mr Rifkind's proposal that we should bring Scottish non-domestic rate poundages down to English levels mainly by giving additional grant. Business rates in Scotland are higher than those in England because spending is higher, not because of differences in valuation practices. Grants per head in Scotland are already some 50 per cent higher than in England.

ACSA

A C S ALLAN

ACSA
→ PS/CST
10/1

DEPARTMENT OF HEALTH AND SOCIAL SECURITY
Richmond House, 79 Whitehall, London SW1A 2NS
Telephone 01-210 3000

From the Secretary of State for Social ~~Services~~ Security

PWP

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The Rt Hon John Major MP
Chief Secretary to the Treasury
Parliament Street
London
SW1

17 January 1989

CH/EXCHEQUER
REC. 17 JAN 1989
ACTION CST ✓17/1
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MOORE → CST 17/1

Dear John.

THE BURDEN OF BUSINESS RATES IN SCOTLAND

I have seen a copy of Malcolm Rifkind's letter to you about ways of bringing the business rate burden in Scotland more in line with that existing south of the Border.

You may recall that I wrote to Nicholas Ridley on 11 October, after I had first seen his earlier letter of 28 June on this subject. I expressed concern felt about the possible impact on the level of community charge changes in Scotland might have. A fairly high proportion of Scotland's population is expected to receive help with the community charge payment. Although Malcolm has not said what contribution community charge would make to help eradicate the disparity and what would come from a central grant, any increase to the community charge in Scotland must result in additional benefit expenditure for which no provision has been made. Furthermore, as 20 per cent of the national average community charge has been added to the income support rate on a "once-off" basis, a planned increase to the level of community charge at this early stage would almost certainly lead to pressure for similar increases to income support rates.

I am copying this letter to the Prime Minister, Malcolm Rifkind, Nicholas Ridley and other members of E(LF) and to Sir Robin Butler.

JOHN MOORE

lgl.va/potter/minutes/bbr.Scot

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CHIEF SECRETARY

FROM: B H POTTER

Date: 19 January 1989

cc: Chancellor
Sir Peter Middleton
Mr Anson
Mr Phillips
Mr Monck
Mrs Lomax
Miss Peirson
Mr Edwards
Mr A White
Mr Hudson (in new job)

Ch
I must prefer a more brutal approach
- no more from English businesses
- no more from English taxpayers
- no more from English CC payers
Up to you Mr Rifkind to finance from your block. (No need to go into long-term ideas)
AA

POTTER → CST 19/1

THE BURDEN OF BUSINESS RATES IN SCOTLAND

The Secretary of State for Scotland wrote to you on 9 January, proposing that business rate poundages in Scotland should be progressively brought into line with the Uniform Business Rate (UBR or NNDR) in England.

The proposal

2. After 1990 a single NNDR poundage will apply in England (and separately) in Wales. By contrast, in Scotland rate poundages will continue to vary amongst Scottish local authorities, although annual increases in rate poundages cannot exceed the yearly change in the RPI. On average rate poundages will be some 25% above the likely NNDR in England.

3. Mr Rifkind is seeking agreement to an enabling power, to be included in the Local Government and Housing Bill, that would allow him to prescribe a common rate poundage in Scotland; and he would move over the next few years to a harmonized business rate with England. He proposes to finance the estimated £300 million cost (in terms of non domestic rate revenue foregone) mainly through increased Revenue Support Grant, with a very small, and quite possibly non-existent contribution from Scottish Community Charge payers. In practice, as Mr Rifkind knows, once the power was in place, there would be immense political pressure to harmonize business rate poundages in full and quickly ie by 1990-91 or 1991-92.

4. The Chancellor has commented that the proposal should be rejected because higher rate poundages in Scotland reflect higher local authority spending.

5. Mr Rifkind has assured that the subject will be on the agenda for E(LF) next week. LG will of course provide a brief for that meeting. But you may like to write in advance to register our objections to the proposal and put some uncomfortable policy options before Mr Rifkind.

Assessment

6. In principle the Treasury can have no objection to aligning the business rate poundage throughout Great Britain. On the contrary, geographical equity of tax treatment for business makes sense. Moreover there is no question about the policy commitment to achieving a uniform rate poundage. Mr Rifkind quotes the Prime Minister's letter to the Chamber of Commerce making clear that this is a Government objective. It was proposed in the original Green Paper "Paying for Local Government" that there should eventually be a common UBR throughout Great Britain.

7. The issue is thus not whether a UBR throughout Great Britain should be introduced: rather it is about who pays for it; how it is to be done; and when rate poundages should be harmonized.

Who pays?

8. Mr Rifkind proposes a short unspecified timescale but is really probably aiming for only two years or so (rather than the 5 years mentioned in the paper). Within that timescale, for a given level of local authority expenditure, the non-domestic rate revenue foregone could be found from one, or some combination, of three sources. First it could be met directly by Community Charge payers in Scotland. Frankly that seems implausible in the first few years of introducing the Community Charge. Secondly, the cost could be met through higher Revenue Support Grant as Mr Rifkind proposes. If that were financed effectively by diverting grant

from England and Wales, the cost would fall on the Community Charge payer in England and Wales rather than the general taxpayer. Again, in the first few years of the Community Charge, that seems an unattractive option: the Environment and Welsh Secretaries would resist it vigorously. Third, again with the cost met from Revenue Support Grant the extra grant could be financed directly by the general taxpayer - either through a call on the Reserve or through diversion of resources from elsewhere within the Scottish Office block.

9. But new possibilities open up on who pays, if the move to a harmonized business rate takes place over a longer period ie in the mid 1990s.

<u>How to achieve harmonisation</u>

10. It would then be possible to think in terms of meeting the full objective set out in the Green Paper of harmonizing rate poundages in England, Scotland and Wales. It would also be possible to operate a nationwide NNDR pool ie the contributions from business rates at a common UBR would be distributed on a per adult basis throughout Great Britain. Because the ratio of NNDR revenue to population is higher in England, the effect would be to divert NNDR resources from England to Scotland and Wales. This seem to be the logic of the new local authority finance regime (and in practice if RSG and NNDR are taken as a whole, it merely redistributes where the money comes from as between them).

11. However it would then be logical to go further. If business ratepayers are to face a level playing field throughout Great Britain, then so too should the Community Charge payer. In other words, for a given UBR the grant arrangements should ensure that the Community Charge for spending at need would be the same in Cornwall, Dyfed and Ross & Cromarty. This requires that grant assessment and grant distribution should be on a national (GB) basis, comparing relative needs amongst all local authorities within the three countries.

?! not in my day

12. LG have always held the view that this would be the logical long term approach - what might be termed a unified local government finance system. But the three other departments involved are likely to be cautious. The balance for Scotland and England in total RSG plus NNDR payments as a result of the changed distribution of RSG from GB-wide needs assessment and introduction of GB-wide NNDR pool is not immediately clear. But it is certain that Wales would be worse off.

When?

13. If harmonization can be delayed it may not only be possible to reform the local government finance system but also to use the interval to put downward pressure on spending by local authorities in Scotland. As the Chancellor has pointed out, local authority spending in Scotland is getting on for some 20% per capita higher than in England and Wales. This undoubtedly overstates the true gap because of non-comparability in services: for example the Scottish figure includes water charges. That said, local authorities in Scotland have consistently overspent above need to spend. Nor are we satisfied that need to spend in Scotland is measured on a consistent basis with that in England and Wales.

14. In short the earlier action is taken to introduce a harmonized rate poundage with England, the more difficult it will be to seek contributions to the cost from Community Charge payers and non-domestic ratepayers in England and Wales; and the less opportunity there will be to reduce the public expenditure cost by getting local authority spending in Scotland down. Our instinct therefore is that you should seek so far as possible to play this issue long. But there is considerable pressure from Scotland for early action and the Prime Minister may well be sympathetic. And there may be an opportunity here to accept Mr Rifkind's short term proposals as well, and meet a wider Treasury policy objective - reducing the overprovision in the Scottish block.

Tactics

15. The best line to take with Mr Rifkind might be as follows. It would not be right to give further grant support to local authority spending in Scotland from the Exchequer at this stage given the overspending of Scottish local authorities and, more importantly, the over provision within the Scottish block. But many of the points he makes about the logic of a common UBR are valid. However it would only be sensible to consider harmonizing business rates in Scotland (and Wales) within the context of a unified local authority finance system throughout Great Britain. On the one hand that would give Scotland access to the relatively stronger non domestic rate base in England: on the other hand, the Scottish Office would have to expose the assessment of relative needs for local authority spending in Scotland to a wider scrutiny of relative needs across all three countries.

?

16. One option would be to persuade Mr Rifkind to wait for a GB-wide system. But ST estimate that the overprovision in the Scottish block is of the order of £1.5b. They also believe that Mr Rifkind might be able to find up to £150 million in both 1990-91 and 1991-92 to meet the full cost of harmonizing the rate poundage from within the block. So, if Mr Rifkind believes that the political pressure to harmonize business rates between Scotland and England is irresistible, then you could let him meet the cost of that from within his overprovided Scottish block and thus reduce the long standing imbalance. Over the longer term officials can begin work on moving towards a harmonized and defensible local authority finance system across Great Britain.

17. This submission has been agreed within LG and with ST.

18. I attach a draft letter.

Barry H. Potter

BARRY H POTTER

lgl.va/potter/minutes/bbr.Scot.1

CONFIDENTIAL

DRAFT LETTER TO SECRETARY OF STATE FOR SCOTLAND

THE BURDEN OF BUSINESS RATES IN SCOTLAND (could be drafted more punchily)

Thank you for your letter of 9 January. I have also seen John Moore's letter of 17 January.

We are to discuss this issue in E(LF) next week. However I should make it clear at the outset that I do not think it would be right to contemplate extra grant from the Exchequer, in order to reduce [quickly] the business rate poundage in Scotland to the level of the UBR in England. Nor do I think it would be right to divert grant from England and Wales to Scotland from within any given GB total. It would be unfair to put the burden of harmonizing business rate poundages on the Community Charge payers in England and Wales. I do not suppose that either Nicholas Ridley or Peter Walker will be attracted to this either.

The only solution in the short term, as I see it, would be for you to find room <u>within</u> your block provision to provide the necessary amount of additional Revenue Support Grant in Scotland (less any contribution which Community Charge payers might make). I certainly could not defend adding up to £300 million to the burden on the taxpayer in order to support overspending local authorities and given the overprovision within the Scottish Office block. (give figures — see X)

~~Looking further ahead, I agree with you that there would be merit in a GB wide rates pool with a common rate poundage. I see attractions in that. Indeed I would go further: the logic should~~

be that we move not only to a GB-wide rates pool, but also to a GB-wide needs assessment for all local authorities. On that basis we would be able to defend a level playing field on non-domestic rates; set grant on a basis that reflected the relative needs of all local authorities in the three countries; and then indicate that the Community Charge for spending at need would be the same in Cornwall, Dyfed and Ross & Cromarty. That seems to me a fair and politically attractive long-term goal, and your objective of harmonizing the business rate poundage in England with the UBR in Scotland could be pursued in that longer term context.

The Prime Minister has made clear that our policies are aimed at the direction of a common non-domestic poundage although no firm commitment on the timetable has been given. I see no reason therefore why we should not state now that it would be our objective to move towards such a system in due course.

If you are persuaded that action needs to be taken in the short term, however, then I would be prepared to agree to your taking the enabling power you have in mind. But this must be on the strict understanding that you will meet the cost of harmonizing the business rate in Scotland from within your block, and that there can be no additions to your block outside the normal rules in order to pursue this particular policy objective.

I am copying this letter to the other members of E(LF) and to Sir Robin Butler.

1g1.va/POTTER/MINUTES/BBR.SCOT.2

CHIEF SECRETARY

FROM: B H POTTER

DATE: 20 January 1989

cc: Mr Edwards
Mr A White

POTTER → CST 20/1

I emphatically agree with CST that [illegible] should be firmly on this, & that we should not concede the principle of equalisation [illegible] for [illegible]. I would also argue the ~~[illegible]~~ much higher spending per head in Scotland than in England & Wales [illegible].

THE BURDEN OF BUSINESS RATES IN SCOTLAND

We spoke about the submission and draft letter which I put forward last night. You indicated that you wished to take a more robust line: in particular you did not wish to offer Mr Rifkind the opportunity to finance the costs of a harmonized rate poundage with England from within the block.

2. I attach a revised draft as requested. I also attach a table setting out the data you requested.

Barry H. Potter

BARRY H POTTER

CST cc PS/Chancellor

Mr Potter advises against circulating the table because he thinks Mr Rifkind will argue that the grant and expenditure differences reflect

- higher assessed need
- lower resource base,

and without a common needs assessment system we cannot gainsay him.

Carys

CONFIDENTIAL

DRAFT LETTER TO SECRETARY OF STATE FOR SCOTLAND

THE BURDEN OF BUSINESS RATES IN SCOTLAND

Thank you for your letter of 9 January. I have also seen John Moore's letter of 17 January.

We are to discuss this issue in E(LF) next week. However I should make it clear at the outset that I do not think it would be right to contemplate extra grant from the Exchequer, in order to reduce quickly the business rate poundage in Scotland to the level of the UBR in England. Nor do I suppose that either Nicholas Ridley or Peter Walker will be attracted to harmonizing business rate poundage in Scotland, if it means diverting grant from England and Wales to Scotland. It would be not be fair to put the burden of harmonizing business rate poundages on the Community Charge payers in England and Wales.

In your letter, your refer to our commitment to a level playing field for non-domestic rates. But we have never indicated a timescale for achieving that policy objective. Still less have we given consideration to how it should be financed. To move speedily, as you propose, would involve extra Revenue Support Grant of around £300m flowing to Scotland, notwithstanding the fact that grant per capita is already some 65% higher than in England. I would find it extremely difficult to justify such expenditure since there is already a large overprovision in the Scottish block - reflecting both weaknesses in the original baseline and Scotland's declining population. It would be a provocative move to contemplate a further £300m grant for Scotland.

Your proposal does touch on the possibility of finding a portion of this cost from the Community Chargepayer in Scotland although as John Moore has pointed out, it would raise public expenditure through the social security scheme. But your paper makes no mention of the contribution that could and should be made from provision within the Scottish block - if you could persuade me and colleagues that it is [an overriding objective] ~~necessary or even desirable~~ to move to a harmonized business rate with England quickly.

? I thought this was being omitted?

I can envisage an alternative and, in my view, more equitable and defensible way forward. I agree with you that there would be merit in a GB wide non-domestic rates pool with a common rate poundage. But I would go further: the logic should be that we move not only to a GB-wide rates pool, but also to a GB-wide needs assessment for all local authorities. On that basis we would be able to defend a level playing field on non-domestic rates; set grant on a basis that reflected the relative needs of all local authorities in the three countries; and then indicate that the Community Charge for spending at need would be the same in Cornwall, Dyfed and Ross & Cromarty. That seems to me a fair and politically attractive long-term goal. Your objective of harmonizing the business rate poundage in England with the UBR in Scotland should be pursued in that longer term context.

When we discuss this issue at E(LF) next week, I will be arguing for this approach to be adopted. I will not be prepared to support any arrangement that results in any extra Exchequer grant flowing to Scotland in the next few years.

I am copying this letter to the other members of E(LF) and to Sir Robin Butler.

	ENGLAND	SCOTLAND	WALES	GB
Population 1987-88 (Territorial PQ)	47,406	5,112	2,836	55,355
Total current spending 88-89 est. outturn £m (1989 PEWP)	32,815	4,215	1,969	38,979
Expenditure £ per head	692	824	687	704
AEG £m (Supp RSG, TWEB)	13,204	2,371	1,253	16,599
~~Grant~~ £ per head	278	464	441	300
Average ~~payment of~~ poundage for Non-domestic rates (weighted) 1988-89	E+W 239·42	78·7*	262·28	
Average payment of £ domestic rates 1988-89	468	500**	306	
Total relevant current 88-89 est. outturn £m (1989 PEWP)	28,944	3,774	1,700	34,418
£ per head	611	738	599	621
Proportion of relevant current funded by ~~RSG~~ AEG %	45·5	62·8	73·6	48·3

* Post-revaluation

** Includes just over £40 for water rates.

CONFIDENTIAL

CH/EXCHEQUER

REC.	23 JAN1989
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23/1

2 MARSHAM STREET
LONDON SW1P 3EB
01-276 3000

My ref:

Your ref: PMP

RIDLEY → RIFKIND 23/1

The Rt Hon Malcolm Rifkind QC MP
Secretary of State
Scottish Office
Dover House
Whitehall
LONDON
SW1A 2AU

23 January 1989

Dear Secretary of State

THE BURDEN OF BUSINESS RATES IN SCOTLAND

I have seen a copy of your letter of 9 January to John Major about the harmonisation of non-domestic rate poundages in Scotland and England.

In principle I agree we should aim to achieve a level playing field so as to remove disincentives to business to locate in Scotland. I am content too with the sort of transitional arrangements you propose and that the necessary measures should be included in the Local Government and Housing Bill.

My main concern is with how the cost of your proposals is to be met. I could not accept that harmonisation should be at the expense of English rate and community charge payers and I am glad to note that you are not proposing either a GB rates pool or redistribution of grant. The appropriate division of the burden between Scottish community charge payers and grant is a difficult issue to judge. I note your view that community charge payers in Scotland cannot be expected to pay much more. On the other hand it is also worth observing that the early indications are that community charges in Scotland seem likely to compare quite favourably with those in England.

I am copying this to the Prime Minister, other members of E(LF), and to Sir Robin Butler.

Yours sincerely
R Bright

p.p. NICHOLAS RIDLEY
(Approved by the Secretary of State and signed in his absence)

cst.ps/3jm23.1/lets

CONFIDENTIAL

PWP

CST
→RIFKIND
23/1

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Malcolm Rifkind QC MP
Secretary of State for Scotland
Scottish Office
Dover House
Whitehall
London
SW1A 2AU

23rd January 1989

Dear Malcolm,

THE BURDEN OF BUSINESS RATES IN SCOTLAND

Thank you for your letter of 9 January. I have also seen John Moore's letter of 17 January.

We are to discuss the issue in E(LF) this week. However I should make it clear at the outset that I do not think it would be right to contemplate extra grant from the Exchequer, in order to reduce quickly the business rate poundage in Scotland to the level of the UBR in England. Nor do I suppose that either Nicholas Ridley or Peter Walker will be attracted to harmonizing business rate poundage in Scotland, if it means diverting grant from England and Wales to Scotland. It would not be fair to put the burden of harmonizing business rate poundages on the Community Charge payers in England and Wales.

In your letter, you refer to our commitment to a level playing field for non-domestic rates. But we have never indicated a timescale for achieving that policy objective. Still less have we given consideration to how it should be financed.

Expenditure per head on local authority services is currently some 20 per cent higher in Scotland than in England. Grant per head is already 65 per cent greater than in England. To move speedily and harmonize rate poundages in Scotland and England would involve extra grant of around £300 million flowing to Scotland. Grant per head in Scotland would be nearly double that in England: no difference in the services covered or variation in needs could explain that.

I would find it extremely difficult to justify such a level of additional grant against other public expenditure priorities across a range of Departments. This relative priority becomes even more difficult to justify since, as you know, I believe there is already a large over-provision in the Scottish block that reflects the level of the original baseline which has been perpetuated by the annual increases through the block formula, and the fact that no account is taken of Scotland's declining population. You will be aware of the criticism of relative provision by members of the TCSC and, in my judgement, it would be a provocative move to contemplate a further £300 million grant for Scotland.

I recognise that your proposal does touch on the possibility of finding a portion of this cost from the Community Chargepayer in Scotland although as John Moore has pointed out, it would raise public expenditure through the social security system. But your paper makes no mention of the contribution that could, and in my view should, be made from provision within the Scottish block - ~~if~~ colleagues accept that it is an overriding objective to move speedily to a harmonized business rate with England.

When we discuss this issue at E(LF) this week, I will not be prepared to support any arrangement that results in any extra Exchequer grant flowing to Scotland in the next few years.

I am copying this letter to the other members of E(LF) and to Sir Robin Butler.

Yours Ever,
John

JOHN MAJOR

CONFIDENTIAL

POTTER
→ CST
BURDEN OF BUSINESS RATES IN SCOTLAND
24/1

CHIEF SECRETARY

FROM: B H POTTER

Date: 24 January 1989

cc: Chancellor
Sir P Middleton
Mr Anson
Mr Phillips
Mr Monck
Mrs Lomax
Miss Peirson
Mr Edwards
Mr MacAuslan
Mr A White
Mr Hudson

PPP

E(LF) 26 JANUARY: THE BURDEN OF BUSINESS RATES IN SCOTLAND

The Secretary of State for Scotland wrote on 9 January proposing that business rate poundages in Scotland should be brought into line with the uniform business rate (UBR or NNDR) in England. You have already written on 23 January rejecting the idea that the cost of this should be met from increased Exchequer support to Scotland.

Background

2. The background is set out in my submission of 20 January. Mr Rifkind seeks E(LF)'s agreement to an enabling power (to be included in the draft Local Government and Housing Bill) to prescribe a common rate poundage in Scotland. If the powers were taken, he would come under immense political pressures to harmonize business rate poundages quickly and in full. Mr Rifkind would probably aim for a prescribed common UBR by 1992 at the latest.

3. There is a political commitment to harmonizing rate poundages (see Annex A). The proposal in narrower taxation terms also makes good economic sense. But the commitment has only ever

a partial quote.

been to the principle. No thought has been given to the critical issues of who meets the cost; how such harmonization should be achieved; and when.

Who pays

4. The thrust of Mr Rifkind's proposals are that the estimated £300m cost (in terms of non-domestic rate revenue foregone) should be met from increased grant, with very little if any contribution from Community Charge payers. (This assumes that the cost itself cannot be brought down in the short term by restraining LA expenditure in Scotland). The papers do not say where the grant should come from; but there are three main options:

(i) grant diverted away from England and Wales;

(ii) grant by way of additional expenditure.

(iii) grant from elsewhere within the Scottish block;

5. Diverting grant from England and Wales (i) is unattractive. It would lead to higher Community Charges in England and Wales (it would not be possible to seek any higher contributions from non domestic ratepayers). DOE and Welsh Office officials are already seized of the risk. Mr Ridley has written (letter of 23 January) opposing any notion of redistributing grant.

6. Approach (ii) is unacceptable. Harmonizing business rate poundages between Scotland and England does not appear to be such an overriding policy priority to justify additional expenditure on the Scottish block (you will wish to refer to other recent such claims).

7. Grant per capita to local authorities in Scotland is already some 65% higher than in England: if the full cost was met in the way now proposed by Mr Rifkind, grant per head would be nearly double that in England. While there are undoubtedly differences in the coverage of LA services and no doubt relatively higher

needs in Scotland, it would be very difficult to defend adding to the existing inequity on such a generous scale. In effect, taxpayers and CC payers in England would be subsidising those in Scotland.

8. Finding the grant from within the Scottish block (ii) is a potential solution. Such a proposal would allow a £300m reduction in the planning total and GGE (or provide you with £300m additional headroom within the NPT); the level of business taxation would fall; and the over provision within the Scottish block would be reduced. ST believe it is well worth pursuing.

9. ST estimate that over provision in the block is around £1.5 billion. I understand that the operation of the block formula adds some £200-£400 million or so in a typical year. It should be possible for Mr Rifkind to make use of changing priorities within his block and these normal consequentials to absorb the cost of harmonizing rate poundages at the expense of other over provided Scottish priorities. He has indeed already shifted over £70m in the 1987 Survey and £77m in the 1988 Survey to cover for the relevant RSG settlements.

10. Mr Rifkind will argue that the proposal is neutral in public expenditure terms and only shifts the balance between the general and business taxpayer. To find full room for this proposal over the next two or three years, he would have to constrain provision for many other programmes more than he would wish. So it would be a tight squeeze. Mr Rifkind is bound to argue that, if he meets the cost of achieving his policy objectives on non domestic rates in this way, he will merely transfer his political problems to some other area. (On the other hand his admitted failure to discourage Scottish local authorities from overspending has forced him to do that anyway).

11. Such a transfer within the Scottish block could be managed: but any agreement would have to be absolutely watertight. There are problems: RSG will be outside the block rules under the new planning total. So Mr Rifkind cannot be allowed to negotiate unfettered on the amount of grant each year as he proposes in his

letter. (That way part of the extra grant will be a fresh call on the Exchequer not the block). Rather it would be necessary to establish now how the cost is to be met from Community Charge payers and from transfers elsewhere from within the block - in effect the transfer would be a negative consequential for the Scottish block. (At Annex B is the Scottish "crime sheet".)

12. You should also note that Mr Rifkind is underestimating the room to find a contribution to the cost from Community Charge payers. Despite the assertion to the contrary in the paper, the Community Charge (CC) is not broadly comparable between Scotland and England. Adjusting for differences in services covered the CC may actually be up to £20 lower in Scotland, despite much higher spending per annum. So there could be a contribution towards the estimated £300m cost from Community Charge payers of £50-75m to reduce the strain on the block.

How harmonization is to be achieved

13. Your letter was based on the premise that there is no need to move to a harmonized business rate with England in the short term. It would be sensible to move to a harmonized business rate only in the longer term. Over time downward pressure could be brought to bear on local authority expenditure in Scotland so that it moves more into line with that in England. That said, bearing in mind the way in which the safety net will obscure accountability under the new local government finance regime over the next few years , it may be doubted whether much progress is likely within that timescale.

14. Rather the way forward would be to reform the local government finance system itself. It would be possible to meet the objective set out in the Green Paper of harmonizing rate poundages in England, Scotland and Wales. A nationwide NNDR pool could be introduced: the contributions from business rates at a common poundage would be distributed on a population basis throughout Great Britain. (Because the ratio of NNDR revenue to population is higher in England, the effect would be to divert NNDR resources from England to Scotland and Wales.) It would be

necessary then, however, to set a level playing field throughout Great Britain for the Community Charge payer as well as the business ratepayers. This would require that the grant arrangements should ensure that the Community Charge for spending at need would be the same in Cornwall, Dyfed and Ross & Cromarty. Accordingly grant assessment and grant distribution would have to be on a national basis comparing relative needs amongst all local authorities within the three countries.

14. LG have long held the view that this would be the logical approach - what might be termed a unified local government finance system. It is certainly a possibility for sometime in the mid to late 1990s, although probably requiring a transitional arrangement. It would involve redistributing Exchequer resources (NNDR + grant) but without any call on taxpayers in total.

15. But all three departments will be suspicious of it: the Welsh will perceive that they will be worse off: both the Scots and English will be unsure what the outcome would be. So neither Mr Rifkind or Mr Ridley are likely to be immediately attracted to this solution at E(LF) on Thursday.

Line to take

16. All other members of E(LF) including the Chairman are likely to support the principle of harmonizing the UBR. The obvious danger is in E(LF) agreeing to the enabling power in principle but leaving unclear who pays.

17. There are three possible Treasury approaches:

- outright opposition;
- opposition to quick transition: propose long term option;
- accept the quick transition but fully funded within the Scottish block: also propose long term option for further consideration.

18. Frankly I do not believe the first approach will be sustainable for very long at the meeting. The Prime Minister is being advised that the policy commitment, if not its timing, is incontrovertible (see Annex C on Green Paper commitment). And it would be illogical for the Treasury to oppose a level playing field on business rate poundages.

19. The Treasury is on much stronger ground in opposing a quick transition. In rejecting the enabling power, it helps if we have an alternative to put forward. You could therefore propose that the long term option (mid-1990s) of moving towards a national local authority finance system is the best way forward.

20. You will wish to judge whether, you could accept an earlier transition <u>on a strict agreement</u> that the cost will be fully funded within the Scottish block. But I recommend that you avoid any commitment to this approach on Thursday or agreement to the proposed enabling power. Officials would need time to investigate the sort of arrangement outlined in paragraph 11 above. Specifically, they might be given a remit to examine how a more rapid harmonisation of rates could be achieved; how the cost could be met - without an additional call on taxpayers; and what legislative approach should be adopted. (The clause could be added later to the Local Government and Housing Bill if that turned out to be the best approach).

21. If you are content with this line, I attach a speaking note and points to make for use at the meeting.

Barry H. Potter

BARRY H POTTER

lg1.va/potter/minutes/E(LF).note

SPEAKING NOTE

1. Accept that Green Paper states a common UBR is desirable. Note also various public statements by Ministers in that vein.

2. No decision taken on when harmonization should take place. No consideration of who pays.

3. Nick Ridley already made it clear that grants should not be diverted from England. John Moore pointed to difficulties of meeting cost from Community Charge payers (adding to CC benefit costs).

4. Malcolm clearly envisages money from extra grant for Scotland. Makes no mention of any contribution from the Scottish block. Wholly opposed to any extra grant to Scotland from the Exchequer because:

   - could not defend to colleagues in spending departments: not a high policy priority;

   - Scotland already overprovided in total: estimated extra £1.5b within block;

   - Scottish LAs already benefit from high grant - 65% per head above that in England; the extra grant envisaged would take that up to 90%;

   - could not defend that in public: in total grant terms (RSG and NNDR) may well be more generous to Scotland than to other countries: so Community Charge payers in England effectively subsidising those in Scotland.

5. Wrong to rush into firm commitment now. (Enabling power would force Malcolm to act reasonably quickly.) Believe right approach is to move towards a unified local government system across all three countries for the mid-1990s. Aim would be to set level playing field for both business ratepayers and Community Charge payers. Requires a common UBR; operation of a GB-wide pool (so Scotland and Wales get benefit of relatively stronger non-domestic rate base in England); and an assessment of LA needs across all three countries.

6. Would lead to the same Community Charge for spending at need from Cornwall through Dyfed to Ross & Cromarty. That would be fair and defensible.

7. Accept needs further work. Officials to consider - report back.

IF PRESSED

8. Willing to look at possibility of enabling power only if strict agreement that all the cost falls on Scotland - either on Scottish block or on Community Charge payers. No contribution from the general taxpayer. Would only be acceptable if officials able to establish precise share of cost burden, timing and legislative requirements. Suggest they examine and report back.

Annex A

ANNEX A

They have been mollified by the commitment which the Prime Minister gave in a recent letter to the President of the Glasgow Chamber of Commerce, which has been widely quoted in Scotland, in which she said:-

> 'In our Green Paper, 'Paying for Local Government' we made clear that we saw advantage in moving to a common non-domestic poundage in all areas and since then our policies have been aimed in that direction. We have no intention of going back on what we have set out to accomplish'.

Misses out vital bits on spending & economy

ANNEX B

ANNEX B

C2 POPULATION ADJUSTMENT

	1988-89	1989-90	1990-91	1991-92
Option		-255	-265	-270
Fallback (phasing)		150	200	250

3. Treasury case for Reduction

The 1979 Needs Study measured Scottish over-provision in 1976-77 as £170m (approx £400m at current prices) or around 5 per cent of total block programmes. A more recent internal Treasury study assessed the overprovision as well over £1 billion, particularly apparent in health, education and housing. Attached Crime Sheet indicates the level of over-provision by programme.
The attached table sets out the pattern of over-assessment based on Needs Assessment methodolgy. You may wish to draw selectively on it but **we do not advise providing details of the Treasury assessment of over-provision at the bilateral as the Scots have taken no part in it and are likely to disclaim the results.**

The presentational problems of a substantial reduction are recognised but there would be little or no cash reductions in Block if consequentials are in line with previous years.

In his letter of 31 August Mr Rifkind denies that there is any imbalance in baseline provision, although in public statements Scottish Office Ministers have drawn attention to areas where Scotland is receiving more than England on a demographic basis, justifying them on geographical and social grounds (eg Ian Lang's TV interview of 10 June) and in his speech to the Scottish CBI in February Mr Rifkind emphasised the strength of the Scottish economy and the irrelevance of geography insome contexts.

Mr Rifkind's letter focuses on the presentational and political difficulties of making any cut- let alone one of the level proposed. We understand that various options were put to him by way of response to your proposal. He chose flat rejection. His letter seeks to twist your proposal so that it appears driven by population shifts. That is not so and you should remind him that you have proposed the population baseline adjustments as a way of presenting realignment justified by a comparison of need with provision.

Points to Make

Positive

Scotland is lavishly over-provided. 1979 Needs Study based on 1976-77 figures recognised this and Treasury's own assessment drawing on same methodology is that the level of over-provision is now well over £1 billion.

May be that factors not adequately reflected in that work could account for some of the staggering differences in provision between Scotland and England, but difficult to argue, as youhave sought to do in replying to me, that there is no Scottish over-provision. You yourself have pointed out the higher per captia levels of expenditure in Scotland on many occasions. All I am seeking is a partial correction of the underlying over-provision.

Over-provision does not help in stimulating an enterprise economy in Scotland.

Adjustment of over-provision is justifiable on merits. Population adjustment represents one publicly defensible way of removing an element of the over-provision, but prepared to consider alternative ways of achieving same end.

The reduction arising from the RSG settlement for 1989-90 also helps to some extent as a further way of squeezing out over-provision [In the 1987 Survey the withdrawal of a bid to compensate Scotland for the RSG settlement was accepted in returning for dropping the population baseline adjustment option]. Prepared to take account of that in early years of Survey if we can achieve satisfactory progress towards reducing over-provision.

/!

Defensive

Wales/N Ireland?

Not seeking population baseline adjustments elsewhere because satisfied that there is not the same degree of over-provision in the other territories as in Scotland.

Wrong to penalise Scotland for increase in population in England?

Scotland has already been getting, and will continue to get, the benefit of increases in the population of England, insofar as this has been reflected in settlements for English departments on which the consequentials are based.

Can't present cash cut in Scottish Block?

Adjustment will not necessarily lead to actual reductions year on year [Willing to consider some phasing in of the adjustment over the Survey period to help to minimise as far as possible the presentational difficulty].

Formula already reduces Scottish provision relative to baseline proportions?

Scottish baseline already far too high.

Significance of Population/ Needs Study

Agree that population is not the only indicator of need, although plays an important part in a number of areas of resource allocation. But over-provision based on assessment across the board taking account of range of factors.

A new Needs Study might help to identify particular areas of differences in provision. Accept new Needs Study if Mr Rifkind suggests it, but not as substitute for cuts in this Survey. Would need to be referred to PM, and would take at least a year.

5. Points to Watch for

1989-90 RSG settlement: £77m has already been squeezed from the central government part of the Block as a result of the Scottish consequentials of the RSG settlement, and Mr Rifkind intends to bid for this if the population adjustment is pursued. Such a bid would need to be taken into account in any phasing of the population baseline adjustment (say £150m in 1989-90 instead of £255m).

TREASURY ASSESSMENT OF SCOTTISH OVER-PROVISION

Changes compared with PEWP

(£million)

	1988-89	1991-92
a) Programmes covered by the Needs Assessment study (baseline)		
Transport	-14	+24
Housing	+383	+456
Water	+201	+245
Other OES (excl Recreation)	+214	+204
LOPS	-65	-98
Primary & Secondary Schools	+158	+156
'Other' Education	-32	-53
Further Education	+76	+69
Recreation	+70	+76
Hospitals & CH	+323	+369
FPS	-25	-34
PSS (incl Probation)	+72	+75
	-----	-----
	+1362	+1490
b) Other block programmes - per capita equality		
Tourism	+9	+12
Arts & Libraries	-10	-9
OPS/Deptl.Administration	+28	+35
	-----	-----
	+1433	+1528

3

ROADS AND TRANSPORT

	89-90	90-91	91-92
Scottish Baseline	620	630	645

Assessment of over-provision*: 1988-89 -£14m
1991-92 +£24m

	SCOTLAND	ENGLAND
Expenditure on Roads and Transport per capita		
1988-89 current	70	43
capital	50	35
Road Maintenance expenditure		
1988-89		
-per registered vehicle	186	72
-per tonne of road freight(1986)	£1.78	£1.15
-per Km of road	4566	5056
New Trunk Roads & Motorways		
1982-83 to 1988-89		
Km built per million regd vehicles	236	64
1984-85 to 87-88		
Average construction costs per Km	£1650	£2430

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HOUSING

	89-90	90-91	91-92
Scottish Baseline	700	730	750

Assessment of Over-provision * 1988-89 +£383m
1991-92 +£456m

	SCOTLAND	ENGLAND
Total public expenditure on housing (1987-88) per person in country	£136	£68
1988-89		
-net subsidies & Admin	£27	£31
-net capital	£98	£37
-gross capital (approx)	£148	£80
Public Sector Dwellings per 1000 capita (1986)	199	97
Tenure: Percentage of Dwellings		
-rented from LAs/NTs/SSHA (1986)	49	24
-owner occupied	42	65
Total **Sales of Public Housing** Stock as percentage of stock (to June/Nov 87)	10%	18%
Housing **Completions**: public housing as percentage of the total (1986)	20%	17%
Av **Cost** of new public sector dwelling (1986)	£30,831	£26,281
Av House **Price**	£28,242	£37,157

	SCOTLAND	ENGLAND
Average LA weekly rent (1987-88)	£14.58	£17.24
Dwellings below tolerable standard (1986) as percentage of stock:	2.7	5.8
Dwelling lacking inside WC (1981) as percentage of stock	1.0	2.7
Average expenditure per dwelling in total private sector stock on home improvement grants (1986)	£102	£38
Renovation of public sector stock (1987-88) per dwelling (excluding HC)	£363	£330
Public sector Sheltered Houseing per 1000 Populations aged 65 and over (to Dec 86)	28.5	4.7
Notional provision (1987-88) for new dwellings by public sector (excluding Housing Corporation) per person in country	£23	£15
As above but total notional provision for 1987-88 to 1990-91	£93	£55

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EDUCATION

Scottish Baseline	2040	2090	2140

Assessment of over-provision *

	1988-89	1991-92
Primary and Secondary Schools	+158	+156
Total (including recreation)	+272	+248

	SCOTLAND	**ENGLAND**	**YEAR**
Comparable per capita expenditure	£393	£326	88-89
- primary and secondary schools	£250	£191	
- further education	£82	£71	
Primary Schools			
Av. cost/pupil (£)	964	810	85-86
Pupil/teacher ratio	20.4	22.1	85-86
Av. class size	25.2	25.5	85-86
Secondary Schools			
Av. cost/pupil (£)	1575	1175	85-86
Pupil/teacher ratio	13.5	15.9	85-86
Av. class size	19.2	20.3	85-86
Achievement: 1 or more A or H levels	32.5%	20.8%	85-86
Participation rate over statutory leaving age	36.4%	20.2%	87-88

Teacher training[1]

staff/student ratio	9.1:1	12.7:185-86
Unit costs (£)	3859	286485-86

Central Institutions/ Polytechnics

Staff/student ratio	11.2:1	12:185-86
Unit costs (£)	3651	3150 85-86

[1]Figures for England are for voluntary colleges, 50 per cent whose work is teaching training.

HEALTH AND PSS

Scottish Baseline	2710	2830	2900
Assessment of Over provision*	88-89	91-92	
Hospitals and Central Health	+£323m	+£369m	
FPS	- £25m	- £34m	
PSS(including Probation Service)	+ £72m	+ £75m	
Total	+£370m	+£410m	

	SCOTLAND	ENGLAND	YEAR
Per capita Expenditure			
- total programme	£553	£437	88-89
- Hospital and Community Health Services (HCHS) per head	£376	£279	88-89
- HCHS capital per head	£20	£16	86-87
- FPS & Admin per head	£93	£88	88-89
Health expenditure as a % of GDP	9.0%	6.4%	88-89

1C

	SCOTLAND	ENGLAND	YEAR
Hospitals			
Hospital beds per 1,000	10.9	6.7	1986
Cases treated per available bed	14.9	20.3	1986
Acute beds per 1,000	3.43	2.83	1985
Acute cases per available bed	33.0	37.3	1986
Occupied beds per 1,000	9.0	5.4	1986
Average length of stay (days)			
Acute In-patients	7.9	7.3	1986(1)
All In-patients	20.1	14.5	1986
Health Authority staff per 1,000	25.2	17.8	1986
FPS			
Average General Management Practitioner (GMP) list size*	1653	2042	1986
Net Prescription ingredient cost per person per year	£31	£29	1986
PERSONAL SOCIAL SERVICES			
Elderly in LA or voluntary residential care per 1000 over 65s	20.0	17.4	1986
"NEED"			
Standard Mortality Ratio - Male	114	98	1986
Female	111	98	1986
(UK=100)			
Percentage of Population aged over 75	6.0%	6.6%	1986
Perentage of GHS interviewees reporting long standing illness	29%	33%	1986

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GREEN PAPER 'PAYING FOR LOCAL GOVERNMENT'! Annex C

Scottish situation account will have to be taken of the wider range of services funded from local authority rates and the generally higher level of non-domestic rates in Scotland.

8.30 Paragraph 2.40 above proposed that non-domestic property in England should be revalued with effect from 1990. Under statute at present a further Scottish revaluation is due also in 1990 and the Government has decided that this should go ahead but be confined solely to non-domestic property. Following experience of sharp movements in some commercial values during the 1985 revaluation there may be benefit in phasing in new values over a period of years from 1990.

8.31 The major concern of the valuation system and related appeals procedures has been to ensure fairness between ratepayers in each local valuation area. The Government sees advantage in moving in time to a common non-domestic poundage in all areas and it may be desirable to harmonise valuation procedures to provide for a common standard. Where significant differences persist between Scottish and English valuation practice affecting certain types of property further statutory changes may have to be considered to ensure fairness in valuations throughout the country. Until such moves took effect the Government would propose to retain industrial de-rating and to control non-domestic rate poundage increases by linking these to some general index of price movements (see paragraphs 2.27 to 2.28). This would provide an immediate guarantee of much greater stability in the rate burden levied on industry and commerce in Scotland.

Annex C

Local domestic taxation

8.32 Chapter 3 sets out a series of reasons why the Government now favours the concept of a community charge payable by all adults as the main form of local domestic taxation in the years ahead. This will lead to many more electors contributing directly to local taxation and authorities will be conscious that changes in their expenditure will reflect directly in a charge paid by all adult residents.

8.33 While the general arrangements for a community charge in Scotland would be similar, the Government considers there is scope for faster transitional arrangements north of the border. The degree of variation in average rate bills from area to area is less extreme in Scotland and there are no local authorities levying average domestic rate bills at the very high levels typical of central London (which will require the phasing out of a local domestic property tax there to extend over a considerable number of years). It is evident from reaction to the 1985 revaluation in Scotland that existing arrangements for valuation and rating of domestic property are no longer a satisfactory basis for contribution to the cost of local government services.

8.34 Inevitably moves to a community charge in place of domestic rates would involve a degree of disruption and the change could not sensibly take place in a single year. But the Government will not tolerate any delay beyond the minimum necessary. Those most affected, who have not been making a contribution to domestic rates in the past, must have time to come to terms with the effects of having to do so; but the Government believes that in Scotland the transitional period need not exceed three years from new legislation coming into effect. Certainly there is no question of any further revaluation affecting domestic rateable values in Scotland. One possible timetable would be for all local authorities to reduce the poundage of domestic rates in 'year one' of the new system to 60% of the poundage based on a designated year under the present system and to make up the yield thus lost by levying a community charge. The proportion met from rates might fall in successive years to 40%, 20% and then zero with the final abolition of domestic rates in the fourth year of the new system.

The grant system

8.35 The general objectives of a new grant system for Scotland would follow those set out in Chapter 4. Local authorities would be given grant which would allow them to provide similar levels of service at a similar cost to local residents in terms of a community charge. There would be two major elements of grant.

(i) A needs grant to compensate authorities for differences in the costs of providing a standard level of service in different areas of Scotland.

(ii) A standard grant representing a uniform level of contribution from central Government towards the cost of local services.

PJ. On what major items does their additional Scottish LA/Spending occur?

CHANCELLOR OF THE EXCHEQUER

HONI SOIT QUI MAL Y PENSE

Ch 26/1/89.

X on p2 of Ridley minute is v dangerous. I discovered Paul hadn't yet shown it to PM, so flashed him attached table which demonstrates that problem is that spending in Scotland is so high. Grant is already high & no question of yet further hike.

Quite right. Well spotted / well done

AA

LOCAL AUTHORITY SPENDING

LOCAL AUTHORITY SPENDING.

RLF

1988-89 provision (PEWP Table 3·10)	ENGLAND	SCOTLAND	WALES
(£m)			
Relevant expenditure	29846	4277	1894
AEG	13775	2370	1256
Grant %	46·1	55·4	66·3
Population (million)	47·254	5·121	2·821
Per head (£)			
Spending	632	835	671
Financed by:			
Grant	292	463	445
Ratepayers	340	373	226
of which (roughly)			
domestic	156	150	~~n.a.~~ 95
non-domestic	184	224	~~n.a.~~ 131

Thursday, January 26, 1989

Daily Telegraph

Minister puts blame on costly councils

By Chris Tighe

LOCAL authorities will be to blame if some people find they must pay heavy community charges, Mr Gummer, Local Government Minister, said yesterday.

He said during a visit to Newcastle upon Tyne, whose Labour-controlled council has criticised the tax, that it was a much fairer way of spreading the cost of local government.

He conceded that, despite the system of rebates for the hard-up, even the poorest people could find themselves paying a percentage of the community charge in high-spending councils' areas.

"It's very important that the local authorities should give value for money," he said.

"That's one of the problems local authorities will face. If they give value for money, there will be reasonable community charges. If they put the costs up, then it will be very expensive."

Mr Gummer said the "needs grant" system, under which the Government would judge how much each council needed to spend, was an objective system and was being discussed with local authorities.

They would find the sum allocated to them satisfactory if they were prepared to give value for money.

"It's a question of getting better value for money and making economies, going out to private enterprise," he said.

Mr Jeremy Beecham, leader of Newcastle City Council, said that seven out of 10 adults in the city would be worse off under the community charge. The needs grants would not solve the problem.

The council would be implementing the charge from next year, since a failure to do so would simply be cutting its own throat.

FINANCIAL TIMES

Local councils urged to improve job terms

By Yvonne Campbell

BIG CHANGES in employment practices will have to be introduced by local authorities if they are to compete effectively for staff with the private sector, according to Lacsab, the local government' employers advisory board.

In guidelines to local authorities, Lacsab says financial pressures from the Government, including the fall in the Rate Support Grant, authorities are finding it difficult to keep up with the private sector pay increases.

It suggests authorities should concentrate more on offering flexible and improved working conditions and better training provisions, and says that some are already starting to do so.

Authorities in areas of labour and skills shortages are introducing local pay variations for white collar groups, and re-organising work patterns. However, it points out that some authorities are lagging behind.

Lacsab says there is strong pressure on authorities to reach moderate pay settlements because of the reduction in rate support grants and the introduction of compulsory competitive tending. But at the same time the upward trend in outside pay movements is making this difficult for the authorities. It suggests that more support is needed from employers in other sectors who must not allow their pay awards to run too far ahead.

The decline in young people up to 1995 means authorities will have to start competing with private sector employers by offering better terms to young graduates, and achieving a better image.

The comments come in the Lacsab pay review for 1988, which is being circulated to authorities.

● Leaders of unions representing more than 700,000 white collar workers in local government are claiming pay rises of 12 per cent or £1,200 a year, whichever is higher. The claim will be submitted at a meeting today of the national joint council for local government. The settlement date is July 1.

Daily Telegraph

Poll tax to raise rate bill by half for many Scots

By John Grigsby, Local Government Correspondent

THE community charge will mean a huge increase in the amount Scots pay for council services when it is introduced in April. A household of two adults, for example, will pay 50 per cent more poll tax to the regional councils alone than they pay in rates. Regional authorities account for 80 per cent of council spending.

In Tayside the proposed regional charge could add £194 to the annual budget of a household of two.

These figures will be used by opponents of the poll tax to challenge Government estimates that most families will pay less when it is introduced in England and Wales in April 1990.

Ministers will argue that the size of the increases will allow voters to identify high-spending Labour councils. None of the nine regional and three islands councils in Scotland is Conservative-controlled.

However, the three Tory-controlled districts of Berwickshire, Bearsden and Milngavie, and Eastwood also propose to charge much more than the amount predicted by Mr Rifkind, Scottish Secretary.

The size of recommended or agreed charges has prompted Mr Lang, the Minister responsible for local government finance in Scotland, to take the unprecedented step of saying he will publish a league table of high-spending councils.

Mr Lang said he was "profoundly disturbed" by proposed regional increases.

He singled out Dumfries and Galloway, Grampian and Highland Regions, saying that they had benefited most from the Government grant this year "as we move away from the old, unfair system, whereby in the past they tended to subsidise the high-spending central belt".

He added: "Tayside is reported as planning an extraordinary 17·9 per cent increase in its education budget and other regions are also planning expenditure increases well above the level of inflation.

"Many districts are also reported as planning large increases in expenditure, with Edinburgh up no less than 23 per cent.

"It is up to individual councils to decide what to spend, but it also makes them responsible for the consequent community charge level."

The Government's figures showed what the charge could be if spending increases were kept to six per cent.

Mr Eric Milligan, Labour president of the Convention of Scottish Local Authorities, said: "These figures merely serve to highlight how wrong the Secretary of State was in his estimates.

"Councils, be they Labour-controlled or otherwise, are unable to meet his ill-informed and intrusive predictions, which served only to mislead the public." It was an attempt to drive a wedge of mistrust between councils and the public.

If the Government published a league table the convention would give counter statistics.

"It is iniquitous for the Minister to claim that authorities are increasing expenditure unnecessarily when, in most cases, they are only matching their figures to the Government's own calculation of local authority spending needs," said Mr Milligan.

Councils have until Sunday to decide final poll tax levels and many are not expected to vote until today or tomorrow.

Figures compiled by the Local Government Chronicle therefore include estimates and recommendations.

Poll tax: what Scottish regions will charge
(figures for family with two adults)

	1989-90 Community charge	Scottish Office target charge	1988-89 Rates	% Increase over rates
Borders	£500	£360	£360	38·9
Central	£520-600	£400-500	£478	8·8/25·5
Dumfries & G'way	£500	£380	£385	29·8
Fife	£600	£504	£475	26·3
Grampian	£520-600	£350-400	£394	31·9/52·3
Highland	£460	£374	£363	26·7
Lothian	£700-£780	£610	£618	13·3/26·2
Strathclyde	£560-640	£500-580	£533	5/20
Tayside	£660	£500	£466	41·6
Orkney	£296	£168	£194	52·5
Shetland	£224	£404	£392	−42·9
Western Isles	£342	£252	£226	51·3

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