

PREM 19/1565

PART 3

11

COVER

CONFIDENTIAL FILING

The of the Rating System
Rating Allocation

LOCAL
GOVERNMENT

PART 1: MAY 1979

PART 3: JULY 1983

Contents of Folder: Modified Property Tax -
A preliminary report.

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
NEW FILE COVER							
4.5.85							
5.5.85							
16.5.85							
22.5.85							
4.6.85							
2.7.85							
3.7.85							
4.7.85							
1.7.85							
1.8.85							
2.10.85							
4.10.85							
8.10.85							
15.11.85							
1.12.85							
23.12.85							
17.12.85							
20.12.85							
31.12.85							
ENDS							

PREM 19/1565

PART 3 ends:-

DN to DOE (meeting record) 31.12.85

PART 4 begins:-

DN to PS/LPC 3.1.86

SUBJECT
cc Master

CONFIDENTIAL

(D92ASK)

bcc: BG



10 DOWNING STREET

From the Private Secretary

31 December 1985

GREEN PAPER ON LOCAL GOVERNMENT FINANCE

Your Secretary of State today came to discuss with the Prime Minister the handling of the publication of the Green Paper on Local Government Finance. Mr. Letwin was also present.

Most of the discussion concerned the action your Secretary of State intended to take to help the reception of the proposals after publication of the Green Paper. This would include a series of presentations by himself and Mr. Waldegrave. Your Secretary of State also described to the Prime Minister what he saw as the most likely points of criticism. These were likely to include accusations that:

- (i) people aged between 18 and 24 would be particularly hard hit: the Government would have to take this head on, arguing that it was right for these people to contribute;
- (ii) the very rich would gain: the Government could argue that local government finance was not an appropriate instrument for pursuing distributional objectives - that was the province of central government taxation;
- (iii) students should not pay: the Government would point to the need for the charge to be universal;
- (iv) the charge would be widely evaded: but, for example, rents and TV licence fees were also difficult to collect in difficult areas.
- (v) second homes were being unfairly treated: there was inevitably some arbitrariness in assessing second homes to two community charges, but this was defensible.

There would also be criticism of the effects on some pensioner couples. It would in principle be possible to assess pensioner couples to one community charge, but this would be expensive.

CONFIDENTIAL

08

In a discussion of the timetable, it was agreed that publication should take place on Tuesday 28 January. The deadline for comments should be September or October and the White Paper should follow before the House rose for the Christmas Recess in 1986. It would be for consideration whether a Bill should be published before the next Election, but the aim should be to prepare a Bill by March 1987.

The Prime Minister emphasised that in presenting the Green Paper your Secretary of State should make clear that it was green only in detail. He should be firm about the proposed structure.

I am copying this letter to the Private Secretaries to Members of E(LF) and to Michael Stark (Cabinet Office).

David Norgrove

Robin Young, Esq.,
Department of the Environment.



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

NBP 7.

My ref:

Your ref:

31 DEC 1985

In Kirk,

LOCAL GOVERNMENT FINANCE STUDIES: SAFETY NETS

Thank you for your letter of 17 December, in which you point out that our safety net proposals will perpetuate the existing pattern of domestic rate bills and allow it to feed through into the new community charge. I have also seen Nick Ridley's letter of 20 December on the same subject.

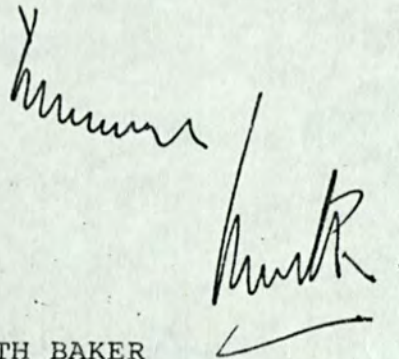
You are, of course, quite right. As we always recognised, the safety net cuts across the original proposal in the package I put to E(LF) in September, which sought to establish the principle that domestic taxpayers everywhere ought to pay the same amount for comparable standards of service. However, to achieve this principle substantial shifts in grant and non-domestic rate income between areas were unavoidable, particularly from authorities in the north of England to authorities in the south. Colleagues balked at this, and asked me to devise a means of preventing these inter-authority shifts - hence the safety net.

If we were to say in the Green Paper that we envisaged a planned phasing out of the safety net, we would be making clear our intention to allow inter-authority income shifts, which we currently find unacceptable, to come through over a specified period. We would, in effect, be signalling a planned programme of tax-bill increases in local authorities in the north, quite separately from anything the authorities themselves might decide to do or spend. It was this worry that led colleagues originally to avoid saying anything specific on this point and that is why the present draft of the Green Paper is silent on the point.

However, as you quite rightly point out, if the safety net is not to be phased out, the existing pattern of rate bills between authorities - reflecting both spending levels and rateable values - would be preserved and would in due course be reflected in the level of the community charge in each authority as it replaces the rates. As you point out, one of the effects of this would be to preserve low levels of local tax in high-spending areas, particularly in the north, and high levels of tax in low-spending areas, particularly in parts of inner London, such as Kensington & Chelsea and Westminster, and the home counties. And the high level of non-domestic rate income currently accruing to ILEA would also be preserved.

The arguments for and against phasing out the safety net are tricky and finely-balanced. I do not, however, suggest we start re-opening this issue in the Green Paper; if we do, substantial sections of it would need re-writing and a good deal of extra computational work would need to be done. This would make it impossible to adhere to our objective of publishing the Green Paper before the Second Reading of the Social Security Bill. But I am in no doubt that we need to examine the issues and options closely so that we know just where we stand. I will therefore aim to circulate a note on the options for, and implications of, phasing out or substantially reducing the safety net, before Cabinet considers the Green Paper draft on 9 January.

I am copying this letter to the Prime Minister, other members of E(LF) and to Sir Robert Armstrong.

A handwritten signature in black ink, appearing to read 'Kenneth Baker', with a horizontal line underneath.

KENNETH BAKER

LOCAL GOVT
RATING SYSTEM
PT 3





CONFIDENTIAL

cc 30
2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

N8PN

31 DEC 1985

Jim Keith,

GREEN PAPER ON LOCAL GOVERNMENT FINANCE

Thank you for your letter of 17 December about the Green Paper's treatment of specific grants, students and derating local authority property.

Specific Grants

You suggest a form of words to meet the E(LF) agreement that the Green Paper should canvass more positively the possibility of making wider use of specific grants. However I think that the form of words you have suggested goes much further than simply canvassing the possibility: it has a strong flavour of the case for more specific grants being already proven. The merits of such a proposal have not yet been properly considered either by the official group or by Ministers.

I would prefer the following wording:

"There will remain a role for certain existing specific grants such as that for police expenditure. There may also be a case for some new grants in the education field, for example, in support of the Government's objective of raising standards at all levels of ability."

Derating local authority property

I appreciate the reasons why you suggest that we should derate all local authority property and I can certainly see some presentational advantage in what you propose. That said, I can see severe disadvantages in your proposal. Although it would solve your particular problem over the way the schools formula operates, it would create other problems. It would reduce the incentive for authorities to use property efficiently and to dispose of surplus property. It would cause problems for competitive tendering where local authority contractors would enjoy a permanent cost advantage vis á vis private sector competitors. And it would create anomalies where local authorities rented property from commercial landlords or let property to private sector tenants.

CONFIDENTIAL

Students and Schoolchildren

I fear I also have difficulties with your proposal that we should exempt all full-time students over age 19 from the community charge. We have taken the line throughout that there should be no exemptions from the community charge. It will be paid by pensioners, by the unemployed and by those on Supplementary Benefit. I can see no reason for making a special case for students who may in many cases be better-off. To canvass a student exemption would inevitably fuel pressure for other exemptions.

I do not accept that the community charge poses more problems for students than rates will do with the new Housing Benefit rules you have agreed with Norman Fowler. Halls of Residence will be subject to the collective charge in place of rates now. We can, if we wish, continue existing arrangements for reimbursement by the University Grant Committee and National Advisory Body - or we could use that money to increase student grants. But our officials can discuss this after the Green Paper is published.

I am copying this letter to members of E(LF) and Sir Robert Armstrong.

Tomlinson
Kenneth Baker

KENNETH BAKER



LOCAL GOVT

RATING
SYSTEM

PT 3

PRIME MINISTER

RATES GREEN PAPER

The latest version of the Green Paper is very similar to the earlier draft. There are only two major changes, both of which reflect decisions made at E(LF):

- (i) Domestic Rates There is now an unequivocal statement that "the Government's objective is to replace domestic rates entirely within a reasonable timescale"; and there is a distinct suggestion that this means replacement within 10 years. [Paragraphs 3.40 and 3.41].
- (ii) Transitional 'Safety Net' There is now a hint that the 'safety-net' (which protects the North) could be phased out entirely in due course. This gives you room for manoeuvre if you decide that Keith Joseph's worries about high Southern local tax bills are justified: DOE can work on the mechanics between publication of the Green Paper and the drafting of the White Paper.

This Green Paper is now about as good as it will ever be. The aim should be to get it through Cabinet and out into the world as soon as possible - otherwise, the rats will start nibbling. Kenneth Baker's personal preface can make it absolutely clear that it is only Green, and that the Government seriously wants to know whether there are any undetected gremlins lurking in the proposals.

We recommend that you should encourage Kenneth to press ahead.

Oliver Letwin

(OLIVER LETWIN)

30 December 1985

G.H.
M.W. X
P.W. X
Q.H.
T.K. X

CC BUP

CC 3469



10 DOWNING STREET

Prime Minister

To keep the momentum
going the Government should
announce a timetable for the
White Paper when it publishes
the Green Paper eg

- deadline for responses to
the Green Paper July 31;

- publication of White
Paper Autumn 1996.

DWS

30/12

cc CO JOT DHS
 DTM CJO WO
 ITMT DTI SO
 CAZ
 M/S OOE



10 DOWNING STREET

24 December 1985

From the Private Secretary

DES
 Ho
 LPO

Dear Robin,

GREEN PAPER ON LOCAL GOVERNMENT FINANCE

The Prime Minister has seen Sir Keith Joseph's letter of 17 December to your Secretary of State about the effect of the proposed safety net arrangements. .

The Prime Minister recognises the force of Sir Keith Joseph's analysis. However, the drafting of the Green Paper is at a very advanced stage, and the Prime Minister believes that it has now to go forward on the present basis. She has asked that officials should in due course illustrate the effects of phasing out the geographical safety net, so that the scheme could be amended in the White Paper if reactions to the Green Paper show that it would be feasible to look for a gradual reduction in the subsidies from ratepayers in the South to those in the North.

I am copying this letter to the Private Secretaries to members of E(LF) and to Michael Stark (Cabinet Office).

Yours ever,

David.

(David Norgrove) .

Robin Young, Esq.,
 Department of the Environment.



ms

MB at this

Treasury Chambers, Parliament Street, SW1P 3AG
 The Rt Hon Kenneth Baker MP
 Secretary of State for the Environment
 Department of the Environment
 2 Marsham Street
 London
 SW1P 3EB

Prime Minister
 You have suggested
 that it is now too late to

23 December 1985 change the
 Green Paper itself. Mr Baker
 is likely to agree. But this
 can be picked up in the
 consultation period, again
 as you have suggested.

Dear Secretary of State

GREEN PAPER ON LOCAL GOVERNMENT FINANCE

Keith Joseph wrote to you on 17 December about the impact of the proposed safety net grants.

JK 24/12

I believe that Keith is making some powerful points, which we need to focus on urgently. These are just the issues which will appear in the political debate once the Green Paper has been published, and many of the difficulties will come from our own supporters. The reactions from our Parliamentary colleagues and supporters in the shire counties to the RSG settlement underline the dangers of producing a Green Paper whose perceived unfavourable impact on them as against the high spending authorities they would be able to calculate.

As Keith points out, we shall be hard-pressed to defend a system under which rates have been abolished, but people in low-spending areas (again usually our supporters) have to pay much more in poll tax than those in high-spending authorities (which they have continually been encouraged by us to view most critically) just because their rateable values used to be higher. We were previously concerned to prevent an unacceptable shift from South to North in the early years of a mixed people/property tax. That is why we agreed to safety net grants. But solving that problem has created a new one, now that the aim is to phase out rates completely.

But they are
 already used to
 paying higher
 rates.

You are already looking at what modifications to the transitional arrangements might be needed if rates in London are to be phased out within ten years. I think it is very important that we also consider what arrangements should apply to safety net grants over that period. Keith's points go to the root of the problem. We have got a better balance in year 1 of the new scheme; what we need now is a better balance by the end of the transitional period.

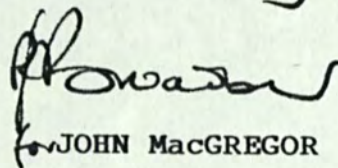
CONFIDENTIAL

A more rapid phasing out of safety-net grants will, of course, impose bigger losses on high-spending authorities, and increase the number of losers there. But, as Keith points out, that will provide strong pressure for them to cut their spending, something we all seek.

I believe that we ought to look at the transitional arrangements again in the light of these considerations and I hope that you will be able to let us see full exemplifications of these before Cabinet discusses the draft Green Paper on 9 January.

I am copying this letter to the Prime Minister, other members of E(LF) and to Sir Robert Armstrong.

Yours sincerely


for JOHN MacGREGOR

[Approved by the Chief Secretary]

LOCAL GOVT: Future of Rates: P43





PRIME MINISTER

2 To note.

DMW 1/1

mb

LOCAL GOVERNMENT FINANCE

I chaired a meeting of E(LF) on 19 December to settle some of the remaining issues for the draft Green Paper on local Government finance reform.

2. On the control of local authority capital expenditure, the key issue is the treatment of accumulated receipts. These now stand at about £6 billion, and the spending power associated with them has been a major cause of the overspending against the cash limit in recent years. The Environment Secretary has proposed that under the new system local authorities should be allowed to undertake additional spending only to the extent that their accumulated receipts are backed by cash. Where the receipts have been used to redeem existing debt, or in substitution for new borrowing, the spending power will be lost. This proposal was acceptable to the Chief Secretary, and the Chief Whip judges that it should be possible to secure acceptance from our supporters in the House. The Committee therefore agreed that this proposal should be set out in the Green Paper, although we fully recognised that it could prove very controversial.

3. On the basis that the spending power associated with accumulated receipts will be restricted to £3 billion, the Chief Secretary was able to accept the Environment Secretary's proposals that local authorities should be able to increase capital spending to a limited extent by using budgeted contributions from revenue, and also that they should retain freedom to vire allocations between services. But the sub-Committee accepted that if we cannot hold the line on receipts, these issues could be reopened.



4. We discussed again the implications of setting the centralised non-domestic rate poundage higher in Scotland than in England and Wales. The Scottish Secretary remains concerned about the political implications of this, but my colleagues were firm in their view that the problem should not be solved at the expense of England and Wales. They suggested that, after a suitable transitional period, the Scottish non-domestic poundage might be brought into line with that in England and Wales, leaving Scottish local authorities with the alternative of either bringing their spending into line with that south of the border, or of passing on the cost in the community charge to domestic ratepayers in Scotland. We were unable to reach agreement now on how this problem should be solved, but we did agree that the Green Paper should leave open the option of different non-domestic poundages in different parts of Great Britain.

5. We did not discuss the implications of the community charge for the Housing Benefit Scheme, but we agreed that the Social Services Secretary would settle an appropriate form of words for the Green Paper with the Environment Secretary and Chief Secretary in order to keep all options open.

6. The way is now clear for the Environment Secretary to finalise his draft Green Paper, for Cabinet to consider on 9 January.

7. I am sending a copy of this minute to Sir Robert Armstrong.

A handwritten signature in blue ink, appearing to read 'J. M. Wright'.

(Approved by the Lord President
and signed in his absence)

Privy Council Office
23 December 1985



COLOMBIA



Prime Minister 1

Agree to write as proposed?

DLW

W/12

PRIME MINISTER

20 December 1985

RATE REFORM: KEITH JOSEPH'S LETTER

Yes not

Keith Joseph has a valid point. The safety-net arrangements which protect Northern domestic ratepayers from losses do also mean that low-spending Southern authorities will go on having high domestic taxes; and this will become more and more obvious as the highly visible residence charge takes over from the opaque domestic rating system.

But if you now go back on earlier decisions and phase out the safety-net arrangements, you will have:

- i. big Northern losses again;
- ii. another month's delay (at least) because the whole Green Paper is drafted on the assumption that there will be no geographical shifts in local domestic tax burdens.

We recommend that you should let the Green Paper go forward on the present basis, but ask officials to illustrate the effects of phasing out the geographical safety-net, so that the scheme could be amended in the White Paper if reactions to the Green Paper show that a gradual end to South-North subsidies would be politically feasible.

Oliver Letwin

OLIVER LETWIN

CONFIDENTIAL
& CMO

CE BQ



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

The Rt Hon Kenneth Baker MP
Secretary of State for the Environment
2 Marsham Street
LONDON SW1

20 December 1985

Dear Mr. Baker,

NBPM

I have seen Keith Joseph's letter of 17 December to you, in which he draws out some of the very difficult long-term consequences of using a safety net grant to freeze the present pattern of domestic ratepayer contributions after the substitution of the community charge for rates.

I think he is absolutely right. Once rateable values have ceased to be used for the calculation of local domestic contributions, there is no logical justification for perpetuating the regional pattern of contributions that they create. More importantly, freezing the current pattern of contributions must go a long way towards defeating our main purpose of clarifying the link between the local taxes people pay and the spending decisions taken by the local authorities they elect. And a related purpose behind the E(LF) exercise was, as I understood it, to reduce - even if only gradually - the incomprehensibility of the current system. Much of the complexity that makes the system incomprehensible to all but the most expert arises out of the principle of equalisation of resources. Once we have let that principle back in, we say goodbye to a reasonably simple system.

E(LF) on 12 December concluded that some special arrangements would be needed to protect London electors from suffering long-term from the effects of London's high rateable values. I agree with that, though as Keith Joseph says, this is far from being a London-only problem. However, such special arrangements are fundamentally incompatible with the principle of neutrality between the systems that has led to the safety net. I think we must accept that it is that principle, rather than special (and doubtless yet more complex) arrangements, that needs re-examination.

We have agreed upon a gradual transition - now over 10 years - from rates to community charge, in order to ease in the redistributive effects of the new system as between classes of taxable unit within authorities. The original proposals suggested freezing rates in cash terms (after the introduction of a £50 community charge) and letting them wither away very gradually as a result of inflation. We rejected that as too slow.

CONFIDENTIAL
& CMO

The current proposal for the safety net arrangements, as described in Chapter 5 of the Green Paper (version of 2 December) is similarly to freeze the safety net adjustments in cash terms, and review the system after 'sufficient time has elapsed'. It seems to me that this will perpetuate the inequalities for far too long, and we should apply a similar treatment to the inter-authority redistributive effects as to the intra-authority ones.

Thus we could amend the rate of removal of the adjustments from the rate of inflation by some ad hoc percentage or monetary annual step, aimed at reaching 100% perhaps at the same time that 100% community charge was reached in all authorities. The aim would be progressively to reduce the size of the redistribution pool so that all stages of the community charge would be the same for all authorities providing the same standard of service. It would be important to make the first step in the first year, to show that immediate efforts were being made to move away from both rates and rateable values together.

We could of course stop before reaching 100%, and retain in perpetuity a basic redistribution pool through which the very highest resource authorities subsidise the lowest, rather like the London Resource Equalisation system. Better, in my view, (since any retention of rateable value-based calculations seems anomalous) might be an enhancement to the needs grant to protect the lowest resource authorities, perhaps at the expense of the standard grant. Rateable value-based resources do, after all, reflect to some degree the needs of different authorities, as property values are influenced in part by the factors which we recognise as needs.

The combined effort of the transition to the community charge and to the per-capita based domestic tax income will of course affect certain classes of tax unit in certain areas very hard. It may be that a transitional period longer than 10 years will be needed. A useful first step, however, would be for your officials to produce figures showing the combined effect in the first few years of such a double transition, for discussion at E(LF). It may be that they would be politically more tolerable than the final-outcome figures which E(LF) considered, and rejected, in October.

I am copying this letter to the Prime Minister, other members of E(LF), and to Sir Robert Armstrong.

Yours Sincerely

J. Cunliffe

PP NICHOLAS RIDLEY

*Approved by the Secretary
of State and signed in
his absence!*

LOCAL GOVT: Rating revaluation: Pt 3





SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

CONFIDENTIAL

The Rt Hon Norman Fowler MP
Secretary of State for Social Services
Alexander Fleming House
Elephant and Castle
LONDON
SE1 6BY

NBF
18 December 1985

Dear Norman,

LOCAL GOVERNMENT FINANCE AND SOCIAL SECURITY

1. I have read with interest the suggestion contained in your minute of 10 December to the Prime Minister, copied to E(LF) members. I can see how this radical proposal would certainly, if it could be implemented, act to bring home to local authorities the consequences of their spending.

2. I have however serious misgivings about whether it will in fact be possible to devise a scheme acceptable to Parliament which would give citizens in need of income support a flat-rate component in whatever benefit they qualify for, while leaving them to face a community charge which might well vary over quite a wide range. I know from Scottish estimates, that, given present spending and grant patterns, the level of a full local community charge in each local authority area will vary within the range from £140 to £240. If, for example, you were to allow income support sufficient for a poorer citizen in Scotland to cope with the average community charge of £200, the citizen faced with a local tax bill of only £140 would have quite a significant windfall and the person from whom £240 was demanded could be in real difficulty. The effect might be regarded, even by our supporters, as pushing the logic of improved accountability a little far, and creating turbulence beyond what would be productive.

3. I think it also very unfortunate that this kind of disturbance would happen at the time of our local government finance reform, and would be widely seen as part of that reform rather than as part of your package.

4. While I can see that our officials might carry through some further analysis of your proposals, I am bound to say that I view with great concern the possibility of any delay, however slight, in the timetable for the Local Government Finance Review Green Paper. I would be very unhappy about anything which held up the drafting.

5. I am copying this letter to the Prime Minister and to members of E(LF).

*Yours
George*



CMO

CCB

Copy 1 of 17

DEPARTMENT OF EDUCATION AND SCIENCE
ELIZABETH HOUSE YORK ROAD LONDON SE1 7PH
TELEPHONE 01-934 9000

FROM THE SECRETARY OF STATE

The Rt Hon Kenneth Baker MP
Secretary of State for the Environment
2 Marsham Street
London S W 1

17 December 1985

Dear Kenneth,

GREEN PAPER ON LOCAL GOVERNMENT FINANCE

, attached

1. At last Thursday's meeting of E(LF) I said that I would explain further in writing my worries about the effects of the "safety net grant" which we have agreed, and the difficulties which this will cause us in presenting our policies.

2. The effect of the "safety net grant" is to freeze the present pattern of contributions by local taxpayers in each authority. That pattern owes something to authorities' spending record, but more to rateable values. As the draft Green Paper itself explains, rateable values vary enormously and this has meant that ratepayers in the South subsidise those in the North. But in fact the problem is not simply one of North versus South: there is also a substantial variation in other regions, as shown in the table below.

	Domestic rateable value per head: average for region £
Greater London	114
Other South East	86
West Midlands	75
East Anglia	71
Northern	55
Yorkshire and Humberside	52

There is no corresponding variation in average incomes, which indeed vary very little by region outside the South East.

3. The table which you annexed to E(LF)(85)21 showed the final level which the community charge would reach in each authority using the "safety net grant". It can readily be shown that most authorities in the North of England come in the first part of that table, with community charges of under £200, while

Continued...

CMO

CONFIDENTIAL

CONFIDENTIAL

CMO

most in the South come in the second half, with community charges of more than £200. What particularly worries me is that there is hardly any direct relationship between high or low spending and the level of the community charge. There are some exceptions, where spending is unusually high and rateable values also moderately high. Newcastle at £299 and Manchester £292 were quoted as examples. But the typical pattern is on the lines shown below:

High Spenders: Low Community Charge

	Spend compared with GRE per head £	Community Charge £
Burnley	+30	105
Wear Valley	+43	125
Barnsley	+62	137
Sedgefield	+58	154
Wansbeck	+59	158
Doncaster	+66	166
South Tyneside	+67	169
Gateshead	+70	166
Liverpool	+71	193
Rochdale	+75	192
Middlesbrough	+87	201
Sheffield	+111	208

Low Spenders: High Community Charge

	Spend compared with GRE per head £	Community Charge £
Wycombe	-28	243
Windsor & Maidenhead	-27	243
Woking	-12	255
Waverley	-4	263
Surrey Heath	-6	270
Epsom & Ewell	0	285
Chiltern	-22	304
South Bucks	-22	309

4. At E(LF) it was suggested that special arrangements might be needed for London. But the problem extends well beyond London not only to the South East but also to other parts of the country. I compare below for example two low spenders in the West Midlands with two much higher spenders in Lancashire and Yorkshire:

	Spend compared with GRE per head £	Community Charge £
Solihull	-29	220
Dudley	-35	169
Barnsley	+62	137
Burnley	+30	105

5. These figures of course reflect what is happening at present. But under the present system the point is largely obscured by the concept of rate poundages. Opposition spokesmen have tried to make something of the fact that rate bills are higher

CONFIDENTIAL

CMO

Continued

CONFIDENTIAL

CMO

in low-spending Conservative authorities than in high-spending Labour authorities, but the arcane nature of the present system has prevented this allegation from getting much attention. However, the community charge would be entirely transparent. The charge in one authority could be compared directly with that in another. Lists of community charges could and would be published in the way that lists of rate poundages are now. And it would be evident that those with a high standard of local authority service were on the whole getting it more cheaply than those with a lower standard of service.

6. A further important point is that domestic rate bills are linked - more or less - to the value of property. So some defence of them can be mounted on the lines that those with the most valuable property pay most. That applies both between and within areas. But the community charge would not be linked to value of property, or to income (except for those who might get rebates). So we would be asking those people in South Bucks on average incomes to pay almost three times as much as those with the same income in Burnley, and for a lower standard of service. How could we defend that?

7. I think that this analysis does raise some issues that it would be worth looking at further in the meeting now arranged under the Lord President's chairmanship on 19 December. In particular:

(i) we ought perhaps to think again about the presentation of the safety-net grant. Certainly a long period of transition will be needed to reach a situation where everyone pays an equal community charge for equal service. But if we go for a total freeze on the present pattern of contributions, commentators will be quick to draw out the results which I have illustrated above. Would it not be better to promise that the process of change will be gradual, and that unacceptable increases will not be imposed on people who have taken on commitments under the present pattern of contributions? That need not mean that there will be no change between local authority areas: after all, local authorities themselves impose rate increases from year to year under the present system.

(ii) since we shall in any case have a long period of transition, the presentation in Chapters 1, 4 and 5 of the Green Paper might be less enthusiastic in damning the present system and praising the new system which lies at the end of the transition period. We need to be particularly careful in explaining the present subsidy from South to North if we intend that it should persist over a long period.

8. A second problem of freezing income from non-domestic rates and Government grant is that it will enable those local

CONFIDENTIAL

CMO

Continued.....

CONFIDENTIAL

- 4 -

CMO

authorities which have built their high spending on non-domestic rate income to continue as before. The prime example is the ILEA. The ILEA spends far too much, and could in time spend a great deal less, but if it is guaranteed the continuation of its present income from non-domestic rates it will be difficult to bring sufficient pressure to bear on the authority to reduce its spending substantially. A transitional scheme which drew down the income year by year could be very effective.

9. I am copying this letter to the Prime Minister, other members of E(LF) and to Sir Robert Armstrong.

Evans

Keir



CMO

CONFIDENTIAL



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

NBP1.

17 December 1985

Jim Munro,

LOCAL GOVERNMENT FINANCE: REBATE SCHEME

I thought it might be helpful if I set out my initial reactions to the proposal put forward in your letter to the Prime Minister of 10 December. As you know, I have considerable sympathy with your objective, but I have serious doubts about its political acceptability and its practicability.

Most difficulties seem likely to arise from the wide variations in the community charge which will occur after the first year of its introduction. We envisage that the initial level of £50 per adult will be increased by £20 a year transferred from residual rate bills. That will be in addition to increases due to increases in local authority expenditure. Once we have achieved a 100% community charge in all areas, the range of charges will be little smaller than the range of average rate bills now - that is from £80 to £390 per adult, compared with an average of £160.

This means that even if you were able to increase income support and assisted benefits by 80% of the average charge, a couple on income support in Camden would have to find another £10 a week. On the other hand, a couple in the lowest spending area would gain £1.84 a week. This would not be an efficient or well-targetted use of resources. A single pensioner on income support in a high spending, high rateable value area would have to pay 18% of his or her net income in local tax, compared to 3% if we operate the adapted Housing Benefit scheme as set out in your White Paper - and every 18-24 year old on income support in the same area would pay 30%.

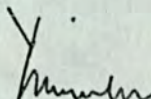
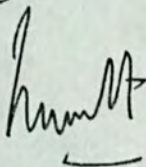
My other main concern is that under your revised proposals, all those receiving Housing Benefit just for their rates but who are not getting income support, would not be entitled to any help at all if there are no rebates of the community charge. They would include some 1.75 million pensioner owner-occupiers - who would be made worse off each year as their rate bill went down and the community charge went up.

Finally, my officials have estimated that increasing income support rates by 80% of the average charge could add 500,000 people to the income support caseload. This is, of course, less than the 1 million or so who would become entitled to Housing Benefit if we adapt that scheme once the community charge is implemented. But I believe that rate rebates are a more publicly acceptable form of means-tested benefit than supplementary benefit. If we adopted your proposal we would also narrow the gap between incomes in and out of work for people without children - a subject of considerable concern to us all.

I am of course very willing to look at any proposals you have for restricting the increase in Housing Benefit cost and caseload which arises from the widening of the local tax base. In my view any workable option must take account of the variation in community charge levels, and I was glad that you seemed to accept this at E(LF).

Your letter also commented on the difficulty of asking local authorities to collect amounts as small as 20p a week in the early years of the community charge - which is what a non-householder on income support would be liable to pay if we adopt an unamended rebate system. I take this point - but I also think there might be better ways of dealing with it than the abolition of all rebates. For the purposes of exemplifying my proposals I have assumed as few changes as possible to the Housing Benefit scheme but I am conscious that other details of the scheme - like the non-dependent deductions - might need to be reconsidered before implementation of the community charge.

I am copying this to the members of E(LF) and to Sir Robert Armstrong.

KENNETH BAKER

(LOCAL GOVT. PT.)

RATING RENOVATION





CS

DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE YORK ROAD LONDON SE1 7PH

TELEPHONE 01-934 9000

FROM THE SECRETARY OF STATE

17 December 1985

Kenneth Baker

GREEN PAPER ON LOCAL GOVERNMENT FINANCE

At last Thursday's meeting of E(LF) it was agreed that the Green Paper should be more positive in canvassing the possibility of making greater use of specific grants to fund education. You will no doubt already be incorporating into a revised text the new general criteria for specific grant recently circulated and endorsed by the Chancellor. Beyond that I suggest that this point might most appropriately be achieved by extending the first sentence of paragraph 4.61 as follows:

"There will remain a role for certain specific grants with, in the Government's view, a particularly strong case for some extension of powers in the education field in support of the Government's objective of raising standards at all levels of ability."

I hope that you will be able to accept this modest proposal.

At the meeting I also said that I would write to you about two issues which were of Departmental concern to me. The first concerns the rating of properties owned by local authorities. I suggest that the Green Paper should canvass the option of dropping the rating of such properties. My particular Departmental interest in this is that there are problems with the rating of maintained schools, which are at present rated under a formula whereby improvements to the school, removal of temporary classrooms and specification of a lower capacity for the school can all have the bizarre effect of producing a substantial increase in rates paid. Those problems could no doubt be solved

/by a change

The Rt Hon Kenneth Baker MP
Secretary of State for the Environment
2 Marsham Street
LONDON SW1

CONFIDENTIAL

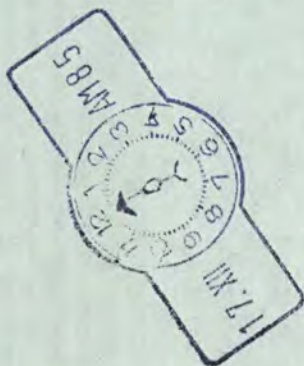
by a change of formula. But more generally the payment of rates on local authority properties is a circular process which shifts money within and between local authorities to no obvious end. It causes administrative expense both for authorities and for the Valuation Office. Under our proposals for setting a standard rate and "pooling" the proceeds, it could not be argued that the dropping of rates on local authority properties would be disadvantageous to a particular area of the country or to a particular class of local authority. A discussion of this issue, with a tentative proposal to drop the rating of local authority properties, would fit in well after the discussion in Chapter 2 of the future of contributions in lieu of rates on Government property.

The second issue concerns the coverage of the "community charge". The draft Green Paper suggests that it should be paid by those aged over 18, but with an exemption for those in full-time non-advanced education up to the age of 19. I do not believe that this exemption goes far enough. It is no longer the case that everyone completes non-advanced education straight from school. There is an increasing tendency to return to it after some years; and my Department believes that there may be as many as 60,000 people over the age of 19 in full-time non-advanced education. It would be most unfortunate to create a disincentive to their participation in full-time education. Those in full-time education have no entitlement to social security benefits (other than housing benefit) and many would find it very difficult to meet a community charge, even if it were rebated to some extent.

As regards higher education, many students are in receipt of awards which could be adapted to cope with the community charge. But the practicability of this will depend on the arrangements for rebates. If housing benefit should be the vehicle, there is the awkwardness that we have just agreed to and will shortly announce the removal of the entitlement to housing benefit of students in halls of residence from 1987: we would have to restore this entitlement, which would look very clumsy. Moreover, there are perhaps 30,000 people in higher education not in receipt of any award.

What I suggest is that the Green Paper should canvass as one option an exemption from community charge for all those in full-time education. This could be presented alongside your proposal that everyone aged over 19 should pay the charge. After the Green Paper is published our officials could then examine further the merits of the two options.

I am copying this letter to members of E(LF) and to Sir Robert Armstrong.



John. Kan

CONFIDENTIAL

RATE REFORM

E(LF) is going remarkably well. It looks as though you will get agreement to the whole package of rate reform.

The next stage is Cabinet on 9 January. This may require special preparation, since some Ministers coming fresh to the subject may be unconvinced, and may sway some of the less committed members of E(LF).

Although it is not possible to predict exactly, our guess is that the line-up will look something like this:

Pro-Reform

Lord Whitelaw
George Younger
Nicholas Edwards
Nicholas Ridley
Kenneth Baker

Probably pro-Reform

Leon Brittan (recently converted)
Keith Joseph
Norman Tebbit

Probably Wavering

Geoffrey Howe
Peter Walker
John Biffen
Norman Fowler
Tom King
Michael Jopling
Lord Young
Kenneth Clarke
John MacGregor
John Wakeham

Probably against Reform

Lord Hailsham
Nigel Lawson
Douglas Hurd
Michael Heseltine

Much of the success of E(LF) is due to the amount of time that Ken Baker and William Waldegrave have devoted to the

business of explaining their proposals in person to colleagues; the same tactics should help considerably to ease the passage of the Green Paper through Cabinet.

We suggest that you should take opportunities between now and 9 January to see some of these Ministers individually, to stress the importance and merits of the proposals. This applies particularly to the Chancellor, who has not been able to attend recent E(LF) meetings. Douglas Hurd and Lord Hailsham may also need to be convinced, since their worries about the register are likely to cause the waverers to lose heart.

As well as seeing people before the meeting, you may wish to ensure that those who speak early in the Cabinet discussion are sympathetic to the proposal, since the mood set by the first few remarks will obviously be important.

Oliver Letwin

OLIVER LETWIN



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

11 December 1985

Dr George *NBP*

LOCAL GOVERNMENT FINANCE: DRAFT GREEN PAPER

My officials will be writing to yours with some detailed comments on the draft Scottish chapter circulated under cover of E(LF)(85)20. There are however two points of substance on which I would like to comment before we meet on Thursday.

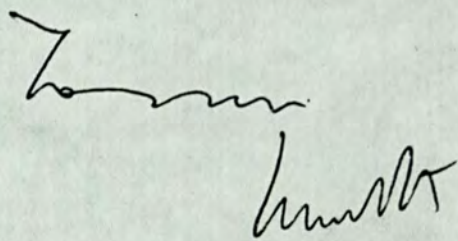
My particular difficulties are on the section on non-domestic rates. You propose a uniform British non-domestic poundage, redistributed as a standard level of grant across the country. I see two problems in particular with this proposition:

- first, there are, as you will appreciate, considerable difficulties in attempting to make useful comparisons of the relative burdens on non-domestic ratepayers in England and Scotland. This is because of the differences in the date of the valuation base and differences in valuation practice and procedures between the two countries;
- second, we have already taken extensive steps in the package now proposed in the Green Paper to minimise turbulence for domestic and non-domestic ratepayers in England. I am concerned that your proposal could undo much of what we have achieved; and for the record I have to say I would not be prepared to endorse any increase either in the overall burden faced by non-domestic ratepayers in England or in the burden faced by domestic taxpayers which could change the balance of gains and losses. As your Chapter makes clear Scottish domestic ratepayers are already getting a favourable deal from the present arrangements relative to ratepayers in England.

I am also concerned about your proposal to take account of turnover in non-domestic rateable values. Apart from the many practical problems in assessing and apportioning turnover by non-domestic property, turnover is not in any sense a guide to capacity to pay. I would hope you would be prepared to reconsider this proposition. If you really want to float the idea for Scotland alone, I would not stand in your way - the differences in valuation procedures mean that even with a

common valuation date, rateable values would not be comparable each side of the Border. But I must ask you to do so in a way which does not imply we will or should make a similar change in England, and which brings out the problems of such a scheme as well as the advantages you perceive.

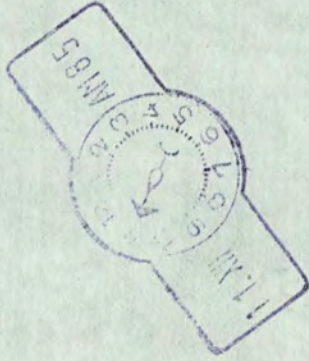
I am copying this letter to the Prime Minister, other members of E(LF) and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to read 'Kenneth Baker', written in a cursive style.

KENNETH BAKER

The Rt Hon George Younger TD MP

Local Govt Finance



CLBUP



CONFIDENTIAL

P 01829

PRIME MINISTER

Green Paper on Local Government Finance

E(LF)(85)20, 21, 23, 24

BACKGROUND

1. The last meeting of the Committee, on 12 November, completed the main consideration of the local government finance reform package. The agreed elements are:

(i) non-domestic rates to be set nationally, with the yield pooled and distributed per capita;

(ii) a new, simpler grant system, but with a transitional safety net grant to prevent re-distribution between local authorities at the outset;

(iii) the introduction of a community charge, which, over a suitable transitional period (10-12 years at most in England and Wales; sooner in Scotland), should increasingly replace domestic rates.

The Secretary of State for the Environment was invited to produce a draft Green Paper for the Committee to consider. The aim is to publish the Green Paper in January, before the Second Reading of the Social Security Bill.

Flag A - 2. Attached to E(LF)(85)20 are the main parts of the Green Paper. The chapter dealing with Wales has been circulated separately as

Flag B. - E(LF)(85)23. (A number of the more minor chapters and annexes are not yet ready, but will be circulated for clearance in correspondence before Christmas.)

CONFIDENTIAL

- Flag C - 3. The Environment Secretary's paper E(LF)(85)21 draws attention to a number of specific points the Committee will need to address - in particular the speed of the progression from rates to the community charge. His paper E(LF)(85)24 contains an analysis of gainers and losers by households and tax units. The Social Services Secretary raises in his minute of 10 December the interaction with the Housing Benefit scheme.

- Flag E - 4. The Secretary of State has also circulated under cover of E(LF)(85)22 a draft chapter on the control of capital spending. There has been good progress in agreeing this among the Ministers concerned (particularly with the Chief Whip, on the proposals for dealing with accumulated capital receipts). The remaining issues will be resolved at a meeting chaired by the Lord President on next week. This paper is therefore not on the agenda for tomorrow's meeting.

MAIN ISSUES

5. The draft is long, and you will not want to work through it in detail. Ministers can send comments in writing. I suggest, therefore that you invite the Committee to consider the general style and presentation of the document, and to focus on two key points:

- (i) the speed of transition from rates to community charge, and the extent to which this can differ in Scotland and England (paragraphs 3.41 to 3.46 of the draft);
- (ii) the impact of the community charge proposal on the Housing Benefit (HB) scheme.

Style and Presentation

6. The draft sets the proposals at some length in a historical context, and argues the principles underlying the reform in detail. As such, it looks like a document drafted for civil servants, academics, and local authority treasurers. But given the complexity and importance of the subject, I think it is right that,



CONFIDENTIAL

like the Social Security Reform consultation document, the Green Paper should provide a thorough and serious intellectual justification for the reforms. However, it will also be necessary to ensure that the proposals get across more widely. The foreword, which has not yet been drafted, can no doubt be shorter, more punchy, and more 'political' in its message. And no doubt Mr Baker will be ensuring that the presentation of the Green Paper to Parliament and to the press is positive and effective. Perhaps a "pop" summary should be produced for wider public consumption.

7. The present text still needs a fair amount of drafting work on it. In particular, the English, Scottish, and Welsh chapters have been drafted independently, and need to be made consistent in substance (see below) and in length and style. An overall editor should be appointed.

The Transition from Rates to Community Charge

8. At the last meeting, the Welsh Secretary suggested transitional arrangements for introducing the community charge. The charge would be fixed initially at a modest level - £50 - with rates being reduced by a corresponding amount (£100 on average). Rates would then be frozen so all future increases in spending would fall on the community charge. The amount of revenue raised through rates would diminish in real terms, until the point was reached at which they could be eliminated. The Committee had in mind a maximum transition period of 10-12 years in England and Wales, and faster in Scotland.

9. The Environment Secretary's transition proposals are set out in paragraphs 3.41 to 3.46 of the draft. This opens with the



CONFIDENTIAL

statement that it is for consideration whether rates are to be replaced entirely. The corresponding paragraph in the Scottish chapter (S.12) says

"it is therefore urgently necessary to move rapidly towards the total abolition of domestic rates."

The Committee will need to decide whether this question should be left quite so open to consultation (which is Mr Baker's preference). The clear view of the Committee at their last meeting was that, although the door should not finally be closed, there should be a strong presumption that domestic rates would be eliminated after an appropriate transitional period.

10. The draft goes on in paragraphs 3.43-3.46 to set out various options for the speed of any transition. It is clear that if rates are simply frozen, they will continue to provide a substantial proportion of local Government finance for many years. So in order to eliminate rates in 10-12 years, it will be necessary to increase annually the proportion of revenue raised through the community charge. With a shift of £20 a year onto the community charge, it would still take 21 years to eliminate rates in all authorities, although the vast majority (96.4 per cent) would be eliminated after 10 years (the really hard core comprises mainly the London boroughs, as is shown in the Tables in Annex A to E(LF)(85)21). Unless the initial £50 were increased, the best way of achieving a faster transition would probably be at some point, to make a final switch. This could clearly be painful in some areas, but it would presumably be managed as a specifically London directed measure.

11. The Scottish chapter says (S.12) that the transitional period must not exceed three years. This reflects the political view taken by the Committee in their last meeting, in face of the arguments by Mr Younger. But I think the Committee should just pause to reflect on this further. First, so far no exemplifications have been produced



CONFIDENTIAL

for Scotland. The figures attached to E(LF)(85)24 now show that 14 per cent of Scottish tax units will lose between £100 and £250 if there were a 100 per cent community charge in the first year. This is broadly the same figure as for England (15 per cent) and does not of itself square with a substantial difference in the length of the transitional period proposed. Second, the Committee will wish to be satisfied again, now that the proposals have been set out in the draft Green Paper, that such a large difference in the proposed treatment for England and Wales and for Scotland can presentationally and practically be justified.

Effect on the Housing Benefit Scheme

12. The Social Services Secretary has pointed out that introducing the community charge will bring a substantial number of new people into the Housing Benefit scheme. The caseload will increase substantially - perhaps by 1 million cases. Furthermore, local authorities will be left to collect the 20 per cent contribution from these people, and at the outset it will be only £10 per year. He therefore floats a new alternative approach. Under this all adults would be responsible for paying the whole of their community charge, with national income support and family credit rates being increased to assist low income households with more than one adult. No interdepartmental consideration has yet been given to this last minute proposal. On the face of it, the main drawback is that after a few years the community charge will be very different in different local authority areas, not because expenditure levels vary but because the existing variation in rateable values will be locked into the new system by the safety net grant. As the annex to E(LF)(85)21 shows, the community charge is likely to be about £100 in Barrow in Furness compared with about £290 in Wandsworth and £945 in Kensington and Chelsea. A pensioner living in Westminster would therefore lose very substantially from any proposal along the Social Services Secretary's lines.



CONFIDENTIAL

13. This issue will need fuller consideration in due course. We need to know its precise financial (PSBR and public expenditure) as well as distributional implications. But in the meantime, the Committee might consider it sufficient merely to use in the Green Paper similar language to that in the Social Security White Paper, ie that the principle of assistance for those on low incomes will continue, as well as the new principle that everyone should pay at least a proportion of their local domestic tax themselves. It would probably be tactically wise, also, to accept in the Green Paper that there are transitional problems in achieving that result with a community charge, but to express confidence that they can be overcome. Mr Fowler suggests that the Cabinet Office should arrange for officials to study the problem further. We could do so; but I see no need for that, at least in the first instance. DHSS and DoE, in consultation with the Treasury, should be asked to get on with it urgently.

Other Issues

14. There are a number of more minor issues which will also need to be considered.

15. First, the Scottish section says (paragraph S.15) that the Government are prepared to consider bringing forward the necessary Scottish legislation in the 1986-87 parliamentary session. Two issues arise: does the Committee endorse its earlier provisional view that it would be acceptable to legislate for Scotland sooner than England and Wales, and is it prepared to see a commitment of this kind, especially as QL has not yet considered the legislative programme for the next session. Secondly, is it technically possible to legislate on this timetable: the Environment Secretary earlier had grave doubts, and the Committee will need to have the Scottish Secretary's assurance that his Department can work to this timetable.



CONFIDENTIAL

16. If Scotland does legislate earlier, it will be necessary to introduce interim arrangements for non-domestic rating until the national poundage arrangement is established in England and Wales in 1990. The Secretary of State is proposing to cap existing rate levels. There may be pressure to do the same in England and Wales as an interim measure. The Environment Secretary will, however, resist this on the grounds that it would place an intolerable burden on domestic rate payers in advance of the other reforms.

17. There is a further problem concerning the industrial rate in Scotland. The adoption of a standard Great Britain poundage would result in a reduced revenue from industry and commerce in Scotland, since average local poundages there are higher than in England and Wales. This shortfall, which might amount to £500 million, would have to be found either from Scottish domestic rate payers, from the exchequer, or from a transfer from England and Wales. This issue has only recently been identified. A Note is being prepared, and if the issue is raised in discussion, it might be appropriate to defer this to the meeting to be held next week under the Lord President's chairmanship.

HANDLING

18. You will wish to invite the Secretary of State for the Environment to introduce the draft. You may then wish to invite any other Minister to give a brief initial reaction to the style and presentation of the document. You will wish then to consider specifically the rate of transition to a community charge and the Scottish question, on which the Environment and Scottish Secretaries will wish to lead. The Social Services Secretary will wish to speak to his minute about the interaction with the Housing Benefit proposals.



CONFIDENTIAL

Next Steps

19. Subject to the discussion, you will wish to ask the Lord President to settle the proposals on capital expenditure and any other outstanding issues. You may also wish to ask the Social Services Secretary to arrange for DHSS, DoE and Treasury officials to examine the relationship with the Housing Benefit scheme, though it seems most unlikely that this could be taken substantially further before the text of the Green Paper is finalised. The Environment Secretary will then need to produce quickly a final version, for clearance in correspondence with the Ministers most closely involved. The final text will then need to go to Cabinet on 9 January, with a view to publication about 27 January.

CONCLUSIONS

20. You will wish to reach decisions on:

(i) whether the style and presentation of the draft document is broadly acceptable;

(ii) whether the Green Paper should leave open the possibility of rates continuing indefinitely in some form;

(iii) the appropriate speed for the transition from rates to the community charge, and how this should be presented, particularly in relation to the difference between England and Wales and Scotland;

(iv) what the Green Paper should say on the relation with Housing Benefit, and whether to consider further the Social Services Secretary's suggestion;



CONFIDENTIAL

✓ (v) whether the intention to legislate in 1986/87 for
Scotland should be canvassed.

J B UNWIN

Cabinet Office

11 December 1985



cc B G F
 (see bill for E(LF)
 or Treasury).

PRIME MINISTER

LOCAL GOVERNMENT FINANCE

My Social Security White Paper, to be published next week, reaffirms the principle that everyone should make a 20 per cent contribution to their rates. I have been considering how this will interact with the latest proposals for reforming domestic rates set out in Ken Baker's draft Green Paper.

Chapter 3 of that paper proposes that the reformed housing benefit scheme should be adapted to apply to the new community charge. It also states that the principle of a minimum contribution to that charge by everyone liable for it should remain. What these proposals mean in practice is that the housing benefit scheme will be greatly extended - to cover about one million extra claimants. Also local authorities will have to collect very small sums initially (as little as 20p a week) from many of those getting rebates. This will entail a disproportionate administrative cost and strong protests from local authorities who are already concerned about the increased administrative cost of everyone paying something towards their rates.

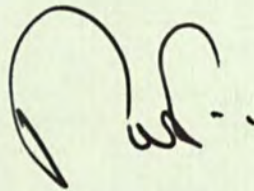
This is a highly undesirable consequence which we must try to avoid. I believe there may be a way of doing so which would eventually enable us to abolish rates rebates altogether. This could be achieved by making everyone responsible for paying the community charge without any rebate. If, as suggested, the charge were set initially at a flat-rate £50, that would be equivalent to 20 per cent of the average rates bill for a single adult on supplementary benefit. Local authorities would have to collect this from all social security recipients but it would be a sum worth collecting. A flat rate addition could be made to income support and family credit to assist low income households with more than one adult and this could be reviewed as the community charge was increased to replace more of the property charge.

E.R.

Prima Facie, this approach has some very considerable attractions. First, it would actually strengthen the accountability of local authorities, because not only would everyone have to pay the whole community charge, but also social security beneficiaries would have to pay the full extent of any increase in that charge above the average. That should act as a very effective brake on the readiness of high spending authorities to make above-average increases in their community charge. Second, instead of extending the coverage of housing benefit, it would mean that rate rebates could eventually be abolished. Housing benefit would remain as a scheme for remitting rent; but would disappear as a scheme for remitting local taxation.

I am not seeking the agreement of you or colleagues to the proposal at this stage. More work needs to be done on it and in particular we shall have to examine in more detail the effects on high spending, high rate authorities. But I believe that the proposal offers real promise. What I suggest, therefore, is that we should ask the Secretary of the Cabinet to arrange for officials to analyse the proposal in detail and report back urgently to E(LF).

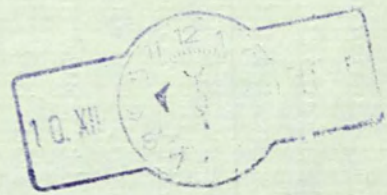
I am copying this minute to members of E(LF).



N F

10 December 1985

CONDIMENT





B1F for E(LF) ^{CF BS}

MR NORGROVE

cc Miss Macnaughton
Mr Unwin
Mr Roberts

md

1. I should tell you that, in order to keep the E(LF) agenda on Thursday to a manageable size, we have it in mind that questions about control of capital expenditure might be stood over for a separate meeting next week, which the Lord President might chair if the Prime Minister agrees. You will remember that the Lord President chaired a meeting of E(LF) on 4 November to consider this and some other separable topics. We understand that the Environment Secretary spoke to the Chief Whip this morning - as foreshadowed in his paper E(LF)(85)22 - and that no major issues are now outstanding. What is now needed, and the Treasury agree with this at official level, is a meeting to tie off some second-order points of detail and of presentation.

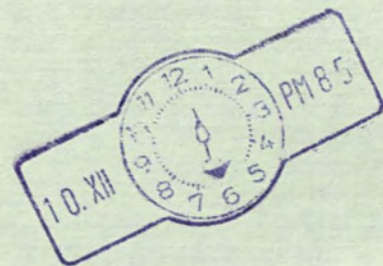
Flag E —

2. It may be that other topics arising at Thursday's meeting will be suitable to be taken at the proposed meeting next week. At present, the only one we identify is the implications of adopting, or of not adopting, a uniform level of non-domestic rates as between Scotland and England and Wales.

A.J.L.

A J LANGDON

10 December 1985



Prime Minister 2
A preliminary sight of
the paper for Thursday's
E(LF) meeting. DAS

RATE REFORM 6/12

Kenneth Baker has now produced the first draft of his Green Paper on rate reform. There is still a good deal of work to be done, but the essential elements of a workable package are in place.

MAIN POINTS TO NOTE

1. Non-domestic rates. [E(LF)(85) 20, paras 2.26 to 2.47].

The Green Paper proposes:

- a. either to cap the non-domestic rates or to make them uniform across the country;
 - b. to set an initial level of non-domestic rates that will maintain the real yield of the previous year;
 - c. to index subsequent rises, enshrining such indexation in primary legislation;
 - d. to redistribute the proceeds of the non-domestic rate between authorities;
 - e. to revalue non-domestic properties in 1990 and to instal a proper system of revaluations thereafter.
2. Community Charge. [E(LF)(85) 20, paras 3.38 to 3.52 & Annex G]

The Green Paper proposes to 'move from domestic rates to a flat rate community charge'. It makes clear that there will be a separate register and a means-tested rebate scheme adapted from the new housing benefit. And there are sensible arrangements in Annex G to cover odd cases such as owners of two homes.

But the paper leaves open:

- a. whether there should ever be a complete replacement of domestic rates by community charge [para 3.41];
- b. whether the gradual change from rates to community charge should proceed by cash increases in the community charge or freezing of domestic rates followed by instant abolition or reduction of the rating element to a permanent 30% of local revenue.

3. Grant. [E(LF)(85) 20, paras 4.29 to 4.68].

The Green Paper proposes a combination of:

- a needs grant, and
- a standard per capita grant for all authorities.

The new grants will have no connection with the spending level of any local authority. Each authority will know on 1 April what its grant for the following year will be, and every extra £ of local authority spending will be funded entirely by increases in the local community charge.

The Green Paper also promises a review of specific grants (with a strong hint that they will be reduced in scope).

4. Scotland. [E(LF)(85) 20 paras S.11 to S.28].

The only important difference between England and Scotland will be:

- a phasing out of the domestic rates in four years, reducing them to 60% of their present value in the

first year, 40% in the second, 20% in the third and 0% in the fourth.

5. Capital Expenditure. [E(LF)(85) 22, paras 6.26 to 6.40].

The Green Paper proposes a 'gross expenditure control'. This means the Government would control the total amount spent by each local authority on capital projects, however funded.

Each authority would receive:

- a. a given amount of capital spending permission due to its needs;
- b. a given amount of capital spending permission due to the capital receipts acquired over the previous three years;
- c. the opportunity to bid for a limited amount of money from a 'large projects pool'.

The Paper seems to suggest that local authorities might also be allowed to use a limited amount of current revenue, over and above their capital allocations for capital spending each year. But the drafting of this section is misleading: the proposal in effect amounts to a stipulation that each authority should cover a given minimum proportion of its capital spending out of its current revenue.

COMMENTS ON THE SUBSTANCE

In general, the Green Paper reflects decisions made in E(LF) and should be supported. But:

1. It is extremely dangerous to leave any doubt about the total phasing out of domestic rates. The figures in Annex A of Kenneth Baker's covering paper [E(LF)(85) 21] show that domestic rates could be phased out in almost all authorities by year 10 without undue disruption. It would then be possible to administer the coup de grace in the remaining 13 authorities.
2. The needs grant is still much too complicated. It would be quite impossible to explain the system proposed in paragraphs 4.32 - 4.36 at a constituency meeting.
3. The proposals for capital spending will cause a massive row. It is dangerous even to mention the possibility of preventing authorities from using some of their precious 'accumulated receipts' (ie accumulated permissions), and the idea of stipulating a minimum revenue contribution to capital is both needless and sure to cause widespread resentment.

COMMENTS ON PRESENTATION

On the whole, the document is reasonably well written. But there is a good deal of surplus verbiage and some repetition, particularly in the early chapters. It needs to be cleaned up by someone who is not so involved in the detail as the present drafters. Perhaps the DoE special advisers could help?

The chapter on capital expenditure (6) is by far the worst. It is conceptually and verbally confused, and needs to be thoroughly re-written by some new author.

Unavoidably, the document is long and complicated. It will not be read by intelligent laymen like Sam Brittan or Peter Riddell. Since the success of the policy depends crucially on persuading people like this that the proposals are sound and sensible, a good, clear summary needs to be provided in addition to the main paper. (I attach a copy of one of the Audit Commission's summaries, which is a good model.)

not attached.
Oliver will send
it in Wednesday
night.

CONCLUSION

We recommend that you should:

1. welcome the draft, which has been prepared in a remarkably short time;
2. insist that the next draft should be unequivocal about the eventual replacement of domestic rates by community charge;
3. press for a simpler needs grant;
4. ask Kenneth Baker to rethink the proposals on capital expenditure, so that the gross expenditure control is made as politically attractive as possible;
5. ask DoE to tidy up the prose, particularly in the capital expenditure chapter, and to provide a good self-standing summary for the intelligent layman.

OL

OLIVER LETWIN



cc	WFO	BHSS	COL
	HD	DTI	HWT
	DES	CDO	JM
	SO	DOT	CO
	WO	M/S, OSE	

10 DOWNING STREET

bc BG

From the Private Secretary

15 November 1985

Dear Robin,

THE LOCAL DOMESTIC TAX

The Prime Minister believes that in working up the draft of the Green Paper on rate reform for consideration by E(LF) in mid December it will be important to present the proposal made by the Secretary of State for Wales at the Committee's last meeting as a phased replacement of rates by the community charge. Nobody should be left with the impression that the proposal amounts to the addition of a new community charge to rates. The Green Paper should be drafted with this emphasis in mind from the start, so that there can be no question of it looking like an apologia for a permanent two tax system.

I am copying this letter to the Private Secretaries to members of E(LF) and to Michael Stark (Cabinet Office).

Yours ever,
David.

(David Norgrove)

Robin Young, Esq.,
Department of the Environment.

da

Prime Minister pa

This seems very sensible. Otherwise the Green Paper could look like a climb down, leading to a two tax system. Agree to write as

PRIME MINISTER

proposed?

12 November 1985

DLW
12/11
RATE REFORM

Yes - Hartley on
ml

It now looks as if E(LF) will decide in favour of the Welsh system, replacing part of the rates by a 'community charge', and letting the remainder 'wither away' as all extra spending is funded out of the new tax.

If you do go down this route, the vital thing is to ensure that the arrangement is presented as:

- 'a phased replacement of rates by community charge'

not as

- 'the addition of a new community charge to rates'.

The Green Paper should be drafted with this emphasis in mind from the start, so that there is no question of it looking like an apology for a permanent two tax system.

We recommend that David Norgrove should write to Kenneth Baker's office making this absolutely clear.

OL

OLIVER LETWIN

Prime Minister
I found the
decision chart on the



Handwritten mark

PRIME MINISTER
very last page helpful. *DLW 11/11*

E(LF)(85)5th Meeting: The Local Domestic Tax
(E(LF)(85)15, 16, 17 and 18: Letter of 30 September from the
Home Secretary to the Secretary of State for the Environment and
Reply of 2 October)

BACKGROUND

*Orders -
Sketched?*

1. The Committee have reached a number of provisional conclusions about the proposal for local government finance reform. The rationale is to increase local accountability, particularly by ensuring that the cost of marginal spending by local authorities falls on the electorate. To this end, the Committee have agreed that local authorities should lose the power to tax business and commerce directly: a non-domestic rate will be set nationally, with a pooled yield distributed to authorities on a per-capita basis. There will be a new fixed, lump sum grant to each authority, comprising a 'needs' element and a 'standard' element. There will also be a 'safety net' grant to ensure that these changes do not at the outset result in any re-distribution of resources between local authorities. Last week, under the Chairmanship of the Lord President, the Committee also reached a number of decisions on less central issues, including the system for controlling capital expenditure.

2. The main element of the package requiring further consideration is the tax which is to replace domestic rates. The original proposal was for a residents' charge payable by all adults. This would avoid the perceived unfairness of the rating system and widen the tax base from occupiers to all electors. In the second specification report Environment Ministers modified the proposal slightly in order to eliminate the extreme distributional effects, and proposed a combined charge with two elements: 70 per cent to be raised from a residents' charge and 30 per cent from a property tax.



CONFIDENTIAL

3. The Committee had a preliminary discussion of this proposal in September (E(LF)(85)2nd Meeting). Subject to further work, they accepted that the local tax might be a combination charge as suggested. The basis of the property element was not decided, although a system based on capital values was ruled out.

4. The following papers are now before the Committee:

(i) E(LF)(85)15 by the Environment Secretary sets out the distributional effects of a combined residents' and property charge;

(ii) E(LF)(85)18 by the Scottish Secretary raises a number of Scottish issues, and in particular argues against retaining any property element in the local domestic charge, and for changes in the way the commercial rateable values are set;

(iii) E(LF)(85)17 by the Welsh Secretary proposes transitional arrangements for introducing the domestic local charge;

(iv) E(LF)(85)18 by the Environment Secretary sets out proposals for the valuation basis of the property element, and on the non-domestic revaluation;

(v) An exchange of letters between the Home Secretary and Environment Secretary about the practical difficulties of enforcing a residents' charge.

5. The intention is to publish a Green Paper at the turn of the year, and before the second reading of the Social Security Bill towards the end of January. Since the timetable is tight, it is important for the Committee to reach decisions on these outstanding issues as quickly as possible so that DoE may begin drafting.

MAIN ISSUES

6. The main issues are:

- (i) should the main burden of the new domestic charge be placed on a residents' charge?
- (ii) should a property element be retained, either indefinitely on ground of principle or as a transitional arrangement?
- (iii) if a combined charge is adopted what proportion should be raised from the property element, initially and finally?
- (iv) what should be the basis for a property element.
- (v) when should non-domestic revaluation be announced?

The DoE Proposal

7. DoE proposed in the Second Specification Report (E(LF)(85)4) that the flat-rate residents' charge should raise 70 per cent and the property charge 30 per cent of domestic tax revenue in each authority. This reflects the notional split between local authority services which benefit people only and those which benefit both property and people. All adults would be required to register with and pay a residents' charge to the authority where they have their main or only residence. Ideally a separate bill would go to each adult, with the householder's bill including the property charge element. Husbands and wives would be jointly and severally liable for payment of the charge.

2nd home?

8. In order to avoid the particular problem of registering and collecting a charge from mobile groups and those resident in institutions, DoE propose a 'collective charge' based on bed space in hostels, hotels or institutions. The precise details remain to be settled.

The Principle of the Local Charge

9 There is a fundamental problem that if local accountability is to be effective the consequences of excessive spending must be painful for the electorate. Moreover, if the tax base is to be expanded, some people will have to pay who have not done so before. The local charge will therefore almost by definition have to be unpopular, at least in high spending areas. The Committee will have to assess the proposals with this in mind.

10. The DoE proposal raises issues of both practicality and principle. A requirement for all adults to register with the local authority on arrival in an area may be criticised as an encroachment on civil liberties, and considerable extra administration (costing perhaps £30 million a year) will be needed. The Home Secretary's letter of 30 September raises problems about the enforcement of a residents' charge, particularly in the inner cities. He points out the difficulty of checking whether householders declare all the individuals in their households. There will be a considerable incentive to avoid registration - particularly if the tax is painful - and experience with for example TV licences is not encouraging. In addition, there will be difficulties in enforcing payment, where the courts may be reluctant to impose penalties commensurate with the benefits of evasion. The need for effective enforcement measures carries out the risk of further alienating parts of the Community.

11. The Environment Secretary, however, believes that these problems are overstated, and in particular that the proposed 'Community Charge' will avoid the problem of registration and collection for the most difficult categories. But the Committee will wish to satisfy themselves that his confidence is well founded. It might be possible to devise practicable alternatives such as having no register but placing a duty on each householder to declare how many adults are resident with him.



CONFIDENTIAL

12. If it is accepted that a residents' charge is a practicable tax, the Committee will need to consider whether a combined property and residents charge is acceptable in political terms. Their preliminary conclusion was that it would be, particularly if presented as a single tax. But the Scottish Secretary again argues that any element of property taxation in the combined charge would be unacceptable in Scotland.

13. The property element was re-introduced to remove the more extreme distributional effects, and to counteract to some extent the perceived regressiveness of a pure residents' charge. Since then, the Committee has decided to introduce a safety net grant which removes the redistributional effects between areas, and so reduces to some extent the extreme effects of the package as a whole. The Committee may therefore wish to re-assess whether a residents' charge alone might be acceptable.

14. If the Committee confirm their earlier view and decide to retain a property element, it must be clear whether this is to be presented purely as a transitional arrangement designed to reduce turbulence, or because the Government believe that as a matter of principle part of the local tax should be based on property. The thrust of the Green Paper will be different in each case. It will also be necessary to consider whether it would be practical to have different systems operating in England and Wales and in Scotland.

The Mix of the Local Charge: distributional implications

15. If it is decided that there should be a combined charge, the Committee will need to decide the appropriate proportions. The DoE proposal is that the charge should be split 50:50 in the first year, moving to 70 residents' charge: 30 property tax after a three year transitional period. The exemplifications contained in E(LF)(85)15 demonstrate the effect of both regimes. In summary the effects of the package now are:



CONFIDENTIAL

- there is no particularly strong regional pattern, although Greater London is, as always, exceptional, with a larger number of losers of between £2 and £5 per week;

- with a 50:50 split there are almost exactly equal numbers of gainers and losers - the vast majority of people gain or lose by no more than £2 per week, and apart from 1 per cent of Londoners, nobody loses by more than £5 per week;

- with a 70:30 split, while the majority of people still see a change of less than £2 per week, slightly more people see more extreme gains or losses. 200,000 households would lose between £100 and £250 per year.

16. The majority (88 per cent) of the big losers are single adults aged 18-24: they have not so far paid rates, but would pay the residents' charge. The big gainers would be single pensioners and single adults in their own households. Two-thirds of them are either pensioners or unemployed.

17. You will remember that at the Sub-Committee meeting on 23 September you drew attention to the need to consider these local government proposals alongside the reform of social security so that the combined effects could be assessed. As the Environment Secretary points out, the general thrust of the two exercises is in opposite directions. In particular the low income gainers under the present proposals tend to be single person households, while the social security review directs help away from them. In general, therefore, the two exercises balance each other out, and the severest effect of the local government proposals is now confined to a very small number of people. But I suggest that it would be prudent to check with the Social Services Secretary that there is only a negligible possibility of vulnerable groups attracting both the most severe effects of the social security review and of the present proposals.

18. The Environment Secretary's paper also brings out the problem with housing benefit of which you are already aware. In essence, the social security reforms (through the 20 per cent provision) will streamline housing benefit and sweep large numbers of cases off the housing benefit caseload, while the local government reforms will inevitably have the reverse effect. The effect of the social security legislation on housing benefit will be felt in April 1988, and, depending on your precise decisions on timing, the present proposals will follow within the next couple of years. All this will require very careful presentation, bearing in mind that the local government finance Green Paper will need to appear in time for Second Reading of the Social Security Bill at the end of January.

19. The DoE assessment is that the proposals will have negligible effects on marginal tax rates and replacement ratios, although there will be a slight reduction in the incentives for young adults to take work.

20. The Committee will need to consider whether they can accept the pattern of gainers and losers implied by the 70:30 split which is DoEs proposal. To the extent that this position is reached only after a transitional period, the gains or losses will appear only gradually. If not, would 50:50 be acceptable as the permanent split? If not even this is acceptable, the Committee are effectively driven back to retaining rates in their existing form, although perhaps with a system of rebates and surcharges related to occupancy in order to mitigate the worst perceived unfairness.

21. The Welsh Secretary has set out (in E(LF)(85)17) proposals which would enable a residents' charge element to be phased in gradually. In summary, the residents' charge would start at, say, £50 in the first year (assuming the authority budgeted in line with the Government's expenditure plans), with an equivalent reduction in rates. The rates element would then be frozen, so that all



CONFIDENTIAL

subsequent increases in the local domestic charge (through inflation or excessive spending) will fall on the residents' charge element. The initial turbulence of such a scheme would be less, but it would be compatible with any final scheme. If the Committee is attracted by this transitional arrangement, the Environment Secretary might be asked to consider it further.

The Valuation Base for the Property Tax

22. The Committee have already decided that a system based on capital values is not acceptable. DoE had originally proposed floor space as the basis for the tax, on the grounds that it is objective and once measured does not require periodic revaluation.

23. But they have now moved away from that proposal, because it is clear that a switch from the existing system to one based on floor space would involve significant re-distribution. Moreover it is not clear that floor space is necessarily a better indicator of the amenity of a property than its rateable value. (DoE believe that similar arguments apply to cubic capacity; moreover there is no easy way of measuring the volume of irregular properties). /

24. The Environment Secretary therefore proposes that annual rental values should remain the basis for valuation. The Valuation Register is now 12 years out of date, but any general re-valuation would cause considerable upheaval. He therefore proposes that there should be no revaluation, and that 1973 should continue to be the basis in perpetuity. He does propose, however, that whenever ownership of a property changes any anomalies in rateable values through physical changes should be removed. So while changes in the housing market would have no effect, the installation of central heating or the building of an extension would result in an increase in rental value for the next owner.

*A minor point!
DoE have
confirmed
that central
heating does
not count.*

25. To the extent that the combined charge would place less weight on the rates element, it becomes less important to remove all the unfairness in the present rates system. The Committee will need to balance the continuation of some unfairness against the consequences of a general revaluation. The proposal that physical changes should only be taken into account on change of occupation, will ensure that no existing occupier has a disincentive to improve his house, while ensuring that eventually rental values reflect the actual state of the property.

Non-Domestic Revaluation

26. The Government have already announced their intention to set in train the work required for a non-domestic revaluation. Since there is no proposal to replace non-domestic rates, a revaluation cannot be postponed indefinitely. There are strong arguments that the new valuations should come into effect at the same time as the reform package. The advice from the Valuation Office is that in order to have new valuation lists available by April 1989 (which DoE regard as the earliest realistic date for implementing the rates reform) it is necessary to announce the intention to compile a new list before Christmas. If the option of implementation in 1989 is to be kept open, the Committee will therefore need to agree to the announcement being made.

27. The Scottish Secretary proposes in his paper that in order to ease the burden of rates on smaller businesses rating valuation should take some account of turnover. He has in mind particularly the problem faced by smaller businesses. This would introduce an entirely new element into rating policy, and the effect would be to penalise those businesses which can achieve a high turnover out of a given retail site. In addition there are accountancy problems that will need to be addressed: why turnover rather than profit, and how is turnover to be assessed where a business operates on more than one site? The Scottish Secretary recognises that more work would be needed to elaborate a system, but at this stage the Committee might decide whether this proposal is worth considering further.



The Green Paper

28. The Welsh Secretary has stated his preference for a separate consultation document for Wales, while the Scottish Secretary favour a single Green Paper for Great Britain. To a large extent this issue turns on the questions of substance referred to earlier. If Scotland and England are to have fundamentally different systems, with a property element retained in one but not in the other, it will be difficult, though not impossible, to present intellectually compelling arguments for different solutions in a single document. Ultimately the argument turns on presentation rather than policy, and the Committee will wish to approach it in this light. On the whole, if Scotland is to pursue a separate course, a separate Green Paper would seem preferable, particularly given the Welsh Secretary's preference for a separate one for Wales.

Next Steps

29. The intention is to publish the Green Paper before the second reading of the Social Security Bill, ie in mid-January. Since the draft will need to be considered both in E(LF) and Cabinet, drafting will have to be set in hand shortly. DoE will therefore need guidance on as many issues of principle as possible at this stage, although if further work is necessary it should be possible to convene another meeting of the Committee towards the end of November to resolve final points.

HANDLING

30. You may wish to divide the meeting into the following three main sections:

(i) issues related to the local community charge, including the principles, practicalities, distributional effects, transitional arrangements etc;

(ii) issues related to the basis for valuation of property taxes, and also the timing of the non-domestic revaluation;

(iii) timetable, presentaion and next steps.

In steering the Committee through (i) and (ii) I thought that you might find the chart annexed helpful. This shows (in summary form) the key issues for decision and the logical relationship between them. The Committee will need to work through the issues in the order shown.

31. You will wish to ask the Secretary of State for the Environment to introduce his latest proposals for the community charge and the Scottish Secretary to explain his arguments for a tax based entirely on the residents' charge. The Secretary of State for Wales will wish to explain his proposals for a transitional arrangement, which would be compatible both with the Environment Secretary and the Scottish Secretary's proposals. The Home Secretary will wish to discuss enforcement issues. All other Ministers will have views, particularly the Chief Secretary on the distributional effects, the Social Services Secretary on the relationship with his review, and the Employment Secretary on the effect on incentives to work.

32. On the basis for the property element, and the timing of the non-domestic revaluation, you will wish to ask the Environment Secretary to introduce his proposals. The Chief Secretary will wish to comment.

33. The Environment Secretary will wish to speak to the issues of timetable, presentation, and next steps.

CONCLUSIONS

34 You will wish to reach the following decisions:

The local domestic charge

(i) to confirm that a residents' charge is acceptable in principle and in practice;



CONFIDENTIAL

(ii) on whether the community charge should comprise both a property and person based element;

(iii) on whether in Scotland the local tax can be the residents' charge alone;

(iv) on whether the inclusion of a property element is to be presented as a transitional arrangement or as justified in principle and therefore as a permanent element;

(v) the appropriate proportions between the property and person based element, both initially and finally;

The property element

(vi) on whether the property element should be based on annual rental values as now;

(vii) on whether 1973 valuations should continue as the basis for the tax;

(viii) on whether revaluations to take account of physical changes should be carried out on change of ownership;

Non-domestic revaluation

(ix) on whether the intention to start the non-domestic revaluation should be announced before Christmas;

(x) on whether further consideration should be given to including turnover in the basis for commercial valuations;



CONFIDENTIAL

Presentation

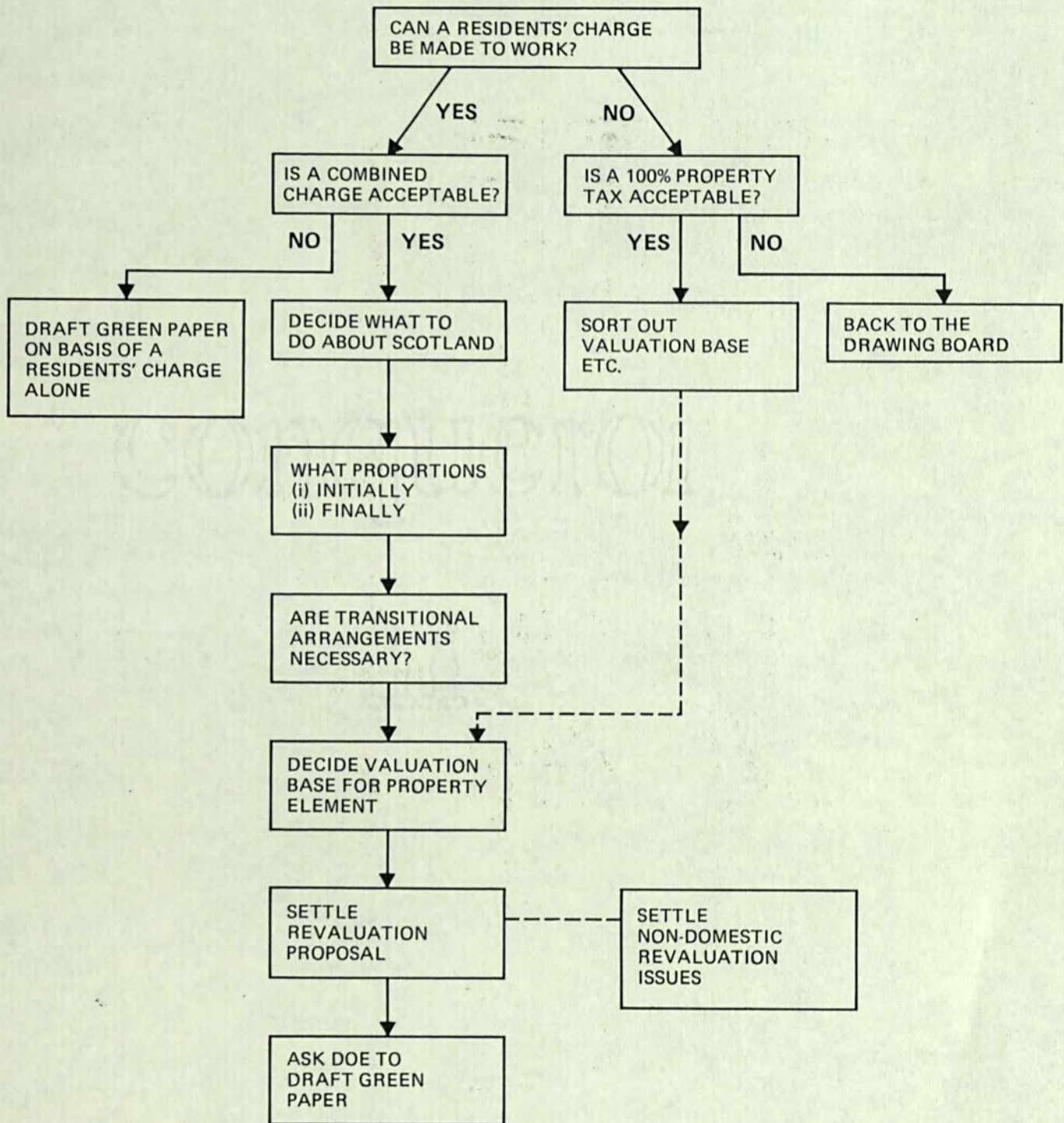
(xi) on whether there should be separate Green Papers for Scotland and Wales.

J B UNWIN

Cabinet Office

8 November 1985

DECISION CHART



SECRET

PRIME MINISTER

8 November 1985

RATE REFORM

E(LF) has already achieved a great deal. It looks as if the Committee will find a feasible way of protecting non-domestic ratepayers; a much simpler grant system that will bring each extra £1 of council spending to bear on the local inhabitant; and a proper system for controlling capital spending. Once combined with Norman Fowler's Housing Benefit changes and the retention of domestic tax-capping, these changes should yield both a more accountable system and one which satisfies the Chancellor's requirements.

The only remaining major issue is the replacement of domestic rates by another form of taxation.

Almost all your colleagues seem to agree that the pure residence charge would, in principle, be superior to domestic rates. But it is clear that moving directly to a residence charge in England and Wales would produce too many big losers. Kenneth Baker therefore proposes a mixed tax; and Nick Edwardes proposes an even more gradual introduction of the residence element.

Kenneth Baker's figures show that the mixed tax does, indeed, dramatically reduce the number of losers and the amounts that they lose. Nick Edwardes' scheme has not yet

SECRET

SECRET

been fully exemplified; but it would clearly produce even fewer and less severe losses.

But any form of mixed tax has distinct disadvantages:

1. The losses are still electorally dangerous. Even under Kenneth Baker's half-and-half option, 11% of Londoners lose more than £100 a year, and 7.9 million people in England as a whole lose amounts up to £100 a year.
2. However hard the Government tries to describe the tax as a single entity with two elements, the newspapers will still go on describing it as two taxes in place of one.
3. Your opponents will spend a lot of time explaining to everybody how complicated and incomprehensible the new tax is; and many people will be silly enough to believe them.
4. As long as the mixed tax is in place, the great benefit of the residence charge - its simplicity and universality - will be obscured by the continuing presence of the property element.

In other words, you have an apparent dilemma: a sudden move to residence charges in England and Wales is too dangerous; but a gradual transition via the mixed tax is unattractive.

SECRET

SECRET

We believe that George Younger may be offering a way out of this dilemma. He is clearly extremely keen to use Scotland as a trail-blazer for the pure residence charge. Until he presents exemplifications of the effects, and a full description of the first-year safety nets which he would operate, you cannot be sure whether a radical move of this sort would be politically sensible. It has to be remembered that he and the rest of the Scots plunged willingly into the disastrous revaluation; that experience must not be repeated. But if the exemplifications show that the effects of a sudden change would not be as dramatic in Scotland as they would be in England and Wales, then it might be possible to use Scotland as a trail-blazer.

You could make all the changes to grants, non-domestic rates, capital controls and Housing Benefit in England and Wales, but try out the residence charge in a pure form only in Scotland, and leave domestic rates intact for the time being in the rest of the country. This has obvious attractions:

1. No-one can say that you are being insufficiently radical, since you will be curing the disease of the non-domestic rates (which was the worst element of the old system) and trying out an extremely radical system in a significant part of the country.

SECRET

SECRET

2. By the same token, no-one can accuse you of being rash, since you will be reserving your options on domestic rates in England and Wales.
3. If the Scottish experiment worked, it could make a pure residence charge look sensible rather than extreme, and thereby pave the way for its introduction in England and Wales.
4. Although you will have drastically overhauled the finance system, there will be no significant domestic losers.
5. You would probably have a united Cabinet, since the radicals would be able to trumpet the Scottish experiment, and the sceptics would be comforted by the absence of any turbulence on the English domestic front.

We therefore recommend that, if you are not willing to move to a pure residence charge in England and Wales immediately, you should not introduce a mixture of taxes, but should rather use the Scots as a trail-blazer for the real thing - subject to the Scottish exemplifications proving acceptable.

SECRET

SECRET

Domestic Revaluation

The question of domestic revaluation arises if you accept either our suggestion for England and Wales, or the DoE's proposed mixture of taxes.

Kenneth Baker proposes that - to avoid general domestic revaluations - all domestic properties should be revalued on change of occupancy. This would apply either to the property element of the mixed tax, or to the domestic rates if they were retained.

In theory, the proposal is attractive. It would gradually eliminate anomalies, without causing a political storm. But, in practice, it would have a disastrous effect on the housing market. The need for a revaluation between occupancies would put an enormous brake on the speed with which house purchasing was conducted. The process of negotiation would be made more complicated, and there would be a burgeoning of contingent offers and subsequent withdrawals. Mobility, which is already very poor in this country, would be further impeded.

The best thing might be to leave domestic revaluation completely alone. True, there are anomalies. But if you eventually move over to a residence charge - either in a sudden swoop following the success of the Scottish experiment, or by the gradual introduction of a mixed tax -

SECRET

SECRET

the anomalies will be ironed out without the need for any changes in the revaluation system.

We therefore recommend that you should reject Kenneth Baker's theoretically ingenious proposal.

Conclusion

E(LF) is still on the rails. The Fowler changes, the new grant system, the protection of non-domestic ratepayers, and the proper capital control system constitute a radical overhaul of local authority finance which will produce far better results than the present system. Rather than risk ruining this excellent package by moving to what could be a very unpopular mixture of taxes, we suggest that you should:

- leave domestic rates intact in England and Wales for the time being;
- use Scotland as a trail-blazer for the pure residence charge, if the exemplifications prove that this is feasible; and
- avoid all forms of domestic revaluation.

OLLE

OLIVER LETWIN

SECRET

010

Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switsfwrdd)
01-233 6106 (Llinell Union)



✓ 01

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-233 6106 (Direct Line)

Oddi wrth Ysgrifennydd Gwladol Cymru
CONFIDENTIAL

Prime Minister
to note.

From The Secretary of State for Wales

Our ref: CT/6106/85

Ohw
7/10.
4^{r.} October 1985

Dear Secretary of State

RATING REFORM: A GREEN PAPER FOR WALES

I mentioned at E(LF) yesterday that I thought it would be best if we produced a separate consultative document for Wales.

I am satisfied that the new arrangements based on the proposals in your latest report, modified to reflect Welsh circumstances, can be made to work in Wales. While the shortcomings of the present rating system apply in all three countries local government in Wales has responded well to our call for expenditure restraint, and I am not faced with some of the extreme problems which now confront George Younger and yourself. Relationships between central and local government in Wales are generally good. Some of the reasons which make the proposed reform in England and Scotland so imperative do not exist to quite the same extent in Wales. This being so I will need to handle the presentation of the case for change rather differently. It will also cause less confusion if the Welsh figures and tables are presented separately from those in England.

The Welsh Green Paper would necessarily have a similar structure to that for the other countries but, for the reasons I have explained above, the factors underlying the case for reform would need to be given a different emphasis. In particular it would need to acknowledge the better performance of Welsh local authorities and emphasise the opportunities the new system offers for an even more effective relationship between central government, local government and the electorate.

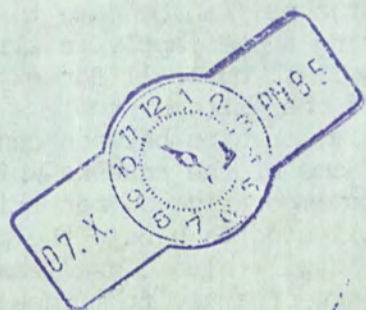
I have asked my officials to work towards the preparation of my Green Paper on the same timescale as for England and Scotland. To ensure a broad consistency of approach I hope you will agree that our officials should work closely together in preparing our respective Green Papers.

/ I am sending a copy of this letter to other Members of E(LF) and Sir Robert Armstrong.

W. J. Fraser.

(Dictated by the Secretary of State and signed in his absence)

The Rt Hon Kenneth Baker MP
Secretary of State for the Environment
2 Marsham Street
LONDON
SW1 3EB



010

CONFIDENTIAL

NO



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

NBP at this stage

DLW

2/10

My ref:

Your ref:

2 October 1985

[Handwritten signature]

[Handwritten initials]

attached

Thank you for your letter of 30 September about the problems of enforcing a residents charge.

We have always accepted that any system which taxed people rather than property would entail greater enforcement problems and that the problems would be greatest in inner city areas with their greater numbers of mobile and poor people.

Nevertheless, I think you overstate the problem involved in administering the residents charge. You do not take enough account of the collective residents charge, outlined in Annex 4 to the Second Specification Report, which will cover many houses with mobile populations, where the landlord - and not the tenants - will be liable. Nor do you recognise that local authorities will still be administering housing benefits and that for many of the people you are most concerned about, failure to make themselves known for the residents charge will automatically mean loss of rent rebate.

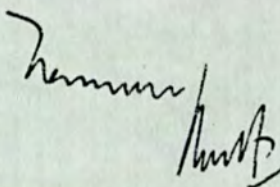
We will inevitably have to rely to some extent on individuals making honest declarations. This, of course, is not unprecedented. Those claiming housing benefit are already asked to declare any non-dependents within the household - and have their benefit reduced to take account of non-dependent contributions. Local authorities prosecute those who fail to declare non-dependents. Our system will, of course, extend that obligation to all households not just those claiming benefit. But it is not a radical departure from current practice.

I appreciate your comments about the courts; and I accept that they may be reluctant to impose heavy fines on those with limited means. We do not therefore rely on heavy fines to deter people from making false declarations - although we believe they should be available in the appropriate cases. We must therefore try to encourage local government to develop effective enforcement programmes, recognising that they will not start with a blank sheet of paper and that they have large amounts of information about those who live in their area from various sources. Where those procedures identify individuals who have failed to register 2 issues arise; first the issue for the criminal courts of whether to prosecute for failing to register (remembering that the primary duty to register will lie on the householder); and, secondly civil proceedings to recover the debt subject to any benefit entitlements. There are well tried procedures for recovery of rates already and these should be equally effective in the new system.

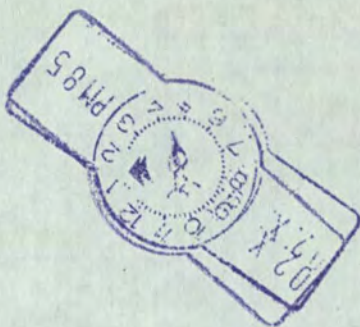
CONFIDENTIAL

I appreciate the difficulties, particularly in inner city areas of collecting taxes. These difficulties apply to central and local agencies. It is even more difficult to collect rates there than in the rest of the country. While we must take full account of these problems we must remember they are confined to a few authorities and a few areas in those authorities. I am grateful to you nonetheless for setting out your specific concerns. I understand that there will probably not be the opportunity to discuss the local charge issues at E(LF) this Thursday. My officials have already arranged to discuss with yours these and other problems. I hope, therefore, that we should be in a position to have a substantive discussion at a subsequent meeting of the Committee.

I am copying this letter to the Prime Minister, to other members of E(LF) and to Sir Robert Armstrong.



KENNETH BAKER



The Rt Hon Douglas Hurd MP



QUEEN ANNE'S GATE LONDON SW1H 9AT

30th September 1985

Dear Kenneth,

ATTACHED

I thought it would be helpful if I wrote to you following up the points made at the discussion at E(LF) on 23 September about the problems of enforcing a residents' charge, particularly in the inner cities.

I am convinced that this is quite a serious matter. We were worried, as you know, that a residents' charge would be represented as a tax on the right to vote. Your proposal to have a separate register - necessary on practical grounds - would help on this point. But local authorities would still have to rely heavily on the electoral register as a source of information for the residents' charge, and the two would be closely linked in the public mind.

More important, I believe that the difficulties of enforcing a residents' charge are under-estimated in your report. There is no ready means of checking whether householders declare all the individuals in their household or, in multi-occupied houses, that all households are declared. Our experience with the electoral register shows how difficult it is to achieve acceptable levels of completeness and accuracy, especially in inner city areas, even when registration confers a right (the right to vote) rather than an obligation. These difficulties would be far greater with a residents' charge, where individuals will have a strong incentive not to register. Local authorities will be left having to rely on any other information which may be available within local government, and the public display of the register as the only means of checking whether people have registered. I doubt whether these arrangements will prove adequate.

Experience in other contexts - for instance, of trying to operate the TV licensing system in West Belfast - illustrates the problems which revenue collecting operations can encounter in difficult areas. Other examples, such as the collection of parking fines, shows that difficulties are not confined to those areas: without a really effective machinery one can expect to find evasion and fiddling among all classes of people. The arrangements so far envisaged for a residents' charge would in practice leave many people able to avoid their liability. The money lost might not be all that great in absolute terms but it could have a serious impact in some inner city areas. The residents' charge might be perceived by the public as being widely evaded and would bring the new system quickly into disrepute.

I am also concerned about the position of the courts. It must be doubtful whether action through the courts would be likely to be very effective in enforcing compliance with a residents' charge. Experience with TV licensing is that the courts are reluctant to impose stiff penalties, especially where the offender is unemployed or manifestly not well off. The prospect of court proceedings for evasion of a residents' charge may not offer a powerful enough deterrent to evaders.

The Rt Hon Kenneth Baker, M.P.

CONFIDENTIAL

There are a number of other practical points which need discussion between our officials.

I hope that there will be an opportunity to return to these issues.

I am copying this letter to the Prime Minister, to other members of E(LF) and to Sir Robert Armstrong.

Lowery,

Douglas,

PRIME MINISTER

1 August 1985

REFORM OF LOCAL AUTHORITY FINANCE
MEETING WITH VICTOR ROTHSCHILD

William Waldegrave's reforms are now being investigated in detail by a large number of inter-departmental official groups. Several hundred pages of complicated prose have been produced, and some interesting points have emerged; but the exercise has mainly been of benefit to the paper manufacturing industry.

At the end of this laborious process, the official result is likely to be a slightly modified version of what you saw in May:

- a 'resident's charge' replacing domestic rates, with rebates for the poor, but with everybody paying something;
- a uniform non-domestic rate, pooled and redistributed by central government;
- a simplified needs grant;
- special targetted aid for the inner cities;
- special arrangements for London;
- transitional arrangements to prevent sudden shifts of the sort seen in Scotland.

Although the worst losers will have been eliminated, there may still be some large swings, with local domestic taxes ranging between, perhaps, £75 and £250 per adult.

A New Domestic Tax

As you know, alongside the grinding efforts of the official machine, rather more interesting and politically sensitive developments have been taking place. Ken Baker, Victor Rothschild, William Waldegrave and the inner core of officials who produced the original proposals have been talking about the possibility of a single domestic tax with two elements:

- size of dwelling (by square feet); and
- number of adults per home.

This might have several advantages:

1. It would make life easier for the poor pensioner couple living in crowded accomodation; they would pay far less than two retired millionaires living in palatial surroundings.
2. Both elements of the tax would be entirely objective: no need for judgements of supposed rental value. (It transpires that the Treasury already keep detailed figures on the size of dwellings, because they need these for domestic rate valuations; there should consequently be no technical problem with the determination of the square footage element.)
3. In the shire counties there could be a straightforward division of the spoils: the dwelling element of the tax could go to the district, and the people element to the shire. This would make good sense, since districts tend to provide property-based services like refuse,

whereas shires tend to provide people-based services like education.

4. As you saw when you met the Conservative leaders of the AMA, ACC and ADC, a mixed tax of this sort might win widespread support in the Party.

Keeping Supporters On-Side

We are also investigating various other moves that might make the reforms more politically acceptable without diminishing the principles of accountability and simplicity. These might include:

- indexing the non-domestic rate instead of nationalising it; non-domestic rate increases might be prevented from rising faster than inflation; this would eliminate many of the nasty distributional effects you saw in May and (unlike a national uniform system) it would leave councils free to reduce their non-domestic rates if they chose - a point that many Conservatives think important;
- a very simple resources grant, to provide a safety-net for councils which had small incomes from non-domestic rates; this, too, could find favour with many Conservatives.

These possibilities have been run through the DoE computer: they would produce domestic tax levels in the range of £120-£190 for each each adult in all authorities except London boroughs, and with a range of only £150-£180 per adult in the vast majority of authorities. As with all other packages, special London arrangements would be needed.

The Rothschild Influence

When you see Victor Rothschild, you may want to concentrate on the possibility of a new mixed domestic tax: he has been extremely helpful in promoting discussion of this promising option, and has persuaded DoE to take it seriously. He will want to be reassured that you think it worth investigating.

You may also wish to raise the question of Local Authority Capital spending and the creation of sensible borrowing controls. There has been some Rothschild interest in this problem - and his banking expertise could be invaluable.

Ol Letw.

OLIVER LETWIN



FRB *col*
Department of the Environment
Room N13/08
2 Marsham Street London SW1P 3EB
Telex 22221 Direct line 01-212 3591
Switchboard 01-212 3434
GTN 212

N A S Owen Esq
Herring Son and Daw
26/28 Sackville Street
LONDON W1X 2QL

11 July 1985

Dear Mr Owen,

Robin Butler passed your letter of ^{27/6} 2 July to this Department, with the suggestion that we follow up directly with you. My division is looking at possible reforms of local taxation - domestic and non-domestic, so your work is of direct relevance to us.

I think it would be useful to have a discussion about the material you have provided. Perhaps your office could get in touch with mine on 212 0757 to explore dates.

Yours sincerely
P D Ward

P D WARD

b.c.c. Mr Butler
Mr Fletcher



10 DOWNING STREET

From the Principal Private Secretary

4 July 1985

OPERATIONS GYNANDROMORPH

Many thanks for your letter of 3 July and the enclosed note, which the Prime Minister has seen. The Prime Minister thinks that it would be a good idea for you to pass the note to William Waldegrave, although I have to say that she is sceptical about some aspects of the proposal. In particular she thinks that a tax on floor space could not easily be done on the basis of a "rough and ready" estimate by a surveyor, since such a base is a matter of fact and could easily be checked. It would therefore require a very large administrative effort to establish the tax base. The Prime Minister has also noted that any extension would need an increase in rating.

I am afraid that this letter is not just the "yes" or "no" that you asked for. But the Prime Minister does think it worth putting this idea into the pot, though it would be wrong to say that it has her positive endorsement.

FERB

The Lord Rothschild, G.B.E., G.M., F.R.S.

PERSONAL AND CONFIDENTIAL

CST

1. MR. TURNBULL *or 3/7*
2. PRIME MINISTER

REFORM OF RATES

To ease the problem over the size of a residence charge, the attached letter from Victor Rothschild suggests a supplementary tax on floor area of houses. Unlike the rates, this would not require revaluations. Lord Rothschild asks whether you think that this is worth pursuing. If the answer is "yes", he will pass it on to William Waldegrave.

I think that it is worth pursuing, but it would involve much more administration than Lord Rothschild's note suggests. If people's liability to tax depends on it, it could not be based on a simple "rough and ready" estimate by a surveyor. Surveyors would therefore have to measure the floor space with some care, though once done, changes would be relatively rare.

Agree that we should suggest to Lord Rothschild that he passes his idea on to Mr. Waldegrave so that the Department of the Environment can take account of it alongside the other work they are doing following the Chequers meeting?

*Yes - but it would have
the adverse effect that any
extension would need an increase
in rates.*

F.R.B.

FERB

3 July, 1985.

no

LORD ROTHSCHILD

Telephone: 01-280 5000

Telex: 888031



N.M. Rothschild & Sons Ltd.
New Court
St. Swithin's Lane
London EC4P 4DU

3rd July 1985

Confidential

Dear Robin,

Operations Gynandromorph

I should be grateful if the Prime Minister could find time to read the enclosed note which explains my recent correspondence with you.

If the Prime Minister says "No" to the sub-heading, the matter is closed. If, on the other hand, she says "Yes", I shall pass my note to Waldegrave who, with the help of his Department, will be able to lick it into shape. Needless to say the DoE will have to do a great deal of work on the note.

I have shown it, informally of course (from now on), to Mr. Justice Hoffmann who said, "Cunning. It gets the Government off the hook. I may have a few comments in due course".

So all that is necessary is for you to give me a call and say Yes or No.

*Yours
Victor*

LOCAL GOVERNMENT FINANCE

Is this a starter?

- (1) The proposals made below are based on five propositions
- (1.1) Domestic rates cannot continue in their present form;
- (1.2) Even after modifications, the Chequers package will cause unacceptably large residents' charges for the less well off and for numerically large households in the inner city areas. (The DoE has supporting figures.);
- (1.3) A Local Sales Tax is unacceptable given the disparity in its yield between regional shopping centres and shops in adjacent local authority areas, and because of its buoyancy;
- (1.4) A graduated residents' charge is a thinly disguised local income tax and is therefore unacceptable;
- (1.5) Any property tax which entails a revaluation is unacceptable.
- (2) It is proposed to replace domestic rates by a local tax containing two elements:
- (2.1) A property element calculated by reference to floor space. It is said that a surveyor can accurately estimate the floor space in each house in a uniform street in twenty minutes. If someone's dwelling is double the floor space of the local average floor space, he or she pays double the average. No change is made unless a house is disposed of.

(2.2) A people element calculated by reference to the declared number of adults in each dwelling. The senior member of each household would have a duty to register, once a year with the local authority, the number of adults in the dwelling. That senior householder would also be responsible for payment of this part of the local tax. Local authority inspectors would be empowered to carry out spot checks and there would be heavy fines for evasion. There would be no graduation but relatively generous rebates for the poorest households.

(3) There are the following comments on the scheme:

(3.1) "Floorspace" is just a phrase. "Size" would be equally satisfactory provided the method of measuring the size of a dwelling is specified, for example the length of its perimeter multiplied by the number of floors.

(3.2) People will ask questions about the accuracy of size estimates. It is possible, by a small experiment, to set error limits. But in any case we are always concerned with estimates whose precision is unknown. The most obvious example is the District Valuer's estimates of rental values on which domestic rates are based.

*But in this case
the precision can be
checked.*

(3.3) As at present, there must be an appeals mechanism.

(3.4) The arithmetic shows that the average payment (England) should be about £110 per dwelling before rebates and about £110 per adult, though the yield of the people element would be considerably greater than, perhaps three times, that of the size element.

(3.5) The average figures cited immediately above do not disclose wide variations according to how much the local authority spends, and according to the size of the dwelling.

(3.6) The proposal implies one tax with two elements.

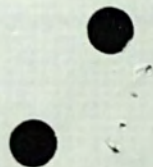
(3.7) The proposal covers the fact that people should pay for people-related services whereas size should determine the level of payment for property-related services.

(3.8) The proposal covers the point made by "objectors" that previous schemes were not progressive. In addition, the degree of progressiveness can be varied by changing the relative amount of the property and people elements.

(3.9) The people element provides the desired accountability, there being a close link between those who vote for, pay for and use people-related services.

(4) The question of Identity Cards, which would be valuable in the context of this note, arises. It is recognised that they may be politically unacceptable. But one cannot help asking why people do not mind having driving licences, travel cards, passports and National Insurance cards but object to Identity Cards? In addition, is it not obvious that a requirement to have an Identity Card would be of value in countering hooliganism and terrorism in all their different forms, and, possibly, drug offences?

(5) These proposals are conditional on one third of council members retiring each year.





file SS
(67)

10 DOWNING STREET

From the Principal Private Secretary

2 July 1985

RATING REVALUATION: UNIFORM BUSINESS TAX

Many thanks for your letter of 27 June and for the figures of the impact of a rating revaluation for non-domestic property coupled with a uniform business tax. I have passed these on to those who will be interested in them, together with your caution that the figures should be treated as an illustration only. I have also passed on your offer that Christopher Hedley and you would be available to discuss the figures.

I am really very grateful to you and your research department for letting us have these projections.

FERB

N. A. S. Owen, Esq.

dg



file
71
SS

10 DOWNING STREET

From the Principal Private Secretary

2 July 1985

Herring, Son & Daw have now provided their projections, and I am enclosing these with the covering letter to me. If you want to follow up Mr Owen's offer to discuss the figures, I suggest that you contact him direct, but I should be grateful to be kept informed.

I am copying this letter and the enclosures to Oliver Letwin in the Policy Unit here.

FERB

R A J Mayer, Esq.,
Department of the Environment



Chartered Surveyors

Head Office:
26/28 Sackville Street, London W1X 2QL
Telephone 01-734 8155
Telex 265162. Telegrams Oldest London W1

Our Ref. NASO/RAC

Your Ref.

F.E.R. Butler, Esq.,
Principal Private Secretary,
10 Downing Street,
LONDON. SW1

27th June, 1985.

Dear Robin,

RATING REVALUATION UNIFORM BUSINESS TAX

I have now been able to get my Research Department to produce a reappraisal of the impact of a rating revaluation for non-domestic property coupled with a uniform business tax. I think that you should treat the figures with a degree of caution, as an illustration only, and not accurate to the last penny.

I enclose two copies of their analysis together with my own comments on this. I would be grateful if you would distribute them to your immediate colleagues and the Department of the Environment as you think appropriate.

I have attempted in my comments to take account of the commercial and political consequences of revaluation and UBT. In doing this I have taken particular note of recent speeches by Michael Ancram which appear to recognise the commercial and political impossibility of implementing the type of dramatic changes that took place in Scotland.

I need hardly say that it is a complex subject, and both Christopher Hedley, who is in charge of our Research activities, and I would be very happy to come and talk to any of your colleagues, who you might think suitable, about this.

Yours ever,

N.A.S. OWEN

ENCL :

City Office: 74/75 Watling Street, London EC4M 9BJ Telephone: 01-248 9743
Reading Office: 13/15 Station Road, Reading, Berks. RG1 1LG Telephone: (0734) 509171

Registered in England No. 1240227
Registered Office
26/28 Sackville Street W1X 2QL

Directors

N. A. S. Owen MA, FRICS
P. M. S. Harvey FRICS
P. E. T. Farrington FRICS
P. C. C. Sidebottom MA, FRICS
W. D. A. Gibbs FRICS
C. N. Partridge TD, BSc, FRICS
P. W. Squire FRICS, ACI Arb
A. J. Cannon ARICS
M. V. Eyre BSc, ARICS
J. R. C. Arkwright ARICS
T. P. Watkins BSc, ARICS

Associates

M. G. Bull FRICS
N. J. Arthur FRICS
J. P. Mason ARICS
J. P. P. Butler ARICS
S. L. Thomas BSc, ARICS
R. J. K. McIntosh BSc, ARICS
J. A. Higginbotham ARICS
N. C. Higson MA, ARICS
P. W. Hutchinson BSc, ARICS
P. S. Ashby MA, ARICS
R. J. Cheshire BSc, ARICS
R. H. Adams BSc, ARICS
R. White FSVA
M. O. Taylor OBE, FBIM - Secretary

Consultants

A. E. Bodie
P. W. Hearnden FRICS
T. M. Massey DPA, PPRVA
R. Cadogan FRICS

LORD ROTHSCHILD

Telephone: 01-280 5000

Telex: 888031

N.M. Rothschild & Sons Ltd.
New Court
St. Swithin's Lane
London EC4P 4DU

25th June 1985



Dear Sir,

Domestic Rates

The Prime Minister may be interested in the following information. Purely at the Official level, so far, I have been having discussions about a possible new approach to this subject, and one to which less objection might be levelled by those members of the Cabinet who objected to the recent proposals. I would call this new approach Operation Gynandromorph. (I do not know whether the Prime Minister did Greek but I have explained to you the derivation of this word. Hybrid would be as good.)

The only reason I record this is because it seems to me that if it were possible to arrange, there would be considerable advantages in discussing it informally with the "objectors" at, say, a weekend meeting at Chequers, if there is a possibility that half a day could be provisionally reserved.

Let me hasten to say that there would be no point in my being present, as when Waldegrave learns about the new approach and if he approves, his exposition of it will be as good as that he gave at the last informal Chequers meeting on this subject.

I shall know shortly whether Operation Gynandromorph is a starter and will be in touch.

*Yours
Victor*

Gak This is a draft reply to Harry Jordan



NEW ST. ANDREWS HOUSE
EDINBURGH EH1 3SX

Andrew Turnbull Esq
Private Secretary
10 Downing Street
LONDON SW1

4 June 1985

Dear Andrew,

REVALUATION AND SECTION 137 EXPENDITURE

In your letter of 30 April you asked for a note together with a draft reply to the anonymous extract from a letter to the Prime Minister.

I enclose a note commenting on the point raised and also a draft reply to the letter.

Yours sincerely,
John Graham

J S GRAHAM
Private Secretary

ELBAJO

4.23 April

Thank you for your letter about the effect revaluation might have on "section 137 expenditure" in Scotland. I am sorry it has taken so long to reply, but as you will be aware a great deal has been happening recently on rates both North and South of the Border.

As you note section 137 of the Local Government Act 1972 does not apply in Scotland but there is a similar provision in section 83 of the Local Government (Scotland) Act 1973 under which a local authority may spend up to the product of a 2p rate in the general interests of their area and its inhabitants on purposes for which they do not otherwise have statutory powers. Revaluation has, of course, affected the total amount which can be spent under this power. Prior to revaluation the total amount which could be spent was £45 million, after revaluation the maximum increased to £107 million. However, in 1983-84 local authorities spent only £2.5 million under this power, well short of the £46 million maximum. ^{Only two authorities were over 50 percent of the maximum.} In addition any expenditure under section 83 is covered by the general controls on local authority expenditure as a whole, in particular the grant penalties for any excess above guidelines. For these reasons, it does not seem likely that the increase in the theoretical maximum which can be spent under section 83 following revaluation will lead to any dramatic increase in section 83 expenditure. In any case there is already a power in subsections 4 and 5 of section 83 which enables the Secretary of State for Scotland to alter the 2p figure up or down, with corresponding powers ^{under} s.137(4)

^{applying in England.}
The issue is ^{less} not so much the amount of spending but the way in which ~~it~~
The Government is, as you know, concerned at the use made by local authorities of their discretionary spending powers, and this is one of the issues ~~to~~ which the inquiry into local authority business under the chairmanship of Mr David Widdicombe QC, has been asked ^{to consider} to look.

make use

CONFIDENTIAL

889
J



bc: Oliver Letwin

10 DOWNING STREET

From the Private Secretary

22 May 1985

Dear John,

RATING (REVALUATION RELIEF) (SCOTLAND) BILL

The Prime Minister has seen the exchange of correspondence between the Secretary of State of Scotland and the Chief Secretary. She believes that the Bill should contain a provision to enable relief to be extended by order after 1985-86. This should be on the understanding that, should any extension be decided upon, the resources for it should be found from within the Scottish block.

I am copying this letter to Janet Lewis-Jones (Lord President's Office), Rachel Lomax (H.M. Treasury), Richard Broadbent (Chief Secretary's Office, H.M. Treasury), John Ballard (Department of the Environment), Colin Williams (Welsh Office), David Morris (Lord Privy Seal's Office) and Richard Hatfield (Cabinet Office).

Your sincerely

Andrew Turnbull

Andrew Turnbull

John Graham, Esq.,
Scottish Office.

SH2AHM

CONFIDENTIAL

①
PRIME MINISTER

RATING (REVALUATION RELIEF) (SCOTLAND) BILL

Treasury and Scottish Office are in dispute about one aspect of this Bill. Mr. Younger wants the Bill to contain a provision allowing the relief to be extended in subsequent years by order. He believes that without such a provision there could still be difficulties with the most seriously affected ratepayers next year, and the so-called promise of co-operation from the Opposition in the passage of the Bill might not be delivered. The Opposition are in fact arguing that relief should last for the whole of the quinquennium.

The Chancellor and Chief Secretary think the relief should be confined to 1985-86. Presumably they fear that, like income tax, a temporary measure could become permanent. This could create difficult precedents south of the border.

It is accepted by both sides that any relief in subsequent years should come from within the Scottish Office block. Mr. Younger believes that this provides him with sufficient incentive to phase out the relief as quickly as possible and that to insist on one year only could lose the Government the credit it has so far gained.

Agree:

(i) with Mr. Younger, provided any further relief comes from within his block?

or

(ii) with the Treasury that relief should be for one year only?

HT

Note. PM approved option (i)

AT 21/5

21 May 1985

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon George Younger TD MP
 Secretary of State for Scotland
 Scottish Office
 Dover House
 Whitehall
 London
 SW1A 2AU

21 May 1985

Dear Secretary of State

RATING (REVALUATION RELIEF) (SCOTLAND) BILL

Thank you for your letter of 16 May.

The Chancellor and I remain firmly opposed to relief after 1985-86, and I am afraid we are not able to withdraw our objections to powers which apply beyond that year. As the record of the Prime Minister's meeting on 1 May indicates, we were then discussing relief for 1985-86 rather than for any other years. And as the Chancellor has already argued, the Opposition are hardly likely to delay the Bill: it would give the Government gratuitous ammunition if they did.

I am copying this letter to the Prime Minister, the Lord President, the Chancellor, Patrick Jenkin, Nick Edwards, John Biffen and Sir Robert Armstrong.

Clearly no decisions on late years were taken but question of leaving option open via an Order-making power not resolved either way.

AT

Yours sincerely

Peter Rees
 for PETER REES

[Approved by the Chief Secretary]

CONFIDENTIAL

Local Govt, Future of Rating System Pt 3

21 MAY 1985

12 1 2 3
4 5 6 7 8 9 10 11



NBPM
AT-16/5
SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

CONFIDENTIAL

The Rt Hon Peter Rees QC MP
Chief Secretary to the Treasury
HM Treasury
Parliament Street
LONDON

16 May 1985

Dear Chief Secretary

RATING (REVALUATION RELIEF) (SCOTLAND) BILL

You wrote to me on 15 May about the views of the Chancellor and yourself against having this Bill drafted in such a way as to permit the granting of relief in years after 1985-86. The Bill is to be taken at Legislation Committee on Wednesday 22 May and I am most anxious to try to resolve the issue between us before then.

I believe that the Bill must provide for the possibility of relief after 1985-86, though there are clearly questions which we cannot settle now about what the amount of relief in later years would be and how it would be financed. I have 2 reasons for this view:-

- a. I believe it accords with the clear implications of our discussion with the Prime Minister on 1 May.
- b. It is clear from the exchanges in the House on 14 May that there is no prospect of early progress with a Bill which excludes the possibility of relief in later years.

I hope therefore that the Chancellor and you can withdraw your objection to my having the Bill drafted as I propose.

I am copying this letter to the Prime Minister, the Lord President, the Chancellor, Patrick Jenkin, Nick Edwards, John Biffen and Robert Armstrong.

Yours sincerely

E S GOWANS
Private Secretary
Approved by the Secretary of State
and signed in his absence

Local Govt; Future of Rating System Pt 3

16 M.....

Waiting for a better rating system...

The rating system is a key factor in the local government's financial health. It is a measure of the government's ability to pay its debts and to provide services to its citizens. The rating system is a key factor in the local government's financial health. It is a measure of the government's ability to pay its debts and to provide services to its citizens.

The rating system is a key factor in the local government's financial health. It is a measure of the government's ability to pay its debts and to provide services to its citizens. The rating system is a key factor in the local government's financial health. It is a measure of the government's ability to pay its debts and to provide services to its citizens.

The rating system is a key factor in the local government's financial health. It is a measure of the government's ability to pay its debts and to provide services to its citizens. The rating system is a key factor in the local government's financial health. It is a measure of the government's ability to pay its debts and to provide services to its citizens.

The rating system is a key factor in the local government's financial health. It is a measure of the government's ability to pay its debts and to provide services to its citizens. The rating system is a key factor in the local government's financial health. It is a measure of the government's ability to pay its debts and to provide services to its citizens.

CONFIDENTIAL



285.
NDPM
AT
15/5
C/S

Treasury Chambers, Parliament Street, SW1P 3AG

J S Graham Esq
Private Secretary to the Secretary of State
for Scotland
Scottish Office
Dover House
Whitehall
London
SW1A 2AU

15 May 1985

Dear John

RATING AND VALUATION (SCOTLAND)

Thank you for your letter of 13 May with the draft of your Secretary of State's statement, which your Secretary of State and Chief Secretary discussed yesterday.

Your Secretary of State accepted that there should be a limit on the special relief to target it on smaller businesses. Since little information on the effect of lower limits was available, and they might appear to indicate spurious precision, the Chief Secretary was prepared to accept Mr Younger's proposal that the limit on individual payments should be £10,000. He hopes that in return serious efforts will now be made to find savings to offset part of the cost.

In consequence, an appropriate reference to the limit must be included in paragraph 5 of the draft, and it was agreed that the words "The small" should replace "All" before "businessman" in the last sentence of paragraph 4.

It was also agreed that the seventh paragraph of the draft, dealing with cost of the relief, should be revised to read:-

"The cost of the relief will probably be at least £50 million. This will be new money from the taxpayer."

The Chief Secretary was glad to note your Secretary of State's recognition that any relief beyond the current year would have to be met from Scottish programmes. But he is very firmly of the view that the relief should be for 1985-86 only.

CONFIDENTIAL

I am copying this letter to Andrew Turnbull (No. 10), John Ballard (DOE), Alison Smith (Lord Privy Seal's Office), Murdo Maclean (No.12) and David Beamish (Private Secretary to the Chief Whip and Leader of the House of Lords).

Yours sincerely
Richard Broadbent

R J BROADBENT
Private Secretary

Local Govt #13

rates

Revaluation

15 MAY 1985

17 1 2 3 4 5
6 7 8 9 10 11

CONFIDENTIAL



NAPM

AT 15/5

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon George Younger TD MP
 Secretary of State for Scotland
 Scottish Office
 Dover House
 Whitehall
 London
 SW1A 2AU

15 May 1985

Dear Secretary of State

RATING (REVALUATION RELIEF) (SCOTLAND) BILL

I understand that the Bill being drafted to give effect to the revaluation relief announced in the House on 14 May provides for the possibility of further relief by Order after 1985-86.

The Chancellor and I have made clear our view that this special relief should be directed at the particular problems arising from the immediate impact of revaluation in 1985-86, and that relief in later years was not appropriate.

The provision of powers now for subsequent years would, of course, create expectations and pressures for their use. I would prefer therefore that the powers be confined to 1985-86.

I am copying this letter to the Prime Minister, the Lord President, the Lord Privy Seal, the Secretaries of State for the Environment and for Wales and to Sir Robert Armstrong.

Yours sincerely

PETER REES

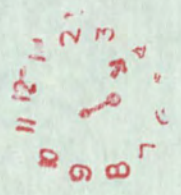
[Approved by the Chief Secretary]

CONFIDENTIAL

Local Govt PT 3

lates Revalwatus

15 MAY 1985



STATEMENT BY SECRETARY OF STATE FOR SCOTLAND IN HOUSE OF
COMMONS ON TUESDAY 14 MAY 1985

RATING AND VALUATION (SCOTLAND)

WITH PERMISSION, MR SPEAKER, I SHOULD LIKE TO MAKE A STATEMENT ABOUT THE GOVERNMENT'S PROPOSALS FOR LEGISLATION TO GIVE SOME RELIEF TO CERTAIN RATEPAYERS IN SCOTLAND WHO HAVE IN 1985-86 SEEN THE RATEABLE VALUES OF THEIR PROPERTY INCREASE VERY STEEPLY.

IN THE AUGUST 1983 WHITE PAPER ON RATING REFORM IN SCOTLAND (CMND 9018) THE GOVERNMENT REAFFIRMED OUR EARLIER DECISION TO HAVE A FULL SCOTTISH REVALUATION IN 1985. THIS WAS APPROVED BY ALL PARTIES IN SCOTLAND AND BY COSLA, WHO CONSIDERED IT IMPORTANT THAT THE VALUATION ROLLS SHOULD REFLECT FAIRER AND MORE UP-TO-DATE VALUES.

AS INFORMATION BECAME AVAILABLE FROM ASSESSORS ABOUT THE LIKELY GENERAL EFFECT OF REVALUATION, I TOOK VARIOUS STEPS TO OFFSET THE MORE EXTREME EFFECTS. IN PARTICULAR, I HAVE TWICE INCREASED THE DOMESTIC ELEMENT OF THE RATE SUPPORT GRANT - BY A TOTAL OF SOME £88 MILLION - SO THAT IT NOW AMOUNTS TO 8P IN EVERY £1 RATEABLE VALUE FOR DOMESTIC RATEPAYERS: AND BECAUSE OF THE BENEFITS SECURED BY INDUSTRY OVERALL I REDUCED THE PERCENTAGE OF INDUSTRIAL DERATING FROM 50% TO 40%.

NEVERTHELESS IT IS ALL TOO CLEAR THAT THERE ARE STILL MANY DOMESTIC RATEPAYERS WHOSE VALUATION INCREASES HAVE BEEN PARTICULARLY STEEP AND WHO STILL FACE VERY SUBSTANTIAL INCREASES IN THEIR ACTUAL RATE BILLS. FURTHERMORE IN THE COMMERCIAL SECTOR, THOUGH THE AVERAGE EFFECT OF REVALUATION HAS BEEN NEUTRAL, THERE ARE SIGNIFICANT NUMBERS OF BUSINESSES

FACING VERY SEVERE INCREASES. NO SMALL BUSINESSMAN, HOWEVER ENTERPRISING, COULD EVER HAVE BEEN EXPECTED TO PLAN FOR A RATES DEMAND LIKE SOME OF THE HUGELY INCREASED BILLS WHICH HAVE NOW ARRIVED.

THE GOVERNMENT HAVE THEREFORE DECIDED TO INTRODUCE A SCHEME TO HELP RATEPAYERS FACED WITH VERY HIGH INCREASES IN THEIR VALUATIONS. THEY WILL BE GIVEN A NEW STATUTORY RIGHT TO CLAIM 100 PER CENT RELIEF IN RESPECT OF THAT PART OF THEIR 1985-86 RATES BILL RELATED TO ALL OF THEIR NEW VALUATION WHICH IS IN EXCESS OF 3 TIMES THEIR 1984-85 VALUATION. THIS WILL BE SUBJECT TO A LIMIT TO THE TOTAL RELIEF PAYMENT IN THE CASE OF ANY PARTICULAR SUBJECT, TO ENSURE THAT MAXIMUM HELP IS TARGETTED TOWARDS THE SMALLER BUSINESS. THE RIGHT WILL EXTEND TO DOMESTIC AND COMMERCIAL RATEPAYERS ALIKE; IT WILL NOT EXTEND TO PROPERTY OCCUPIED BY LOCAL AUTHORITIES AND THE CROWN; PUBLIC UNDERTAKINGS VALUED BY STATUTORY FORMULA; AND MANUFACTURING INDUSTRY AND FREIGHT-TRANSPORT SUBJECTS. THE SCHEME WILL BE ADMINISTERED BY RATING AUTHORITIES, TO WHOM I WILL REIMBURSE THE FULL COST OF THE PAYMENTS. THE NEW RELIEF WILL HAVE NO EFFECT ON STATUTORY RIGHTS OF APPEAL OR ON OTHER RIGHTS AND DUTIES, THOUGH-WHERE AN APPEAL IS SUCCESSFUL, THE AMOUNT OF RELIEF WILL FALL TO BE ADJUSTED ACCORDINGLY.

THE NEW RELIEF IS INTENDED TO EASE THE IMMEDIATE BURDEN ARISING FROM THE HIGH VALUATION INCREASES WHICH TOOK EFFECT AT 1 APRIL AND WILL APPLY IN THE YEAR 1985-86. I WILL CONSIDER IN DUE COURSE WHETHER THERE IS A CASE FOR ANY SPECIAL RELIEF IN 1986-87.

I ESTIMATE THAT THE RELIEF WILL PROBABLY COST AT LEAST £50M. THIS WILL BE NEW MONEY FROM THE TAXPAYER.

A BILL PROVIDING FOR THE NEW RELIEF WILL BE PUBLISHED AS SOON AS POSSIBLE. I HOPE HON MEMBERS OPPOSITE WILL, AS THE HON MEMBER FOR GLASGOW, GARSADDEN, HAS ALREADY INDICATED, GIVE SUPPORT TO US IN OUR ENDEAVOURS TO BRING THE SCHEME INTO FORCE AT THE EARLIEST POSSIBLE MOMENT.

● THERE IS NO NEED FOR ANY RATEPAYER WHO THINKS HE WILL BENEFIT FROM THE SCHEME TO ACT UNTIL THE BILL HAS BEEN BROUGHT INTO OPERATION.

Rating Revaluation (Scotland)

3.35 pm

The Secretary of State for Scotland (Mr. George Younger): With permission, Mr. Speaker, I should like to make a statement about the Government's proposals for legislation to give some relief to certain ratepayers in Scotland who have in 1985-86 seen the rateable values of their property increase very steeply.

In the August 1983 White Paper on rating reform in Scotland—Cmnd. 9018—the Government reaffirmed our earlier decision to have a full Scottish revaluation in 1985. That was approved by all parties in Scotland and by the Convention of Scottish Local Authorities, which considered it important that the valuation rolls should reflect fairer and more up-to-date values.

As information became available from assessors about the likely general effect of revaluation, I took various steps to offset the more extreme effects. In particular, I have twice increased the domestic element of the rate support grant—by a total of some £88 million—so that it now amounts to 8p in every £1 rateable value for domestic ratepayers: and because of the benefits secured by industry overall, I reduced the percentage of industrial derating from 50 per cent. to 40 per cent.

Nevertheless it is all too clear that there are still many domestic ratepayers whose valuation increases have been particularly steep and who still face very substantial increases in their actual rate bills. Further more in the commercial sector, though the average effect of revaluation has been neutral, there are significant numbers of businesses facing very severe increases. No small business man, however enterprising, could ever have been expected to plan for a rates demand like some of the hugely increased bills that have now arrived.

The Government have therefore decided to introduce a scheme to help ratepayers faced with very high increases in their valuations. They will be given a new statutory right to claim 100 per cent. relief in respect of that part of their 1985-86 rates bill related to all of their new valuation which is in excess of three times their 1984-85 valuation. That will be subject to a limit to the total relief payment in the case of any particular subject, to ensure that maximum help is targeted towards the smaller businesses. The right will extend to domestic and commercial ratepayers alike; it will not extend to property occupied by local authorities and the Crown; public undertakings valued by statutory formula; and manufacturing industry and freight-transport subjects. The scheme will be administered by rating authorities, to which I shall reimburse the full cost of the payments. The new relief will have no effect on statutory rights of appeal or on other rights and duties, though where an appeal is successful, the amount of relief will fall to be adjusted accordingly.

The new relief is intended to ease the immediate burden arising from the high valuation increases that took effect at 1 April and will apply in the year 1985-86. I shall consider in due course whether there is a case for any special relief in 1986-87. I estimate that the relief will probably cost at least £50 million. That will be new money from the taxpayer.

A Bill providing for the new relief will be published as soon as possible. I hope hon. Members opposite will, as the hon. Member for Glasgow, Garscadden (Mr. Dewar) has already said, give support to us in our endeavours to

bring the scheme into force at the earliest possible moment. There is no need for any ratepayer who thinks that he will benefit from the scheme to act until the Bill has been brought into operation.

Mr. Donald Dewar (Glasgow, Garscadden): Of course we welcome any decision by the Government that will help ratepayers in Scotland. It is—if I may say so—remarkable how fear concentrates the mind. A Secretary of State who has repeatedly said, "Not a penny more," is now scrambling for safety. We do not complain about any retreat by the Government. We would welcome retreat in a number of other fields. However, it is a sad spectacle to see Scottish Office Ministers in incoherent and confused disarray, being driven from pillar to post and desperately claiming as triumphs policies that they never planned and which have been imposed upon them by public opinion and the wrath of their own supporters. The pass has been dragged from the right hon. Gentleman, and the concession made only because necessity drives.

The Secretary of State's statement was ingenious. No hint was given to the faithful in Perth that the scheme would extend beyond the commercial sector. The scheme looks much less generous to the commercial sector once the whole domestic sector has been included.

What percentage of the £50 million will go to commercial, and what to domestic ratepayers? We will want the limit figure to be designed to make sure that the lion's share does not go to supermarkets and national chains but helps those who are really at risk—those under pressure. Will the Bill settle such matters? Will the Bill contain details, or is it to be an enabling Bill and will we have to wait for an order?

The Opposition will wish carefully to analyse the effect on the domestic sector. I suspect that there will be little cheer for those at the bottom end of the housing market and the vast majority of council tenants. We will wish to take a long, hard look to make sure that a disproportionate share does not go to Eastwood, Pollokshields, Newton Mearns and Ayr. We recognise the difficulties and the tottering prestige of many of the Secretary of State's hon. Friends in their own areas, but there is a limit to the distortion of the pay-out that will be acceptable to us.

Will there be a cut-off on the amount of relief to an individual householder, analogous to the one that the Secretary of State has announced for commercial ratepayers? How does he estimate the impact of this announcement on the average increase in the domestic rates bill in Scotland? I am sure that he has made the calculation.

I welcome the fact that this is to be new money, and that the right hon. Gentleman has assured us that the Scottish Office budget will not be raided in any way to meet the bills, but it is essential that guarantees be given that the help will be extended throughout the remainder of the quinquennium. It would be fraudulent to offer help in 1985-86 but leave those who receive it now to bear the full impact in subsequent years. That would confirm the feeling that the whole exercise was a squalid manoeuvre designed to defuse the explosion of rage at the Tory party conference.

It may be unfair to mention the somewhat unpleasant subject of the Chancellor of the Exchequer. However, we cannot ignore the Chancellor's harsh arrogance at Perth, when he said:

"no more money is likely next year . . . he would not be in the same unaccountably open-handed and generous mood."

[Mr. Donald Dewar]

I hope that the Secretary of State accepts that will not do. During the passage of the Bill we will want to be given an undertaking that at least in principle—we will not hold him to exactly the same level—this help will continue to be available throughout the rest of the quinquennium.

If we are satisfied on those matters, we will of course help the Bill through. We want all the cash that we can get from the skinflint Treasury that landed us in this mess and ought to foot the bill for it.

The crisis is not over. The Secretary of State has not muddled through with this announcement. The root of the trouble has been not just revaluation but the constant and vindictive assault on local government finance for the past three or four years that has deprived local authorities in Scotland, on our calculations, of about £1,000 million since 1980-81. If the Secretary of State would reverse that policy he would be doing the greatest favour to ratepayers in every sector and would give the system a breathing space that would allow us all to look for the considered and effective method of reform that the Opposition certainly want.

Mr. Younger: The last part of the statement of the hon. Member for Glasgow, Garscadden (Mr. Dewar) is wholly incorrect. If I did what he recommended at the end of his remarks, councils would merely spend even more and ratepayers would face even bigger rate increases. It was an extraordinarily ineffective smokescreen from an hon. Gentleman who has always supported the principle of five-year revaluations, who pressed for the revaluation to be this year and not postponed further, and who knows perfectly well that the level of the increases proposed are the job of the assessor, and not in any sense of anyone else. His criticisms of that are wholly without foundation, and he knows it.

As for the hon. Gentleman's suggestion of a retreat, this is the normal statutory process, which he fully supports. The Government have not merely produced assistance first for domestic ratepayers and now for commercial ratepayers, but produced assistance which is vastly greater than anything for which the hon. Gentleman asked and, indeed, than the maximum demanded—the Liberal party asked for the maximum, which was about £4 million to £5 million. We are providing £50 million, and that shows who in Scotland cares about helping ratepayers. The hon. Gentleman should recognise that.

Regarding the hon. Gentleman's question about the sum, the difference between £40 million, which I mentioned earlier, and £50 million, which I gave today, is accounted for by the fact that the latter includes domestic ratepayers. The previous figure referred only to commercial ratepayers, as the hon. Gentleman will now realise.

I have still to collect the fullest information about the limit. I have in mind a figure of the order of £10,000, up to which any one subject would benefit from the help. The hon. Gentleman must wait and see the terms of the Bill when it is published. The Bill will arrange for the principle of the matter and regulations will spell out the details in full, and they will obviously be debated.

Sir Hector Monro (Dumfries): I gave my right hon. Friends the Prime Minister and the Secretary of State for Scotland my warmest congratulations on what they achieved for domestic and commercial ratepayers. The

assistance is more than was asked for by the Labour Opposition, the alliance and the National Federation of Self-Employed and Small Businesses.

Now that my right hon. Friend has made that great achievement, will he put tremendous pressure on high-spending authorities, and will he give the money that he saves from them to prudent authorities, which need the resources for essential services?

Mr. Younger: I appreciate my hon. Friend's last point, and I shall bear it in mind. Regarding high spending, my hon. Friend knows, as I do, that of the average increases which ratepayers face, one third is caused by the rate support grant or inflation factor, and two-thirds by the overspending of irresponsible authorities. Ratepayers in Scotland will fully realise that truth, and will be interested to see that the Opposition's attitude to the package is not in support of ratepayers' interests.

Mr. Malcolm Bruce (Gordon): It is wonderful to hear the Secretary of State lecturing the House on how much money he has managed to find, when he has often told us how difficult it is to find money. Obviously, we welcome the fact that he has responded to pressure from all sides.

Does the right hon. Gentleman recognise that a one-off settlement this year will not be enough? Does he recognise that, if all commercial ratepayers received relief this year, he would merely be delaying the execution of many small businesses? As he has found this sum to meet the rate crisis, cannot he now come forward with new money to meet the education crisis, or is that simply a sign of the rather warped priorities of a Government threatened with extinction in Scotland?

The Prime Minister and the Secretary of State have promised to reform, and indeed to abolish, the rating system. How many more times will they make that promise before they get round to doing it? Can we expect legislation in this Parliament to obviate the need for an emergency package simply to save the Secretary of State's skin rather than to deal with the underlying problem, which was caused by the Government's cuts in rate support grant and in funding to local authorities?

Mr. Younger: I admire the hon. Gentleman's courage in speaking on this issue when, for the past couple of months, he has purported to be campaigning for commercial ratepayers, but got all his figures hopelessly and completely wrong from the start. He was only £35 million out on what is needed to help commercial ratepayers in Scotland. Extra help for next year will be considered at the time of next year's general settlement.

As for the teachers, I do not know where the hon. Gentleman has been for the past few months, but since December there has been an offer on the table from me not only to consider a package from the teachers but to find more money from the Scottish block to help them. The only problem is that they have not taken up that offer.

Lord James Douglas-Hamilton (Edinburgh, West): Will my right hon. Friend give top priority to the reform of the rating system within this Parliament? Does he accept that his statement will be greatly welcomed by many thousands of small business men, who will owe their survival in Scotland to his decision? Is not the figure that he announced much more realistic than the one tenth of that figure suggested in the House a few days ago by the hon. Member for Gordon (Mr. Bruce)?

Mr. Younger: I am grateful to my hon. Friend, and I can confirm that the ministerial committee, on which my hon. Friend the Minister responsible for home affairs and the environment sits, is considering local government finance with a view to producing proposals for change. As to helping commercial ratepayers, whereas many people have talked about it for months, the Government have acted, and commercial ratepayers will be grateful for that.

Mr. Bruce Millan (Glasgow, Govan): While we obviously welcome this further attempt by the Secretary of State to extricate himself from a mess of his own making, may I tell him that if he believes that it will resolve the rating crisis, he will soon be disabused of that notion? The extra £10 million for domestic ratepayers will reduce the average increase in their bills this year from 21 per cent. to about 20 per cent. If the right hon. Gentleman believes that that will satisfy domestic ratepayers, he could not be more out of touch with the feelings of ratepayers in Scotland on this matter. In any case, why does he not tell us the whole story? The crisis relates not only to revaluation but to successive cuts in rate support grant. Is it not utter hypocrisy to talk about the £50 million being new money when we know that, before the summer recess, the Secretary of State will impose penalties of £100 million on Scottish local authorities? He will be imposing penalties twice as great as the sum that he announced this afternoon. Is it not complete humbug to talk about this being new money?

Mr. Younger: I do not know whether the right hon. Gentleman has done a U-turn. If he is with the rest of his party, he solidly supports revaluation, believes that it should take place every five years, and believed that it should take place this year. I hope that that is now clearly on the record. He cannot shelter behind the fact that it was someone else's decision; he supports it. The objective of the help for commercial and domestic ratepayers is to give 100 per cent. help, subject to a cut-off, to those with the biggest increases. It will do that, and they will be grateful for it. I admire the right hon. Gentleman's courage in mentioning cuts in the rate support grant. Only he ever cut it by 4 per cent. in one year.

Mr. Bill Walker (Tayside, North): The ratepayers in my constituency will be relieved that the Secretary of State acted so quickly. The ratepayers in commercial premises in Angus will be especially relieved, because their rates would have exceeded greatly those in other areas. Does my right hon. Friend agree that this is another example of the Government acting quickly to reverse problems that were created by Labour legislation, and that that has been the record of the Government during this Parliament? The humbug is on the Opposition Benches.

Mr. Younger: My hon. Friend is perfectly right. He is particularly concerned about the ratepayers in Angus, about whom he has been in touch with me many times over the past few weeks. I am glad that he has confirmed that this measure will be a help to those ratepayers. I am also glad that my hon. Friend mentioned speed, because at every point in its process, which was supported by the Opposition parties, all of whom agreed that there should be revaluation now, as soon as the Government have seen the information about what the scale of the increase will be, we have responded with extra help, first for domestic and then for commercial ratepayers. It is only the

Opposition parties, with their blinkered attitude to helping ratepayers, who have not welcomed this speedy, efficient help.

Mr. Donald Stewart (Western Isles): Is the Secretary of State aware that the scheme that he has announced today will still leave a substantial body of ratepayers paying 300 per cent. more than they have previously paid for rates? Does he think that he can project himself as a Santa Claus by coming with £50 million when the Government have just spent £450 million on an airfield in the Falklands? We have to keep the matter in that context. As the right hon. Gentleman accepts that there is a case for relief in this year, he cannot deny that this relief must be continued on an even wider scale until the Conservative Government relieve the ratepayers of the present system.

Mr. Younger: I explain again to the right hon. Gentleman, as it may not have been clear from what I said, that no ratepayer in Scotland, either commercial or domestic, will be facing an increase of 300 per cent. I have said that three times the rateable value will be the trigger for this help, which will mean that increases in what ratepayers have to pay will be paid at a much lower level than that. I am not responsible for airports in the Falklands, but only for airports in Ayrshire.

Mr. Gerald Malone (Aberdeen, South): Is my right hon. Friend aware that the ratepayers in the city of Aberdeen and in Grampian region will not share the view of the hon. Member for Gordon (Mr. Bruce) that my right hon. Friend has a warped sense of priorities in bringing forward such a measure of relief, but that they will thank him for it? It is good that smaller businesses will benefit from this, as a large number of commercial concerns in my constituency were suffering and will welcome this measure.

Mr. Younger: I am grateful to my hon. Friend, and he is right to say that our principal objective for commercial ratepayers has been help for small businesses. Strong representations about the increases have been made to us by those people and I am glad to be able to help. I could not more agree with my hon. Friend. It will be interesting to have on record that the hon. Member for Gordon (Mr. Bruce), and I presume the Liberal party, think that this is a wrong set of priorities.

Mr. Hugh Brown (Glasgow, Provan): Whatever the motivation of this statement, it is a significant one, as it changes the rates liability for a minority of ratepayers, both domestic and commercial. How many people does the Secretary of State expect will benefit? Is it the intention to have a discretion about the upper limit of relief? Will there be consultation with COSLA and the assessors association before the regulations come to the House?

Mr. Younger: I am grateful to the hon. Gentleman for making an important point. It is unusual, and I do not know whether this has ever been done before in Scotland following a revaluation. As to the numbers affected, I expect—it is difficult to be precise—that this will probably help about 50,000 commercial ratepayers and it might help as many as 250,000 domestic ratepayers. The regulations will spell out the methods by which this will happen, but the Bill will spell out the general principles of allowing help to be given to commercial ratepayers, which is not possible at the moment.

Mr. Michael Hirst (Strathkelvin and Bearsden): I warmly congratulate my right hon. Friend on his success in obtaining fresh funds to help the hardest pressed Scottish ratepayers. His statement will be most warmly welcomed by the many family-owned businesses, particularly in Strathkelvin and Bearsden, which are facing significant increases in their rates bill this year.

Further, does my right hon. Friend agree that it is a measure of the pathetic inability of alliance Members to calculate figures that two weeks ago they were seeking relief amounting to £4 million for commercial ratepayers as opposed to the £40 million of relief which my right hon. Friend has announced today?

Mr. Younger: I thank my hon. Friend for his welcome of this measure. I can only contrast it with the fact that the Opposition, including the Liberal party, appear to be highly unhappy about the fact that we are providing help which is not only generous but about 10 times the maximum level asked for by any of the Opposition parties. It is clear who is prepared to put their money where their mouth is for Scottish ratepayers.

Mr. Dick Douglas (Dunfermline, West): Would the Secretary of State care to explain to the House exactly what he means by "new money"? Is this not recycled money? He has won back from the Chancellor money which the Chancellor had already taken. Will he explain to the House the position about revaluation and the rating system in Scotland? Would it not be better for him to say that he is interfering with revaluation and that we ought to postpone the whole exercise so that local government finance can be placed upon a reasonable footing?

Mr. Younger: The answer to the hon. Gentleman's first question is that "new money" means what it says. It will not lead to reductions in any other part of the Scottish Office programme. Therefore, it will come from the contingency fund. As for the hon. Gentleman's second point, he is absolutely right. This is interfering with the results of revaluation. Whether or not he has decided to change his mind, I would remind him that he, through his party, has solidly supported revaluation.

Mr. Douglas: I have not.

Mr. Younger: Yes — under the leadership of the hon. Member for Glasgow, Garscadden (Mr. Dewar) and his predecessor, I was pressed to ensure that revaluation took place this year. So did the Convention of Scottish Local Authorities. As for interfering with the results of revaluation, of course it is, because we can see the hardship that it is causing to domestic and commercial ratepayers and we are prepared to do something about it.

Mr. Barry Henderson (Fife, North-East): I apologise to my right hon. Friend for having missed hearing him make his statement, which will be warmly welcomed by those in the commercial sector who are most affected. Is he aware that for the average ratepayer in Fife the real problem lies with the overspend by 8p in the pound of Fife regional council? In addition to helping those who have been hit by revaluation, can my right hon. Friend assure the House that he will shortly be announcing selective action against wildly overspending authorities such as Fife?

Mr. Younger: My hon. Friend is absolutely right about the effect of overspending. As I said a few moments ago, two thirds of the increase that, on average, people are

facing in Scotland is due to the overspending of councils. That is the main point and my hon. Friend is absolutely right to make it. As for the rest of his question, I agree that this matter will have to be carefully considered, but I am not yet in a position to make an announcement about possible selective action against any particular authority.

Mr. Tom Clarke (Monklands, West): Will the right hon. Gentleman accept that the word "overspending" is a Government term plucked out of thin air, and that it is based on nothing else? Secondly, will he accept that this turmoil did not arise over previous revaluations, because the rate support grant settlements at that time anticipated events? Finally, will he discourage his hon. Friends from insulting local authorities which will have to deal with the changes that have been announced in this statement, because their goodwill is essential if they are to rescue their ratepayers from the muddle created by the Government?

Mr. Younger: The hon. Gentleman is failing to give the whole picture—unintentionally, I am sure—when he questions the level of overspending. The truth is that local authorities in Scotland are still planning to spend next year nearly 2 per cent. more in real terms than they were spending in 1979. That is a measure of the overspending of certain councils, bearing in mind that a large number of councils—about half of them—are not overspending but are spending within the guidelines. That puts the matter into perspective. I hope that the hon. Gentleman will agree that, whether or not we wish it to be that way, all Governments have to exercise some control over local Government spending. The hon. Gentleman's own Government, when he was in COSLA, had to propose in 1976 the most stringent and severe reductions that were ever made. The hon. Gentleman should recognise that the right hon. Member for Glasgow, Govan (Mr. Millan) did that.

Mr. Robert MacLennan (Caithness and Sutherland): Does the Secretary of State forget that, long before revaluation, both parties of the alliance called for the relief of commercial ratepayers from the burdens of revaluation and from the system, which we called upon him to change? Does he remember, though he dismissed this appeal in the House at the time, that we pressed him to take commercial subjects into general taxation and out of rates altogether and to allow local authorities to recoup some finance by way of charging for their services? Therefore, his attack on the Liberal party is wholly misplaced. The Liberal party and the Social Democratic party have been urging radical reform. If the Secretary of State chooses to overlook this fact, commercial ratepayers in Scotland, like commercial ratepayers in England, will not, when given the opportunity.

Mr. Younger: If the hon. Gentleman and his colleagues have been campaigning for not having a revaluation, they have been doing it silently, which seems to be a very strange way of going about it. I have looked up the record. They did not object to revaluation, or oppose it in any way. The hon. Gentleman may have been campaigning for the relief of commercial ratepayers, but I have not noticed him doing so. If he was, he was calling for a maximum sum. The biggest sum was about £5 million. [HON. MEMBERS: "No."] That is the biggest sum asked for by anybody. Most of them were much smaller.

This Government have produced a great deal more money. From a neutral position in between the two parties, I should have thought that the hon. Gentleman would be glad to congratulate the Government upon having done so.

Mr. John Home Robertson (East Lothian): Will the Secretary of State let us in on a wee secret about the priorities which were in his mind when he was compiling this interesting package? Was it, on the one hand, the resolution of the long-term problems of local government finance in Scotland, or was it, as some of us believe to be more likely, the short-term preservation of Conservative seats in Scotland?

Mr. Younger: The priority which I have had in mind, if the hon. Gentleman has not, has been the plight of those ratepayers who have suffered very large rates increases. I am prepared to do something about that. The hon. Gentleman, apparently, is not.

Mr. William McKelvey (Kilmarnock and Loudoun): I welcome the statement that has been made by the Secretary of State for Scotland. It will give me the opportunity to tell the good people of Kilmarnock, hopefully on Radio West Sound tonight, that the representations and protests that I have made steadily over the past six months to the Secretary of State on their behalf have eventually borne fruit. If the £50 million which is to be paid back is added to the £38.5 million that was previously redistributed to ratepayers in Scotland, it totals almost £90 million. If this had been added to the cut in rate support grant in 1984, it would have brought the rate support grant back to the level at which it stood last year, a level which the Opposition have been arguing for the past nine months ought to have been retained. It will be a financial nightmare to try to work out this formula. We await with interest just how much pleasure or displeasure will be shown by some ratepayers over the pay-out system.

Mr. Younger: I am very encouraged to learn that the hon. Gentleman, who is a constituency neighbour of mine, has, apparently, second sight. I understand that he started campaigning for help six months ago. He was therefore in the position of supporting revaluation, but before he knew the results of revaluation he demanded that it should be modified by help for commercial ratepayers. That is very nice to know. I am grateful for the hon. Gentleman's welcome of the proposals. May I reassure him that the calculations are relatively simple to make. If one's valuation has gone up by more than three times and one is either a commercial or a domestic ratepayer, one is entitled to help on this basis of 100 per cent. of the amount applicable to that, above three times, subject only to the £10,000 cut-off.

Mr. David Lambie (Cunninghame, South): The right hon. Gentleman is wrong in stating that in 1983 everybody in Scotland was in favour of the 1985 revaluation. May I remind him that some of us have been warning him not only about the effects of the 1985 revaluation but also about the effects of the 1978 revaluation, because revaluation in England has been halted since 1973. In 1978, I had the right hon. Gentleman's support against that revaluation, but at the time he was in opposition. When will the Government and all the other political parties in the House stop tinkering with the rating system in Scotland, abolish it and the assessors' departments and introduce a 100 per cent. Government grant? When will

they get rid of all this and allow local authorities to spend their money in whatever way they want? That is the only solution; I hope that the right hon. Gentleman will allow that to be considered during the passage of his Bill.

Mr. Younger: I appreciate the hon. Gentleman's point. Perhaps I have done him an injustice. I always assume that, whatever the Labour party is in favour of, he will be against. I should have realised that earlier. I notice his wish, which I have known for a long time, to abolish the rating system altogether. That is one of the things that will be taken into account in the further review that is now under way.

Mr. Gordon Brown (Dunfermline, East): Will the right hon. Gentleman accept that the real crisis in local government is that he has taken £1,000 million from local government since 1979 and that Fife region has suffered severely from that policy. If Conservative Members want to change the policies of Fife region, they should do so by the ballot box at local authority elections, not by Government diktat. Will the right hon. Gentleman now answer one question that he has so far omitted to answer? Will there be relief for domestic and commercial ratepayers next year—yes or no?

Mr. Younger: On the £1,000 million, the hon. Gentleman has made a calculation of what might have happened, but he has ignored the fact that local government spending has gone up in real terms since 1979. That puts his remarks entirely in perspective. At a time when many other parts of the public sector have had to cut back, local government has not yet succeeded in doing so.

I appreciate that Fife region would like to spend more money, but I note that it appeared to have no difficulty in finding £2 million to spend in support of striking miners, so it cannot have been that pushed for money.

I have already said that next year will fall to be considered in the normal way when next year's public expenditure is under consideration.

Mr. John Maxton (Glasgow, Cathcart): Why does the right hon. Gentleman keep insisting that he has acted on the basis of new facts, when the Government must have known the effect of revaluation six months ago? Is it not the case that the only facts that the right hon. Gentleman has taken into account over the past few weeks are the opinion polls in Scotland, local government election results and the letters that he has been receiving from thousands of his constituents and from his Back Benchers?

Will the right hon. Gentleman accept that the answer that he has just given about next year simply is not good enough? Will he make it clear that he repudiates the statement made by the Chancellor of the Exchequer at Perth last weekend and that if he does not win the argument between himself and the Chancellor in the Cabinet he will resign as Secretary of State for Scotland?

Mr. Younger: On the question of new facts, the hon. Gentleman needs to study the timings of this re-valuation a bit better. Nobody, not even the Secretary of State, can know the results of the assessors' calculations before the assessors have made them.

Mr. Harry Ewing (Falkirk, East): The right hon. Gentleman was warned by the assessors as far back as November last year.

Mr. Younger: The hon. Gentleman anticipated what I am about to say. The first information came in late

[Mr. Younger]

October. As soon as the first information was to hand I took action and raised the domestic rate relief from 1p to 5p. When the further refinement of the figures was available in February we went further and at the first moment increased the 5p to 8p. During the last few weeks we have been assessing the details of the assessors' views on the valuations for the commercial subjects. In the face of the fact that there is no legislative provision for helping them now, we have assessed the matter and have produced proposals and a larger sum of money than anyone asked for in order to help them. In all honesty anybody who is being at all objective would say that that is a pretty good response to a difficult problem.

Mr. Archy Kirkwood (Roxburgh and Berwickshire): Reference has been made to the contents of my ten-minute Bill and I want to take the opportunity to put the record straight. First, I welcome the proposal. I do not want to be niggardly about that. I think that my hon. Friends will also welcome it. Anyone who studies my introduction to the ten-minute Bill will see that I talked about £5 million being a start, but, there is an important second objective in the proposal that I was putting forward. It is that the Bill was designed to help those whose increases were in the same order of magnitude as the level of profits. My worry is that some of the £40 million will go to a lot of businesses in Scotland which do not need that to survive. That is why there is a difference in scale. It is a bit unfair for the Secretary of State to imply anything different about the scheme which was worked out by the National Federation of Self-Employed and Small Businesses.

Mr. Younger: I have made no mention of the federation; I have been referring to that august body, the Liberal party, which has been posing as the supporter of the commercial ratepayer without the faintest idea how much money was being asked for or what it was for. With great respect to the hon. Gentleman, before he introduces another ten-minute Bill he had better get his figures right.

Mr. Jim Craigen (Glasgow, Maryhill): A threefold increase in rateable value will be necessary before commercial or domestic ratepayers are eligible for this new form of relief. I know that the Scottish Office will reimburse the authorities' expenses, but how will the money be paid out by the rating authorities? The Secretary of State said that in the commercial sector the average effect of revaluation had been neutral. How many in the

commercial sector fall between that neutrality and the threefold increase in rateable value that was referred to in the statement? How did the right hon. Gentleman work out that those eligible in the commercial and domestic sectors will roughly equate to £40 million and £10 million?

Finally, the Secretary of State says that it is not his job to do the work of the assessors. May we take it that in terms of administering the scheme he is really proposing that the cut-off point of the threefold increase should be entered into the valuation roll, or will it simply apply to the demand notices for 1985-86? With hindsight, does he not wish that he had looked a bit more closely at the provisional figures that he was receiving last November instead of creating all this chaos in the rating and valuation system?

Mr. Younger: On the hon. Gentleman's last point, however closely I looked at the figures given in November they showed the commercial sector as neutral. It was only when the detailed figures began to come through that we discovered, as did the hon. Gentleman that while the generality is neutral there are some with vast increases at the top end, and, of course, there are also some with vast reductions, but people keep quiet about that.

The hon. Gentleman asked about the method and the threefold threshold. That has to be seen against the background that the average increase in valuation for domestic ratepayers is 2.7 times. That is pretty generous in that it is pretty close to three. For commercial ratepayers the average increase in rateable value is 2.2 times and, again, we cannot be said to be ungenerous when we are going to start the extra help at three times. I think that most hon. Gentlemen will agree with that when they think about it.

As for the commercial sector being neutral, I cannot make the calculation at the moment as to how many are not affected by the assistance, still less the breakdown between those who are between the 2.2 times and the three times and those who are below 2.2 times and who will therefore receive reductions in their rates. It is difficult to give those figures, but, as I said earlier, about 50,000 of the worst affected commercial ratepayers will get this relief for which I am sure they will be grateful.

A ratepayer who feels that he comes within the scheme need do nothing immediately, but, if the Bill is enacted, he will apply to his local authority for relief which he will get in due course. On the method of doing that I shall have to consult COSLA and obtain its views.

Rent (Amendment)

4.19 pm

Mr. Michael Mates (Hampshire, East): I beg to move,

That leave be given to bring in a Bill to make further provision as to the circumstances in which possession of a dwelling-house is recoverable under Case 11 in Schedule 15 to the Rent Act 1977 and Case 11 in Schedule 2 to the Rent (Scotland) Act 1984 and as to the parliamentary procedure applicable to an Order in Council under paragraph 1(1)(b) of Schedule 1 to the Northern Ireland Act 1974 which states that it is made for corresponding purposes.

The Bill seeks to put right a flaw in two previous Rent Acts which has come to light only recently as a result of an Appeal Court decision.

It was the universally held view that case 11 of schedule 15 to the Rent Act 1977, which repeated the provisions of the Rent Act 1965, meant that an owner who let his or her home on a contractual tenancy while he or she was away could repossess that home once the contract had ended. The Appeal Court, however, in the recent case of *Pocock v. Steele* found that, because there had been a further letting during the absence of the owner, that provision did not apply. Therefore, my constituent, Mrs. Pocock, was unable to get back her home and her possessions inside it.

The result of that judgment is that many people who have let their homes in good faith for a short period while they are away overseas—perhaps on Crown service or on private business—may not now be able to repossess either their homes or their goods and chattels inside their homes.

The purpose of the Bill is, therefore, to restore the law to that which Parliament thought it was when it enacted those measures—first, the Labour Government in 1965, the Labour Government again in 1977 and the Conservative Government in the Housing Act 1980. We seek to restore the position to that which every Member of the House thought it was at the time when those measures were enacted.

It will not be news to the House that this sort of legislation cannot be enacted by a private Member without the consent of all the parties in the House. I am happy to

say that this is one of the more civilised occasions in the House when all parties are agreed that the Bill should become law at the earliest possible moment.

I am grateful not only to the hon. Member for Copeland (Dr. Cunningham), but to the hon. Member for Birmingham, Perry Barr (Mr. Rooker) who has written to me in generous terms:

"I write on behalf of the Official Opposition to confirm that we have no objection to your proposed Bill. Indeed we hope it reaches the Statute Book."

I am grateful also to the hon. Member for Southwark and Bermondsey (Mr. Hughes), who speaks on housing matters on behalf of the Liberal party, and to the hon. Member for Woolwich (Mr. Cartwright), who does the same on behalf of the Social Democratic party. The fact that I have not contacted hon. Members representing all the minor parties is a matter for which I apologise, but I have been unable to identify who speaks on this matter.

I therefore hope that I shall be given leave to bring in the Bill and that, with the help of all concerned, it will have a speedy passage through the House and become law, so that the law returns to that which we all thought it was until the Appeal Court, in its correct independence, informed us otherwise.

Question put and agreed to.

Bill ordered to be brought in by Mr. Michael Mates, Mr. John Cartwright, Sir Paul Hawkins, Mr. John Heddle, Mr. Simon Hughes, Mr. Allan Roberts and Mr. Neil Thorne.

RENT (AMENDMENT)

Mr. Michael Mates accordingly presented a Bill to make further provision as to the circumstances in which possession of a dwelling-house is recoverable under Case 11 in Schedule 15 to the Rent Act 1977 and Case 11 in Schedule 2 to the Rent (Scotland) Act 1984 and as to the parliamentary procedure applicable to an Order in Council under paragraph 1(1)(b) of Schedule 1 to the Northern Ireland Act 1974 which states that it is made for corresponding purposes: And the same was read the First time; and ordered to be read a Second time upon Friday 17 May and to be printed. [Bill 146.]

Orders of the Day

Oil and Pipelines Bill

Order for Second Reading read.

4.24 pm

The Minister of State, Department of Energy (Mr. Alick Buchanan-Smith): The House is familiar with the background to the Bill. Over the last six months we have had two reports from the Select Committee on Energy and, as a result of the reports of that Committee, we have had two debates on the Supplementary Estimates which the Government have asked the House to approve for grants to cover trading losses of BNOG. On 13 March I announced the Government's conclusions regarding the future of BNOG. At this stage I should like to pay tribute to the work of the Select Committee on those two reports.

I appreciate that the conclusions to which the Government have come are not of course the conclusions of the Select Committee, but it is significant that the analysis that led up to those conclusions was very helpful to the Government in reaching their conclusions. Indeed, I think that there is not a great deal of difference between the Government's analysis of the background and the analysis of the Select Committee. I certainly pay tribute to the work of the Select Committee leading up to the Bill. I wholly accept that the Select Committee will not necessarily agree with the Government's conclusions, and I make that point plain. The analysis was very helpful, as was the evidence taken by the Select Committee.

When I announced the Government's conclusions on the future of BNOG I mentioned—and I repeat today—that it is our belief that the balance has shifted decisively against the retention of BNOG in its present form. At the time of the announcement and in the brief debate on the report of the Select Committee, I made it clear that the Government believe that there are a number of functions currently performed by BNOG that should be retained. First, there is the function of the custody of participation agreements; secondly there is the power to dispose of royalty in kind, and thirdly, the power to act as agent for the Government in the management and running of the Government's oil and pipeline system. The conclusion that I announced on 13 March was that it was appropriate to establish a small oil and pipelines agency to perform these functions. The Bill, if approved, will give effect to these conclusions.

I do not intend to go into all the details and the background of the reasons for the abolition because I outlined those in my statement, and the House considered them in the debate on the Supplementary Estimate initiated by the Select Committee.

The Bill seeks to preserve what we believe to be of continuing value with regard to BNOG's current institutional arrangements and to discard those parts of its arrangements which we believe have become outdated or in some cases a potential liability. The one item which we believe is outdated and has a potential to become a liability concerns the contractual arrangements under which BNOG acquired and sold participation oil. Although, as I freely acknowledged in earlier debates in the House and in my evidence to the Select Committee, that is a function which has been important in the past and one which BNOG has

performed with distinction, I believe that for a number of reasons it has now ceased to provide a means to prevent instability. It was in the means to prevent instability that the main purpose of the exercise of this function lay. The reason, as I explained to the House previously, is that in recent years, and particularly in recent months, we have seen fresh developments in the market which I believe give these arrangements for contracting and trading in participation oil the potential to spark off a cycle of competitive undercutting which, far from being a force against destabilisation, would run a serious risk of dragging down prices to an unsustainable level. That was very much the basis of the evidence that I put before the Select Committee, and which we discussed during our debate on the Supplementary Estimate. Therefore, we have had a full debate on that matter. Basically, it stems from the growth, not only in the United Kingdom but worldwide, in the spot market and the decline in contract sales at a term price. As we do not envisage those forces changing in the foreseeable future, we believe that it is right to change the institutional arrangements to take account of the changes in the oil market over recent months and years.

I wish to make it clear that this is not a case—as the hon. Member for Merthyr Tydfil and Rhymney (Mr. Rowlands) tries to make out—of trying to cut down some lame duck state corporation that has been losing money through inefficiency or failings. That is most certainly not the Government's view. What we are doing is no reflection on the corporation or its staff. The corporation maintained its prices after consultation with the Government and taking account of the national interest. It is our continuing belief that those decisions were correct in the national interest. However, because of those decisions it was necessary to come to the House for a Supplementary Estimate to cover the losses. Our proposals today are no reflection on the staff or the operation of the corporation, but simply on the development in the structure of oil markets that we have discussed at length on previous occasions.

Although we are discarding the major function and purpose of BNOG, it has other functions and purposes. One of those, to which the Select Committee attached importance, is security of our supplies. That is central to the whole matter. On its other functions, while there were contract sales at term prices BNOG served a useful purpose in providing transparent evidence of arm's length prices for North sea oil. That was helpful to the oil taxation office for transfers of oil within integrated oil companies. However, that must be considered apart from the structure and organisation of BNOG, because the virtual disappearance of term prices for oil destroys the value of the diminishing evidence available to the oil taxation office. Therefore, although it served a useful purpose in the past, it is not appropriate in the changed market circumstances.

Mr. Bruce Millan (Glasgow, Govan): Even if we accept what the Minister says—which we do not—what steps are the Government taking, through the oil taxation office or by any other means, to deal with changing circumstances to ensure that the taxpayer is not ripped off by fancy transfer prices or various devices to reduce the tax burden?

Mr. Buchanan-Smith: The right hon. Gentleman has a direct interest in these matters, so I am surprised that he



cc T E
Scottish Office & Treasury should
enquire about details

AT
AT 14/5

SCOTTISH OFFICE

WHITEHALL, LONDON SW1A 2AU

CONFIDENTIAL

Richard Broadbent Esq
Private Secretary to the Chief Secretary
Treasury Chambers
Parliament Street
LONDON SW1

13 May 1985

Dear Richard,

RATING AND VALUATION (SCOTLAND)

I attach a draft of the statement which my Secretary of State will be making tomorrow about the proposed scheme to relieve commercial ratepayers in Scotland.

The figure in the penultimate paragraph is in brackets because my Secretary of State has yet to see the Chief Secretary's letter, which has just reached us. I think it is possible that he may wish to speak to the Chief Secretary tomorrow morning once he has seen it. I know that your officials would prefer the figure to be £50m.

I am copying this letter and the enclosure to Andrew Turnbull (No 10), John Ballard (DOE), Alison Smith (Lord Privy Seal's Office), Murdo Maclean (No 12) and David Beamish (Private Secretary to the Chief Whip and Leader of the House of Lords).

Yours sincerely,
John S. Graham

J S GRAHAM
Private Secretary

CONFIDENTIAL

DRAFT STATEMENT BY SECRETARY OF STATE IN HOUSE OF COMMONS ON
[TUESDAY 14 MAY]

RATING AND VALUATION (SCOTLAND)

With permission, Mr Speaker, I should like to make a statement about the Government's proposals for legislation to give some relief to certain ratepayers in Scotland who have in 1985-86 seen the rateable values of their property increase very steeply.

In the August 1983 White Paper on rating reform in Scotland (Cmnd 9018) the Government reaffirmed our earlier decision to have a full Scottish revaluation in 1985. This was approved by all parties in Scotland and by COSLA, who considered it important that the valuation rolls should reflect fairer and more up-to-date values.

As information became available from assessors about the likely general effect of revaluation, I took various steps to offset the more extreme effects. In particular, I have twice increased the domestic element of the rate support grant - by a total of some £88 million - so that it now amounts to 8p in every £1 rateable value for domestic ratepayers: and because of the benefits secured by industry overall I reduced the percentage of industrial derating from 50% to 40%.

Nevertheless it is all too clear that there are still many domestic ratepayers whose valuation increases have been particularly steep and who still face very substantial increases in their actual rate bills. Furthermore in the commercial sector, though the average effect of revaluation has been neutral, there are significant numbers of businesses facing very severe increases. No businessman, however enterprising, could ever have been expected to plan for a rates demand like some of the hugely increased bills which have now arrived.

The Government have therefore decided to introduce a scheme to help ratepayers faced with very high increases in their valuations. They will be given a new

statutory right to claim 100 per cent relief in respect of that part of their 1985-86 rates bill related to all of their new valuation which is in excess of 3 times their 1984-85 valuation. The right will extend to domestic and commercial ratepayers alike; it will not extend to property occupied by local authorities and the Crown; public undertakings valued by statutory formula; and manufacturing industry and freight-transport subjects. The scheme will be administered by rating authorities, to whom I will reimburse the full cost of the payments. The new relief will have no effect on statutory rights of appeal or on other rights and duties, though where an appeal is successful, the amount of relief will fall to be adjusted accordingly.

The new relief is intended to ease the immediate burden arising from the high valuation increases which took effect at 1 April and will apply in the year 1985-86. I will consider in due course whether there is a case for any special relief in 1986-87.

I estimate that the relief, which will be new money from the taxpayer, will cost something of the order of [£60] million.

A Bill providing for the new relief will be published [as soon as possible]. I hope hon Members opposite will, as the hon Member for Glasgow, Garscadden, has already indicated, give support to us in our endeavours to bring the scheme into force at the earliest possible moment.

There is no need for any ratepayer who thinks he will benefit from the scheme to act until the Bill has been brought into operation.

LOUIS GALT notes

14 MAY 1985



NBPM

AT

13/5

Treasury Chambers, Parliament Street, SW1P 3AG

R: Hon George Younger TD MP
 Secretary of State for Scotland
 Scottish Office
 Dover House
 Whitehall
 London
 SW1A 2AU

13 May 1985

Hon George

**PROPOSED RATE RELIEF (TEMPORARY PROVISIONS)
 (SCOTLAND) BILL 1985**

Thank you for your letter of 8 May.

I accept that a limit on rateable value above which businesses would not be eligible for relief would create anomalies at the boundary. I am content that this should not be pursued.

While I understand your reluctance also to adopt the alternative suggestion of a ceiling on individual payments I think we must consider this option if we are to target relief on small businesses as we discussed on 1 May. We are all concerned at the plight of small businesses, and statements so far have emphasised this. If we do nothing to show that we are directing help specifically towards them I think we are liable to provoke even more criticism from the small man who will see very substantial payments to large chain stores and others as pre-empting his relief.

A ceiling on individual payments will also reduce the cost of relief. For example a limit of £2,000 relief for any one property could save up to 10 per cent of the cost - enough to cover a large part of our margins of error - and still leave 60 per cent of all highly revalued non-domestic property with 100 per cent relief. Larger properties, predominantly owned by the bigger companies would retain substantial aid though not at 100 per cent.

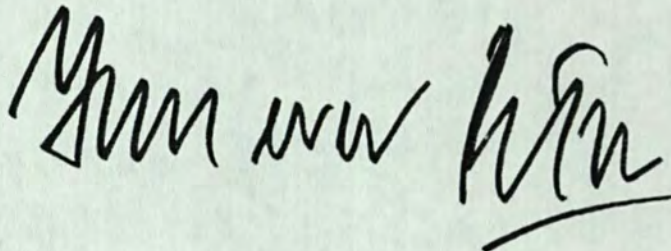
I would be prepared to agree a limit as high as £5,000, which would give 100 per cent relief to almost all businesses with a rateable value of £10,000 - almost all family name shops and 86 per cent of all non-domestic property. This arrangement would give - and be seen to give - protection specifically to small

CONFIDENTIAL

businesses. I am bound to say that if you wished to set even higher limits I would look to you to find the necessary money from within your programmes.

To allow us to discuss the possibilities further I hope you will agree that your announcement tomorrow should make the point that there will be a provision to concentrate help on small businesses - especially if you intend to also reveal the qualifying revaluation factor of 3.0. Meanwhile, since your cost estimates have been based on a narrow sample and the need for secrecy has prevented further work on them until now, I think it would be sensible for our officials to discuss the more precise cost estimates that will be needed before presenting estimates to the House.

Copies of this letter go to the Prime Minister, the Lord President and to Patrick Jenkin.

A handwritten signature in black ink, appearing to read 'Peter Rees', written in a cursive style. The signature is positioned above the printed name.

PETER REES

CONFIDENTIAL

13 MAY 1985

11 12 1
2
3
4
5 6



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

8 May 1985

Eddie Gowans Esq
Private Secretary to the
Secretary of State for Scotland

Dear Eddie,

SCOTTISH CONSERVATIVE PARTY CONFERENCE: RATES

The Chancellor has seen a copy of the draft speech to the Party Conference on Rates.

As you know there is an outstanding remit from the meeting with the Prime Minister on 1 May to consider how aid might be targetted more closely on small business. You will also be aware of the extreme uncertainty of present estimates of the cost of the proposed relief - which are based on small samples of properties from a very limited area of Scotland. In view of these points he considers that the statement in paragraph 5 of the last page that the cost "will be well over £40 million" is a hostage to fortune and should be changed. A statement on the lines that the assistance provided would be substantial would make the necessary point.

In the fourth paragraph of the second page the draft says, on revaluation:-

"Goodness knows what changes in valuation they (England) will have when they do have one."

It has already been announced that the necessary work for a non-domestic revaluation in England has been put in train - and it has been made clear that this will not affect the overall burden on the domestic ratepayer. In these circumstances we consider this statement alarmist and better left unsaid.

Finally, the Chancellor considers that the second paragraph on the first page might be better redrafted to exclude "thoroughly" (in the second line) and "during the lifetime of this Parliament" in line 3; and that the first sentence of the sixth paragraph on page 1 of the draft should end at "proposals", the rest being omitted.

I am sending copies of this letter to Andrew Turnbull and John Redwood.

*Yours ever
Rosalind Lomax*

MRS R LOMAX
Principal Private Secretary

AT
CC ✓ SS

LOCAL GOVT. Rates.

CONFIDENTIAL

ADBM
15/5
CENO.



PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

8 May 1985

Dear Lord

PROPOSED RATE RELIEF (TEMPORARY PROVISIONS)
(SCOTLAND) BILL 1985

Thank you for your letter of 2 May asking for clearance for the drafting of this Bill.

As it is proposed to include this Bill in the current Session, approval is for the Lord Privy Seal as Chairman of L. I understand that he will be writing to you accordingly.

For my own part, as Leader of the House of Lords, I should say that I am not looking forward to such a Bill so near to the end of the Session. However co-operative the Opposition in the House of Commons proves to be (and I am not convinced myself that the Bill will be as uncontentious as you suggest) I am sure that in the House of Lords it would give the opportunity for a wide ranging discussion of the rates system. Nevertheless, I do understand the reasons why we must go ahead and we shall do our best to get the Bill through as quickly as possible.

One thing which we cannot afford to do, however, is to rush its preparation. With a Bill of this kind, the detailed points can often cause as much trouble as the major policy issue and I think therefore you will be well advised to ensure that both the detailed policy and the drafting are adequately prepared.

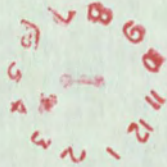
I am sending copies of this letter to the Prime Minister, the Secretary of State for the Environment, the Chief Secretary, the Lord Privy Seal and the other members of QL and to Sir Robert Armstrong.

George Younger
Walter

The Rt Hon George Younger TD MP

CONFIDENTIAL

Revolution : LOCAL GOVT. P+3.



09 MAY 1985

CONFIDENTIAL

MBPM

AF 8/5

~~CEAO~~



PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

8 May 1985

Dear George,

PROPOSED RATE RELIEF (TEMPORARY PROVISIONS) (SCOTLAND) BILL 1985

I have seen your letter of 21 May 1985 to Willie Whitelaw, asking for agreement to the drafting of this Bill. You also ask for my views on a statement on 14 May and whether the Bill needs to be discussed at Legislation Committee.

In fact, all three points are for me, since the proposal is for the Bill to be included in the present session's programme. I must say in passing that as a Business Manager I would have expected to be advised rather earlier that a new Bill this session was likely to be required.

I understand that drafting is proceeding and clearly the earlier the Bill can be introduced the better at this stage in the session. I am not quite as sanguine as you are about the uncontentious nature of what is being proposed, especially when English Members realise the full impact. I hope that the Bill can be ready in time for introduction in the week beginning 20 May but I see no reason why this should preclude a discussion in Legislation Committee. The function of the Committee is to act as a longstop for all pieces of legislation and this Bill will not be so simple or so uncontentious that it does not also deserve that treatment. If, therefore, the Bill can be ready for a meeting of the Committee on 22 May, we can ensure introduction by the end of that week. If not, it should come to a meeting of Legislation Committee on 5 June.

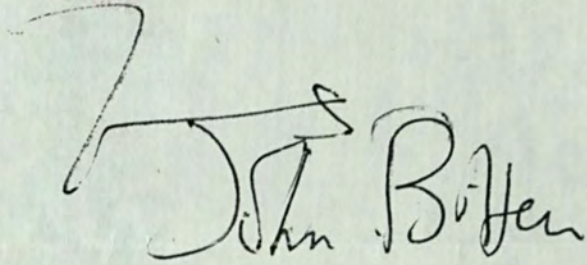
./...

Rt Hon George Younger MP
Secretary of State for Scotland

CONFIDENTIAL

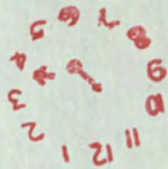
As far as a statement is concerned, I see no objection to 14 May in principle but perhaps your office could be in contact with mine on the details.

I am copying this letter to the Prime Minister, the Lord President, Patrick Jenkin, Peter Rees, the other members of QL and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to read "John Biffen". The signature is written in a cursive style with a large, sweeping initial "J" that extends upwards and to the left.

JOHN BIFFEN

Rating Revaluation: LOCAL
Gov. Pt 3



-8 MAY 1985



~~se~~ SS
MA

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

CONFIDENTIAL

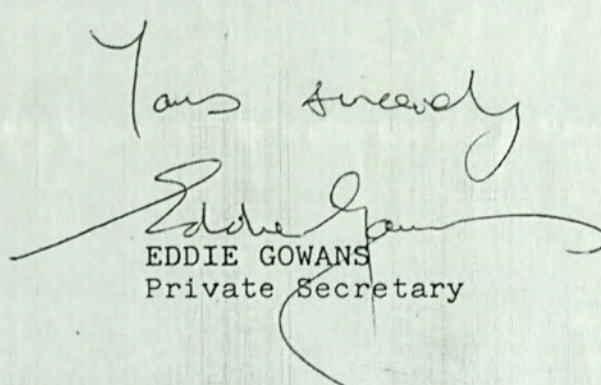
John Ballard Esq
Private Secretary to
the Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON
SW1P 3EB

7 May 1985

Dear John,

SCOTTISH CONSERVATIVE PARTY CONFERENCE: RATES

I refer to our telephone conversation at the end of last week when you requested a copy of the text of my Secretary of State's speech to the Party Conference on Rates. I now attach a copy of the text which I am also circulating to Andrew Turnbull and John Redwood (No 10 Policy Unit).

Yours sincerely

EDDIE GOWANS
Private Secretary

RATES DEBATE

In accepting this motion I would like to make it clear that all of us in Government fully appreciate the strong feelings that have been expressed both here in Conference and over the past few weeks in every constituency in Scotland.

I accept on behalf of the Government that we are expected to take action on our thoroughly unsatisfactory system of local government finance during the life of this Parliament. It is our intention so to do.

As you know, we set up a ministerial committee under Kenneth Baker last October after the Party Conference at Brighton, to review the local government financial system and to recommend what changes should be made.

Michael Ancram is a member of that Committee, and is ensuring that the Scottish interest is fully represented.

All reasonable options are being carefully re-assessed and the work is proceeding well, although we are not yet ready to announce conclusions.

You can be assured, however, that there will be no unnecessary delay in bringing forward proposals, and it is our clear intention that although there are no foregone conclusions, the "status quo" is not an option. But I must particularly answer some of the main points raised about revaluation.

First about timing. And I hope all concerned will face up to the facts about this.

The law of Scotland is clear. There has to be a revaluation every five years, and it can only be postponed - to a particular year - by a Parliamentary Order delaying it for some good reason.

We already postponed this one from 1983 to 1985 and, in the face of the statute it would be very difficult to continue finding excuses every year for pressing for revaluation for some time. They are keeping a bit quiet about that, aren't they? In any case would we wish it postponed to 1986 - or 1987 - or 1988?

And remember, each further year would mean a still greater increase in the rateable values than the ones which are causing so much anguish now.

England has quite different law on this matter.

They are under no obligation to have a revaluation at any particular time. The Government can move to have one whenever it wishes and, as you know, they haven't had one for 12 years now. Goodness knows what increases in valuation they will have when they do have one.

And while I am about it can I put right this point about the English?

They had no part whatever in deciding to have a revaluation in Scotland.

The original legislation laying down revaluation every five years was passed by agreement of all the Scottish MP's. It was they who unanimously laid this down and not English MPs. Devolutionists please note!

What is more there was strong pressure from the Opposition to have this revaluation this year. Donald Dewar, for Labour, is on record on this and so indeed is Gordon Wilson of the SNP.

So lets have no more of the idea this is some foul English plot forced on the Scots against their will.

That argument simply isn't a starter.

So, too, is the idea that we could have postponed the whole thing at the last minute when the extent of the increases was known.

By that time all Councils had virtually constructed their budgets. On the basis of the grant figures notified to them last year they would have had to reassess their rate poundage, but before they could do that we would have had ^{to have} a new RSG order laid before Parliament, debated and passed. This process would certainly have taken well into the new financial year to complete, during which time everyone would have not known where they stood about anything.

Moreover, as the new valuations had been published, all those who are better off after revaluation (and there are many of these) would have been extremely annoyed and could well have appealed their old assessment on the grounds that the new one had proved the old to be too high!

A greater recipe for chaos it would be hard to imagine. Having started on revaluation (and the decision to do it had to be confirmed as long ago as the summer of 1983) there is no alternative to seeing it through.

Which brings me to the help which the Government has given, to ease the problems of those whose assessments have gone up very severely.

We quickly acted to raise the relief for domestic ratepayers by raising it from 1p to 5p with a government contribution of £19m to help pay for it. Subsequently we provided a further £38.5m to meet the whole costs of raising this relief to 8p in the £.

This means that every domestic ratepayer will be getting what he would have paid reduced by 8 pence for every £1 of rateable value.

This can only be described as quite exceptional and most

generous aid and it comes because the Conservative Government feels just as strongly as I know this conference does, that everything must be done that is possible, to ease the lot of ratepayers who are being so severely affected by so many extra impositions.

But I accept there still remains the equally serious plight of the commercial ratepayers. In many parts of Scotland their increases are very severe and will clearly pose a major threat to the survival of many small businesses.

As you know, we feel very strongly that such an impact on small businesses in one year is quite unacceptable, and we intend to come to their aid.

I am not yet able to announce details of a full scheme, but I hope to announce these in Parliament next week.

I am glad to be able to announce to-day, however, that we will be asking Parliament to pass legislation to enable this scheme to go ahead; and we have already had an undertaking from the Opposition that they will facilitate such legislation. At this stage I can add that we expect that the scheme will help something like 50,000 ratepayers who are the worst affected. The cost of this will be well over £40 million.

I hope that when the details are announced, this will relieve a great deal of anxiety among many of the hardest hit, and demonstrate yet again that we are prepared, not only to voice our sympathy with those facing big increases, but also to help them in a generous and practical way.



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

18/5/85

AT 375

CONFIDENTIAL

The Rt Hon The Lord Whitelaw CH MC
Lord President of the Council
Privy Council Office
68 Whitehall
LONDON SW1

2 May 1985

Dear Willie

PROPOSED RATE RELIEF (TEMPORARY PROVISIONS)(SCOTLAND) BILL 1985

At a meeting which the Prime Minister held last night, attended by the Secretary of State for the Environment and the Chief Secretary, I obtained agreement to the early introduction of a Bill to give me powers to give relief to those facing very high rate increases as a result of the 1985 revaluation in Scotland. I am now writing to you as Chairman of QL to seek the necessary clearance for the drafting of the Bill.

The operation of the proposed relief scheme is described in detail in my letter of 23 April to the Chancellor of the Exchequer (copy attached). The Bill itself would be a fairly simple enabling measure, with the details of the scheme being prescribed by Order. There has been strong pressure for legislation on these lines both from the official Opposition and from the Alliance, and Donald Dewar has twice said in the House in specific terms that if the Government were to introduce such a measure the official Opposition would do what they could to facilitate its passage. I therefore envisage that the passage of the Bill would be relatively straightforward and that it would occupy very little time on the floor of the House.

It was agreed last night that I should announce the Government's intention to legislate at our Scottish Conference next week. I would not propose at Perth to go further than to indicate the general scope and cost of my proposed relief, leaving the details for announcement to the House the following week. Subject to the views of the Lord Privy Seal I would hope to make a statement on 14 May. I am particularly anxious that the impact of my announcement is not blunted by being leaked in advance.

I am aiming to have the Bill ready for introduction in the week beginning 20 May and I hope that by agreement with the Opposition it will be possible for it to complete its remaining stages in the House of Commons before the Whit Recess. I am copying this letter to the Lord Privy Seal as the Chairman of L Committee and I hope he will agree that in the circumstances a discussion in L will not be necessary. Copies go also to the Prime Minister, Patrick Jenkin, Peter Rees, the other members of QL and Sir Robert Armstrong.

Yours wv,
George

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

1 May 1985

cc MASTER SET

hle
sl3afm
bcc: O Lohwin
M Alison

RATES AND REVALUATION IN SCOTLAND

The Prime Minister held a meeting this evening to discuss whether any further measures should be taken to provide relief for those adversely affected by revaluation; and what should be said about rates at the Scottish Party Conference.

The Secretary of State for Scotland said that, despite the additional relief already offered to domestic ratepayers, the rate rises being experienced by many in Scotland were still enormous. No relief had as yet been offered to the non-domestic sector. While, in aggregate, the effect of revaluation on the commercial sector was neutral, there were major gainers and losers, particularly among small businesses. In his letter to the Chancellor of 23 April, he had suggested additional relief directed at those whose revaluations had been greatest. If relief was provided for all increases in rates in excess of those produced by a revaluation factor greater than 3.0, the maximum rise for the domestic sector would on average be 34 per cent, and for the non-domestic sector 54 per cent though in particular areas the increase could be even higher. The cost would be £13 million for domestic ratepayers and £51 million for commercial ratepayers. Public sector properties and those enjoying industrial de-rating would be excluded. He proposed that the scheme should initially be for one year only. The position in subsequent years should be considered nearer the time.

The Chief Secretary questioned whether it was necessary to provide 100 per cent relief over the threshold, and suggested that ways of targetting the relief on smaller businesses should be considered. He also asked whether further savings could be made in the Scottish block to meet part of the cost of the proposals.

The Secretary of State for the Environment said that a non-domestic revaluation was still under consideration for England and Wales. The relief being sought for Scotland was equivalent to £0.5 billion South of the Border. As had been

done on earlier occasions, the effect of revaluation could be phased in but this would be done symmetrically so that those gaining in the revaluation process did not benefit immediately. In this way the cost of the transition would be neutral.

Summing up this part of the discussion, the Prime Minister said it was essential to offer some additional relief in Scotland along the lines proposed by the Secretary of State. Before finalising details he should consider with the Chief Secretary whether any way could be found to target the relief more closely on small businesses. While it was unlikely that further savings could be found from the Scottish block this year, the Secretary of State should discuss with the Chief Secretary the likelihood of any shortfall on his programmes. The Secretary of State should consider with the Lord Privy Seal whether the announcement should first be made to the House or could be made on Thursday in his speech to the Conference, and consider with the Lord President the implications for the legislative programme.

The discussion then turned to the proposal by the Secretary of State for Scotland that grant penalties on a number of smaller authorities should be eased. The Secretary of State for the Environment said this proposal would cause major difficulties for him in England. It amounted to reopening the Rate Support Grant settlement, something he was resisting strongly with a number of local authorities. As Councils had set their budgets and rates there would be no benefit for ratepayers. It was agreed that this issue should be discussed further in E(LA).

The discussion then turned to what the Prime Minister could say in her speech to the Conference on the reform of local government finance and rates. It was argued that the draft provided by Mr Ancram went too far in committing the Government to produce radical and popular solutions in this area. It would be dangerous to build up expectations which it would be impossible to fulfil. The Prime Minister could indicate that the Government was dissatisfied with the present system and was looking very hard at the alternatives. It was determined to produce a system of local government finance which provided accountability of local government. It was agreed that the Policy Unit, in consultation with the Scottish Office and the Department of the Environment should agree a revised draft.

I am copying this letter to Janet Lewis-Jones (Lord President's Office), Rachel Lomax (H M Treasury), Richard Broadbent (Chief Secretary's Office), John Ballard (Department of the Environment), David Marshall (Lord Privy Seal's Office), and Richard Hatfield (Cabinet Office).

Andrew Turnbull

John Graham Esq
Scottish Office



cc MFA
SS

SCOTTISH OFFICE
WHITEHALL, LONDON S.W.1

Andrew Turnbull Esq
Private Secretary
10 Downing Street
LONDON
SW1

1 May 1985

Dear Andrew,

PRIME MINISTER'S MEETING ON RATES: 1 MAY

Michael Alison requested last week a draft of what the Prime Minister might say on the subject of rates at the Perth Conference next week. As this is to be discussed at this afternoon's meeting my Secretary of State thought it would be helpful if I circulated the draft prepared here for the Prime Minister's speech and for his own speech the previous day. I am copying this letter and the enclosure to Margaret O'Mara and Richard Broadbent (Treasury), John Ballard (DOE) and Janet Lewis Jones (Lord President's Office).

Yours sincerely,
John Graham

J S GRAHAM
Private Secretary

DRAFT EXTRACTS FOR PM - PERTH - SUBJECT RATES

There is, I know, one problem above others troubling you at the moment; Rates and the recent Revaluation. I am fully aware of your deep concern, not only from the regular reports I have received from George Younger and Michael Ancram, but from your Conservative Members of Parliament, and from the many, many moving letters I have received from so many of you. I share that concern.

I know that George yesterday explained why revaluation happened, why it was necessary and unavoidable in Scotland. That necessity and inevitability in no way diminishes the difficulties and hardships which the revaluation at its extremes has created. That is why I know you will have welcomed the urgent action we took on increasing eight-fold the domestic rate relief to bring help to those whose valuations had risen most sharply. And the relief George announced yesterday for those commercial enterprises hardest hit by revaluation is a further step towards mitigating the worst effects of the assessors' independent judgements.

We have, and at some cost, met the rough end of revaluation and given real help to those hit by it. If anyone doubted our concern for ratepayers in Scotland, our actions have proved them wrong, and highlighted once again that the real enemies of the ratepayer are those local authorities, thankfully not much more than half now, who continue to budget and to spend way above their guidelines and ask the ratepayer to foot the bill. They above all ruin the picture for everyone.

That said there can be no doubt that Revaluation has served another purpose. By the very fact of its extremes it has highlighted and underlined the anomalies and inequities within the rating system itself. We, as a Party, have known for a long time of, and attacked the fact that the rating system as it stands militates against local democracy in the true sense.

Too few pay rates, indeed only a small minority of those who elect the councils who raise those rates. There is, as a result, little or no direct accountability of local authorities for their spending decisions to those who pay the consequences. Where is the democracy in that?

Worse still is the old example of the single person living on their own paying the same rates as the next door family with three or more earners in a similar sized house. Where is the equity in that?

But perhaps Revaluation's greatest single message is more profound. The rating system has put a greater burden on those who have through the ravages of recession maintained or improved their properties, often at great personal sacrifice, or the business which has striven against the odds to retain and increase its viability; while those who have let their properties or their businesses decline have seen their burden lessened. Where is the justice in that? It is a contradiction of all that this Government stands for. It is the epitome of disincentive and the opposite of self-determination and self-help.

This is not the result of revaluation, which is but a mirror, but the result of the system itself. That system must go. It has outlived its time and its usefulness. It is now an unfair and unacceptable burden on so many aspects of the aspirations and initiatives for which we as a Party and a Government have fought.

The status quo is no longer an option. And nor is the luxury of a competition between the various alternative options which in the last Parliament so disappointing produced a stalemate.

This time we will grasp the bull by the horns and produce a better system of financing local Government. As you know we have a ministerial team, including Michael Ancram, with full and expert backup working urgently to produce a scheme. It is too early to predict the details - but the die is cast, there will be no going back. The only danger lies within ourselves, that is if we indulge in arguing alternatives in the way which has already failed and have not the courage of our convictions that the need for change is paramount.

If I cannot give you the details, I can tell you this. There are a number of criteria it will meet. It will be fairer than the rates. It will create greater accountability of local government than the rates. And it will be more readily understandable and justifiable than the rates. In future electors as they go

to the polls will have a good idea what they are being asked to pay, and what they will get for it. We will create a far more open system, and that must be good for local government itself.

My intention is that we will, after due consultation, legislate within this Parliament. Before the next election the rates to all intents and purposes will be dead.

- Reasons for revaluation - "so long as the rating system exists".
- The growing failure of local government accountability under the rating system.
- The consequent overspending of councils who know that those who pay are a minority and cannot effectively call them to account.
 - $\frac{2}{3}$ rds of this years domestic rate increase due to overspending.
- Concern for the extreme effects of revaluation. - there are gainers - examples.
 - Domestics - substantially relieved by 8 fold increase in Domestic relief. £88m - what it means in practice, and in certain areas.

- Commercial :

"One of the strangest factors of this revaluation, and perhaps that of the greatest concern has been the range within the commercial sector. While as I have said there has been many gainers, apparently stunned into silence by their good fortune, there have been some big losers too.

None of us can hear with equanimity the evidence of commercial enterprises faced with increases in rating burden resulting from revaluations of the order of 100% or more. No Conservative who cares for the small business sector can be other than troubled by examples of massive revaluations of four, five or more times which put the very future of those enterprises at risk. Knowledge of the fact that there is as much rating gain as loss within the commercial sector does not mitigate the painful truth that at the extremes the increases could lead to run-down or even closure.

I have studied the pictures closely, as it has become apparent, and am now in no doubt that we must take action to help those most threatened, those hardest

hit. At the moment I have not the means of doing so. I intend however to legislate to enable me to give relief to both commercial and domestic ratepayers who face, after all existing reliefs have been taken into account, increases in their valuations in excess of three times.

These are the genuinely hard hit and it is my intention that they will pay no more rates than if their valuation had been so limited. I will obviously reimburse councils for the loss of rating revenue occasioned by this decision.

This will meet, I believe, the case that has been put forward by those who represent these interests. I may say, however, that their estimates of the costs are wild underestimates. Nevertheless I believe that in the interests particularly of the small business, who are so vital to our Conservative philosophy, this action is both urgent and necessary.

I will be introducing an enabling measure in Parliament at the earliest opportunity, and I look with confidence to opposition parties to ^{L/P} see it through _k without delay."

"That then is the short-term. We have accepted the need for revaluation in the existing system, but we have gone to unprecedented lengths to ensure that those worst hit are protected.

What then for the longer term? I can say only this. We have for years now accepted that the days of the rating system were numbered. Its anomalies, its inequities and now its over-sensitivity to changing economic patterns have determined its unacceptability. The time for change has come, and come it will.

There is one danger. In this debate as in previous ones we have heard the advocates of many different alternative options. There is nothing wrong with options, or indeed with their advocacy. But when the moment comes divided support can drive us into the ground, as it has before.

This time we cannot afford and will not allow it to do so. If we are serious about reform, about change in the way we finance local Government then we must be clear on this. That whatever the option chosen, or combination of options, of which the detail can and will be debated, we must back it.

If we are serious about change, this will be our chance . If we oppose it, it may not come again."

1 MAY 1965



E

Prime Minister

cc. Michael Alison

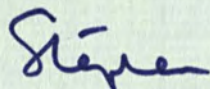
YOUR MEETING WITH GEORGE YOUNGER AND OTHERS ON WEDNESDAY
1ST MAY AT 6.00 P.M. TO DISCUSS SCOTTISH RATES

1. One of the subjects for discussion will be what you and GY say at the Perth Conference on replacing rates as a source of local government finance. (I attach the motion on rating reform which is being debated on the Thursday afternoon, the day before you speak, which GY will be answering).
2. You should be aware that the Scottish Party organisation has been, in my view, fanning the flames on rates so that the position is even more explosive politically. As a result the "conventional wisdom" is that you will have to give an assurance that by the time of the next General Election, there will be something specific and detailed - on the statute book, if not yet operating - wholly or partially to replace rates; and that a general undertaking to reform rates would be unacceptable.
3. I believe the choice is a very simple one. EITHER we commit ourselves now to having a new source of local government finance passed through Parliament by the next Election, even though we have not decided what, OR we have a rough Party Conference.

.../...

If it is the former, we will be committing ourselves to making a change, before an Election, without knowing what the effect will be on particular households.

Until we decide whether a change is worthwhile, it may be better to take the strain at this year's Scottish Conference. Better a bad Conference in 1985 than a bad Election in 1987.



STEPHEN SHERBOURNE
30.4.85

P.S. I also attach the relevant extract from the 1983 Scottish Manifesto.

THURSDAY, 9th MAY

2.30 p.m. to 5.30 p.m.

THIRD SESSION

10. RATING REFORM (Motion No. 194)

Mr. David McLetchie, on behalf of Edinburgh Central Conservative Association, to move:

"This Conference, considering that the credibility of Her Majesty's Government is seriously damaged by the failure to replace rates with a fairer system of Local Government financing, demands that immediate action be taken to fulfil the Conservative Party's commitment to introduce a more equitable system."

Reply — **The Rt. Hon. George Younger, TD, DL, MP,**
Secretary of State for Scotland.

Local government: saving ratepayers' money

In Scotland we are already effectively using powers to reduce the rates of councils which plan excessive and unreasonable expenditure. England and Wales now intend to introduce measures with a similar aim. If necessary we will propose in addition a general scheme of limitation on rate increases for all local authorities.

We shall adjust the rate support grant system to ensure that general penalties on authorities are directly related to their overspending.

In addition, we propose to put local authorities under a statutory obligation to consult local representatives of industry and commerce before deciding on their planned expenditure and rate levels.

In Scotland, businesses already have the right to pay rates by instalments, and we shall ensure that empty industrial property is freed from rates.

For domestic ratepayers we have a much wider scheme of rate relief introduced in the form of the Unified Housing Benefit, which will help those with a particularly high burden of rates.

We shall legislate to end specific anomalies which adversely affect Scottish ratepayers as a result of differences in valuation methods between Scotland and England.

We will also take steps to bring the Scottish and English valuation systems more into line, to prevent anomalies occurring.

We will make the valuation system more responsive to changing economic circumstances and make it possible for ratepayers to appeal more readily and for appeals to be settled quickly.

We will also encourage local authorities to put out to tender important services like refuse collection and building repairs, as well as construction, wherever this can show savings. We must breakdown the 'in-house mentality' which leads to the delusion that every little job has to be carried out by local authority employees however wasteful the consequences.

We recognise the dedication of many people who serve in local government. We aim to give them responsibility, their electors better services and their ratepayers value for money.

PRIME MINISTER

RATES IN SCOTLAND

The purpose of the meeting is:

- (i) To consider whether the Government should offer further relief for Scottish ratepayers and if so to decide in what form and where the money is to come from.
- (ii) To consider what you and Mr. Younger should say in your speeches at the Perth Conferences on rates in Scotland and on rates generally; and to commission material for these speeches.

Policy Issues

Transitional Relief for Revaluation

Please see Flags A and B.

Mr. Younger has proposed a scheme costing £63 million directed at both commercial and domestic ratepayers whose bills have increased most. As put forward it does not provide for any tapering out of the relief. The Chancellor says he will provide £13 million to cover the domestic sector, but argues that relief for the commercial sector, which in aggregate is not too badly affected, is not justified. If, however, Mr. Younger wishes to pursue this, he should find the money from the Scottish block. Mr. Younger has made no offer to find any additional money - he has of course already found £38 million in 1985-86 for his domestic rate relief scheme.

Decisions are needed on:

- (i) Should relief extend to the commercial sector?

- (ii) Should relief be tapered?
- (iii) Should Mr. Younger find the money from further economies in the Scottish block?
- (iv) Or should the Chancellor provide the extra that is needed in 1985-86, with the Scottish block finding savings in subsequent years?

Penalties

Please see Flags C and D.

Mr. Younger has sought an easing of the penalties on the smaller Scottish authorities. He argues that a reasonable amount of goodwill can be secured at little cost. The Chief Secretary opposes this, partly because he fears repercussions south of the border which could have significant costs. Mr. Jenkin will have a view on this.

- (i) Should the penalties on all or some of the smaller authorities be eased?

Presentation

Revaluation in Scotland

Mr. Younger's letter of 23 April refers to announcing whatever is decided on Scottish rates "at Perth". He recognises, however, that it would be wrong to announce decisions at the Conference while Parliament is sitting. Arrangements will have to be made for announcing to Parliament on Tuesday or Wednesday of next week whatever is decided at the meeting.

Rates in General

The Party in Scotland will be looking for promises that the present system of rates will be swept away and something better put in its place. On the other hand, the Government will not want to promise too much too soon and find itself unable to satisfy excessive expectations. The Chancellor is particularly worried on this score. A carefully drafted passage will be needed for your speech. Perhaps Oliver could be asked to agree a passage with the Department of the Environment and the Scottish Office.

Stephen
has set
this out
at Flag E

Effect of Revaluation on Section 137 Expenditure . Flag F

Harry Jordan has drawn to your attention the fact that the product of a 2p rate is greatly increased by each revaluation. I have asked the Scottish Office for a comment on this, without identifying Harry Jordan as your correspondent. It is not essential to settle this at this meeting, so you should raise it only if time permits.

AT

30 April 1985



Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon George Younger TD MP
Secretary of State
Scottish Office
Dover House
Whitehall
London
SW1A 2AU

30 April 1985

Dear Secretary of State

**SCOTTISH LOCAL AUTHORITY EXPENDITURE 1985-86:
GRANT PENALTIES**

Thank you for your letter of 26 April.

I see considerable difficulties with the exemption you suggest. To exempt some authorities as you propose would be to breach the principle of expenditure control which penalties represent. It could be seen as an invitation to all Scottish authorities to spend £400,000 above guideline whether they are planning to do so at present or not. Though not a serious problem now, these small Scottish authorities could soon become so if exempted as you propose.

The repercussions could be even more far-reaching. An exemption would inevitably lead to pressure from English and Welsh authorities for the same treatment. The sums involved here could be large.

I accept that penalties in Scotland are tougher than last year, but they are no more severe than in England. You have clearly warned authorities of the consequences of overspending on several occasions. For example, the RSG report stressed that the amount of the grant reduction would be much more severe than in the past - and that it would be apportioned among local authorities in relation to their budgeted overspend measured against current expenditure guidelines. On your new proposal however, Lothian with an overspend of 2.3 per cent on guideline will be heavily penalised whereas Clackmannon with an overspend of 7.5 per cent would escape. In fact no less than 10 of the 23 beneficiaries of your scheme are both above guideline, on or above client group assessment and planning to increase expenditure significantly in real terms in 1985-86. So a flat rate exemption not only reverses our previous line on severity of penalty but also compromises the basic equity of the system as announced.

The options being considered at E(LA) for England in

1986-87 may have a bearing on the operation of the guideline/penalty system in Scotland. It might be possible to consider the position of your sympathetic small authorities for 1986-87 in the light of decisions at E(LA). In the meantime I hope that you can arrange for announcement of the agreed penalties as soon as practicable after Perth in order to give authorities the maximum opportunity to respond by cutting expenditure during the rest of the year.

I am copying this letter to the Prime Minister, Lord Whitelaw and Patrick Jenkin who I understand now have copies of your letter to me of 26 April.

Yours sincerely

P Broadbent

for PETER REES

[Approved by the Chief Secretary]

30 Nov 1987

30 APR 1985

11 12
9 10
E 10 3

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

30 April 1985

REVALUATION AND SECTION 137 EXPENDITURE

The Prime Minister has received a letter raising the effect revaluation can have on permitted Section 137 expenditure. An extract is attached. I would be grateful for a note commenting on the points made, together with a draft reply. Could the commentary compare the way property values have moved under successive revaluations as the effect of the 2p rate revision seems to be to index the scope for this expenditure not on inflation but on something higher.

The Prime Minister may raise this issue at tomorrow evening's meeting on Scottish rates. Please could you ensure that the letter is drawn to the attention of your Secretary of State.

I am copying this letter to John Ballard (DOE), Rachel Lomax (HM Treasury) and Richard Broadbent (Chief Secretary's Office).

(ANDREW TURNBULL)

John Graham, Esq.,
Scottish Office.

CONFIDENTIAL



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Andrew Turnbull Esq
Private Secretary
10 Downing Street
LONDON SW1

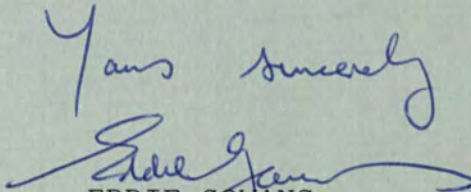
29 April 1985

Dear Andrew,

SCOTTISH PARTY CONFERENCE: HANDLING OF THE RATES ISSUE

My Secretary of State considers that the proposal put forward in the attached letter to the Chief Secretary has a material bearing on the handling of the rates issue at the Party Conference. He has therefore asked me to circulate it to those who will attend the meeting on Wednesday 1 May at No 10 to discuss the handling of the rates issue at the Conference.

Accordingly, I am copying this letter and attachment to Richard Broadbent, to let him know that the letter is being circulated, Margaret O'Mara and John Ballard.

Yours sincerely

EDDIE GOWANS
Private Secretary

30 APR 1985

11 12 1
10 2
9 3
8 4
7 5

UNITED STATES DEPARTMENT OF JUSTICE
SCOTTISH OFFICE



B
B
ccss

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

26 April 1985

The Rt. Hon. George Younger MP
Secretary of State for Scotland

mt

Dear Secretary of State,

PROPOSED RATE RELIEF (TEMPORARY PROVISIONS) (SCOTLAND) BILL 1985

Thank you for your letter of 23 April outlining a proposed scheme for additional rate subsidy to further relieve the effects of revaluation.

Before considering the details of your scheme, may I make a couple of general points. First, as I am sure you would agree, we need to get away from the notion of 'excessive' valuation. There is no evidence that the new valuations are unfair or excessive or that they do not reflect genuine changes in the relative values of particular properties. The problem we have is not one of equity but of the magnitude of the changes. Secondly, there is a difference in principle between commercial ratepayers who can to some extent pass on the costs of revaluation, and domestic ratepayers who cannot. And to the extent that revaluation corrects previous anomalies between competitors, relief for some will be unfair to others. Also, if our aim is to defuse widespread disquiet, then the more people we can help for a given subsidy the better. We should target our aid accordingly.

Turning to your proposals in detail, I welcome your suggestion that the qualification for subsidy should be based on differences in rateable value rather than on bills which may include the effects of local authority overspending. I also welcome the exclusion of most public property and industry (which benefits from industrial derating). But I am afraid I am still not persuaded that other non-domestic property should be included. As I indicated above, there is a difference in kind between domestic and non-domestic properties, and - it now appears - it will be very expensive to introduce relief for commercial properties. At our meeting you suggested that the cost would be very small but your proposal for the non-domestic sector in fact costs five times as much as for the domestic sector.

We have, of course, already given very large amounts of additional subsidy to Scottish ratepayers. If we added the £64 million you propose to the £88 million already given, the total would be over £150 million. Proportionately, that is a massive sum - the equivalent of relief of £1,300 million in England. The fact that it is less than the amount expected from RSG penalties is beside the point. The RSG penalties are not "new" money available for redistribution to Scottish ratepayers: they had already been taken into account in fixing the Scottish RSG settlement - and were then increased specifically to fund a part of your earlier package of relief.

However, I fully recognise your political difficulties and am therefore ready to accept, at a cost of £13 million, the most generous of the three options you



outline for domestic ratepayers (equivalent to a threshold of 3.0 for 100 per cent relief, or even less for 50 per cent relief). But if you wish to extend relief to non-domestic ratepayers, I fear I must insist that you find offsetting savings from elsewhere in your budget. The cost of your present proposal is high but I am sure you will already have been considering ways in which it might be reduced. You could, for instance, have a significantly higher threshold than for domestic ratepayers (I understand that might focus help on smaller businesses); or you could (as in England in 1973) give relief for only a proportion of increases over the threshold or indeed to both.

As I said when we met, I also feel that we must stand firm on limiting this relief to one year only. It is transitional relief to cushion the shock of adjusting to the new rateable values and must be seen as such. I therefore could not endorse a bill which was renewable for subsequent years.

I am copying this letter to the Prime Minister and to Patrick Jenkin.

Yours sincerely,

Philip Wynn Owen

NIGEL LAWSON

ff. (approved by the Chancellor and signed in his absence).



26 APR 1985

Local Govt 813
Rating Reevaluation



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

The Rt Hon Peter Rees QC MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1P 3AG

26 April 1985

Dear Chief Secretary

SCOTTISH LOCAL AUTHORITY EXPENDITURE 1985-86: GRANT PENALTIES

I am writing to you about the effects on certain Scottish local authorities of the penalty tariff which we agreed and to suggest a modification to the scheme.

I am particularly concerned that the penalties will hit very hard some of the smaller authorities which are not a significant problem to us in trying to constrain local government expenditure in Scotland. Many of these authorities are basically sympathetic to the Government's objectives but for various reasons have found it difficult to meet the guidelines that we set them this year.

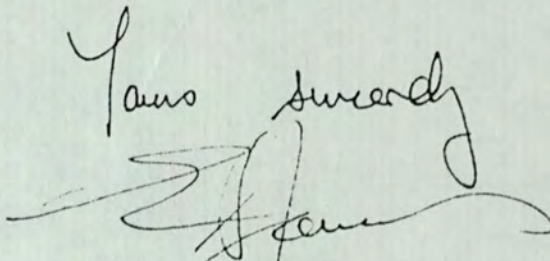
In my view the best way of dealing with this problem would be to exclude from the operation of the penalties all those authorities where the cash excess of budget over guideline is small, say, less than £400,000. This would reduce the number of authorities penalised from 35 to 12. However, the loss in penalty yield would only be £6.1 million out of an estimated total yield of £132 million. We have in any case overshoot the amount of extra penalty we agreed to raise in March by just about half this amount. In expenditure control terms the effect would be insignificant. The total of overspending by these authorities is less than £5 million. In some of the individual cases the overspending is so small and untypical that it looks almost like inadvertence, despite my many warnings about grant penalties.

If one looks particularly at some of the individual authorities involved, the case for penalising them is not strong. Eastwood District Council has reduced its expenditure by 21% in real terms between 1978-79 and 1985-86. Yet it finds itself required to make savings of a further 6% in real terms to avoid penalty. Not surprisingly it has failed.

East Kilbride, Motherwell and Badenoch and Strathspey would each yield penalties of less than £10,000. They should be left out of account as clearly de minimis.

Nithsdale, Stewartry, Wigtown, Badenoch and Strathspey, Caithness, West Lothian and Motherwell, while above guideline, are all below their assessment of expenditure need which we produced. These authorities all have a history of low spending. Almost all are likely to be within their guideline for 1984-85 and I find it hard to understand why they have gone above their guideline by often quite small cash amounts in 1985-86. However, they will justifiably complain if they have to pay very severe grant penalties when they are budgeting below their assessment of need.

I am in no doubt that an exemption of the kind I propose would remove from the penalty system authorities whose contribution to overspending is small and many of whom are basically sympathetic. To make such an exemption would undoubtedly create considerable goodwill, in the face of the storm which will arise from the very steep increases in penalties for other authorities. I would like to reach an early decision on this and I would be glad to discuss it further with you.

A handwritten signature in cursive script, appearing to read 'E. S. Gowans', with a large, sweeping flourish at the end.

E S GOWANS
Private Secretary
Approved by the Secretary of Sta
and signed in his absence

For reechn
Wednesday



10 DOWNING STREET

Prime Minister ②

Mr Younger's scheme to temporarily
de-affect areas of revaluation
covers both domestic and non-
domestic property and costs £64 million.
The Chancellor is offering £13 million
to care domestic property but
says Mr Younger must find any
money for non domestic property.

A meeting has been arranged
for Wednesday evening to discuss
the relief to be offered and to
commission a draft passage
for the Rerth Speed on rates
generally and rates in Scotland.

AT

26/4

File

089

CF ✓

MR. ALISON

MR. SHERBOURNE

SCOTTISH RATES

I have at last managed to set up this meeting for 1815 hours on Wednesday 1 May here at No.10.

Could you both be present please?

CR

26 April 1985

GR PL find alternative or
insist they come.



AT

10 DOWNING STREET

Duty Clerk

Thurs. @ 1600
MISC III.
16.00
Please switch
meeting - Monday @ 20.00.

Q) Please arrange at 16.30
Tuesday meeting to discuss
Scottish rates:

SS (Scotland) + the Amera-
if SS/S want
to bring in

alex → notgs 4 + £.30.
could do 5.

CST would mean
cancell notgs.

SS / Emv. → Not keen..

M Alice

S. Sheboune

Tues. 1/2 w @ 1700

or Mon. 1600

PRIME MINISTER24 April 1985RATE RELIEF IN SCOTLAND

George Younger has already contributed £38 million out of his own budget to provide rate relief for all domestic ratepayers in Scotland. He now wants to add a selective scheme for those who have been most affected by the revaluation.

The additional selective relief for domestic ratepayers will be fairly cheap - only £13 million this year for the most expensive variant. This is probably a price worth paying, if it prevents personal disasters for George Younger and Michael Ancram at the Scottish Conference.

The relief for non-domestic ratepayers is much more expensive - £30 million to £50 million. And it is far less politically important. We therefore agree with the Treasury that this should not be provided by the Exchequer: it should be paid only if the Scots are willing to find the money out of their own budget.

The mechanics of the proposal also need to be altered. If the selective relief is offered for four years as George Younger suggests, or even for one year as the Treasury prefers, there will be an explosion when it lapses: those who suddenly lose it will in effect suffer a postponed revaluation. To avoid this, the relief should be tapered over at least three years, so that the effects of withdrawal are gradual. If necessary, the amount in the first year should be reduced to make room for such a taper.

We therefore recommend that:

- i. The Treasury should make an additional £13 million available this year for selective assistance to domestic ratepayers, so that George Younger has good news for Perth.
- ii. Relief should not be given to non-domestic ratepayers unless the Scots find the money from their own budget.
- iii. The domestic relief should taper away for three years.

Ol Letwin

OLIVER LETWIN



B/ P... ACCO
A
SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU
JSS

CONFIDENTIAL

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
11 Downing Street
LONDON SW1

Prime Minister (2)

To await Treasury response. No
mention of how this is to be financed.

AT
24/4

MS
23 April 1985

Dear Chancellor of the Exchequer,

PROPOSED RATE RELIEF (TEMPORARY PROVISIONS)(SCOTLAND) BILL 1985

1. When we met on 2 April, I promised to develop further my proposed scheme to give relief to those facing excessive rates increases as a result of the 1985 revaluation in Scotland, and to let you have as soon as possible some figures on the probable costs of this. My officials have had a preliminary discussion with yours and while much remains to be done, I think it is essential that we now seek to reach agreement on the main points of a scheme that can be announced at Perth on 10 or 11 May.

2. My proposals are these:

- a) the rate relief should be available to ratepayers whose property has an excessive valuation, defined as a property whose entry in the 1985-86 valuation roll is greater than in the latest edition of the 1984-85 valuation roll by a multiplier of more than C. C would be a constant set by statutory instrument
- b) the relief should be available to ratepayers in respect of both domestic and non-domestic property but not including (i) local authority and Crown property (ii) public undertakings' property valued by a statutory formula set by Parliament (iii) industrial and freight transport property which benefits from industrial derating
- c) the relief should amount to 100% of the rates payable on the amount of assessed value in excess of C times last year's value
- d) the powers should be expressed in terms of 1985-86, but should be renewable for a subsequent year or years, but they should lapse at the end of March 1989.

is 'C' tapered?

3. I know you will welcome my suggestion that the criterion for a claim under the scheme should be a comparison between old and new valuations - thus emphasising that it is the Scottish revaluation that is the special factor requiring emergency action, not simply big rate increases as such. I trust that this will protect you and Patrick Jenkin from pressures to extend relief south of the Border. I think your officials have had some further explanation of the mechanics of the system.

4. Though you had reservations when we discussed this before, I am clearer than ever that we must not restrict relief to domestic ratepayers, but that we must make sure that the worst burdens being imposed on commercial property are also cut down. On the whole, commerce has had neutral treatment in the revaluation, gainers and losers being roughly in balance, but there is evidence of a number of quite extreme values being imposed upon small businesses, particularly in the Borders. Many of these are run by our own supporters, and I need hardly say how difficult it is for me to face those who have valuation multipliers of 3, 4, 5 or more, and tell them that these are fair when the Scottish average all-property multiplier is 2.33. You will be aware of Archy Kirkwood's attempt, with a Ten-Minute Rule Bill, to cash in on this particular discontent.

5. Turning to my evidence of costs, I should emphasise that the need for confidentiality has made it particularly difficult to make estimates, since I have felt unable at this stage to tap directly the information held by the assessors (who in Scotland are local authority employees, not part of the Inland Revenue). Nevertheless, I have derived some figures, which I set out below, for three different 'excessive valuation' thresholds, representing multipliers of C = 3, C = 3.2 and C = 3.5. These figures incorporate some fairly heroic assumptions, but indicate broadly the kind of costs we might expect:

EXCESSIVE VALUATION RATE RELIEF, SCOTLAND, 1985-86 (£ million cash)

	Threshold C = 3.0	Threshold C = 3.2	Threshold C = 3.5
Domestic property	13	7	3
Non-domestic property	51	38	28
	<u>64 (+10)</u>	<u>45 (+10)</u>	<u>31 (+10)</u>

The figures for the non-domestic sector above include industrial, formula-valued, local authority and Crown property, because I have at present no basis for calculating the effect of their exclusion. We will, as I have said, exclude when the Bill is drafted, so the costs in practice may be a little lower, though it is my impression that not very many properties in these categories have the excessive multipliers anyway.

7. You will note that by far the greater part of the cost, whatever threshold we select; is going to be for non-domestic property. This reflects two factors: (a) the action we have already taken to blunt the revaluation's effects for householders, and (b) the very much more heterogeneous nature of the non-domestic sector compared with houses. The average multiplier for non-domestic property is actually lower (2.1) than for all property (2.33) and for domestic property (2.7), but the distribution of non-domestic multipliers shows much wider dispersion of values. For example, 5% of sampled non-domestic properties in Lothian, and no less than 9% in Borders, have multipliers over 4. These are the people who feel that lightning has struck them out of a clear blue sky.

8. Although I think we should certainly go for a valuation criterion for the scheme, we should at the same time not lose sight of the actual effect in terms of rate bills. The figures vary considerably between authorities. As a measure of what each of the thresholds means in setting an upper limit on the percentage increase a ratepayer may still be asked to pay, the following figures are illuminating:

	Threshold C = 3.0	Threshold C = 3.2	Threshold C = 3.5
<u>Domestic property</u>			
Highest authority (Edinburgh - before possible selective action)	53%	63%	78%
Scottish average	34%	42%	56%
Lowest authorities (Aberdeen, Moray, Inverness)	18%	26%	38%
<u>Non-domestic property</u>			
Highest authority (Orkney)	71%	83%	100%
Scottish average	50%	60%	75%
Lowest authority (Inverness)	35%	44%	58%

Put another way, if we set the threshold at 3.5, the least-cost option illustrated, there may be unfortunate ratepayers in Orkney still having to pay 100% more than last year without this falling to be considered 'excessive' by HMG - though no-one anywhere in Scotland would have to pay a percentage increase higher than this

9. On the basis of all the above figures, and of the political pressures still building up, I seriously doubt if we shall be credible if we settle for a scheme with a threshold higher than 3.0, even though this may cost something like half the amount now expected for RSG penalties in Scotland this year. I must therefore seek your agreement to an announcement at Perth that legislation will be speedily introduced to allow Scottish ratepayers to claim full relief of rates on that amount of their valuation in 1985-86 which exceeds 3 times their valuation in 1984-85. I shall be glad to meet you for a discussion if this will help, but it would need to be very soon.

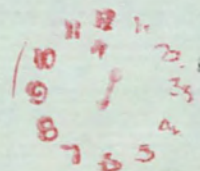
10. I am copying this letter to the Prime Minister and to Patrick Jenkin.

Yours sincerely

E. S. GOWANS
Private Secretary

Approved by the Secretary of State
and signed in his absence

23 APR 1985



Meeting with Scottish Back
Bench Committee - Thursday,
28th March at 3.45 p.m.

Those attending will be:-

Sir Hector Monro

Nicholas Fairbairn

Albert McQuarrie

Michael Forsyth

Michael Hirst

BRIEFING FOR THE PRIME MINISTER

RATES AND REVALUATION IN SCOTLAND

Meeting with Scottish Backbenchers: 28 March 1985

Revaluation

1. Revaluations of property at 5 year intervals have been required by Scottish legislation since 1956. There have been revaluations in Scotland in 1961, 1966, 1971, 1978 and 1985. There is a power for the Secretary of State, exercisable by statutory instrument, to postpone, but not to cancel, a revaluation, and that power was exercised in relation to 1983.
2. Revaluations in Scotland are carried out by independent assessors employed by local authorities. No extra staff are required, unlike England, where the Inland Revenue is responsible for valuation.
3. As circumstances change valuations need to change with them if the rating burden is to be fairly spread. Scottish industry was keen on a revaluation now so that new valuations could reflect the changes in their profitability and prospects since 1978. The views of commerce were mixed although the Chambers of Commerce accepted the need for revaluation. The 1985 valuation has shown the extent to which industry was carrying more than its share; commerce also was, to a lesser extent. Industry has benefited significantly from revaluation with some firms seeing cash reductions in their rate bills (examples in Annex A). The CBI has welcomed the revaluation. Obviously if one sector gains from revaluation, another must lose. The householders, who gained from the 1978 revaluation, lose from the 1985. House prices, and hence rentals, have increased significantly since 1978. Industrial rents relatively have fallen.
4. Revaluation is a complex process taking a considerable time. The decision to proceed with a revaluation in 1985 was taken in 1982 when a statutory instrument was made to postpone the revaluation then due for 1983. It is not practicable to cancel a revaluation once it is in progress without some very cogent reason. It was impossible to cancel or postpone it in February 1985 when this was suggested since local authority finances would have been thrown into confusion less than one month before the statutory date by which rates had to be

fixed. By then the new valuation rolls had already been made public and all those who were gaining from revaluation - in particular industry - would have protested very strongly.

Domestic rate relief and Industrial derating

5. The Secretary of State has available two mechanisms for altering the effects of valuations:

- a. Domestic rate relief - a central government subsidy which reduces the amount domestic ratepayers have to pay in rates by a fixed amount per £ of rateable value;
- b. Industrial derating which reduces the amount industrial ratepayers have to pay.

The Secretary of State used both mechanisms to offset the effect of the 1985 revaluation.

6. Domestic rate relief was increased eight fold from the equivalent of 1p to 8p by an addition to aggregate exchequer grant of £57.5 million. The relief reduces the average domestic rate bill by £1 a week (11.5%). (From 1978 to 1984 domestic rate relief was worth 14p a week.) Industrial derating has been reduced from 50% to 40%. Industry is still better off as a result of revaluation but the reduction in derating benefits other ratepayers principally domestic.

7. The result of the Secretary of State's action (including the significant addition to domestic rate relief of £38.5 million announced on 7 March, which he achieved by reordering his own programme,) is virtually to cancel out the effect of revaluation on the domestic sector as a whole.

Grant Reductions and overspending

8. Two other factors affect rates in 1985-86.

- a. the Rate Support Grant settlement. The grant percentage is 2.7% lower than in 1984-85. This is the equivalent of £84 million less grant. Together with inflation this implies a 6.5% increase in domestic rates, and

- b. the spending decisions of authorities. Overspending adds a further 10.7% to domestic rates.

The overall increase in domestic rates is therefore 17.2% despite the Secretary of State's action to counter the effects of revaluation.

Individual authorities and individual ratepayers

9. While the Secretary of State's action has virtually cancelled out the effects of revaluation for domestic rate in national terms, revaluation has in many cases affected individual authorities and individual ratepayers significantly.

10. Individual authorities have been affected by loss of resources element of rate support grant (RSG) where their rateable values on revaluation have gone up by more than the average. The resources element is an automatic device to equalise taxable capacity and is payable to almost all authorities so that 1p on the rates raises the same per person everywhere. However loss of resources element does push up rates. Table B shows the estimated effects on rateborne expenditure of revaluation alone through changes in resources element.

11. Rates of individual authorities have also been significantly affected by changes in needs element of RSG. This has nothing to do with revaluation and is caused by (a) the continued move to the fairer client group method of distributing grant (from which there are gainers and losers); (b) a change in the shares of grant between regions and districts which has a neutral effect on ratepayers as a whole but has pushed up the rates of districts; (c) the cut in the total of RSG, part of national policy to put pressure on authorities to cut their spending. These factors account for the difference between columns 1 and 2 of Table B.

12. The cut in the rate support grant percentage affected the rates of authorities. Within a reduced percentage of grant it was necessary to shift grant from the districts to protect the position of cooperative regions. This led to dramatic increases in the amount which some district councils had to meet from the rates (column 1 of Table B). Even having done this cooperative regions (authorities spending at guideline are marked with an asterisk) still had to face increases in their rateborne expenditure above inflation as they passed on grant percentage reductions to their ratepayers being unable (since spending at guideline) to cut their expenditure further.

13. Individual ratepayers have been affected by increases in the valuation of their houses above the average for their authority. There is a relatively small variation between authorities in the average revaluation multiplier for each authority (2.3 to 2.6). However within authorities the range is much wider with some householders seeing their valuations going up 3 or 4 times. It is this which has caused very high individual rate increases particularly where this is combined with an authority whose rate increase is above average. An individual householder may appeal against his assessment and the assessor, who is an independent person, will need to produce evidence to justify his assessment. (Table C illustrates the effects on some individual householders.)

Local government finance studies

The Secretary of State is very much aware of the serious problems which the revaluation has caused. Significant action has been taken within the limits of the existing system. This system is now under the closest scrutiny by a Ministerial study team which contains Michael Ancram. [It will be reporting to the Prime Minister on 31 March with its initial analysis.] The team is looking at radical proposals for changes in all aspects of the existing system. The experience of Scottish domestic ratepayers will obviously be at the forefront of their minds.

EXAMPLES OF INDUSTRY BENEFITTING

	Rates Paid 1984-85	Reduction	Rates Due 1985-86
	£		£
<u>Burroughs Cumbernauld</u>	275,310	23%	212,850
<u>Ideal Timber Dumbarton</u>	80,076	22%	62,205
<u>Chivas Bros Paisley</u>	324,035	19%	262,836
<u>Standard Unit in East Kilbride</u>	5,173	18%	4,234

ANNEX B

Revaluation has affected the rates of authorities by changing the amount of resources element of rate support grant payable to them. Reductions in resources element leads to increases in rates.

Column 1 below shows the increase in the amount which each authority has to meet from its rates in 1985-86 for any reason - the cut in the rate support grant percentage, loss of needs or resources element, high spending. Column 2 shows how much of this change is due to revaluation alone in the form of a change in the amount of resources element. Those authorities with positive numbers have lost resources element and their rateborne expenditure has gone up by the percentage shown. Authorities with negative numbers have gained from resources element changes following on revaluation. The authorities shown are those represented by Conservative MPs. Edinburgh and Aberdeen do not receive resources element and were not affected by revaluation in this way.

Authority	1.	2.
	Percentage change in rateborne expenditure	Change in rateborne expenditure attributable to revaluation
	%	%
<u>Regional Councils</u>		
* Borders	27	16
* Dumfries & Galloway	24.4	15.8
* Grampian	13.4	4.7
Tayside	14.1	3.4
<u>District Councils</u>		
* Annandale & Eskdale	42.4	18.2
Nithsdale	46.4	8.4
Stewartry	50.8	13.7
Wigtown	60.5	-1.1
* North East Fife	39.4	-1.9
* Banff & Buchan	65.2	14.6
* Kincardine & Deeside	70.9	6.3
* Moray	37.9	3.4
* Stirling	40.6	4.6
Eastwood	83.7	11.9

	1. Percentage change in rateborne expenditure	2. Change in rateborne expenditure attributable to revaluation
	%	%
* Bearsden	32.6	10.5
Strathkelvin	13.5	-0.4
Cunninghame	9.6	-12.6
Renfrew	12.6	-8.0
* Inverclyde	-1.8	2.7
* Argyll & Bute	-8.1	3.6
Kyle & Carrick	1.2	1.9
* Angus	54.0	1.2
Perth & Kinross	52.1	8.5

Authorities marked with an asterisk are on present information planning to spend at guideline.

CHANGES IN DOMESTIC RATE BILL

	Rate Bill 1984-85	Rate Bill 1985-86	Cash Change	% Change
	£	£	£	£
AYR AND TROON				
Local Authority				
<u>Immediate Post War</u>				
4 Apt Tenement	394	413	+19	+5%
<u>Inter War</u>				
3 Apt Semidetached	334	340	+6	+2%
4 Apt Semidetached	418	425	+7	+2%
Private				
<u>Post War</u>				
7 Apt Bungalow	1,759	1,535	-224	-13%
5 Apt Tenement	998	972	-26	-3%
4 Apt Tenement	654	773	+119	+18%
<u>Inter War</u>				
9 Apt Detached Villa	1,541	1,679	+138	+9%
5 Apt Detached Villa	819	975	+156	+19%
EDINBURGH				
Georgian Flat (Central)	517	802	+285	+55%
Victorian Flat (Central)	301	702	+401	+133.2%
7 Apt mid terrace stone villa	562	864	+302	+53.7%
7/8 Apt detached bungalow	1,600	2,375	+775	+48.4%
GLASGOW				
Detached house	815	1,117	+302	+37.1%
EASTWOOD				
Detached house	922	1,548	+626	+67.9%

CONFIDENTIAL

FILE
da



bc NO

10 DOWNING STREET

From the Private Secretary

8 May 1984

Non-Domestic Revaluation: Privatisation

The Prime Minister has seen and noted the Chief Secretary's minute of 27 April.

I am copying this letter to John Ballard (Department of the Environment), Colin Jones (Welsh Office) and Richard Hatfield (Cabinet Office).

Andrew Turnbull

John Gieve, Esq.,
Chief Secretary's Office.

CONFIDENTIAL



FROM: CHIEF SECRETARY
DATE: 27 April 1984

AT (of).

Pune Minutes ②
To note

PRIME MINISTER

AT 315

mg

NON-DOMESTIC REVALUATION: PRIVATISAION

Attached.

Following the remit from Cabinet on 26 January, Patrick Jenkin, Nicholas Edwards and I have been looking into the possibility of contracting out to the private sector work on the non-domestic revaluation in England and Wales.

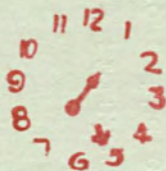
There are a number of difficulties arising, for example, from the need to secure uniformity across the country, to ensure confidentiality and to avoid conflicts of interest. While these might be overcome, the main obstacle is relative cost. The Inland Revenue had protracted discussions with the Royal Institution of Chartered Surveyors and representatives of other valuation associations last year. These revealed that the private sector was interested in carrying out only a small part of the work and, at best, their costs were eight times those of the Valuation Office for that part. The Royal Institution of Chartered Surveyors gave this figure after much deliberation as a reduced quotation in the light of their concern at the contrast with the in-house costs. It is difficult to see how they could be expected to put in a lower figure now.

We ^{have} come reluctantly therefore to the conclusion that we cannot recommend privatising this work.

I am sending copies of this letter to Cabinet colleagues and Sir Robert Armstrong.

PETER REES

2 - MAY 1984



Ref.A084/282

PRIME MINISTER

Non-Domestic Rating Revaluation:

C(84) 1

BACKGROUND

The White Paper on Rates (Cmnd. 9008), published in August 1983, said that:

"The Government propose to set in train the work required for a non-domestic revaluation".

FLAG A 2. On 28 September the Chief Secretary, Treasury wrote to the Secretary of State for the Environment proposing that the effective date of this revaluation should be early in the lifetime of the next Parliament, and that a suitable date might well be April 1989. Andrew Turnbull's letter of 4 October

FLAG B agreed to this; and the Secretary of State for Trade and FLAG C Industry wrote on 21 October pointing out that there were arguments for an earlier date and that the later date would need 'convincing justification', but coming down on balance in favour of April 1989.

FLAG D 3. The Secretary of State for the Environment's reply of 2 December argued strongly for a date of April 1987, on the grounds that delay would provoke justified complaints from those whose property was overvalued and call into question the Government's sincerity in treating rates as the main source of local revenue for local government for the foreseeable future. The Chief Secretary was unpersuaded, though he implicitly FLAG E withdrew, in his letter of 23 December, a previous suggestion that there might be Civil Service manpower arguments in favour of delay.

FLAG F 4. The issues are set out in C(84) 1 by the Secretaries of State for the Environment and Wales. As the memorandum makes clear, the issues raised are quite separate from those that would be raised by a revaluation of domestic property. The Secretary of State for the Environment expects to bring forward proposals on this in due course.



MAIN ISSUES

5. The Government is publicly committed to a non-domestic revaluation. The only issues are:

- (i) what should be the operative date? and
- (ii) when and how should the decision be announced?

Operative Date

6. Revaluations have to take effect from 1 April to coincide with the beginning of a new rating year. The date has to be fixed about three years beforehand. There appear to be only two options worth considering:

- (a) 1 April 1987, the earliest technically feasible date; and
- (b) 1 April 1989, the first date after the latest possible date for the next General Election.

7. The effective date of the last revaluation in England and Wales was 1973. Since then, there have been substantial changes in the relative values of industrial and commercial property of different types and in different parts of the country. The main losers from a revaluation (ie those whose property would rise in relative rateable value) would be big shops, and other commercial buildings in prime city sites; and the main gainers (ie those whose property would fall in relative rateable value) would be older industry and, generally, small businesses elsewhere. On average, industry and commerce would pay more in the South East and less in the North. Further details are given in paragraphs 4 to 6 of C(84) 1.

Para D

8. The changes need not affect domestic ratepayers. The attachments to the letter of 2 December from the Secretary of State for the Environment explain how they could be insulated from changes in non-domestic values.

9. The arguments seem to be fairly set out in C(84) 1. In favour of 1 April 1987 are the following.

- (a) the Government has an obligation to keep the valuation base up-to-date. There is no technical difficulty about this with non-domestic property

(as there is with domestic property because of the lack of evidence on market rents). Unnecessary delay unfairly penalises those whose property is over-valued; they would have a legitimate complaint against the Government. Those whose property is under-valued will not welcome a revaluation; but they have no legitimate grounds for complaint about it.

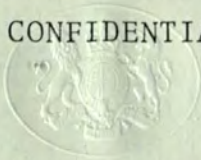
(b) The Government's public stance is that it intends to keep the rating system, but to reform it and to stop abuses of it. That stance will lack credibility if the Government lets manifest inequities persist for longer than is necessary.

(c) The longer the delay, the greater the eventual upheaval (and perhaps the pressure for expensive transitional measures to cushion the impact of changes in valuations on individual ratepayers).

10. The argument in favour of 1 April 1989 is essentially that the gratitude of those who gain from a revaluation will be less intense than the resentment of those who lose, and that it would therefore be better to avoid what may be a politically sensitive time.

Announcements

11. It is likely that Ministers will be pressed for an announcement of their intentions during the passage of the Rates Bill, which goes into Standing Committee on 26 January. There is no obvious reason to delay an announcement; and if the decision of substance were for 1 April 1987, it would be necessary to get ahead quickly with recruiting staff and other preparations. You will probably wish to invite the Secretaries of State for the Environment and Wales, and the Chief Secretary, Treasury, (who has departmental responsibility for the Inland Revenue Valuation Office, which would carry out the revaluation) to agree the text of any announcement and to circulate it for clearance in correspondence.



HANDLING

12. You will wish to invite the Secretary of State for the Environment to introduce the memorandum and the Secretary of State for Wales to add his comments. The Chief Secretary, Treasury could then be asked to reply. The Secretary of State for Trade and Industry has an important departmental interest in the valuation for rates of industrial and commercial property; and the Secretary of State for Scotland (where a full revaluation is to be undertaken from 1 April 1985) is also likely to wish to comment. The Lord President of the Council may have views arising from his responsibility for the presentation of the Government's policies.

CONCLUSIONS

13. You will wish the Cabinet to reach conclusions on:
- (i) the effective date of the next revaluation of non-domestic property in England and Wales;
 - (ii) announcements.

ROBERT ARMSTRONG

25 January 1984



JU503

Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET

LONDON SW1H 0ET

Telephone (Direct dialling) 01-215 5422

GTN 215

(Switchboard) 215 7877

25 January 1984

CONFIDENTIAL

The Rt Hon Patrick Jenkin MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London SW1

D. Patrick

Absence in Brussels prevents my attending Cabinet this week for discussion of your paper on non-domestic rating revaluation (C(84)1).

2 I have previously set out my position on this issue in my letter of 21 October to Peter Rees, copied to you and a number of Cabinet colleagues.

3 It is clearly essential that a non-domestic revaluation should take place. But recognising the points made by Peter about the political inconvenience of going ahead with the revaluation in 1987, I noted that the balance of argument between 1987 and 1989 was finely drawn.

4 Feelings of dissatisfaction are being voiced increasingly at the fact that, in England and Wales, valuation lists are now ten years old. By 1989 the valuation lists will have stood unchanged for sixteen years during a period of substantial structural change in industry and commerce.

5 Not only has unfairness arisen between different classes of business, but there is now a strong feeling of injustice in many areas of the country. I have received a number of representations from business and Councils, including Councils in the West Midlands, setting out the pressing case, as they see it, for an early revaluation, and even suggesting interim measures to ease the burdens while awaiting a revaluation.

6 The political arguments mentioned by Peter, on the other hand, point towards 1989. Losers always shout louder than gainers and there will be some very large increases in rate liabilities. But these arguments are not completely one way; the losers from a further delay in revaluation can also be expected to be vociferous.



7 We should need to be sure that we would not be creating more problems that we solve by delaying a non-domestic revaluation. The longer the delay the bigger the readjustment and the louder the squeals will be. But on balance my feeling is that we should delay until 1989 subject only to reassurance that we will be ready and able to make a convincing presentational case for 1989.

8 I am copying this letter to Cabinet colleagues and to Sir Robert Armstrong.

4
Norman

NORMAN TEBBIT

LOCAL Gov: Rates & P&S

NEW YORK
JAN 25 1964

25 JAN 1964

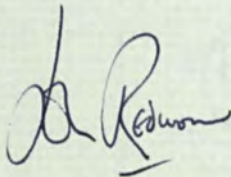
CONFIDENTIAL

24 January 1984

MR. TURNBULL

NON-DOMESTIC RATING REVALUATION

We think that the Chief Secretary is right to recommend 1 April 1989 for the revaluation. The changes will result in major shifts in the burden between different types of enterprise and between different areas of the country. They will be costly in manpower and add to the technical and political complications of local government shortly after major structural upheaval from the abolition of the Metropolitan Counties. Rate-capping should also help with the pressing problem of the burden on inner city businesses. This is a case where deferral and delay until after an Election is the wisest course.



JOHN REDWOOD

Prime Minister

When this was first raised in correspondence, you indicated a preference, subject to colleagues, for 1989. Mr. Tibbit - see attached - thinks the economic arguments are for 1987 but on balance gives greater weight to the political arguments favouring 1989.

AT 25/1

CONFIDENTIAL

CC/10

E



pa
DMS
30/12

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Patrick Jenkin MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON
SW1P 3EB

23 December 1983

Prime Minister

CST maintains his preference for 1989.

You have already said you are content with this, subject to colleagues. So there is no need to intensify unless PT insists on taking this to E or E(LA).

Dear Secretary of State,

RATING: NON-DOMESTIC REVALUATION

attached

You wrote to me on 2 December about the timing of the non-domestic revaluation.

You mention that the Rating Surveyors Association regard 1986 as the earliest possible date for revaluation. But it is surely not now practicable. It is too late for the Inland Revenue to try to recruit and train the additional professional staff who would be needed to do the work. My officials went over this ground with yours several weeks ago and, in the meanwhile, what was then a difficult and risky option has now become impossible.

DMS
29/12

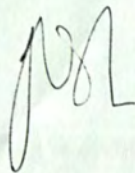
I have therefore looked closely at what you say about 1987. I accept that the domestic ratepayer will be shielded by the operation of block grant (ignoring complications such as close-ending). The problem remains of shifts in rate burden between non-domestic ratepayers within individual Rating areas. This leads me to stick to my original view that April 1989 would be preferable.

I accept that putting off the revaluation does not make the eventual task any easier. Nor are the manpower implications likely to be welcome for any of the possible dates. The staff needed will be a claim on the contingency margin and while I do not wish to oppose this it will take up a substantial part of the margin.

If you still feel unable to accept this, perhaps we should discuss collectively in E or E(LA).

I am copying this letter to the Prime Minister, Norman Tebbit,
George Younger, Nick Edwards and Sir Robert Armstrong.

yours sincerely



for PETER REES

(approved by the Chief Secretary
& signed in his absence).

29 DEC 1993

Local Govt : The Future of the Rating System
A3

9
8
7
6
5
4
3
2
1

010

NBPM AT 6112 ✓ NO



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

CONFIDENTIAL

Rt Hon Viscount Whitelaw CH MC
Lord President of the Council
Privy Council Office
Whitehall
LONDON

5 December 1983

Dear Willie,

SELECTIVE RATE LIMITATION: DE MINIMIS CUT-OFF

I am content with the proposal which Patrick Jenkin put to you in his letter of 28 November that there should be a cut-off point, initially set at £10m, and subject only to increase, under his scheme for selective rate limitation in England.

will request approved

There is no similar cut-off in Scotland and I have taken action against some relatively small district councils. I do not wish to remove any Scottish local authorities from consideration. It seems to me entirely possible to justify the distinction between the procedure on either side of the Border since I have to deal with only 65 authorities. Although in practice I have not taken action against authorities whose planned overspend was less than £0.5m, I should certainly not be willing publicly to forgo the possibility of taking action, if I thought it necessary, against any district council whose proposed expenditure was in my view excessive and unreasonable. I appreciate that the smaller scale of Wales and the substantial exclusion of district councils which would arise if the same £10m limit were applied there will probably make Nick Edwards choose a different limit, if he wants to have one at all; but I am perfectly content to leave it to his judgement and will not regard whatever he decides as embarrassing me.

I am copying this letter to Patrick Jenkin, the other members of E(LA) and to Sir Robert Armstrong.

Yours well,
George.

5 DEC 1983

11 12 1
10 K 2
9 3
8 4
7 6 5



10 DOWNING STREET

From the Private Secretary

Prime Minister ②

CST wrote in September arguing that manpower constraints made 1986 impossible, 1987 and 1988 were too close to the next election, therefore it had to be 1989. You were content with this subject to colleagues.

- (i) SS/TI accepted reluctantly
- (ii) SS/Scotland likewise

SS/Env urges reconsideration of 1986, and failing that, 1987.

BF — To await CST's response.

AT
5/12

MS

SEE SS/Env
to CST
2.12.83



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

2 December 1983

Dear Peter,

RATING: NON-DOMESTIC REVALUATION

You wrote to me on 28 September about the date of the non-domestic revaluation. I have also seen a copy of the Prime Minister's reaction, recorded in her private secretary's letter of 4 October, Norman Tebbit's letter of 21 October and George Younger's of 31 October. Before responding I have looked in some detail at the likely effects of a non-domestic revaluation.

If we defer revaluation beyond the earliest practicable date for it to take effect, which those in the field know to be April 1986 or 1987, then as Norman has said we must expect to face widespread criticism. A date as late as 1989 would be taken to mean that we are not fully committed to the reform of the rating system. Our White Paper on Rates commits us to ensuring that the tax base for rates provides as fair and accurate a measure of liability as possible and "to set in train the work required for a non-domestic revaluation". Many non-domestic ratepayers, often from those industries most severely affected by the recession, have for years been paying rate bills that are disproportionately high as a consequence of the change in relative values since the 1973 revaluation. Many respondents to the White Paper, including the CBI, other representatives of business interests and the local authority associations, have pressed for an early date.

We certainly need to weigh carefully the implications of the changes to rateable values that would follow. But a non-domestic revaluation should have far less adverse political repercussions than an eventual domestic revaluation. The Rate Support Grant system should ensure that the revaluation does not in itself affect domestic rate poundages, as explained in the Annex to this letter. If we were very concerned about the non-domestic losers we could, once we know the shape of the new assessments, consider staggering their introduction to prevent the sudden change. I would need to be convinced that such a transitional period was necessary. It would draw fierce criticism from those ratepayers who would gain from revaluation.

If we seek to keep the non-domestic revaluation away from the next General Election, a 1986 date would in many respects be highly desirable, and I see that, in their response to the White Paper the Rating Surveyors Association considers it to be practicable. I recognise that that date would present

you with manpower and timetable problems, which I would not want to minimise. But the manpower consequences of revaluation will have to be faced at some stage and I can see no virtue in putting off the problem. (I have written separately about the results of consultation on the proposed changes to valuation and appeals procedures.) If 1986 did prove impracticable then my own strong preference would be for 1987. I should welcome an opportunity to discuss these issues further with you before we come to a decision.

✓ I am copying this letter to the Prime Minister, Norman Tebbit, George Younger, Nick Edwards and Sir Robert Armstrong.

*You are
Patrick*

PATRICK JENKIN

ILLUSTRATION OF THE INTERACTION BETWEEN A NON-DOMESTIC REVALUATION AND RATE POUNDAGE EQUALISATION THROUGH THE RSG SYSTEM

1. The effect of a non-domestic revaluation is shown for two authorities, A and B. For illustrative purposes, it is assumed that both are spending at the level of their grant related expenditure assessment (GRE), taken to be £2.5m in each case (although the GREs could equally well be different); that both raise a grant related poundage for spending at GRE of 100p in the £, and that block grant for both totals £2.6m. The non-domestic revaluation is assumed to increase non-domestic rateable values in authority A from £0.9m to £1.4m and in the case of authority B from £0.5m to £1.4m.

	<u>Authority A</u>		<u>Authority B</u>		£m
	Before Re-valuation	After Re-valuation	Before Re-valuation	After Re-valuation	
Non-Domestic RV					
Shops + Offices	0.3	0.8	0.4	1.2	
Industry	0.6	0.6	0.1	0.2	
Total	0.9	1.4	0.5	1.4	
(adjusted by factor decided by Secretary of State + 2)		0.7		0.7	
Domestic RV	0.4	0.4	0.6	0.6	
Total (adjusted) RV x 100p	1.3	1.1	1.1	1.3	
Grant	1.2	1.4	1.4	1.2	
Total expenditure	2.5	2.5	2.5	2.5	

The increase in grant to authority A from £1.2m to £1.4m exactly compensates for the decrease in resources from £1.3m to £1.1m. Expenditure of £2.5m can still be financed, but only £1.1m is now raised from ratepayers: £0.7m (instead of £0.9m) from the non-domestic sector and £0.4m (as before) from domestic ratepayers. Since the rate poundage (100p) is unchanged there is no change in the burden on individual domestic ratepayers. In authority B ratepayers' contribution

has risen from £1.1m to £1.3m, comprising £0.7m (instead of £0.5m) from non-domestic ratepayers and £0.6m (as before) from the domestic sector.

2. The use of a national adjustment factor means that the new relativities between non-domestic properties established by revaluation will be secured not merely as between non-domestic properties within each local authority area, but as between non-domestic properties in different local authority areas. And as demonstrated in the preceding paragraph, where this results in a change in the amount of non-domestic rateable value and income - either up or down - the position of the domestic sector will be preserved by means of the equalising Rate Support Grant.

3. Although a simplified illustration, the same consequences hold good for an authority in grant at whatever level it is spending and whether or not it is affected by grant abatement because it is spending above its expenditure target, subject to paragraph 4 below. Equally, rate limitation will where appropriate need to take account of changes in rateable values following a revaluation.

Second Order Effects

4. It may be expected that a non-domestic revaluation will increase the proportion of the rateable values in those authorities, chiefly in London, whose resources are so high that they are not eligible to receive grant. In the absence of corrective action, domestic ratepayers in such areas would tend to receive a windfall gain, since the authority could reduce its rate poundage to reflect the enhanced total rateable value, which would not be offset by loss of grant. If this did happen, the grant related poundages for authorities still in grant might tend to shift upwards. But full equalisation could in practice be maintained more or less exactly, through changes to the London rate equalisation scheme.

5. Revaluation could also be expected to reduce the divergence between rateable values used for calculating block grant and the actual product of a penny rate, which varies considerably from authority to authority. Block grant data tends to understate rateable values in areas of growth and to overstate them in areas of decline. In addition, losses on collection are particularly large in some mainly declining areas. Once rateable values reflect present reality, this discrepancy diminishes, leading to less discrepancy in the rate poundages actually levied.

6. These second order effects can only be properly assessed when preliminary data for the revaluation is available. But in each case, adjustment mechanisms are available which should serve to protect domestic ratepayers from change resulting from a non-domestic revaluation.

7. Finally, mixed hereditaments (eg a shop with a flat above) will need separate consideration. These are treated as non-domestic properties and will therefore be revalued as a whole.

Lower cost: Rating Evaluation
113

17 DEC 1983

11 12 13 14 15
16 17 18 19 20
21 22 23 24 25
26 27 28 29 30
31

11 12 13 14 15
16 17 18 19 20
21 22 23 24 25
26 27 28 29 30
31

PRIME MINISTER

RSG AND RATE LIMITATION

You may remember that after much difficulty an agreement was reached on the RSG package which combined a relatively high level of grant with a tough scale for holdback. Mr. Jenkin is now seeking to re-open this agreement on the grounds that it creates problems for the Rate Limitation Bill. He fears that either RSG or Rate Limitation or both could not be got through the House.

The problem is that Rate Limitation has been presented as a selective measure, punishing only the worst offenders, with general limitation being held only in reserve should there be a wide-spread breakdown of the system. The Councils are arguing that, in effect, the holdback scheme subjects them all to general limitation.

The Treasury are resisting Mr. Jenkin's attempt to re-open the deal. They feel that it is wrong to weaken holdback which was the quid pro quo for an easier settlement on the level of grant. If holdback is re-opened then so should the remaining elements of the package. They argue that the purpose of tough holdback is to be a deterrent and it only comes into operation if there is over-spending.

Mr. Jenkin may put his proposals to E(LA), though this is not scheduled to meet again until 17 November.

The Chief Whip may raise this with you today. You may wish to establish whether he thinks these measures can be got through if Environment Ministers are resolute. Clearly, if they are hesitant backbench opposition is likely to grow.

AT

7 November, 1983

MR. TURNBULL

The Chief Whip had a word with me about Mr. Jenkin's proposals on legislation to control the rates. Apparently Mr. Jenkin is putting forward to one of the E Committees some modifications in his original proposals and has asked the Chief Whip to go along to the Committee to advise on whether they can be got through the House. The Chief Whip feels that getting them through the House will not depend only on the proposals themselves but on the efforts which DOE Ministers make to sell them to the various local authorities concerned; and he feels that this effort has so far been lacking. The Chief Whip may want to invoke the Prime Minister's aid in getting this message across to Mr. Jenkin, and the natural opportunity to do this would be when Mr. Jenkin clears his proposals with the Prime Minister.

BF | Could you please look out for that moment and alert me when Mr. Jenkin reports to the Prime Minister.

F.E.R.B.

4 November 1983



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

cc/NO

N BPM
HT
1/11

The Rt Hon Peter Rees QC MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG:

31 October 1983

Dear Peter,

RATING: REVALUATION

I note that, in response to your letter to Patrick Jenkin of 28 September, the Prime Minister agreed a date of April 1989 for the next revaluation of non-domestic properties in England and Wales.

Many outside bodies, who criticised the decision to postpone the partial revaluation planned for Scotland in 1983 to 1985, continue to assume that an early revaluation can be expected in England and Wales. While I would have preferred a date nearer to the 1985 Scottish revaluation, I have no other comment except to hope that the date can be decided and announced. That will enable me to have fully informed discussions with outside bodies about the relative effect of legislative proposals in Scotland.

I am copying this letter to the Prime Minister, Norman Tebbit, Patrick Jenkin, Nick Edwards and Sir Robert Armstrong.

Yours was,
Crawford

Local Govt,
Refinery
Per, p 3

11 21 25
12 14 17
18 20 23
24 26 29
30 31 34
35 38 41
42 45 48
49 52 55
56 59 62
63 66 69
70 73 76
77 80 83
84 87 90
91 94 97
98 101 104
105 108 111
112 115 118
119 122 125
126 129 132
133 136 139
140 143 146
147 150 153
154 157 160
161 164 167
168 171 174
175 178 181
182 185 188
189 192 195
196 199 202
203 206 209
210 213 216
217 220 223
224 227 230
231 234 237
238 241 244
245 248 251
252 255 258
259 262 265
266 269 272
273 276 279
280 283 286
287 290 293
294 297 300
301 304 307
308 311 314
315 318 321
322 325 328
329 332 335
336 339 342
343 346 349
350 353 356
357 360 363
364 367 370
371 374 377
378 381 384
385 388 391
392 395 398
399 402 405
406 409 412
413 416 419
420 423 426
427 430 433
434 437 440
441 444 447
448 451 454
455 458 461
462 465 468
469 472 475
476 479 482
483 486 489
490 493 496
497 500 503
504 507 510
511 514 517
518 521 524
525 528 531
532 535 538
539 542 545
546 549 552
553 556 559
560 563 566
567 570 573
574 577 580
581 584 587
588 591 594
595 598 601
602 605 608
609 612 615
616 619 622
623 626 629
630 633 636
637 640 643
644 647 650
651 654 657
658 661 664
665 668 671
672 675 678
679 682 685
686 689 692
693 696 699
700 703 706
707 710 713
714 717 720
721 724 727
728 731 734
735 738 741
742 745 748
749 752 755
756 759 762
763 766 769
770 773 776
777 780 783
784 787 790
791 794 797
798 801 804
805 808 811
812 815 818
819 822 825
826 829 832
833 836 839
840 843 846
847 850 853
854 857 860
861 864 867
868 871 874
875 878 881
882 885 888
889 892 895
896 899 902
903 906 909
910 913 916
917 920 923
924 927 930
931 934 937
938 941 944
945 948 951
952 955 958
959 962 965
966 969 972
973 976 979
980 983 986
987 990 993
994 997 1000

NOV 1988

11 21 25
12 14 17
18 20 23
24 26 29
30 31 34
35 38 41
42 45 48
49 52 55
56 59 62
63 66 69
70 73 76
77 80 83
84 87 90
91 94 97
98 101 104
105 108 111
112 115 118
119 122 125
126 129 132
133 136 139
140 143 146
147 150 153
154 157 160
161 164 167
168 171 174
175 178 181
182 185 188
189 192 195
196 199 202
203 206 209
210 213 216
217 220 223
224 227 230
231 234 237
238 241 244
245 248 251
252 255 258
259 262 265
266 269 272
273 276 279
280 283 286
287 290 293
294 297 300
301 304 307
308 311 314
315 318 321
322 325 328
329 332 335
336 339 342
343 346 349
350 353 356
357 360 363
364 367 370
371 374 377
378 381 384
385 388 391
392 395 398
399 402 405
406 409 412
413 416 419
420 423 426
427 430 433
434 437 440
441 444 447
448 451 454
455 458 461
462 465 468
469 472 475
476 479 482
483 486 489
490 493 496
497 499 502
503 506 509
510 513 516
517 520 523
524 527 530
531 534 537
538 541 544
545 548 551
552 555 558
559 562 565
566 569 572
573 576 579
580 583 586
587 590 593
594 597 600
601 604 607
608 611 614
615 618 621
622 625 628
629 632 635
636 639 642
643 646 649
650 653 656
657 660 663
664 667 670
671 674 677
678 681 684
685 688 691
692 695 698
699 702 705
706 709 712
713 716 719
720 723 726
727 730 733
734 737 740
741 744 747
748 751 754
755 758 761
762 765 768
769 772 775
776 779 782
783 786 789
790 793 796
797 800 803
804 807 810
811 814 817
818 821 824
825 828 831
832 835 838
839 842 845
846 849 852
853 856 859
860 863 866
867 870 873
874 877 880
881 884 887
888 891 894
895 898 901
902 905 908
909 912 915
916 919 922
923 926 929
930 933 936
937 940 943
944 947 950
951 954 957
958 961 964
965 968 971
972 975 978
979 982 985
986 989 992
993 996 999
1000

CONFIDENTIAL

C

✓ se NO



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

JH 875

Secretary of State for Trade and Industry

21 October 1983

The Rt Hon Peter Rees QC MP
Chief Secretary
HM Treasury
Parliament Street
London SW1

Prime Minutes⁽²⁾
Mr Tebbit concedes reluctantly

AT 21/10

MR

D Peter.

RATING: NON-DOMESTIC REVALUATION

You wrote to Patrick Jenkin on 28 September on this subject and I have also seen the Prime Minister's Private Secretary's minute of 4 October which expressed her agreement.

2 The points you make about the political inconvenience of going ahead with the revaluation in 1987 and 1988 are telling. But we should not lose sight of the reasons for revaluation and the likely implications of delay. Strong feelings of dissatisfaction are being voiced increasingly at the fact that, in England and Wales, valuation lists are now ten years old. By 1989 the valuation lists will have stood unchanged for sixteen years during a period of substantial structural change in industry and commerce.

3 As you mention, not only have unfairnesses arisen between different classes of business, but there is now a strong feeling of injustice in many areas of the country. I have received a number of representations from business and Councils, including Councils in the West Midlands setting out the pressing case, as they see it, for an early revaluation; and even suggesting interim measures to ease the burdens while awaiting a revaluation.

4 The perceived inequities will probably increase as time goes on; and while revaluation will give rise to losers as well as gainers, the losers from a further delay in revaluation can also be expected to be vociferous.

5 We must be sure that we are not creating more problems than we solve by delaying a non-domestic revaluation. The larger the delay the bigger the re-adjustment and the louder the squeals will be. On balance the political considerations you mention just win the argument for delay. But if we decide to announce a

||



reevaluation effective in April 1989, we must expect criticism and increased demands for immediate temporary measures to ease the burdens on adversely affected businesses and authorities; and we must be ready with convincing justifications of the proposed timetable for reevaluation.

6 I am copying this letter to the Prime Minister, Patrick Jenkin, George Younger, Nick Edwards and to Sir Robert Armstrong.

J. Norman

Local Govt : Future of Banking System

Pt 3

21 OCT 1983



CONFIDENTIAL



File B Sub

10 DOWNING STREET

From the Private Secretary

4 October 1983

RATING: REVALUATION

The Prime Minister has seen the Chief Secretary's minute of 28 September to the Secretary of State for the Environment on the timing of the next rating revaluation of non-domestic properties. She agrees that April 1989 would be a suitable date and that an announcement can be made in the near future.

*+ John Ballard
(D.E)*

I am sending copies of this letter to Jonathan Spencer (Department of Trade and Industry), Muir Russell (Scottish Office), Colin Jones (Welsh Office) and to Richard Hatfield (Cabinet Office).

AT

John Gieve, Esq.,
Chief Secretary's Office.

CONFIDENTIAL

Prime Minister ① *



Treasury have now reconsidered timing of non-domestic revaluation. Agree April 1989 clearly in next Parliament?

AT 3/10

Treasury Chambers, Parliament Street, SW1P 3AG

28th September 1983

Rt Hon Patrick Jenkin MP
Secretary of State
Department of the Environment
2 Marsham Street
London SW1P 3EB

Subject to
Colleagues - yes
me

Patrick Jenkin

RATING: REVALUATION

Last month's White Paper committed the Government to a rating revaluation of non-domestic properties. But it deliberately left open the precise timing, so that we could give it some further thought.

At this stage, I think we have to accept that 1986 is ruled out. There is barely enough time - indeed it might already be too late - even if the Revenue pulled out all the stops and started recruiting and training staff immediately. And, in any event, there is no money for this purpose in 1983/84 estimates, let alone room in our 1984 manpower ceiling.

A 1987 revaluation would involve the publication of new valuation lists at the end of December 1986; these would be open to challenge and appeal 3 months later, i.e from 1 April 1987 onwards. Even on the assumption that you would use your powers to preserve the relative burden borne by the domestic and non-domestic sectors over the country as a whole, there would be significant changes in the incidence of rates on different classes of industrial and commercial property and in different regions. In general, the Valuation Office expects that the main losers would be the big shops, other commercial buildings in prime city sites, and the main gainers would be older industry and (generally small) businesses elsewhere. There would also be a shift between regions with industry and commerce in the South East paying more and the North less (which might well affect domestic rates). This reflects fairly enough what we all know about how the economy has developed since the oil price explosion and inflation of the early 1970s. But the adjustment would inevitably be painful, and the losers would inevitably be vocal. I share the Prime Minister's view that this is not something for which we should plan at what is likely to be a

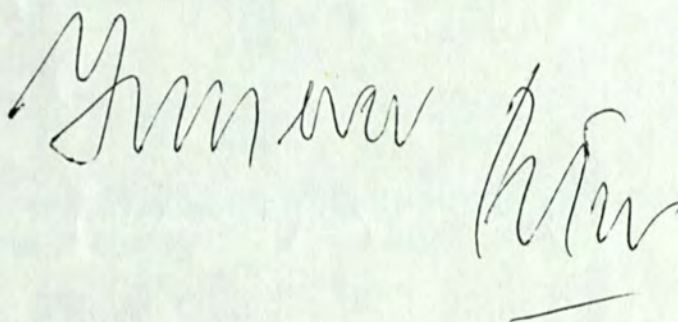
sensitive political period.

With a 1988 reevaluation the dates would, of course, all be 12 months later, but very much the same considerations apply.

As I see it at present, therefore, the earliest and best practicable date seems likely to be early in the lifetime of the next Parliament. A suitable date might well be April 1989. We should announce the date fairly soon. However, because this would involve substantial additional manpower at 1 April 1988, I would like to defer a final decision on this until we have made more progress on the current exercise dealing with Civil Service manpower generally.

X | Meanwhile, I should be very glad to know whether you and my other colleagues agree with this general approach.

I am sending copies of this letter to the Prime Minister, Cecil Parkinson, George Younger, Nick Edwards and Sir Robert Armstrong.



PETER REES

Local Gov
Rating Revaluation Pt 3





Department of the Environment
2 Marsham Street London SW1

Telephone 01-212 3434

Minister of State
for Local Government

NBPM
ms 2/9
My Ref: J/PSO/14132/83

1 SEP 83

Dear A. This,

Thank you for your letter of 29 July to Patrick Jenkin, on his minute to the Prime Minister of 27 July about a non-domestic revaluation. *Do they mean 22?*

The Valuation Office of the Inland Revenue have assured me that there is ample evidence on market rents for both commercial and industrial premises, to enable a revaluation to be carried out on this basis. There is perhaps slightly less evidence on old industrial premises than on new, but they are confident that it will still be sufficient.

Direct rental evidence is not of course available on certain highly specialised types of property, such as steel works or oil refineries. Rating practice, endorsed by the courts over the years, provides for alternative methods of determining the rental value of such hereditaments. These include assessment on the basis of the cost of replacement. In circumstances where even such methods are not appropriate - as with most of the statutory undertakings - rateable values are determined by statutory formula.

The absence of direct rental evidence in certain special cases, is not a reason for abandoning this method of valuation for non-domestic properties, and I do not believe that any other system of valuation would provide a fairer - or more defensible - tax base for determining the rate liability of the non-domestic sector. This is in marked contrast to the domestic sector, where rental evidence is now very scarce for many types of property.

I am copying this letter to the recipients of Patrick Jenkin's minute to the Prime Minister of 27 July.

Yours Sincerely,
J. Bellwin

LORD BELLWIN

The Lord Cockfield

Lau Gast

Resting Penak

De 3



SCOTTISH OFFICE
NEW ST. ANDREW'S HOUSE
ST. JAMES CENTRE
EDINBURGH EH1 3SX

*cejs
local Govt*

CONFIDENTIAL

Rt Hon Peter Rees QC MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

*A
28/8*

25 August 1983

Dear Chief Secretary

VALUATION AND RATING: SCOTTISH WHITE PAPER

Thank you for your letter of 22 August. I was also grateful to have the letter from Irwin Bellwin of the same date.

Because the deadline for printing the White Paper for publication on 31 August was noon on 23 August, I have arranged that it should be printed with paragraph 13 concluding at the end of the fourth sentence "... greatly assist these stadia". That does not mean that I can accept the arguments which you and Irwin Bellwin have put forward against derating or the alternative of formula valuation since I know that George Younger, who returns to the office next week, is very concerned indeed about the problems of Scottish racecourses and football stadia and will want to discuss the matter further with you. But in order to ensure that the White Paper is published on time and in a way which cannot be regarded by you or DOE Ministers as objectionable, I instructed that the abbreviated form of paragraph 13 should go to the printers.

In respect of rebates I have accepted an amendment to paragraph 36 to meet the points made by your officials. In place of the second and third sentences of the earlier draft I have substituted "In some circumstances this can mean that the rates levied are high in relation to income".

On industrial derating I note that you did not press me on the drafting and indeed I see no reason, as I indicated in my letter of 15 August, to include any reference to it in a White Paper which is a precursor of the contents of the primary legislation envisaged for this session. The purpose of industrial derating in Scotland is merely to maintain parity between England and Scotland in the general burden which industry carries in respect of local authority rates.

I can certainly undertake that the way in which this White Paper is drafted would not be regarded by me as an argument against abolition but when the present Order conferring the present 50% industrial derating comes to be renewed we will maintain the practice of putting all the considerations applying to the level of industrial derating in Scotland to the Treasury before any decision to extend the derating is reached.

For the record I ought to say that we have incorporated in the revised version of the White Paper the suggestion made in Norman Fowler's letter of 11 August.

I am copying this letter to Irwin Bellwin as a response to his letter of 22 August; to the Prime Minister and to the other recipients of the earlier correspondence. The White Paper in its revised form, taking account of the points made in correspondence, will now be published on Wednesday 31 August.

Yours sincerely

Jane Morgan

|| MICHAEL ANCRAM

*(Approved by the Minister
and signed in his absence)*

Low 607x
Lobby Reevaluation
#3

26 AUG 1983

12 23 45
DEPT OF STATE



Treasury Chambers, Parliament Street, SW1P 3AG

Michael Ancram Esq MP
Scottish Office
New St Andrew's House
St James Centre
Edinburgh
EH1 3FX

22 August 1983

Am Michael

VALUATION AND RATING: SCOTTISH WHITE PAPER

Thank you for your letter of 15 August. I am grateful for the changes you have made to meet me; but there are still two points of difficulty.

First, I really think that we should not resort to primary legislation to tinker with the professional rating valuation of sports stadia unless all else fails. We have agreed to open up the appeals procedure. If something is wrong with the rating assessments of racecourses or football grounds, that should come out on appeal. These assessments may in any case be adjusted in the 1985 Scottish revaluation. If special conditions produced unfairly high valuations in 1978, that may be put right by the revaluation. In these circumstances, I think it would be wrong to give a back door subsidy to sports stadia by derating. If we start down that road, we may face all sorts of other worthy cases.

I am afraid that the alternative of introducing formula valuation, which you suggest, would be no more appropriate. In England and Wales, at any rate, this is used only for undertakings not primarily run for profit, to which the normal methods of assessment could not sensibly be applied. I cannot believe that it would be right to extend it to sports stadia as a way of reducing their rate bills.

I am sorry, therefore, but I cannot accept the last two sentences of your revised paragraph 13. I am afraid I must ask you to omit them.

Second, I cannot agree with your remarks about industrial derating. In a white paper which emphasises the burden of rates on businesses, it seems bizarre not to mention that there is 50%

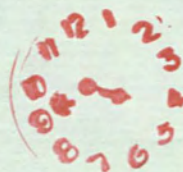
Industrial derating in Scotland. At a time when the review of regional economic policy has concluded that industrial derating is a bad buy, it is odd not to say that this is under review. I should much prefer the white paper to include these points. But I will not press you on the drafting in relation to industrial derating if you can give me two assurances on the substance: first, that you will let me have a paper on the options for ending or modifying industrial derating in Scotland; and second, that you will not use the way in which the white paper is drafted as an argument against abolition.

I am sending copies to the recipients of the earlier correspondence.

*Yours ever
Peter Rees*

PETER REES

26 AUG 1955



cc JFO



SCOTTISH OFFICE
NEW ST. ANDREW'S HOUSE
ST. JAMES CENTRE
EDINBURGH EH1 3SX

The Rt Hon P Rees QC MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

15 August 1983

Dear Chief Secretary

DJ 16/8

VALUATION AND RATING: SCOTTISH WHITE PAPER

Thank you for your letter of 5 August to George Younger. I am replying because he is on holiday.

I note your views on our selective action powers in Scotland. Although the proposed English powers enable action to be taken in advance of budgets this depends on an authority being a high spender in the previous year. If an authority suddenly decides to increase its expenditure dramatically - which we know from experience can happen - under the English scheme no action could be taken till that authority was selected for control the following year. In Scotland we can act at once on the increased budget and take action to reduce rates and expenditure in that financial year. On your third paragraph I would repeat the point which George Younger has already made to you that the Scottish guidelines for 1983-84 cannot, as is implied, be equated with the English targets since our guidelines do not contain the unallocated margin. This inevitably makes the pattern of overspending look worse and we are glad that you have been able to agree that the unallocated margin should be included in guidelines for 1984-85.

It is quite intentional that our White Paper gives prominence to "valuation anomalies". While we have accepted that the rating system is not to be replaced we cannot deny the defects it still has and wish to do what we can to improve it. We have received representations from significant representative bodies as well as individuals concerning these anomalies and therefore George Younger and I consider it important to make it clear that we are tackling the perceived defects of the present system. However, we have accepted a number of the detailed suggestions made by you and your officials. I comment on your other points here.

We cannot avoid the fact that non-domestic (particularly commercial) ratepayers in Scotland, as a group, suffer vis-a-vis their English and Welsh counterparts because we have had a more recent revaluation. This is because of the economic circumstances in which the 1978 revaluation was held led to a significant shift in the rate burden to the commercial sector. This does not detract from the fact that the best cure is to have a revaluation now in current circumstances to update relativities between individual ratepayers within the class as well as the relativities of whole classes of ratepayer. But I am afraid we cannot get away from the historical effects of a particular revaluation and the pressures these have placed on the Scottish business community. Although high poundages are perhaps a greater evil it is the combination of the two effects which is felt by the individual; we must acknowledge both.

In the case of sports stadia, as George Younger has already said, we hope that the improvement of appeal rights will be helpful but we cannot be confident that that alone will be adequate nor that it would not create reverse anomalies after an English revaluation. I can agree that we should perhaps not exercise derating powers on a permanent basis until the appeal provisions are tested but to wait till then to take the powers would mean that they could not be exercised when it becomes entirely clear that they are needed immediately, and the problem they are required to solve is already severe and in need of urgent resolution. It will not just disappear (unless the organisations concerned are forced out of business) and we do feel most strongly that the opportunity should be taken to secure the means of solving the problem. However, in view of your comments and those of Lord Bellwin, to whom I spoke today, I am amending the White Paper to be less specific as to the form of relief we will propose for sports stadia. If we refer only to prescribing new valuation provisions for this category it leaves it open for us to consider whether relief should be by derating or by the introduction of formula valuation. (The text of my revised paragraph 13 is annexed). We are clear that change by one means or the other is essential. The extent of the exercise of the powers taken will of course depend on the course of subsequent events.

Turning to your final point, concerning industrial derating, I do not think there is any need to amend the White Paper. We see the White Paper as a forerunner of the principal contents of forthcoming primary legislation, not as a complete catalogue of all legislative changes which might or might not be considered. In any case there does not seem to be a case for changing the level of industrial derating in Scotland, the purpose of which is to keep Scottish industrial valuations in line with England not to give industry any specially favoured position. It does not therefore seem odd to leave reference to industrial derating out of the White Paper. On that basis we would prefer to leave the White Paper as it stands.

I am grateful for the comments given by you and other colleagues on our draft. Although it has not been possible to accept all the suggested changes they have enabled us to improve the text which I can now finalise ready for publication this month. I am copying this to recipients of the earlier correspondence.

Yours sincerely,
Jane Mazon

ff

MICHAEL ANCRAM

*(Approved by the Minister and
signed in his absence.)*

SPECTATOR SPORTS STADIA

13. Different valuation methods adopted north and south of the Border have led to particularly heavy burdens being placed on the stadia for spectator sports in Scotland. In general, Scottish racecourses face a burden much greater than that of their English equivalents mainly on account of valuation differences. Similarly, though direct comparison is more difficult, league football grounds appear to bear significantly higher burdens than those in England and Wales. The extension of appeal rights (discussed below) should greatly assist these stadia. In addition the Secretary of State proposes to take power, subject to Parliamentary approval, to prescribe new valuation provisions for this category of lands and heritages in order to make its rate burden fairer. The exercise of this power would be reviewed in the light of the success of the new appeal arrangements discussed below and at the time of any revaluation either in Scotland or in England and Wales, since revaluation is likely to affect the relative position of the subjects in question.

LOWR GOVT: Rating Revaluation

pt 3

Minister of State
for Local Government



Department of the Environment
2 Marsham Street London SW1
Telephone 01-212 3434

22 NO
CONFIDENTIAL

// August 1983

See Cecil,

10/5/83

RATING REFORM AND REVALUATION

Thank you for your letters of ~~27~~ and ~~28~~ July and ~~2~~ August to Patrick Jenkin, about the White Paper on Rates. I am replying in his absence.

You will have seen Patrick's letter of 1 August to Peter Rees, responding to his comments and those of other colleagues on the draft White Paper, which was published that day.

In the light of Peter Rees' views on the desirability of retaining rateable value limits for the payment of rates by instalment, we have not included the proposal to extend the right to pay by instalment to all non-domestic ratepayers, but we may need to come back to this following the consultation period.

I agree that we have to be flexible in framing our proposals for a duty to consult non-domestic ratepayers. My officials will keep in touch with yours, as our consultations with business and the local authority associations progress.

I am glad that you agree about the need for a non-domestic revaluation, to which the White Paper commits us. We shall need to consider further its timing and whether to have a transitional period. Neither issue is mentioned in the White Paper.

I am copying this letter to the Prime Minister, Peter Rees, George Younger, Nick Edwards and Sir Robert Armstrong.

Yours Sincerely,
JWW

LORD BELLWIN

Local Zoo Rating
re-evaluation



Minister of State
for Local Government

✓CNO

Department of the Environment
2 Marsham Street London SW1
Telephone 01-212 3434

// August 1983

See George.

Jr 12/8

VALUATION AND RATING: SCOTTISH WHITE PAPER

Thank you for copying to Patrick Jenkin your minute of 29 July to the Prime Minister with a draft of the Scottish White Paper on Rates, and your letter of the same date to Peter Rees. I have seen Peter's response of 5 August. I am responding in Patrick's absence, in view of your tight timetable.

Part 1: Valuation

I am sorry that you still wish to press ahead with your proposal to partially derate spectator sports stadia and support Peter Rees' view that this option should not be canvassed in the White Paper. As Patrick said in his letter of 27 July, we fear that this might create pressure for similar treatment from other categories of ratepayer who consider that their rate burden is unfair for one reason or another. Such pressure would be very difficult to resist if we had moved away from the principle that the courts provide the forum for challenging rateable values.

I agree also with Peter that it is important to present the reforms as designed to correct valuation anomalies rather than to relate the rate bill more closely to ability to pay. This issue arises especially on paragraph 8. I have particular difficulty with the statement that a "technically correct rateable value" may result in an "inequitable" rate burden. My concern would be met if you would agree to delete the third to seventh sentences ("Individual high"), and also the ninth sentence ("Many businesses business"). In the eighth sentence the phrase "this anomaly" should then become "these anomalies".

I appreciate the reasons for your wish to derate commercial ree beds (paragraph 12) since they are not in practice rated in England and Wales. However, recent advice has brought to light that they are rateable in theory here, although none is currently identified. You may like to know that we may therefore need to consider an amendment to our legislation to parallel yours and to exclude them specifically from rating as agricultural land. My officials are in touch with Michael Jopling's.

Part 2: Rating

Paragraphs 29 and 30 go rather further on the detailed nature of the proposals for consultation of business ratepayers than does our White Paper (Paragraphs 5.15 and 5.16). We have avoided detail on the precise form of guidance, whereas you specify regulations and a code of practice, and also on the penalty for failure to consult, in case we find during our own consultation that different

arrangements would be preferable. You may like to consider similar caution.

In paragraph 31 you propose that your scheme of general rate control should be introduced by way of affirmative resolution in the House of Commons only. I see the advantage in this approach. However I think we shall need to consider with Willie Whitelaw and other colleagues whether a major change in the relationship between central and local government could be introduced without the approval of the House of Lords. It was concern on this point which led us to draft paragraph 4.1 of our White Paper so as to refer only to "an Order under the affirmative resolution procedure". Since we could hardly defend different procedures for north and south of the Border I think we should leave the issue open for the time being; this means deleting the words "by the House of Commons" at the end of this paragraphs.

In paragraph 32 you make explicit the possibility that ability to apply for a derogation might be limited by criteria to be set by the Secretary of State. We are considering this approach too, but foresee practical difficulties of the sort Tom King identified in discussions on E(LF)(83)12. We think the drafting of our paragraph 4.5, which says that "derogations would only be granted in exceptional circumstances", leaves open the option of developing criteria if the practical difficulties can be overcome. I should prefer the last line and a half of this paragraph ("but Secretary of State") to be omitted.

Paragraph 36 again raises the issue of the relationship between rateable value and income. Because we have decided not to introduce a discount scheme, nor a surcharge on earners,, I think it would be better to delete the second and third sentences. I will be writing separately in response to your letter of 1 August about discounts from rate bills for single person households.

I am copying this letter to recipients of yours.

*Yours Sincerely,
Gowin*

LORD BELLWIN

local gov rating newman
pt 3



Treasury Chambers, Parliament Street, SW1P 3AG

Wn
5/8

The Rt Hon George Younger MP
Secretary of State
Scottish Office
Dover House
Whitehall
London SW1A 2AU

5 August 1983

Dear Secretary of State,

VALUATION AND RATING: SCOTTISH WHITE PAPER

Thank you for my copy of your minute to the Prime Minister of 29 July, and for your letter of the same date.

I am sorry that you do not feel able to accept my suggestion that you should at least canvass the possibility of bringing your selective powers into line with those Patrick Jenkin and Nick Edwards are proposing to take for England and Wales. I see real advantage in taking action before local authorities set their budgets and rates rather than after.

But I will not press this if you think the circumstances in Scotland are sufficiently different from those in England and Wales. I know that Scottish authorities have increase their spending even faster than English authorities; and I understand that the pattern of overspending is more general. In 1983-84, over fifty of the sixty-five Scottish authorities are planning to spend more than 5% above their guidelines, and nearly fifty are planning to spend 10% above. You have explained to me that this makes it difficult, under your present powers, to select authorities whose expenditure is clearly "excessive and unreasonable". It may be that there could be a case for introducing the general scheme of rates control earlier in Scotland than in England and Wales.

Your draft white paper does not come on to the general scheme until near the end. It appears, indeed, to give more prominence to "valuation anomalies" which must, I imagine, affect relatively few ratepayers. I find this balance a little odd; but that is a matter for you.

The draft rather gives the impression that certain kinds of property suffer higher rates in Scotland than in England or Wales because differences in valuation procedure work unequivocally to the disadvantage of Scottish ratepayers. But surely the main problem is that Scottish rates are too high because Scottish local authorities spend too much. To the extent that this is compounded by peculiarities of valuation practice, that seems to me an administrative matter, better tackled by opening up appeals procedures than by resorting piecemeal to legislation on derating.

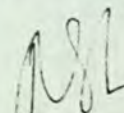
Sports stadia are the main case in point. I really do think we should see what difference the change in appeals procedures can make before canvassing the option of a partial derating. I hope, therefore, that you will reconsider your proposal on this.

More generally, I am worried by the presumption throughout the draft white paper that rate burdens can and should be sensitively related to ability to pay. The draft makes a number of criticisms of the rating system which seem out of place in a white paper whose premise is that rates will stay. I am particularly concerned by the tenor of paragraph 8. A suggestion that "technically correct rateable values" could be amended if rate poundages become too high suggests characteristics of the rating system which have never existed. If rate poundages become too high because local authorities spend too much, it seems to me wrong to mitigate the consequences by distorting the rating system. And a suggestion that Scottish non-domestic ratepayers suffer because there has been a recent revaluation seems unfortunate: the English white paper suggests that some non-domestic ratepayers are suffering because there has not been a recent revaluation. My officials will be in touch with yours to suggest specific amendments.

One final point. The review of regional economic policy, on which your officials were represented, concluded that industrial derating is bad value for money. When Treasury Ministers agreed earlier this year to an order extending 50% industries derating in Scotland, it was on the condition that you would be able to amend or rescind it later, when we had seen the findings of the review. Now that we have those findings, there seems to be a case for ending industrial derating and investigating more cost-effective methods of helping industry in Scottish assisted areas. The details can be discussed later, but I am concerned that the white paper should not preclude ending industrial derating. To issue a white paper on rates without mentioning your industrial derating could look odd in any case, and could be taken to imply that we are content with the status quo. I should be grateful if you could add a passage to avoid any such impression. Perhaps our officials could be in touch about the drafting.

I am sending copies of this letter to the Prime Minister and other colleagues who had your minute.

yours sincerely



PETER REES (approved by Michael Sash)

LOCAL GOV: Future d Rates: Pg 3.

5 AUG 1983



CC/NO

DEPARTMENT OF TRADE AND INDUSTRY



Room 11.01 Ashdown House 123 Victoria Street SW1E 6RB
Telex 8813148
Telegrams Advantage London SW1
Telephone Direct Line 01-212 3301
Switchboard 01-212 7676

JF4140

Secretary of State for Trade & Industry

4 August 1983

CONFIDENTIAL

The Rt Hon George Younger TD MP
Secretary of State for Scotland
Scottish Office
Whitehall
LONDON
SW1A 2AU

*Wh
5/8*

Dear George,

VALUATION AND RATING : SCOTTISH WHITE PAPER

Thank you for my copies of your minute to the Prime Minister of 29 July and your letter of 15 July to Patrick Jenkin on the White Paper. I have only a few comments.

2 I was pleased to see that you intend to suspend the powers of Scottish local authorities to levy rates on empty industrial property. Although Scottish local authorities exercise their discretion in this area sensibly and reasonably, I think it is preferable to have consistency between Scotland, England and Wales wherever possible.

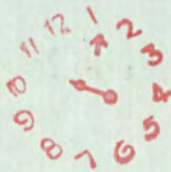
3 On the statutory duty which you intend to place on Scottish local authorities to consult non-domestic ratepayers before setting the rate, you will now have seen my letter of 28 July to Patrick Jenkin. I am sure that we need sanctions against authorities which fail to carry out this duty. But as I mentioned to Patrick, the drafting of the legislation will need great care so as to not prejudice real co-operation from the local authorities. The whole purpose of this duty is to make local authorities more aware of the interests and concerns of business and of the effects on business of rates and local authority expenditure. This will inevitably be a long term education process which will require good will and co-operation on both sides. Despite the differences in customs and procedures in Scotland I would hope that the flexibility which Patrick envisages in the legislation for England and Wales would allow you to introduce very similar arrangements for Scotland.

LOCAL GOVT. Rating Revaluation Pt 3



4 I am copying this letter to the Prime Minister, Members of the Cabinet, the Attorney General, the Lord Advocate, the Chief Whip and Sir Robert Armstrong.

- 5 AUG 1983



Yours *Earl,*
A. Cecil

cc-10

2



DEPARTMENT OF TRADE AND INDUSTRY

Room 1101 Ashdown House 123 Victoria Street SW1E 6RB
Telex 8813148
Telegrams Advantage London SW1
Telephone Direct Line 01-212 3301
Switchboard 01-212 7676

JF4008

Secretary of State for Trade & Industry

CONFIDENTIAL

2 August 1983

pa
Wm 4/8

The Rt Hon Patrick Jenkin MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON
SW1P 3EB

Prime Minister

Mr Parkinson supports the
need to press ahead with a non
domestic revaluation.

WPSR
2/8

Dear Patrick,

Thank you for copying to me your letter of 15 July setting out your proposals on rating revaluation. I have also now seen the Prime Minister's comments on the draft White Paper in her Private Secretary's letter of 23 July, and your reply of 27 July.

2 The case for a revaluation of non-domestic property is already strong and will be even stronger by 1987, which is the earliest that it could be introduced. As you note in your letter, the depth of the recession and the changing structure of the economy has resulted in rateable value relativities now being widely out of line with actual relativities in rental values for business property.

3 This has resulted in two types of distortion. First, serious distortions have developed in relative rate burdens as between individual business ratepayers. In particular, as you mention, the older, more labour intensive and heavy industries are now carrying a disproportionate rate burden to the benefit of the more modern factories, offices and the like.

4 Second, because the older, heavy industries are concentrated (although not exclusively) in the West Midlands and the North, and because rateable values play an important part in determining the allocation between authorities of block grant, the more depressed regions are now receiving a smaller than equitable share of block grant. For these regions revaluation would reduce the demands on local ratepayers.



5 I therefore support the need to press ahead with a non-domestic revaluation. Now that we have decided that rates are to remain the sole source of local taxation for the foreseeable future, a non-domestic revaluation is necessary in order to achieve a more equitable distribution of rates within the non-domestic sector. I note that these proposals will not increase the rates burden of the non-domestic sector. The proposals will also not increase the rates burden on domestic ratepayers.

6 I note that in the paper by officials, the idea is floated - albeit without enthusiasm - for a gradual phasing in of the non-domestic rate changes, possibly over a three year transitional period. There will of course be individual losers as well as gainers from revaluation and we will always be under pressure to lessen the problems of increased burdens. But gradual phasing in would be likely to bring forward as many protests as thanks and it would in effect further delay effective revaluation which is already long overdue. On balance I would not therefore be in favour of transitional arrangements for the non-domestic sector and suggest that we do not raise the possibility in the White Paper.

7 I am copying this letter to the Prime Minister, Peter Rees, George Younger, Nick Edwards and Sir Robert Armstrong.

Younger
Rees,
Leah.

LOCAL GOVT:
Rating Reevaluation
Pt 3

7-7 APR 1982
LOCAL GOVT
Rating Reevaluation
Pt 3

CONFIDENTIAL



WH 3/8

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

1 August 1983

Dear Peter,

RATES LIMITATION WHITE PAPER

Thank you for your letter of 26 July. I am grateful to you and other colleagues for the speed with which you have commented on the draft White Paper.

I note your concern - which however you do not press - about the relationship between expenditure levels and targets and the problems that might arise if these are different. I accept that there is a problem here which we need to think through, and I set out some of the considerations in my letter to you of 18 July. However the point will not arise until 1985/86 and the White Paper leaves the matter open. There is no particular advantage in this respect in either option A or option B for the selective scheme, since targets if they continue would have to be related either to expenditure levels or to approved budget figures. There would be greater problems in retaining targets under the general scheme (as I explained in my earlier letter) because, if targets were tighter than expenditure levels, grant holdback could have the effect of pushing rates up towards the limits set even though expenditure remained within the level determined for control purposes. But these problems can all be left for further discussion.

The key point is that our White Paper has set out firm proposals as a basis for legislation. We must get on with drafting Instructions. While some issues can be determined later in the light of comments and further thought, we cannot any longer afford to leave open the basic shape of the control schemes. For that reason I am grateful that you are not pressing your concern.

Turning to the non-domestic revaluation, you will have seen that following the Prime Minister's initial view against an announcement of this (her Private Secretary's letter of 25 July) I have explained the issues further in my minute of 27 July. The Prime Minister has now agreed to our announcing a non-domestic revaluation, and the White Paper text will reflect this decision. But in view of your concern about staffing resources we shall not be announcing a specific date for the revaluation.

I am content to accept your view on abolishing the rateable value limits governing payment by instalments, and have taken this proposal out of the White Paper. We shall wait to see what comments we get.

Local Govt
Rating Revaluation
pt 3

CONFIDENTIAL

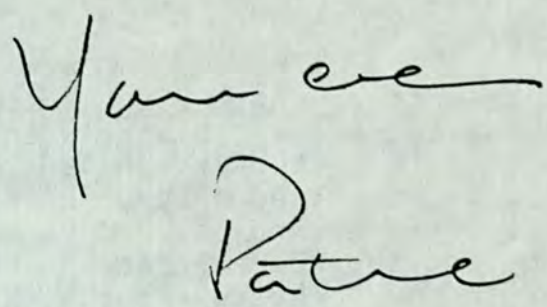
I referred briefly to borrowing and accounting conventions in my letter of 18 July. There is not a great deal I can add. I recognise your concerns in respect of refinancing debt, and I agree we must not lose sight of the point in working up the rate limitation schemes. As to harmonising accounts, we are now hoping to finalise a consultation paper for issue during September; your officials have seen and commented on the draft. I doubt if we can realistically proceed any quicker than that.

The other letters I have received (from Keith Joseph, John Biffen, Leon Brittan, Cecil Parkinson and Tom King) do not raise issues on which I need to comment. We have generally been able to absorb into the White Paper text the sense of the amendments suggested, and my officials have been in touch with their opposite numbers where necessary.

I have noted the Prime Minister's view about rebates for water charges. This subject does not figure in the White Paper. We will take account of the Prime Minister's comment in any further interdepartmental discussion.

While I am writing I might add that I also noted your suggestion, in your letter of 26 July to George Younger, that I might consider taking a power to limit rate fund contributions in my legislation in the same way as George proposes for Scotland. There is, however, a fundamental difference between the position in Scotland and that in England. In Scotland, as George's draft White Paper brings out, there is a direct trade-off between capital expenditure and rate fund contributions such that capital investment stands to be increased if rate fund contributions are held in check. There is, however, no comparable system of trade-off in England. The Scottish proposal is not therefore relevant to England. and I do not intend to take a similar power. The Welsh position is similar to that in England, but no doubt Nicholas Edwards will cover this point also when he replies to you.

I am copying this letter to the Prime Minister, members of the Cabinet, the Attorney General, the Chief Whip and Sir Robert Armstrong.



PATRICK JENKIN

CONFIDENTIAL

file

da



bc NO

10 DOWNING STREET

From the Private Secretary

1 August 1983

Valuation and Rating: Scottish White Paper

The Prime Minister has seen your Secretary of State's minute of 29 July. Subject to the views of colleagues, she is content for him to publish this White Paper on 31 August and is happy with the draft attached to his minute.

I am copying this letter to Richard Hatfield (Cabinet Office),

W. F. S. RICKETT

Muir Russell, Esq.,
Scottish Office.

A handwritten signature, possibly 'BR', in dark ink.

CONFIDENTIAL

CONFIDENTIAL



Chancellor of the Duchy of Lancaster

CABINET OFFICE,
WHITEHALL, LONDON SW1A 2AS

29 July 1983

*Please mail on
to P.M. Prime Minister ②
MUS 29/7*

Dear Patrick,

RATE LIMITATION WHITE PAPER: NON-DOMESTIC
REVALUATION

*File
with
MCS*

I am very sceptical of the statement in the top paragraph on the second page of your minute of 22 July to the Prime Minister that:

"There is ample evidence on market rents for business premises and therefore no need to change the existing basis of valuation".

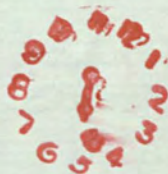
This is true of commercial property: but not of industrial property; and most certainly not of old industrial property.

I am sending copies of this letter to the recipients of your minute.

[Signature]
Arthur
COCKFIELD

The Rt Hon Patrick Jenkin MP
Secretary of State
for the Environment
Department of the Environment
2 Marsham Street, London SW1P 3EB

29 JUL 1955





CONFIDENTIAL

PRIME MINISTER

VALUATION AND RATING: SCOTTISH WHITE PAPER

I plan to publish a White Paper on my proposals for reform of the Valuation and Rating system in Scotland. This will form the basis of consultation prior to the introduction of the legislation I described in my letter of 15 July to the Environment Secretary.

In order to give colleagues time for consideration of my draft and in order to keep it separate from the England and Wales White Paper on Rate Limitation and Reform, I plan to publish the Scottish White Paper at the end of August.

I now attach a draft text of the White Paper and would be grateful for comments by 5 August. The draft attached takes account, as far as possible, of the points made by other Departments when an earlier version was circulated at official level.

The White Paper opens with a brief introduction on the Scottish representations to the Green Paper "Alternatives to Domestic Rates". It does not need to repeat the detailed discussion which opens the English White Paper.

The body of the White Paper is divided into two parts - valuation and rating. The valuation section opens (paragraph 7) by mentioning that there will be a general revaluation in

Prime Minister ① ce ygb

Agree subject to colleagues' views,

to the White Paper?

SCOTTISH OFFICE WHITEHALL, LONDON SW1A 2AU

MUS 27/9

Yes
ms
29 July 1983

Scotland in April 1985. I am committed to this after cancelling a partial revaluation which would have taken place in 1983; and there is still adequate information on which to enable the local authority assessors to undertake the revaluation. It then discusses (paragraphs 8 to 13) valuation anomalies in Scotland where, in comparison with England and Wales, the valuation of certain types of subjects places a disproportionately heavy rating burden on certain types of properties. It describes the ways in which it is planned to remove these anomalies. Paragraphs 14 to 17 discuss improvements to the valuation appeals system to bring the appeal arrangements more into line with those in England and Wales and speed up the hearing of appeals.

The second part of the White Paper deals with the control of rates and certain miscellaneous points. I already have the power to take selective action against individual authorities to reduce their rates on the ground that their planned expenditure is excessive and unreasonable. The White Paper proposes only a small change in this power, which will enable composite instead of individual reports to be laid where it seems appropriate, to streamline the Parliamentary procedure on rate reductions (paragraphs 20 and 21). With respect to the Chief Secretary in his letter of 26 July suggesting that I align Scottish practice with English, I do not consider it wise to abandon the test of what is excessive and unreasonable; nor do I regard it as desirable to try to operate in advance of budgets being submitted to me, since that would undoubtedly require more Scottish Office staff and in my view would encourage authorities to inflate their budgets as an insurance.

Paragraphs 22 and 23 describe proposals which will allow general abatements of rate support grant to be directly related to

planned overspending. This removes the unfairness of the present system and makes it similar to the English arrangements under which grant loss is related to planned overspending. Proposals to take powers to limit the rate fund contribution to the housing revenue account are described in paragraphs 24 to 27. The public housing sector in Scotland is significantly larger than in England and I feel it necessary to have some power to limit the extent to which the general level of rents is subsidised by ratepayers. Paragraphs 28 to 30 propose an obligation on local authorities to consult non-domestic ratepayers before fixing their rate.

Paragraphs 31 to 35 describe the form in which I propose to take a general power to control rates. This differs from the proposals in the English White Paper. The Scottish grant distribution system and my selective action powers are different from those in England and Wales. For these reasons and also for administrative simplicity and presentational advantage, I propose to limit rates by placing general percentage limitations on the rate increases in different classes of authority. Given the differences between the two systems north and south of the border, I do not think that this should lead to unfavourable comment and contrast; and I am very grateful to the Environment Secretary for his letter of 27 July in which he accepts that. My selective action scheme does not work by asking selected authorities to submit budgets in advance and then setting maximum expenditure levels, so there is not the natural lead into a general setting of expenditure levels for all authorities as there would be in England and Wales. In addition I believe that to set maximum expenditure levels for all authorities and then maximum rate increase levels for all authorities with the opportunity at each stage of applications for derogations would be administratively complex in the Scottish context and would require extra staff. I hope to avoid that by my proposal for a general limit on rate increases for classes of authority.

Paragraph 36 draws attention to the improvements in the rate rebate system resulting from unified housing benefit. Paragraph 37 indicates the intention to end the rating of empty industrial property in Scotland. Paragraph 38 contains a proposal similar to that in the English White Paper to give authorities additional powers to provide rating relief for premises used by disabled persons.

I would be grateful for my colleagues' comments by 5 August on the text of this White Paper and hope that it will be possible to clear the text by correspondence. I aim at publishing it on 31 August. I will then allow a period of consultation before Scottish legislation is introduced.

I am copying this minute and its attachment to Members of the Cabinet, the Attorney General, the Lord Advocate, the Chief Whip and Sir Robert Armstrong.

C.Y.

G.Y.

29 JUL 1983



CONFIDENTIAL

DRAFT SCOTTISH WHITE PAPER

Version of 28 July

VALUATION AND RATING IN SCOTLAND: PROPOSALS FOR REFORM

Introduction

1. In December 1981 the Secretaries of State for the Environment, for Scotland and for Wales published a Green Paper "Alternatives to Domestic Rates" which offered for public discussion the results of a review by the Government of possible local revenues. Among the options considered (local income tax, local sales tax, poll-tax and assigned revenues) there was no obvious leader - each had its advantages and disadvantages and it was the Government's hope that the public response would help to narrow the choice and indicate a clear preference.

2. That hope was disappointed. In Scotland up to the end of the consultation period in March 1982, 137 responses were received. Of these 81 favoured abolition of the domestic rating system and 23 its retention, mostly as a reformed system. 35 of those who favoured the abolition of domestic rates wanted to substitute Local Income Tax (LIT) while 39 wanted either Assigned Revenues or Poll Tax. Even the first option, LIT, attracted more opposition than support from correspondents. The result of consultations was not at all conclusive for radical change. There is little point in replacing rates with an untried and unfamiliar system having little support from the outset. The Government have therefore decided to make reforms to the rating system which is basically sound but needs improvement. The reforms proposed for the rating system in Scotland are discussed below.

3. While the Government are firmly committed to the general proposals described in this White Paper, they will welcome views on detailed aspects of them and in particular on the proposed scheme for a general control of rates. Comments should be sent to the Scottish Office (LGF2 Division) Room 7/08 New St Andrew's House, St James Centre, Edinburgh by 14 October 1983.

PART 1 VALUATION

4. The burden the ratepayer faces is a product of two separately determined figures, the rateable value of the property and the local authorities' rate poundages. Both must be set at reasonable levels if the rate burdens borne by individual ratepayers are to be tolerable. The controls which the Government propose to exercise in order to ensure that rate poundages do not exceed a reasonable level are dealt with in Part 2. Part 1 considers what steps must be taken to ensure that rateable values are equitable.

5. Rateable values are essentially rental values of property determined according to conditions laid down in broad terms in statute. Their importance is in distributing the overall rate burden. So the importance of any individual property's rateable value is not so much its absolute level as its relationship to the rateable values of other properties in the area. The valuation system operates under a series of, mostly, Scottish statutes dating from 1854. The Valuation and Rating (Scotland) Act 1956 established the present system of revaluations normally held quinquennially. The revaluation sets relative values of properties for rating purposes and freezes them as at the date of revaluation. New property and modifications to existing property are entered in the valuation roll between the revaluations at a value according to the "tone of the roll", that is, as if they had existed immediately before the previous revaluation. In this way all valuations are effectively contemporary with each other and therefore comparable.

6. Valuations in Scotland are carried out by local lands valuation assessors. They are employed by local authorities but are answerable to the courts for their valuations. They therefore act independently of the authorities which employ them. In England and Wales the responsibility for valuations rests with the Inland Revenue Valuation Office and its valuers.

Revaluation

7. The last Scottish revaluation was in 1978. The next general revaluation is planned for April 1985. It will establish an up-to-date relationship between the shares of the total rate bill borne by domestic and by non-domestic ratepayers.

Valuation Anomalies

8. Although the Scottish valuation system as a whole is coherent and workable, it has thrown up a number of anomalies. These have had the result that certain classes of lands and heritages have come to bear unduly high shares of the rate burden. Individual ratepayers occupying specific classes of property often claim that they have to bear an exceptionally high share of the rate burden caused by anomalous valuation. But the reason may be that the rate poundage is too high. The rateable value of business premises is set without regard to the effect of its combination with increasing rate poundages during its currency. It remains in force without reference to a notional tenant's ability to meet the annual rental from the proceeds of his business. Despite the application of a technically correct rateable value the burden may then be inequitably high. Particularly for highly specialised properties this anomaly is felt by comparison with the burden borne by similar properties in England and Wales; and in those countries revaluation has not taken place since 1973. Many businesses operate against competition throughout Great Britain. Scottish business ratepayers with classes of lands and heritages bearing a relatively greater share of the rate burden than their English competitors are placed at a serious disadvantage and may be forced out of business. Given a separate Scottish valuation system it may be necessary to introduce minor modifications to secure a similar distribution of the rate burden on either side of the Border.

9. Significant steps were taken during the last Parliament to remove some of the most glaring anomalies of this kind. External plant and machinery of a size and type long excluded from valuation in England and Wales was removed from valuation in Scotland to secure a more equitable treatment for plant-intensive industries. Secondly, powers were taken and exercised to bring about the valuation as dwellinghouses of certain types of communal accommodation for single people which are in function no different from dwellinghouses so that the rates paid by people living in such accommodation would be nearer to the rates paid by the ordinary householder.

10. An anomaly may arise because the statutory provisions are explicitly different in Scotland from those in England and Wales; or because provisions which were originally intended to be similar have been interpreted differently

by the courts on each side of the Border; or again where statute is not specific, because valuations have been carried out by the use of different valuation principles, according to the judgement of the valuer or assessor involved. These differences in valuation approach have been upheld by the respective courts. In the last category of difference, for example, the Valuation Office in England and Wales takes greater account of the revenue earning capacity of sports stadia while Scottish assessors rely more heavily on the constructional cost of stadia. Though both approaches are modified to take account of particular circumstances, and each should arrive at the proper rental value, differences of approach can lead to valuations significantly higher in Scotland than those of similar stadia in England and Wales.

Caravan Sites

11. The treatment of caravan sites with static leisure caravans has led occupiers to express their concern. For these, aggregate rateable values throughout Great Britain are produced in terms of the Rating (Caravan Sites) Act 1976. The way that Act has been applied in Scotland differs from the approach adopted in England and Wales, with the result that significantly higher aggregate valuations have been attributed to that part of any such caravan site occupied by individual static leisure caravans. To overcome this problem the Government propose to take power to enable the Secretary of State for Scotland to prescribe a percentage derating for that part of caravan sites occupied by static leisure caravans. The exercise of this power and the percentage at which any derating is prescribed would be considered in the light of the success of new appeal arrangements discussed below and would be reviewed at the time of any revaluation either in Scotland or in England and Wales, since revaluation might affect the relative position of the subjects in question. In England and Wales the occupiers of the individual static leisure caravans have a right to ask for a separate entry in the valuation list with an associated right of appeal. The Government propose to allow individual Scottish caravanners a similar right to have their caravans entered separately in the valuation roll.

Commercial Reed Beds

12. In Scotland the courts have held that commercial reed beds are properly entered in the valuation roll. In England and Wales reed beds are not generally

rated and this places the Scottish operators at a disadvantage. Since the agricultural derating provisions were intended to operate similarly in both countries, the Government propose explicitly to exclude reed beds from valuation.

Spectator Sports Stadia

13. Different valuation methods adopted north and south of the Border have led to particularly heavy burdens being placed on the stadia for spectator sports in Scotland. In general, Scottish racecourses face a burden much greater than that of their English equivalents mainly on account of valuation differences. Similarly, though direct comparison is more difficult, league football grounds appear to bear significantly higher burdens than those in England and Wales. The extension of appeal rights (discussed below) should greatly assist these stadia. In addition the Secretary of State proposes to take power, subject to Parliamentary approval, to prescribe percentage derating for this category of lands and heritages in order to make its rate burden fairer.

Valuation Appeals

14. In Scotland, there are two occasions on which a ratepayer may appeal against his valuation. Any ratepayer may appeal during the period of six months following publication of a new valuation roll at a revaluation. After this period he may appeal only if he can show that there is a material change in circumstances affecting the value of his property; the most common change is the physical alteration of the property itself. A decision of the Lands Valuation Appeal Court or of a valuation appeal committee for the same area which the courts accept to be a "relevant decision" is also a material change.* For his part, the assessor may make changes in the valuation roll between revaluations only

- a. to give effect to any alteration in value due to a material change in circumstances,
- b. to correct an error,
- c. to enter new property, or
- d. to delete property which has ceased to exist.

*Footnote: Statute excludes from "material change" any change in the rent of

the same or of other lands and heritages or in the general level of valuations in the same area.

15. The opportunity for appeal against a valuation is much broader in England and Wales. There any person, including a rating authority, who is aggrieved by any value ascribed in the list to a hereditament may make a proposal for the alteration of the list so far as it relates to that property. Generally, any change in its value will be assessed according to the "tone of the list" (in Scottish terms, tone of the roll), ie as at a value appropriate on the first day of the current valuation list. (In Scotland the relevant date is prescribed by the Secretary of State and is at present three months earlier). If, however, rental values have fallen below the tone of the list, an actual reduction in valuation may be allowed.

16. The Government recognise that a balance must be struck between the demands on assessors' departments of regular revaluations and those made by a wider appeal system. The period since the 1978 general revaluation has, however, thrown into relief the imperfections of the appeal system during a period of economic change. Hardship has been caused to those non-domestic ratepayers whose businesses have declined since the 1978 revaluation, by the lack of change in valuation levels coupled with the high level of rates. The Government believe that appeals must be made less restricted than at present, if the valuation system is to regain the confidence of the public. For that purpose removal of the restriction whereby a "material change of circumstances" cannot include movements in rental levels will make reductions in rateable values possible between revaluations when the rents or values of lands and heritages have dropped below the tone of the roll.

Appeal Hearings

17. Concern has been expressed about delays in the hearing of appeals, particularly following revaluations. Delays in the settlement of major appeals can delay the establishment of precedents necessary for the out of court or local settlement of other cases. To avoid the delays in court decisions which followed the 1978 revaluation, the Government propose to introduce from April 1985 new arrangements for the hearing of appeals. It is proposed to provide that the Lands Valuation Appeal Court, which at present is constituted by three Court of Session judges, can be constituted by one Court of Session judge who

will nevertheless have the power in appropriate cases to refer the case to a Court of three judges. It is also intended to make special provision to deal at first instance with what are thought to be the more important and complex appeals. The Government are considering alternative ways of providing for this. The first is to empower the Lands Tribunal for Scotland to hear these appeals rather than the local valuation appeal committee. The second is to provide that these appeals should continue to be heard by the local valuation appeal committees but that in hearing these appeals the chairman of the local committee should be a Court of Session judge with in appropriate cases a surveyor assessor. The Government would welcome views on these alternatives.

18. The Government's policy is in summary to provide immediate relief through a measure of derating to the above categories of non-domestic ratepayers, the rate-burden on whose business property is for valuation reasons substantially out of line with that of comparable properties in England and Wales. Longer-term measures will be of assistance to all classes of Scottish ratepayers and will operate through improvements to the appeal system, by allowing evidence that rental values have fallen below the tone of the roll to figure as a ground of appeal, allowing the citation of cases south of the Border which are often at the root of a grievance about Scottish valuation levels, and improving the machinery for hearing appeals.

PART 2: RATING

Control of Rates

19. The rates burden is the product of the rateable value of the property and the local authority's rate poundage. Part 1 of this White Paper dealt with the Government's proposals to ensure that rateable values are equitable. The following paragraphs deal with the proposals to ensure that rate poundages are reasonable as a means of achieving overall control of public expenditure as well as relieving the burden on ratepayers.

Selective Action

20. The Secretary of State for Scotland already has powers to reduce (with the approval of Parliament) the rate determined by an individual local authority. Section 5 of the Local Government (Scotland) Act 1966 as amended

by the Local Government (Miscellaneous Provisions) Act 1981 enabled the Secretary of State to seek Parliamentary approval to the reduction of the rate support grant payable to an authority whose planned expenditure was considered excessive and unreasonable. An authority which was the subject of such selective action could choose to make a voluntary reduction in its rate, as a means of achieving the desired saving. However, when this power was first used (in respect of planned expenditure for 1981-82) only one authority chose that course. Three authorities chose to lose grant rather than return the savings to the ratepayer by means of a rate reduction. The Secretary of State therefore took powers in the Local Government and Planning (Scotland) Act 1982 to require (with the approval of Parliament) an individual authority whose expenditure was considered excessive and unreasonable to reduce its rate by a given amount. This power has been used for the first time in respect of the expenditure planned by four (initially five) authorities for 1983-84 and the Secretary of State has obtained the approval of Parliament to a reduction in the rate of the four authorities.

21. The power of selective action will continue to allow the Secretary of State to take action against individual authorities whose planned expenditure is excessive and unreasonable by means of grant or rate reduction, the latter enabling him to ensure that the ratepayers have the benefit of lower rates. This power has proved an effective means of dealing with the authorities planning expenditure well above the average and of bringing rates down. The Government however propose to make one procedural change in circumstances where a number of authorities are the subject of selective action. At present a separate Report has to be laid before Parliament for each individual authority which is the subject of selective action and for which Parliamentary approval is sought for a rate or grant reduction. Debates on such Reports may be taken together under existing legislation, but each Report can involve a separate debate and each must be the subject of a separate vote. A power to combine the Reports on some or all of the authorities for which Parliamentary approval was sought for a rate or a grant reduction into one Report would simplify the procedure in Parliament. It would however only be used when it seemed reasonable in the light of the individual cases concerned.

General Abatements of Grant

22. Under section 4, as amended, of the Local Government (Scotland) Act

1966 the Secretary of State may redetermine the rate support grant for any year after it has been fixed. The power to make a general abatement of grant has been used since 1976-77 in order to reduce local authorities' expenditure in the course of the financial year. But there is a drawback to this means of reducing expenditure. It does not concentrate on those high spending authorities which should bring down their expenditure. Instead the grant reduction is allocated among authorities according to their share of rate support grant and it bears no relation to their level of planned expenditure except for the limited arrangements under which it is possible to compensate authorities within or close to guidelines.

23. The Government believe that a fairer system is needed. They therefore propose to take powers which will enable the Secretary of State to relate an individual authority's share of any general abatement of grant directly to the authority's planned level of expenditure as measured against the authority's current expenditure guideline. Work is continuing in the Scottish Office to refine and improve the guidelines in consultation with the Convention of Scottish Local Authorities. The Secretary of State could relate abatement to expenditure by prescribing a proportion of the grant in the original Rate Support Grant order and providing for the variation of that prescribed portion of the grant in a Variation Order.

Rate Fund Contributions to the Housing Revenue Account

24. The rate fund contribution to the Housing Revenue Account forms a significant proportion of public expenditure on housing; and it has grown considerably in recent years. With capital expenditure, it forms one of the two elements of local authority spending on housing which it is possible to vary in the process of planning the overall level of public expenditure resources.

25. Recent years have seen the adoption of Housing Expenditure Limits, a system which makes capital allocations to local authorities contingent upon their budgeted rate fund contributions. If a local authority budgets for a rate fund contribution in excess of a limit set by the Secretary of State, that authority's capital allocation is correspondingly reduced. Unfortunately, a small number of local authorities (including some with large housing stocks and high expenditure) have frequently chosen to budget for rate fund contributions

in excess of the limits set by the Secretary of State, at the expense of reduced capital expenditure.

26. It is the Government's view that this trend cannot be allowed to continue. The effect is to squeeze capital expenditure on housing unnecessarily to the detriment of new investment. It is unacceptable that the resultant burden should be spread over a large section of ratepayers without reference to their housing need. For those genuinely unable to meet their housing costs, the system of rate rebates provides help which has recently been enhanced through unified housing benefit.

27. The Government propose therefore to take a new power enabling the Secretary of State to set by order limits to the budgeted rate fund contributions of individual local authorities or groups of authorities to their Housing Revenue Account. This would replace the present system of indirect influence on rate fund contributions with a simple but more effective direct control. It would permit greater confidence in planning the overall level of public expenditure in housing and would ensure that public resources and investment are directed, in accordance with the Government's priorities, towards areas of national need.

Non-Domestic Ratepayers

28. Responses to the Green Paper from industry and commerce showed how serious a problem rates can be for businesses. This is particularly the case in areas where local authorities are spending at high levels. While the Government's action to control the rates of individual authorities and the further powers proposed to control rates will benefit all ratepayers, including businesses, other reforms are also needed.

29. The Government are committed to reinforcing the duty of responsibility and care which local authorities already have towards all their ratepayers. They therefore propose to place a new statutory duty on authorities to consult with representatives of non-domestic ratepayers in their areas before fixing their rates. The object of a duty of this kind is to give business ratepayers and others a new right to have their views on budgets and expenditure heard and considered. Any authority which failed to consult its local business community before setting its rate would be liable to challenge in the courts. Thus non-domestic ratepayers would have an opportunity to influence authorities' planned

expenditure.

30. The Government will seek powers to specify in regulations the precise information to be provided as the basis for such consultation. They also propose to issue guidance by way of a code of practice on possible methods of consulting representatives of non-domestic ratepayers. They intend to discuss with organisations representative of commerce and industry and with the Convention of Scottish Local Authorities the contents of the guidance. It is likely to outline minimum requirements for the timing and extent of consultation as a basis for the development of arrangements by each local authority appropriate to local circumstances. In this way the Government will provide non-domestic ratepayers with an opportunity to make their views known before the local authority has reached final decisions on planned expenditure.

SCHEME FOR GENERAL LIMITATION OF RATES

31. The Government hope that the power to take selective action to reduce the rate of an individual authority, together with the new power to reduce rate support grant in proportion to planned overspending, will contain local authority spending and rate increases within acceptable limits. However, if these powers do not have that effect, the Government are prepared to introduce a general control over the rates of all local authorities. Powers for this purpose will be included in legislation on the valuation and rating system in Scotland; and a scheme of general control will be introduced by way of an order requiring an Affirmative Resolution by the House of Commons.

32. The Secretary of State for Scotland intends to consult Scottish local authorities about the modalities of any general scheme. Its form might be as follows. There would be a general scheme to limit rate increases which would cover all authorities. The Secretary of State would be empowered to prescribe a general limit on rate increases either for authorities as a whole or for classes of authorities. Authorities would be able to seek derogations from (that is permission to exceed) the maximum rate increase level prescribed but applications for such derogations might be subject to criteria set by the Secretary of State.

33. Authorities granted derogations could be required to enter into undertakings about future expenditure. When considering an application for a

derogation the Secretary of State would also have the power to take into account the financial resources of the authority, including its balances, in agreeing to any rate increase above the level set for that authority.

34. The rate limits set under this power would be contained in a Statutory Instrument which would be laid before Parliament at the same time as the rate support grant settlement. Derogations from that limit would be granted by the Secretary of State. If it proved impossible to reach agreement with any local authority on the level of derogation to be granted, the Secretary of State would seek Parliamentary approval for his proposed decision of what the rate should be. If there were more than one disagreement, approval would be sought in a single composite order which would be subject to Affirmative Resolution procedure in the House of Commons. The Government hope that it will not be necessary to bring these reserve powers into operation.

35. The Government wish to make it clear that it is not their intention that the creditworthiness of local authorities should be affected in any way by these measures. The security of loans which will continue to be a first charge on the income of local authorities will be maintained and the position of lenders will be fully protected.

Miscellaneous

Rebates

36. The valuation and rating system provides for a tax on property set in proportion to the annual value of the property. There may be an incidental relationship between the value of domestic property occupied and the income of the occupier but it is far from being invariable. Where the value is high and the income is low, criticism has been made by contrasting the position of the single pensioner and of the family with several earners living in similar adjoining houses and paying the same rates. To moderate the burden of rates on households with low income, the rate rebate system was introduced. The Government have improved that system as part of unified housing benefit. The removal of restrictions on maximum rebate and maximum value of property subject to rates has considerably extended the scope of the scheme and improved its attractiveness.

Empty Property Rate

37. Rates on empty property in England and Wales may be levied at the discretion of local authorities if the property is unoccupied for more than three months. This discretion is restricted for non-domestic property to 50% of the rates otherwise due. In Scotland rates are levied for the first three months property is unoccupied but not thereafter; but rating authorities have discretion to levy the rate if such property remains unoccupied for more than six months. It is estimated that only some £280,000 was collected by Scottish rating authorities in 1982-83 in exercise of this discretion. In view of the particular problems being faced by industry throughout the country, the Government propose to suspend local authorities' powers in England and Wales to levy rates in respect of empty industrial property. Even although Scottish rating authorities make comparatively little use of their discretion to rate such property, the Government propose to accord empty industrial property in Scotland similar relief.

Rating (Disabled Persons) Act 1978

38. Premises serving mixed purposes cannot currently receive rate relief under the Act. The Government propose to give local authorities additional powers to enable them to provide partial rate relief to institutions used only partly for the purposes of this Act. Assessors would be able to issue certificates of attributable value in respect of the qualifying parts of the property.

Conclusion

39. The Government invite the views of all interested parties on the proposals in this White Paper by 14 October 1983. The conclusions reached by the Government are that rates should remain local authorities' main source of revenue; that the improvements made to rate rebates should cushion the impact of rates on those domestic ratepayers least able to pay; that industry and commerce should have the right to representative consultation by local authorities before rate levels are set; and that the valuation system and opportunities for appeal by ratepayers against valuations should be improved.

Any penalties which the Government have to exact against local authorities generally for high spending should be proportionate to the individual authority's level of expenditure over Government guidelines. If notwithstanding all these measures the Government are still obliged to step in to relieve the burden on ratepayers they will take powers to take general control over rate levels but will be prepared to consider excepting on application by individual local authorities.

CONFIDENTIAL

cc NB



2 MARSHAM STREET
LONDON SW1P 3EB
01 212 3434

My ref:

Your ref:

29 July 1983

Dear Michael

RATES: NON-DOMESTIC REVALUATION

Thank you for letting me know this morning that the Prime Minister had agreed with the proposition set out in my Secretary of State's minute of 27 July that the White Paper on Rates should announce a non-domestic revaluation, but without any reference to a date.

We will do our best to get this into the White Paper, which is however with the printers now.

Yours sincerely
John Ballard

J F Ballard
Private Secretary

Michael Scholar Esq

20 JUL 1983

9 10 11 12
8 9 10 11
7 8 9 10
6 7 8 9
5 6 7 8
4 5 6 7
3 4 5 6
2 3 4 5
1 2 3 4

THE
OFFICE OF
THE
ATTORNEY GENERAL
WASHINGTON, D.C.





File DA
cc Nick Owen

10 DOWNING STREET

From the Private Secretary

29 July 1983

Rates: Non-Domestic Revaluation

Your Secretary of State minuted the Prime Minister again on the draft White Paper on rates, in particular on the issue of a non-domestic revaluation.

The Prime Minister has reconsidered this matter, and is now ready to agree to your Secretary of State's proposal for a non-domestic rate revaluation. In the light of the Secretary of State for Transport's letter of 27 July, however, the Prime Minister thinks that the date for the revaluation should not be 1987.

I am sending copies of this letter to the Private Secretaries to the members of the Cabinet, Henry Steel (Attorney General's Office), Murdo Maclean (Chief Whip's Office) and Richard Hatfield (Cabinet Office).

M. C. SCHOLAR

John Ballard, Esq.,
Department of the Environment.

CONFIDENTIAL

CB



*Approved
not*

Prime Minister

①

PRIME MINISTER

RATES: NON-DOMESTIC REVALUATION

*but not in 1987
(see Tom King's
letter
at (Mag A))*

*In the light of this, agree
to a non-domestic rate
revaluation?*

MUS 27/7

I have seen your Private Secretary's letter of 25 July commenting on the draft White Paper on rates. I am grateful for your agreement to publication, but would ask you to reconsider your comment on a non-domestic revaluation.

A non-domestic revaluation is urgently needed by industry. It would help those large, old, labour intensive industries, many of them in the Midlands and North, whose property has declined substantially in relative value since the last revaluation in 1973. These industries bear far too high a share of the total rates burden today. A revaluation would of course lead to complaints from the ratepayers on modern factories, offices and shops in prime locations, many of them in the South East, which are at present under valued by reference to 1973 rent levels and would find their share of the rate burden increasing following revaluation. But the longer that we delay a decision, the worse the anomalies and the greater the eventual criticism. Now that we have decided that rates are to stay, we cannot credibly decline to bring the basis of the tax up to date. The CBI and other bodies have already been pressing me hard for a non-domestic revaluation, if the White Paper fails to commit us to one in principle, the omission will be strongly criticised.

In his letter of 26 July, the Chief Secretary accepts that the White Paper should recognise the case for a non-domestic revaluation but asks that we should give no date, in view of the staffing consequences for the Revenue. The extra 700 staff require (shown as 70 in my minute of 22 July owing to a misprint), would in part be offset by changes to valuation and appeal procedures which are also referred to in the White Paper. But I accept that we should omit any date from the White Paper, to give us time to discuss the issue after the summer break.



Although the rental method of assessment will not serve for the domestic sector at a revaluation, there is ample evidence on market rents for business premises, and therefore no need to change the existing basis of valuation. I also have power to ensure that a non-domestic revaluation would not shift any of the present proportional burden of rates from domestic onto non-domestic ratepayers or vice versa.

We can therefore take a decision to have a non-domestic revaluation without prejudice to our consideration of what should happen in the domestic sector. There I fully agree that the issues are politically very difficult. They are also less urgent. Since we have to look again at the method of valuation, we can well justify deferring any decision while we conduct further consultation.

In the Green Paper, published in December 1981, we said that decisions would be announced "shortly" on non-domestic revaluations in Scotland and in England and Wales. The Scottish general revaluation is to be held in 1985. I hope very much that you will agree to an announcement in principle in favour of a non-domestic revaluation in England and Wales in the White Paper. I am afraid that I must ask for a reply by early tomorrow morning to ensure that the White Paper is published on time.

7. I am sending copies of this minute to members of the Cabinet, the Attorney General, the Chief Whip and Sir Robert Armstrong.

PJ

P.P. PJ

27 July 1983

Local Govt : Reform of Review System
Pt 3

27 JUL 1982





DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

The Rt Hon Patrick Jenkin MP
Secretary of State
Department of the Environment
2 Marsham Street
LONDON
SW1P 3EB

27 July 1983

RATE LIMITATION WHITE PAPER: NON-DOMESTIC REVALUATION

A particular query I have on your minute to the Prime Minister of 22 July concerns the non-domestic rating revaluation for which you suggest a possible date of 1987. This would presumably mean first rate demands in April 1988. While I certainly support the case for a non-domestic revaluation and recognise that there is not quite the same sensitivity for non-domestic as opposed to domestic, nonetheless there clearly could be quite significant complaints over it and the timing of its introduction is therefore important.

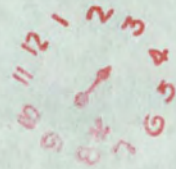
I am copying this to the Prime Minister and the other recipients of your minute.

TOM KING

LOCAL GOV: Rates : Pt 3.



28 JUL 1983





DEPARTMENT OF TRADE AND INDUSTRY

Room 11.01 Ashdown House 123 Victoria Street SW1E 6RB

Telex 8813148

Telegrams Advantage London SW1

Telephone Direct Line 01-212 3301

Switchboard 01-212 7676

JU194
Secretary of State for Trade & Industry

27 July 1983

CONFIDENTIAL

The Rt Hon Patrick Jenkin MP
Secretary of State for the
Environment
Department of the Environment
2 Marsham Street
London SW1

NBPM

MS 27/7

Dear Patrick,

RATE LIMITATION AND RATE REFORM WHITE PAPER

Thank you for sending me a copy of your minute of 22 July to the Prime Minister enclosing the draft text of the White Paper.

2 I am setting out my views in correspondence on specific reforms of the rating system for non-domestic ratepayers in particular. We may need to discuss further some of the points I raise before we proceed further with consultation and the drafting of legislation. But I am quite content with both the content and the wording of the draft text.

3 I am copying this reply to the Prime Minister, members of the Cabinet, the Attorney General, the Chief Whip and Sir Robert Armstrong.

Yours Ever,
Leil

Local Govt
Rating Revaluation
Pt 3.

27 JUL 1983

11 12 1 2 3 4
5 6 7 8 9 10



CC 110

cc PS/Lord Bellwin
 PS/Mr Waldegrave
 Mr Heister
 Mr Ponsford
 Mr Fletcher

2 MARSHAM STREET
 LONDON SW1P 3EB

01-212 3434

My ref:

Your ref:

27 July 1983

NBPM

ms277

Dear George,

RATE LIMIT LEGISLATION
 LOCAL GOVERNMENT VALUATION AND RATING (SCOTLAND) BILL

Pe 3
 Pe 2
 Thank you for your letter of 15 July setting out your comments on the proposals in my minute of 29 June to the Prime Minister and outlining your own proposals for legislation on rates in Scotland.

Your proposals on general rate limitation in Scotland differ from mine. My minute of 29 June to the Prime Minister explained why I preferred my approach for England. I recognise, however, that our different grant arrangements prevent you from following my approach for England. They are a sufficient public justification for differences in the scheme.

I am happy that your Bill should include a number of variations to the proposal on rates reform, to reflect the position in Scotland.

On the specific valuation anomalies you have identified I am, of course, happy to see your system brought into line with ours as regards the treatment of commercial reed beds. If you feel that a prescriptive power to derate caravan sites is the best way to deal with that problem it will certainly ensure equality of treatment north and south of the border.

However, as you expected, I am very concerned about the likely consequences of your proposal to provide for partial derating of stadia for spectator sports, since the reasons for the higher rate bills faced by these ratepayers in Scotland are far less clear-cut. Partial derating might provide the thin edge of a wedge which many non-domestic ratepayers on both sides of the border would like to drive into the system. Derating for hard-pressed businesses to take account of ability to pay was one of the major demands we received in the course of consultation. But we resisted it. Unless we can be very clear that it is the differences in approach to valuation which lead to consistently higher valuations in Scotland it will be difficult to resist claims from ratepayers in England and Wales who observe that they are facing higher bills than those with comparable properties elsewhere.

I hope therefore that if this proposal is to go forward it will be made clear in the White Paper and in legislation that it relates specifically to the particular problems of sports stadia and is justified by the different approaches to valuation in Scotland and in England and Wales, without any reference to ability to pay.

Finally I have noted the proposal for your legislation to include provision for limiting rate fund contributions to Housing Revenue Accounts, as discussed among colleagues last April. We have no plans to follow suit for England, for the reasons already set out in John Stanley's letter of 29 March to Allan Stewart. I am, however, grateful to you for keeping me in touch with your proposal, and I shall watch with interest the next stage of its development.

I am copying this letter to recipients of yours.

Yours ever
Patrick

PATRICK JENKIN

LOCAL GOV : future d Rates:
Pt 3.





DEPARTMENT OF EDUCATION AND SCIENCE
ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH
TELEPHONE 01-928 9222
FROM THE SECRETARY OF STATE

26 July 1983

Dear Patrick,

RATE LIMITATION WHITE PAPER

Thank you for sending me a copy of your minute of 22 July to the Prime Minister.

I think that in general the White Paper covers the ground well, but I am concerned on one point. I understand why you do not wish to mention consultation with colleagues (which will of course be necessary) over applications for derogations; but, as I said in my letter of 6 July, I think the White Paper should refer to the existing statutory obligations (of Ministers as well as authorities) for the provision of services. This reference might conveniently take the form of a new sentence at the end of paragraph 3.6 on the following lines:-

"Account will also be taken of the existing statutory obligations of Ministers and of authorities for the provision of services".

I have one or two smaller amendments to suggest:-

Para 1.24 In fairness to the many authorities who have co-operated with us this might read "It is largely because of the behaviour of a small number of big authorities that local government expenditure as a whole is more than the Government believe the country can afford".

/Para 1.28

The Rt Hon Patrick Jenkin MP
Secretary of State for the Environment
2 Marsham Street
London SW1P 3EB

CONFIDENTIAL

Para 1.28 For the same reason, add at the end "It is also unfair to other authorities, who must be asked for greater restraint within the planned total of expenditure".

Para 4.5 I welcome the implied reference in the last sentence to differential changes in needs from year to year, but hope you will strengthen it to read "...where there had been an unusually large change in a local authority's circumstances".

I am sending copies of this letter to those who had your minute.

Green
Keen

26

33

LABOR 11 234

(CONFIDENTIAL)



Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon George Younger MP
Secretary of State for Scottish Office
Scottish Office
Dover House
Whitehall
LONDON
SW1A 2AU

26 July 1983

Dear Secretary of State

RATE LIMITATION LEGISLATION AND THE
LOCAL GOVERNMENT VALUATION AND RATING (SCOTLAND) BILL

Thank you for sending me a copy of your letter of 15 July to Patrick Jenkin.

In general I welcome the reforms you suggest. There are just a few points I would like to register.

I note that you propose to retain your existing selective powers and not bring them into line with those Patrick is proposing for England. I can see that there are substantial arguments in favour of retaining the status quo. But I wonder if the options of change had not been too lightly dismissed. After all the powers Patrick is proposing will enable him to influence the budgets of selected authorities in advance of the financial year to which they apply. Your powers only enable you to take action after the event. Secondly I think there might be some gain from omitting the "unreasonableness" test which you are obliged to apply so as to bring your powers more into line with those proposed for England. Of course, we would need to consider the implications of these suggestions carefully before deciding to go ahead, but I would be grateful if your White Paper could be drafted so as to keep the options open.

I am also concerned at your proposal to introduce partial derating of certain stadia for spectator sports. I accept that there is a legitimate problem, but inevitably partial derating in Scotland will create pressure from the sports lobby in England and Wales for similar treatment. I wonder if it would not be possible to solve this problem by something stopping short of granting such a derating. I note that the reform of the appeals machinery you suggest will go some way to alleviating the problem. Might that not offer a route which avoided repercussions elsewhere? As you know there is a vocal racing lobby here which would no doubt latch onto any concession in Scotland. Once again, I hope you can agree to amend the White Paper to reflect this point.

CONFIDENTIAL

welcome your proposal to introduce a power to limit rate fund contributions to housing revenue accounts. Perhaps Patrick Jenkin and Nicholas Edwards could consider including a similar provision in the legislation covering England and Wales.

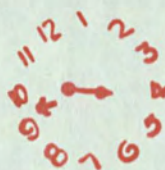
Copies of this letter go to the Prime Minister, the Lord President, the Secretary of State for the Environment, the Secretary of State for Trade and Industry and the Secretary of State for Wales, the Lord Advocate, and Sir Robert Armstrong.

Yours sincerely

J. R. ^{J. R. Gieve}
PETER REES

[Approved by the Chief Secretary]

26 JUL 1983





Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Patrick Jenkin MP
 Secretary of State for the Environment
 Department of the Environment
 2 Marsham Street
 LONDON
 SW1P 3EB

26 July 1983

Dear Secretary of State

RATE LIMITATION WHITE PAPER

Thank you for my copy of your minute to the Prime Minister of 22 July, and for your letters of 13 July on minor rating reforms, 15 July on rating revaluation, and 18 July on the rate limitation legislation. I have also seen your private secretary's letter of 18 July to No 10.

White Paper

I should have preferred the rates white paper to float more than one option for the selective and general schemes. I remain a little concerned that your present proposal for the selective scheme - much as I admire it - could leave us with two sets of formulae in play. There could be one for the targets which determine holdback, another for the expenditure levels which determine rate limits. Under the earlier version, the problem might have been a bit less stark, because the process of approving budgets for individual authorities would presumably have rested less heavily on a formula. However, I will not press the point if you are satisfied - as I understand you are - that you could live, if need be, with the two systems. My main concern at this stage is that we should not prejudice the position on targets and holdback, since we may wish to keep them.

Similarly, I confess that, for the general scheme, I am still not convinced that we should plump unequivocally for setting rate limits indirectly (as a function of expenditure and grant) rather than directly. I should prefer to consult on the choice. But again, I will not press the point.

I accept that the white paper should recognise the case for a non-domestic revaluation. It is necessary to preserve the credibility of the rating system. But I am afraid I cannot accept that

the white paper should commit us to bringing a revaluation into effect as early as 1987. I simply cannot undertake to provide for the extra 700 staff that would be required in the Revenue. We shall have to consider the options further at more leisure. Whatever we decide, I cannot stress too strongly that we shall have to find savings in total civil service manpower to offset any additional requirement in the Revenue. This makes it all the more important to implement the Rayner scrutiny proposals on rating assessments and appeals procedures.

I am a little reluctant to commit ourselves to abolishing altogether the rateable value limits up to which businesses have the right to pay rates by instalments. I agree that such a change is desirable in principle. But I see that the cost to local authorities could be up to £130 million a year. That would be on top of the cost of suspending empty industrial property rates. The local authorities might reasonably press for a compensating increase in grant; but for reasons you will understand, I should be bound to resist that. I wonder whether it might not be better to consult on the basis of our manifesto promise to increase the rateable value limits, and to leave open our options on abolition.

Borrowing and accounting conventions

Finally, I should like to return to the points I raised before about borrowing and accounting conventions. These do not have to figure in the white paper. But I do not feel entirely reassured by your letter of 18 July.

Your private secretary's letter to No 10 says that the schemes we are considering should control both rates and expenditure. "By controlling both grant and rate directly, [they] will control expenditure indirectly". I see the point, and share the objective. But I suspect the relationships may be rather more elastic than this implies. As I understand the earlier papers, local authorities could stay within rate limits but keep up their spending by borrowing to refinance internal balances. It may be necessary to do what we can to block that loophole. My concern at the moment is simply to ensure that we do not lose sight of it.

As to harmonising accounting policies, I agree, of course, that the work does not have to be specifically related to the rates white paper. But as you say, it is not easy to make rapid progress. I think the work needs a boost. I should be grateful to know how you intend to bring it forward.

I am sending copies of this letter to the Prime Minister, Cabinet colleagues, and Sir Robert Armstrong.

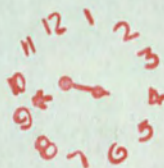
Yours sincerely

J. S. Gieve

J- PETER REES

[Approved by the Chief Secretary]

26 JUL 1983





FILE

DA

B/C Mr Owen

10 DOWNING STREET

From the Private Secretary

25 July 1983

Dear John,

Rate Limitation White Paper

The Prime Minister has seen the draft White Paper which was attached to your Secretary of State's minute to her of 22 July.

In general, the Prime Minister agrees to the publication of the White Paper as proposed, subject to the views of her colleagues. But she has made two comments:

i) Against the second paragraph on the third page of your Secretary of State's minute, about the introduction of rebates for water charges which are based on rateable values, the Prime Minister has commented that she thinks that such rebates would be wrong.

ii). Mrs. Thatcher is against announcing a non-domestic revaluation, as proposed in the fourth paragraph on the same page. She has commented that the Government will need to consider further the outmoded basis of such revaluation.

I am sending copies of this letter to the Private Secretaries to the Members of the Cabinet, Henry Steel (Attorney General's Office), Murdo Maclean (Chief Whip's Office) and Richard Hatfield (Cabinet Office).

Yours sincerely,

Michael Scholar

John Ballard, Esq.,
Department of the Environment.

RM

CONFIDENTIAL

Prime Minister (2) CC 150



MUS 25/7

Privy Council Office
68 Whitehall
London SW1A 2AT

25 July 1983

Dear Patrick,

mf

RATE LIMITATION LEGISLATION

Your minute of 29 June to the Prime Minister discussed amongst other things the nature of the Parliamentary procedure to be applied to the rejection of rate level determinations. In particular you asked whether orders laid before the House should deal with only one local authority per order, or whether composite Orders covering a number of authorities would be preferable.

I have discussed this question with John Wakeham and we share your view that composite Orders would be preferable. I suggest, however, that it might be as well not to take a final decision on this question at this stage and that it should be looked at again in the light of reactions to the proposals in the White Paper. In this way, we should be able to gain a better appreciation of the risk that composite Orders would be regarded as in some way oppressive. Perhaps we could be in touch about this point again later in the year.

I am copying this letter to the Prime Minister, the Lord President of the Council, the Attorney General, the Chief Whip and to Sir Robert Armstrong.

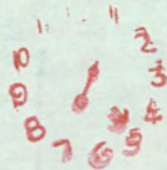
John Biffen

JOHN BIFFEN

The Rt Hon Patrick Jenkin MP
Secretary of State for the Environment
2 Marsham Street
London SW1

CONFIDENTIAL

983





Prime Minister

①

Agree, subject to
colleagues, the draft
White Paper?

MUS 22/7

*No Not announce
reduction in a White
Paper. Need to consider
further its
outlined
basis
mt.*

PRIME MINISTER

RATE LIMITATION WHITE PAPER

As foreshadowed in my minute of 29 June I now attach the draft text of the White Paper on rate limitation and rate reform. The text seeks to take account so far as possible of points made by other Departments at official level on an earlier version. It may be helpful if I briefly summarise the contents of the White Paper, highlighting significant points including those raised in comments on my minute.

Chapter 1 sets the scene. It describes our efforts since 1979 to reverse the long term growth of local government current expenditure, and recognises that we have met with only limited success. The figures in this chapter provide the basic justification for our policy of rate limitation.

Chapter 2 described the search for an alternative to domestic rates. This is an integral part of the argument, since it shows how reluctant we were to move to rate limitation. The chapter also constitutes our formal response to the Environment Committee's report

Chapter 3 gives a detailed account of the selective scheme. This largely follows the account in my earlier minute. We have drafted in terms only of option B (rate limits derived from approved expenditure levels) since we need to be firm about the basic framework of the scheme. The statement in paragraph 3.6 about criteria for selecting authorities follows the approach set out in my Private Secretary's letter of 18 July to yours; in particular it makes it clear that authorities spending below their grant related expenditure assessment (GRE) will not be selected. Paragraph 3.7 proposes the exclusion on de minimis grounds of authorities with small budgets. Paragraph 3.16 makes it clear that account will be taken of spending and rating



decisions in 1984-85.

I have not referred in Chapter 3 to the question of consultation with colleagues over applications for derogations. Such consultation will be essential, but including reference to it in the White Paper would expose us to attack over the extent to which we shall be meeting judgements in public about the balance between individual services.

The Chief Secretary has asked about the relationship between the expenditure levels to be used in the scheme as a basis for fixing rate limits - which for legal reasons must be achievable within a year - and the existing system of expenditure targets used as a basis for grant holdback for high spending authorities. We can run the rate limitation scheme either with or without expenditure targets, and we do not yet need to decide whether to retain them for 1985-86. The draft White Paper leaves our options open.

Chapter 4 describes the general scheme. The account is relatively brief, since much of the ground has already been covered in Chapter 3. In particular, as you have agreed, the White Paper proposes "model 2" (ie rate limits derived from approved expenditure levels). As in the case of the selective scheme, I think it better not to canvass the alternative "model 1" (direct determination of rate limits) though I understand that the Secretary of State for Scotland will be proposing a general scheme based on "model 1" because their grant system does not enable them to operate "model 2".

Paragraph 4.1 does not specify whether the important Order introducing the general scheme would be subject to affirmative resolution procedure in both Houses, or only in the House of Commons. There is bound to be pressure for the former approach, but this is a point on which we can listen to views.



Chapter 5 sets out the various reforms of the rating system which I propose. I have written to the colleagues concerned on all the points listed. But consultation is not quite complete, and for the purpose of the draft I have had to assume that they are content with my proposals.

At Cabinet on 10 May, my predecessor was asked to look into two possibilities (CC(83)17th meeting). The first concerned the proposed discount scheme for single people. I have reviewed the possibilities but concluded that, on the grounds of complexity and cost, we should not propose such a scheme in the White Paper. I am separately discussing with Peter Rees and Norman Fowler whether we should consider the introduction of rebates for water charges, which are based on rateable values. But even if we do eventually make proposals for such a change, it should not I consider appear in this White Paper.

I think rebates would be wrong

The second issue concerned a rating revaluation. Now that rates are to remain, it is important that the tax base should be updated.

It is particularly urgent that we proceed with a non-domestic revaluation, for which industry including the CBI are pressing. The revaluation could not take effect before 1987; it requires an additional 700 posts in the Inland Revenue Valuation Office. Subject to the views of the Chief Secretary, with whom I am in correspondence, I propose that we should go ahead and announce the non-domestic revaluation in the White Paper.

No. 11

A domestic revaluation presents greater political difficulties. Because the existing rental method of assessment will no longer serve, I propose that we should make no firm commitment in the White Paper, but should undertake to consult further on the issue. As instructed by the Cabinet, I am looking at alternative methods and am in correspondence with colleagues most closely concerned. I shall report in due course.



The White Paper touches (paragraph 3.24) on the problem of default and obstruction. It would I believe be wrong at this stage to adopt a high profile in public. But we must be ready to react immediately, if necessary, and I am therefore pressing ahead urgently with detailed work, and with the preparation of Instructions to Counsel.

I should like to publish the White Paper not later than 1 August to allow a reasonable period for public consultation and still enable us to introduce the Bill by next January or earlier if possible. I understand that there is no problem about publication in the Recess, and indeed I have already warned the House that this is a possibility. We shall need to move very fast to achieve that publication date and therefore I hope that you and colleagues will agree to clear the draft in correspondence. I should be grateful for comments on the text by lunch time on Wednesday 27 July at latest.

I am copying this minute to members of the Cabinet, the Attorney General, the Chief Whip and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to read "J. G. Galloway".

PJ

(Approved by the Secretary of State
and signed in his absence)

22 July 1983

RATES WHITE PAPER

PREFACE

1. This White Paper sets out the Government's proposals for the reform of the rating system in the context of local government finance as a whole. The most important reform is in the Government's proposal to bring forward legislation giving powers in England and Wales to curb excessive rate increases by individual local authorities, and providing a general power, to be used if necessary, for the limitation of rate increases for all authorities. It also contains the Government's conclusions on the future detailed operation of the rating system following discussion of the Green Paper "Alternatives to Domestic Rates" (Command 8449), and the Second Report from the Environment Committee of the House of Commons (HOC 217 I-III), published in September 1982, on their inquiry into methods of financing local government in the context of the Government's Green Paper. This White Paper incorporates the Government's response to that report.

2. The Government have already announced their decision that rates should remain for the foreseeable future the main source of local revenue for local government.

3. Chapter 1 of this White Paper sets out in a historical context the reasons why the Government have adopted a policy of rate limitation and reform of the rating system. Chapter 2 records the Government's examination of alternative sources of local taxation. Chapter 3 sets out the details of the scheme of selective limitation of rates which the Government propose to embody in legislation. Chapter 4 describes the general control scheme, for which reserve powers will be included in the same legislation. Chapter 5 sets out a number of reforms which the Government propose to make to the rating system. Provisions for

CONFIDENTIAL

this purpose will also be included in the legislation. The reforms are designed to make the rating system more acceptable to both domestic and non-domestic ratepayers.

4. The legislation will apply to England and Wales. In the rest of this White Paper the expression "Secretary of State" should be read as referring to the Secretary of State for the Environment or the Secretary of State for Wales as appropriate. In Scotland the Secretary of State already has some powers to reduce rates and withhold grant. A separate White Paper will be issued on the implications for Scotland of the new rate limitation proposals.

Changes in Local Government Structure

5. The Government will be issuing a separate White Paper in the autumn about its proposals to abolish the Greater London Council and the Metropolitan County Councils. For a limited number of services in these areas joint boards will be set up. The implications of the present rate limitation proposals for these joint boards will be dealt with in the forthcoming White Paper.

Comments

6. Whilst the Government are firmly committed to the general principles of the rate limitation proposals, they would welcome views on detailed aspects of the proposed schemes, and also on the details of the proposals for rate reform in Chapter 5. Comments should be addressed to the Department of the Environment (FRL/FLAR Divisions), Room A101, Romney House, 43 Marsham Street, London SW1P 3PY, or in Wales to the Welsh Office, (FL Division), CP2, Cathays Park, Cardiff CF1 3NQ, to arrive by 7 October.

CONFIDENTIAL

CHAPTER 1

THE CONTEXT

The Background

1.1 Local authorities make an essential contribution to the well-being of both private and public lives of the community. They are responsible for a very wide range of services, although over four-fifths¹ of their net rate fund revenue expenditure is attributable to relatively few services - education, transport, police, fire, housing and personal social services.

1.2 But we live in a unitary and not a federal state. Although local authorities are responsible to their electorates, they derive their powers from Parliament and do not enjoy an inherent, autonomous power. The structure, duties and functions of local government have been subject to frequent modification as the needs of the country have changed.

1.3 Parliament has given local government the right to levy a local tax based on property values - the rates - to help finance the discharge of its statutory duties and functions. The Government have had no desire to propose the limitation of that right. They recognise that the health of the private sector depends on the provision of efficient and effective services by local government; but the economic regeneration of the country cannot be secured if the cost of local government is too great a burden for the private sector to carry. Furthermore the Government cannot ignore the deep and widespread sense of grievance felt by many domestic and non-domestic ratepayers - within a system of limited accountability (see paragraphs 2.2 and 2.3 below) about excessive levels of expenditure and therefore of rates.

¹ All figures refer to England and Wales unless otherwise stated.

CONFIDENTIAL

1.4 Local authorities play a major role in the national economy. In March 1983 they had 1,653,000 full time and 917,000 part time employees - around a tenth of the national workforce. In the United Kingdom local government current and capital expenditure formed an estimated 25% of public expenditure in 1982-83. That is another important reason why, in recent years, the Government have become increasingly concerned about the divergence between the actual levels of local government's expenditure and the planned levels set out in the Government's own public expenditure White Papers.

1.5 Local government is heavily dependent on Central Government grants to finance its expenditure. In 1982-83 52% of its estimated net revenue expenditure was financed by Exchequer grant. It is sometimes suggested that it is for the local ratepayers alone to decide how much a local authority should spend over and above the amount financed by Exchequer grant. This Government - like its predecessors - cannot accept that view. Local authorities are part of the wider community and must therefore operate within national economic and social policies.

1.6 For this there are three compelling reasons. First, Ministers are accountable to Parliament for the broad conduct of the economy. The present Government are determined, through firm control over public expenditure to reduce it as a proportion of Gross Domestic Product (GDP), so permitting a reduction both of public borrowing and of the burden of taxes. Without the former, monetary discipline, vital to the control of inflation, cannot be maintained without levels of interest rates so high that investment, both private and public, vital to our future economic strength is forgone because credit is too expensive. Without the latter, incentives to improve our national wealth will be inadequate. For the business and for the individual it is the total level of tax that matters most - not the authority that is imposing it. Other important spending programmes such as defence, law and order, and social security, may have to be forgone. Excessive current spending by local authorities can lead in times of economic restraint to reductions in capital investment programmes, thus delaying much needed renewal of the capital infrastructure.

CONFIDENTIAL

1.7 Second, local rates form a particularly heavy burden on business and commerce, comparatively much more so than national taxes. In 1982-83 only 22% of local government net revenue expenditure was financed by domestic rates (before rebates). Business and commerce financed 26% - and the local rates are now the main tax on business. Business, with no voting power, has only limited influence on local rating decisions; but the effects of high business rates on industrial and commercial costs have major consequences for competitiveness and jobs often extending well beyond the locality.

1.8 Third, high local rates - domestic and non-domestic - feed into the Retail Price Index (RPI) and help to generate pressures for compensating pay increases throughout the economy. This vicious circle must be broken. But it will be broken only if in local as well as central Government the ability to finance pay increases by raising taxes is used responsibly to keep them within the bounds that the country can afford.

1.9 The Government necessarily have a major interest in local authority services which are national in character, such as education. They cannot ignore their overall costs or standards, nor the balance between these and other services.

1.10 The Committee of Inquiry into Local Government Finance, chaired by Sir Frank Layfield QC, which reported in 1976, accepted that the Government have a major role in relation to local government expenditure. Their report stated* "The Government is responsible for the overall management of the economy and is therefore concerned with the overall level of local government expenditure and taxation. It also has overall responsibility for policy for particular services." The Select Committee on Procedure has more recently reached a similar conclusion: "... the Government has an interest in, and a responsibility for, the macro-economic effects and the distributional effects of all elements of public expenditure (and an interest in, and a responsibility for, the incidence of all types of taxation, including rates)**.

* Chapter 4, paragraph 47.

** First Report of the Select Committee on Procedure (Finance) House of Commons

CONFIDENTIAL

1.11 Until recently this view was implicitly accepted by local government as well. In practice local government observed the implicit understanding that its aggregate expenditure should not exceed the planning totals determined by central Government. Local authorities did not raise constitutional objections when central Government encouraged them to spend more on particular services; objections began to be raised only after a need for retrenchment arose.

The 1960's and 1970's

1.12 In the 1960's and 1970's there was a steady growth in local government current expenditure in the United Kingdom of about 3½% a year in volume terms, except for a brief pause during the International Monetary Fund crisis of 1976 and 1977. Local government current expenditure increased from about 5% of all domestic expenditure in the early 1960's to over 8% in the late 1970's*. Successive governments encouraged this trend, which helped engender rising expectations. The continued rise in current expenditure and manpower was coupled with a sharp fall in capital investment from 1974. This is illustrated in Graph 1.

Action since 1979

1.13 Thus in May 1979 the incoming Government inherited a seemingly inexorable long term growth in current expenditure and manpower. They considered it essential to reverse this trend. The public sector - including both central and local government - had grown too large and was imposing too heavy a burden on the wealth-creating private sector.

1.14 The Government have sought to reverse the growth in the volume of current expenditure by increasing the accountability of local authorities to their electorates. The rate support grant

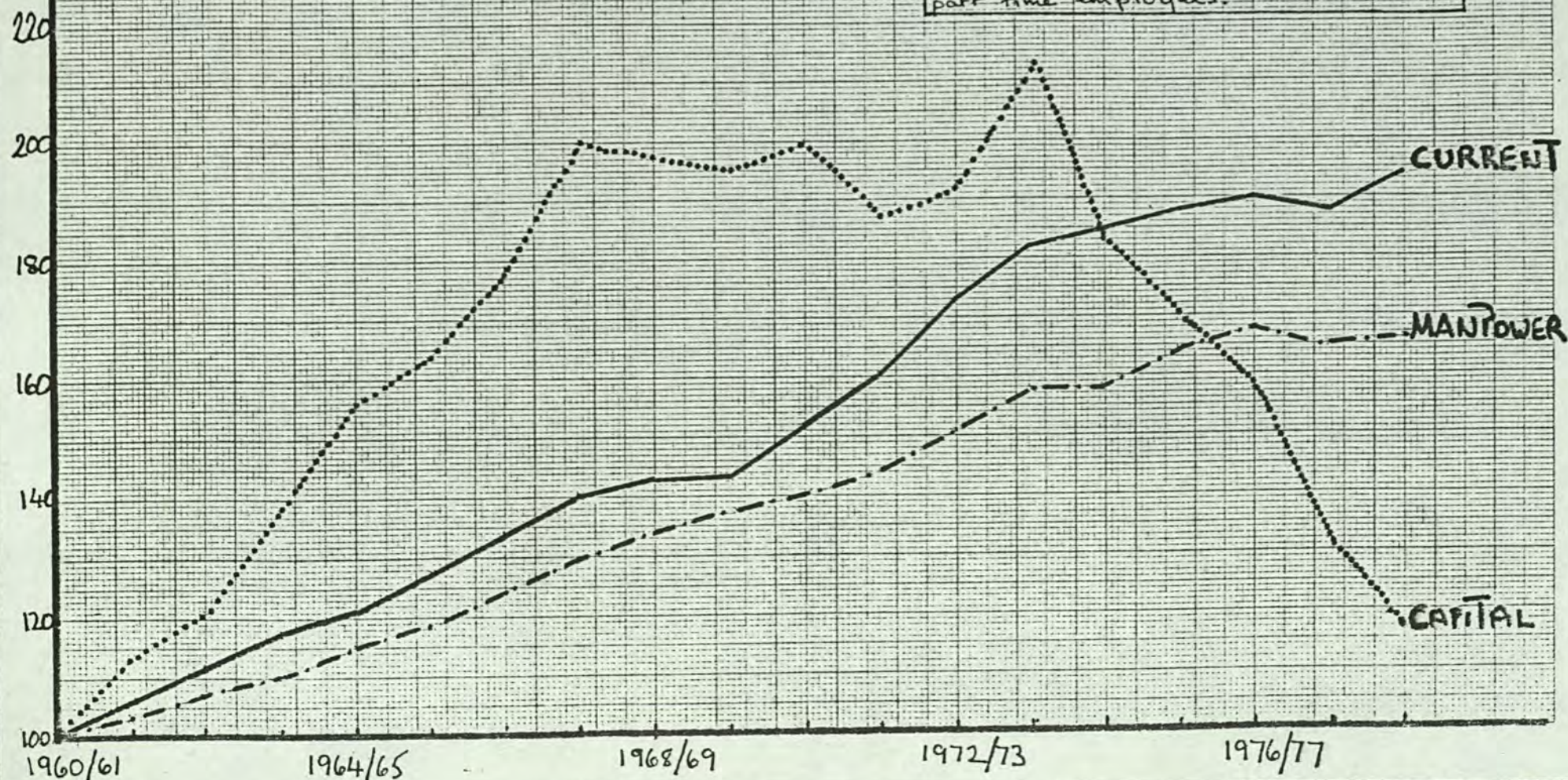
* See Table 18 of "Local Government Financial Statistics, England & Wales 1981-82 published by HMSO.

GRAPH(1)

LOCAL AUTHORITY CURRENT AND CAPITAL EXPENDITURE (U.K.) AND MANPOWER (GREAT BRITAIN) 1960-61 TO 1978-79

(1960-61 = 100)

— Current Expenditure - final consumption on goods and services at 1975 prices.
..... Capital Expenditure (gross domestic fixed capital formation at 1975 prices).
- - - - - Manpower - sum of full time & part time employees.



CONFIDENTIAL

(RSG) system has been reformed, and other measures to enhance accountability introduced; these are described in paragraphs 1.15 to 1.28 below. In addition an exhaustive search was made for an alternative source of local revenue which would be fairer than rates and would increase accountability; this is described in Chapter 2.

Modifications to the Grant Arrangements and Other Measures

1.15 The Government have reduced the percentage of planned expenditure met by Exchequer grants from 61% in 1978-79 to 53% in 1983-84 (England) in order to make the cost of local services more apparent to local electors. (A similar reduction was made in Wales). A new system for distributing the RSG was introduced in the Local Government Planning and Land Act 1980. This discourages higher levels of expenditure by ensuring that a greater proportion of the cost falls on local ratepayers.

1.16 The Government strengthened these measures in the Local Government Finance Act 1982, by abolishing the power - much resented where it had been used - to raise supplementary rates during a financial year. They introduced a separate system of expenditure targets and, in the same Act, clarified the statutory basis for reducing the grant of authorities which choose to exceed them.

1.17 Other measures were introduced to strengthen local accountability. The 1980 Act required local authorities to publish information about the discharge of their functions and about their manpower, and established a new competitive regime for the management of direct labour organisations. The Government have strongly supported economies from the contracting out of other local authority services. The 1982 Act established an independent Audit Commission, responsible for securing the audit of all local authorities in England and Wales, and established a statutory duty on auditors to carry out value for money auditing.

CONFIDENTIAL

The Results

1.18 Local authority current expenditure continued to grow in 1979-80 in line with the plans of the previous Labour Government. Between 1979-80 and 1981-82 it fell by 2% in volume terms (ie adjusted for changes in local authority costs, mainly pay). But budget returns from local authorities suggest fresh growth of about 2½% in 1982-83 and a further 1½% in 1983-84.

1.19 In cost terms (ie adjusted for the effect of general inflation) local authority current expenditure has shown continuous growth between 1978-79 and 1983-84 (over 7% in all). This is a better measure of the burden of local government spending on the economy as a whole. Much of the extra growth in cost terms is due to large comparability awards that local authority employees were given in 1979-80 following recommendations of the Clegg Commission. These pay increases caused local authority costs to rise much faster than those in the rest of the economy.

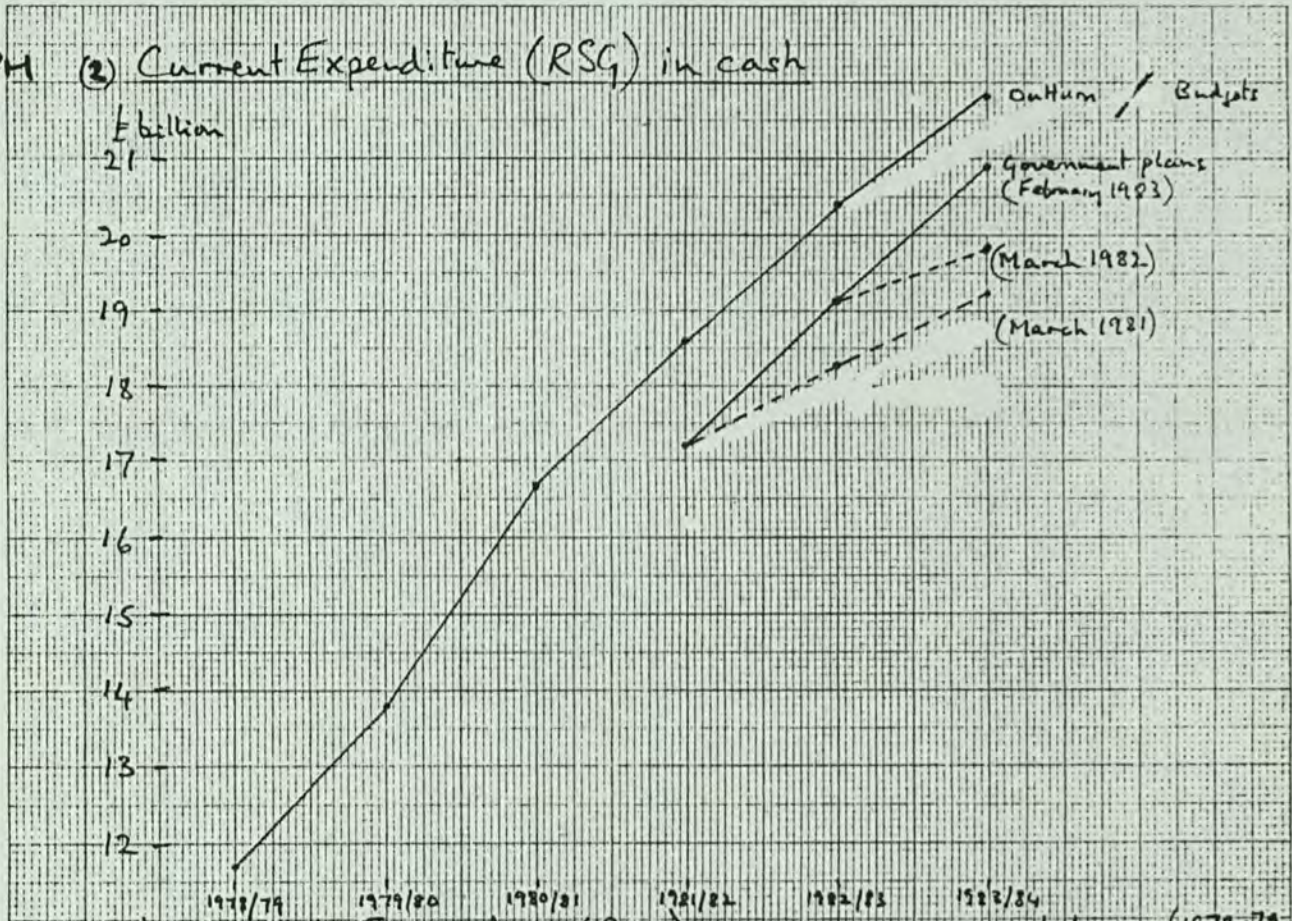
1.20 Between June 1979 and March 1983 manpower (full-time equivalents) fell by over 4%. The rate of reduction in manpower has been slowing down since 1981, and came to a halt during 1982-83. By March 1983 there were signs that the trend might be turning upwards.

1.21 The trends described above are illustrated in Graphs 2 and 3.

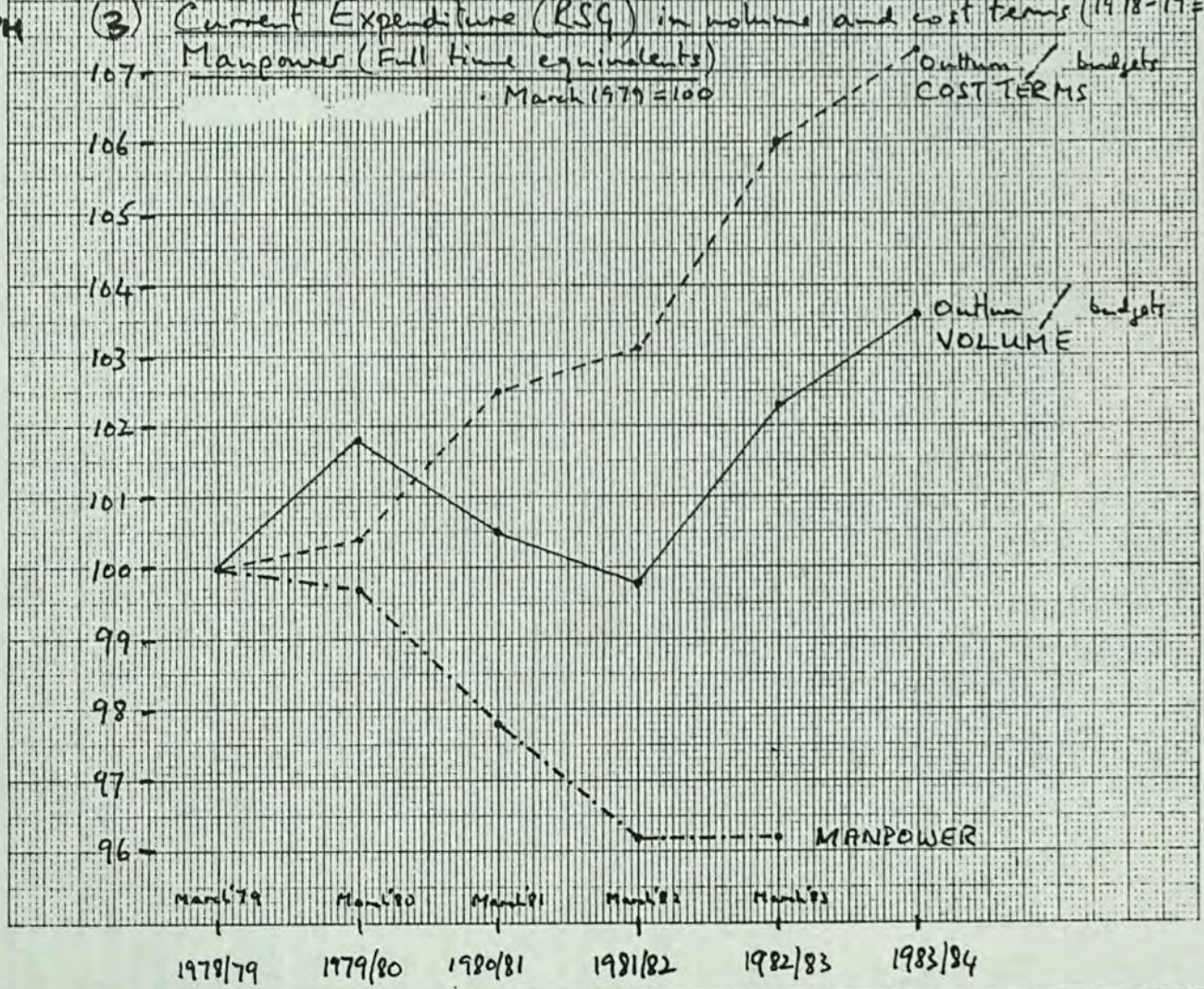
1.22 Between April 1979 and April 1983 domestic rates in England increased on average by 91%, while the Retail Price Index (RPI) rose by only 55%. The RPI itself is inflated by the effects of excessive rate increases. This increase in rates was equivalent to an average increase in the domestic rate of 72p in the pound across the country. But this average disguises a wide range of

Local authority expenditure and manpower - England & Wales
 1978-79 to 1983-84

GRAPH (2) Current Expenditure (RSG) in cash



GRAPH (3) Current Expenditure (RSG) in volume and cost terms (1978-79=100)
 Manpower (Full time equivalents)



CONFIDENTIAL

individual increases which varied from over 160p to just over 40p. Although the Government have reduced the proportion of spending supported by grant, the root cause of this large increase in rates has been local government's failure to meet the Government's spending plans. Had it done so, rate increases would on average have been below the general rate of inflation.

1.23 The Government acknowledge that in this period they have asked local government to undertake certain additional duties, such as the administration of the new scheme of statutory sick pay for their employees. But the extra expenditure required by these duties is very small in relation to total local government expenditure; and many authorities have shown that by increasing the efficiency of their operations they can accommodate these additional duties while still reducing manpower.

1.24 While local government as a whole continues to spend more than the Government believe the country can afford, the problem has been aggravated by the behaviour of a small number of large authorities.

1.25 There is a very wide range of spending behaviour even between authorities with the same statutory responsibilities. The Government recognise that authorities' circumstances can differ markedly and with them the costs of providing local services. The assessments of grant related expenditure (GRE) made for the purposes of distributing RSG take account, as objectively as possible, of these variations in local circumstances. Table 1 below however illustrates for English authorities how far some local authorities's spending, compared with this objective measure, differs from that of other authorities. Among the major authorities expenditure ranges from 8% below GRE to 82% above it. Spending very substantially above GRE can be explained only by very high levels of provision or considerable inefficiencies or a combination of both.

CONFIDENTIAL

CONFIDENTIAL

Table 1

HIGHEST AND LOWEST SPENDING AUTHORITIES
 PERCENTAGE AND PERCAPITA OVERSPENDING ON GRE AND RATE LEVELS BY MAJOR CLASSES OF AUTHORITY

<u>Non-Metropolitan Counties</u>	Percentage over GRE	£ per head over GRE	Rate Poundage	<u>Outer London Boroughs</u>	Percentage over GRE	£ per head over GRE	Rate Poundage	<u>Metropolitan Districts</u>	Percentage over GRE	£ per head over GRE	Rate Poundage
<u>Highest</u>				<u>Highest</u>				<u>Highest</u>			
1st	10	32	168.0	1st	37	171	210.3	1st	31	104	216.3
2nd	8	30	170.0	2nd	23	102	191.3	2nd	26	84	198.8
3rd	6	22	150.1	3rd	10	80	136.9	3rd	26	107	204.0
<u>Lowest</u>				<u>Lowest</u>							
37th	-4	-12	134.0	18th	-1	-2	95.0	34th	-6	-20	114.0
38th	-4	-12	125.0	19th	-2	-6	97.6	35th	-6	-24	110.5
39th	-4	-15	131.0	20th	-6	-21	76.2	36th	-8	-24	120.7
<u>Metropolitan Counties</u>				<u>Inner London Boroughs</u>							
1st	76	56	75.8	<u>Highest</u>							
2nd	32	28	59.4	1st	65	234	78.5				
3rd	22	27	54.5	2nd	64	114	99.1				
4th	22	17	45.7	3rd	61	164	67.6				
5th	19	15	46.0	<u>Lowest</u>							
6th	13	10	43.6	10th	7	21	26.4				
				11th	-1	-2	24.5				
				12th	-6	-13	20.1				

Footnote: There are no comparable authorities to the GLC and ILEA. The GLC is 82% and £57 per head over GRE. The ILEA is 66% and £44 per head over GRE. Figures for the non-metropolitan districts, the Isles of Scilly and the City of London are excluded from this analysis.

CONFIDENTIAL

CONFIDENTIAL

1.26 In each of the years 1981-82 to 1983-84, the Government set individual expenditure targets for all authorities. In all three years most authorities have spent or budgetted to spend at or close to their target, or below their GRE. The 80% of authorities spending at or near to target in 1983-84 taken as a group showed no real growth in current expenditure between 1978-79 and 1983-84. But the other 20% increased their expenditure by about 8% in volume terms over the same period. In 1983-84 75% of the budgetted overspend of £771m on the aggregate of local authority targets in the RSG settlement was due to only 16 authorities. Of these the GLC accounted for £300m and the ILEA for £100m. In Wales in 1983-84, 70% of authorities are budgetting to spend at or below target. The remainder have an aggregate budgetted overspend of £21m or 1.7% above the Government's provision.

1.27 Moreover the targets themselves have been based on a total public expenditure provision which has been adjusted upwards to take account of local authority overspending. The Public Expenditure White Paper published in March 1980 (Command 7841) looked for a cut of 5.6% in volume terms between 1978-79 and 1981-82 and for continuing economies thereafter. But in England local authorities' budgets for 1983-84 show current expenditure no less than 12% higher in volume terms than the planned total first proposed for that year in Command 7841, and 4% higher than actual expenditure in 1978-79. In Wales some cuts have been achieved, and expenditure is now 2% lower in volume terms than in 1978-79; but this compares with original plans for a cut of 4.6% between 1978-79 and 1981-82.

1.28 The Government conclude that more economies are required from all authorities, including those that have in part at least complied with the Government's expenditure targets. But much of the upward drift in the volume of expenditure is the responsibility of a few authorities. The high spenders and high raters have a disproportionate effect on the total of local

CONFIDENTIAL

CONFIDENTIAL

authority spending and on the average level of rates. This is unfair to their ratepayers, damaging to industry and commerce, and destructive of jobs.

Rate Limitation

1.29 The Government have therefore concluded that stronger measures are needed to restrain local government spending, and in particular to curb the decisions of those few authorities which are frustrating the achievement of the Government's public expenditure plans and increasing the burden on their ratepayers.

1.30 Chapter 2 explains why the Government have come to the conclusion that rates must remain for the foreseeable future as the main source of locally-raised revenue for local government. Some of the criticisms of the rating system can be met by reforming it. Detailed proposals for reform are set out in Chapter 5.

1.31 But some of the discontent with rates stems from the sheer weight of the burden placed upon them, which the system was never intended to bear. The Government therefore think it essential to put further restraints on the amount of expenditure financed by the rates. One way forward would have been to increase the accountability of local councils to their electorates by requiring a referendum or local poll by authorities proposing exceptionally high levels of spending and rates. This proposal did not however meet with the approval of Parliament, and was dropped. The Government have therefore reluctantly concluded that direct action must be taken. Chapter 3 describes a selective scheme of rate limitation, applicable to the minority of authorities whose spending and rating is clearly excessive. It will be included in legislation to be put before Parliament in the current Session.

CONFIDENTIAL

CONFIDENTIAL

1.32 The Government hope that this action, together with the operation of the RSG system, will prove sufficient to bring the overall level of local government spending more closely into line with their public expenditure plans. But the possibility must be faced that it may not. The Government will therefore seek powers in the same legislation, for use if needed, for the general limitation of rate increases. The general scheme is described in Chapter 4.

1.33 The future course of events will effectively be determined by local government itself in its spending and rating decisions, and by the extent to which it takes account of national economic and social requirements and the interests of those who pay rates.

CONFIDENTIAL

CHAPTER 2

ALTERNATIVE APPROACHES TO LOCAL TAXATION

2.1 During their first period of office the Government undertook a major review of local taxation. Drawing on much of the evidence and findings of the Layfield Committee, they published in December 1981 a Green Paper on "Alternatives to Domestic Rates" (Cmnd 8449). The Green Paper dealt mainly with domestic rates and options for replacing or reforming them, but it also considered some of the shortcomings of non-domestic rates. Business ratepayers, who contribute about 57% of the total rate revenue, had become increasingly critical of the rating system. Comments on the Green Paper were invited by the end of March 1982, and over 1500 individuals and organisations have now responded.

Accountability

2.2 The rating system has been criticized because many of those who vote for local spending do not have to make a contribution through rates. Only about 35% of those eligible to vote in local elections pay full rates. This is because the head of a household is usually the only ratepayer in the household; and because rate rebates and supplementary benefit also reduce the number of voters who pay full rates. About 30% of ratepayers are eligible for rebates in part or in full.

2.3 The system is also criticized because a large part of local authorities' income is raised from those who have no votes and only a limited influence on local policies. The arrangement commonly called the "business vote", which sought to give non-domestic ratepayers a voice, applied only to individuals who owned property in areas where they were not resident. It never gave votes to industrial companies or commercial concerns like the big retail chains. When the business vote was ended in 1969 only 150,000 people were entitled under the provision to vote,

and the effect on the outcome of elections was small. It was not therefore an effective method of providing accountability.

The Environment Committee Inquiry

2.4 Early in 1982 the Environment Committee of the House of Commons decided to conduct its own inquiry into methods of financing local government. It heard evidence from a number of local government and professional organisations, as well as from Government. The report and conclusions of the Environment Committee (HOC 217 I-III) were published in September 1982.

Alternative Taxes to replace rates

2.5 Paragraph 2.2 of the Green Paper set out the main criteria by which, in the Government's view, any system of local taxation should be judged: practicability, fairness, accountability, administrative costs, implications for the tax system generally, financial control, and suitability for all tiers of local government. Much of the Green Paper was devoted to a consideration of a number of different taxes as replacements or supplements for domestic rates, judged against these criteria. Four main alternatives were considered: local sales tax, poll tax, local income tax, and assigned revenues.

2.6 The Green Paper pointed out that a reformed domestic rating system would meet a number of these criteria. Its advantages should not be overlooked, despite concern about some unfairness in the system and the total burden which it is now being called upon to bear.

Responses to the Green Paper

2.7 There was no consensus in the substantial response received. Retention and abolition of domestic rates were supported by roughly equal numbers of respondents. Individuals and ratepayers' groups tended to favour abolition, while

CONFIDENTIAL

representatives of local government and of the professions thought on the whole that domestic rates should be kept. Those who had favoured abolition had varying views about what should replace domestic rates. Assigned revenues, local income tax, and poll tax all had some support, but none was a clear favourite and all had opponents. Most of those who wanted to keep domestic rates thought that they needed to be reformed. Some form of levy on non-householders was most frequently suggested. There was some support for a local income tax to supplement rates, but there was also a strong current of opinion against any new tax as a supplement.

2.8 A local sales tax (LST) was the least favoured by respondents to the Green Paper. LST and value added tax together would constitute a very high, and possibly arithmetically complex, rate of tax on goods and services. Payments could not be linked to ability to pay. It would be difficult to exempt businesses, which would still pay non-domestic rates as well. LST would be much less perceptible than rates, and patterns of shopping would be distorted by different tax rates in different areas. The yield would be difficult to predict, and "lumpy" (ie a small change in the tax rate would produce a large change in the yield). It probably could not be introduced before the late 1980s. The Environment Committee took the view that there was no support for LST, which should not therefore be pursued. The Government agree with that view.

2.9 A poll tax is a flat rate levy on all individuals liable to pay. Some respondents to the Green Paper advocated a poll tax because it would be perceptible and hence good for accountability; and because it would spread the local tax burden as widely as possible. On the other hand the tax would be complicated, particularly if it incorporated a rebate scheme, expensive to run, and hard to enforce. Without a rebate scheme a poll tax would bear harshly on people with low incomes. If the electoral register were used as the basis for liability it could be seen as a tax on the right to vote. A new register would

CONFIDENTIAL

CONFIDENTIAL

therefore probably be needed. A poll tax at a low rate to supplement domestic rates would be less unfair than such a tax as a replacement for rates, but its costs would be very high in relation to the yield. The Government agree with the Environment Committee that this option should be rejected.

2.10 A local income tax (LIT) would be intended to spread the tax burden wider than domestic rates and relate an individual's tax liability more closely to ability to pay. The Government see three main difficulties in this approach:

- (i) The full or partial substitution of LIT for domestic rates would further increase the marginal rates of income tax. The Government believe that the burden of tax on incomes needs to be reduced.
- (ii) All forms of LIT would also greatly increase the public sector staffing requirement and some would involve substantial additional work for employers. Again, the Government are committed to reducing both administration costs within Government and compliance costs for taxpayers.
- (iii) One of the forms of LIT commonly put forward - and discussed in the Environment Committee's report - would be a tax deducted at source and collected by the Board of Inland Revenue alongside and at the same time as the national income tax, and subsequently paid over by the Board as a lump sum to local authorities. A tax in this form would clearly fail to satisfy some of the prime criteria for any direct tax, and in particular that the local authority themselves should be perceived as imposing the tax, and as accountable for it.

The Environment Committee recognised that a wide measure of political support would be necessary for the introduction of an

CONFIDENTIAL

LIT and that 'little evidence was received that this support would be forthcoming'. They nevertheless suggested that the Government 'should take a decision to consider a local income tax' and recommended that it should be subjected to further detailed study. The Government agree with the Environment Committee's judgement that LIT could be introduced only on the basis of widespread political support and note that the responses to the Green Paper and the evidence to the Committee showed no such consensus. In view of the extent to which introduction of an LIT would conflict with other of its major policy objectives, particularly the reduction of direct taxation, the Government have decided against continuing further work on this option.

2.11 Under assigned revenues, domestic rates would be replaced by an assigned share of the revenue from a national tax or taxes. This would be cheap to administer and would increase the ability of the Government to protect ratepayers from excessive local spending. But it would effectively eliminate any responsibility of local government for financing the services it provides. The Environment Committee therefore rejected this option, and the Government support their view.

Other possible options

2.12 The Government also considered other options. One was the taking over by central Government of a substantial block of local government spending, such as education, which accounted for about 50% of all local authority net current expenditure in 1982-83. By reducing the burden on local resources in this way, rates might be pegged at their present levels or reduced. Less than a fifth of the respondents to the Green Paper suggested that the cost of education should be transferred from local government to the Exchequer. However, representatives of local government and the teaching profession were almost unanimously opposed to this option. The Government have decided against it because central finance of local services would effectively eliminate the responsibility of local authorities for their spending decisions.

CONFIDENTIAL

CONFIDENTIAL

2.13 The alternative suggestion discussed in the Green Paper, of introducing a separate block grant for education, would tend to reduce local authorities' discretion between services and has also been rejected. As already announced, however, the Government are introducing legislation in the current Session to enable grants to be paid to local education authorities in England and Wales for innovations and improvements in such areas as the curriculum.

2.14 Another possibility was to reallocate taxes such as vehicle excise duty on cars or road fuel duty to local government. The Government have decided against these possibilities. A local vehicle excise duty would have a narrow base and would give rise to problems of accounting, accountability, control and enforcement, not least through mobility between areas. A local road fuel duty would be complex to collect and would have practical difficulties. Assignment of the resources from national taxes of these kinds is covered in paragraph 2.11 above.

Overall conclusions on alternatives to rates

2.15 The Government were fully prepared to propose to Parliament the abolition of domestic rates if consultation had revealed broad-based support for an alternative system of local taxation which satisfied the criteria. However, it was clear from the response to the Green Paper and from the evidence given to the Environment Committee that no consensus can be found for an alternative local tax to replace domestic rates. The Government recognise that rates are far from being an ideal or popular tax. But they do have advantages. They are highly perceptible to ratepayers and they promote accountability. They are well understood, cheap to collect and very difficult to evade. They act as an incentive to the most efficient use of property. No property tax can be directly related to the ability to pay; but rate rebates, now incorporated in housing benefit, together with Supplementary Benefit, have been designed to reduce hardship. The Government have concluded and announced to Parliament that rates should remain the main source of local revenue for local government.

CONFIDENTIAL

CHAPTER 3

THE SELECTIVE LIMITATION SCHEME

3.1 The Government will seek powers to limit the rate levels of those authorities whose high spending imposes an excessive burden of rates on householders and businesses. The purpose will be to restrain both the expenditure and the rates of these authorities.

3.2 Subject to Parliamentary approval, the scheme will apply both to the precepts of upper tier authorities (county councils, the Greater London Council and the Inner London Education Authority) and to the rates of the lower tier rating authorities (district councils and the London Boroughs). In this chapter and in chapter 4, references to rates include precepts. The scheme will be available for use in England or Wales and will be introduced and administered separately by the territorial Secretaries of State.

3.3 The scheme is described below under the following headings.

- A. Selecting authorities for rate limitation.
- B. Setting levels of expenditure for the selected authorities.
- C. Translating the expenditure level into a maximum rate.

A. SELECTING AUTHORITIES FOR RATE LIMITATION

3.4 The scheme will operate in a cycle of two financial years. In year 1, the Government will select high spending authorities and determine for year 2 an expenditure level and a maximum rate for each one. The maximum rate will then have effect for year 2. Subject to Parliament's approval of the Bill, the Government intend to bring the scheme into operation in the summer of 1984. The Government will then select the first group of authorities for rate limitation, and subject to the outcome of the procedures

described below those authorities will not be allowed to set a rate for the financial year 1985-86 which is higher than a maximum figure set by the Secretary of State.

3.5 The selective scheme is intended to apply to only a small number of local authorities. Authorities will be chosen by reference to criteria applied on the basis of general principle applicable to all authorities or classes of authority. Each year the Government will report to Parliament both the criteria used and the names of the authorities selected.

3.6 The criteria for selection will have particular regard to authorities' recent levels of spending, and especially how they vary from the objective measure of spending needs represented by the grant related expenditure assessment (GRE) used for distributing the RSG. It is not intended to select authorities which have been spending below their GRE. For those spending above GRE the degree of overspending will be a relevant factor. But other factors will also be taken into consideration, such as recent trends in an authority's expenditure compared with that of other comparable authorities; its performance against any expenditure guidance which may have been given to authorities by the Secretary of State; its manpower levels; and the level of its rates.

Exclusion from selection

3.7 A large number of authorities have very small expenditure which can thus have only a small effect on the total of local government expenditure. The Government consider that it would be right to exclude such authorities from the scope of the selective scheme, and they will therefore seek power to set an expenditure figure below which authorities will not be liable for selection. The precise figure will be set each year, as part of the operation of the scheme. Of the 296 non-metropolitan districts in England, whose spending as a whole accounts for only about 7% of total local government expenditure in that country, a

CONFIDENTIAL

limit of £10m would at present remove 275 from consideration. In Wales the district councils account for about 17% of total local government expenditure in that country. The same £10m limit would remove from consideration 34 of the 37 Welsh district councils.

3.8 The expenditure of these small authorities and of larger authorities not selected for rate limitation will however continue to be subject to the general discipline of the block grant system. The Government have decided that individual expenditure targets, with the abatement of grant for those authorities which overspend, will continue to be set for 1984/85. Whether targets will need to be retained for 1985/86 will be considered in the light of the rating and spending decisions taken by local government over the next year.

3.9 The precepts of parish councils and other lower tier precepting bodies such as land drainage boards will not be directly subject to the rate limitation scheme. However their precepts will be included in the expenditure of the district authorities. Most parish councils and other such bodies precept on non-metropolitan districts which have relatively small expenditures, and which would therefore in practice be excluded from the scheme as described in paragraph 3.7.

B. SETTING EXPENDITURE LEVELS

3.10 The Government are anxious to give selected authorities the earliest possible notice of the level of expenditure on which their eventual rate limit will be based. This will help them in drawing up their budgets and enable them to identify areas for expenditure savings in good time for the next financial year. Authorities will be notified as early as possible in the preceding year if they have been selected for limitation. At the same time, or as soon as possible after, they will also be notified of the expenditure level which the Government propose to use in calculating their rate limit.

CONFIDENTIAL

Derogations

3.11 A selected authority which considers that it cannot contain its spending within the expenditure level set for it will be able to seek a derogation from the Secretary of State. It will be for the authority to show that it is not practicable to budget within the proposed figure. The Secretary of State will consider the application in the light of any information presented to him by the authority, and any other he may seek. If he is satisfied that a good case has been made, he will have power to set a higher expenditure figure. He will also have power to reduce the initial figure if the further information available to him suggests that it would be right to do so.

Requirement to Supply Information

3.12 The Secretary of State will need to be able to obtain relevant information from the authority, and the Government propose to include in the legislation a specific provision for this purpose. In cases where relevant information is not available to the Secretary of State he will need to make assumptions in deciding any application for a derogation.

Undertakings

3.13 In granting an application for a derogation the Secretary of State will be recognising that the authority is unable to contain its expenditure within the level set by the general rules. He may nonetheless take the view that continuing restraint on the authority's expenditure is required. He will therefore have a power to require undertakings from an authority which is granted a derogation. For example, he might require some form of value for money audit to be carried out. The authority would be required to report on the fulfilling of such undertakings; and as an alternative criterion for selecting authorities for rate limitation in later years the Secretary of State would be entitled to have regard to the extent to which such an undertaking had been complied with.

CONFIDENTIAL

C. TRANSLATING THE EXPENDITURE LEVEL INTO A MAXIMUM RATE

3.14 The RSG settlement is usually made in December. This determines the grant entitlements of all local authorities; and for those selected for rate limitation it will provide the basis for calculating the rate required to finance the proposed expenditure level. The selected authorities will therefore be notified at the time of the RSG settlement, or as soon as possible thereafter, of the maximum rate which the Secretary of State proposes to set. The figure may be higher or lower than the rates already being charged by those authorities. They will be asked to say by a specified date whether they accept the proposed figure.

Balances

3.15 The use of balances can significantly affect the rate actually charged by an authority compared with a notional rate calculated from its level of spending and the grant entitlement determined in the RSG settlement. Authorities are sometimes able to keep rate increases in check by drawing on balances, while in other years they may levy higher rates to restore depleted balances. As some selected authorities may have substantial balances, the Secretary of State will need powers to take balances into account to avoid setting an unnecessarily high rate limit. This would in effect enable him to require authorities to use up any excessive balances, in particular any accumulated in 1984-85 before the rate limitation scheme comes into force.

Proposed, Interim and Final Rate Limits

3.16 In calculating the rate limit, the Secretary of State will use either a) his original proposed expenditure figure (in cases where derogations have not been sought, or if sought have been rejected); b) a revised expenditure figure (in cases where applications for derogations have been made and a new figure set); or c) some other interim expenditure figure (in cases where discussions are continuing).

CONFIDENTIAL

3.17 If a selected authority agrees to its proposed rate limit, then the maximum rate limit will be formally determined by the Secretary of State. The authority will then be able to set a rate in the usual way.

3.18 If an authority does not agree to the rate limit proposed, the Secretary of State may determine an interim rate limit and consider further representations. If, after making representations, the authority accepts the interim rate limit or any higher or lower rate which the Secretary of State is prepared to agree, then a formal determination of this limit will be made by the Secretary of State.

3.19 In cases where agreement on a maximum rate cannot be reached, the Secretary of State will have power to determine a maximum rate by Order. Such Orders, each of which could cover some or all of the authorities initially selected, will be subject to Parliamentary approval under the affirmative resolution procedure in the House of Commons.

3.20 Any rate higher than the maximum determined by the Secretary of State, or set by order, will be ultra vires.

3.21 The selected authorities will need to know their maximum rate limits by about the end of January (in the case of the precepting authorities) or about the end of February (in the case of the districts and London Boroughs). If it is not possible in any case to secure Parliamentary approval for maximum rate limits by those dates, the Secretary of State will have power to determine interim limits, and authorities will be obliged to set their main rates within the limits thus determined. Following further discussion, the Secretary of State will seek Parliamentary approval for a final rate limit. If that limit is higher than the interim rate limit for an authority, it will be empowered to charge its ratepayers an additional rate to make up the difference.

CONFIDENTIAL

CONFIDENTIAL

3.22 The Government will take steps to ensure that any new obligations that may be placed on local authorities, by statute or otherwise, are fully taken into account in the operation of the rate limitation scheme.

Observance of New Scheme

3.23 The Government have had no alternative but to develop the selective rate limitation scheme described above. The behaviour of a few authorities has made action inevitable. There is clear public pressure, and a commitment on the Government, to secure lower rate increases and expenditure. The Government look to local authorities to recognise this situation, and to cooperate fully in the process of achieving responsible expenditure and rate levels whether they are selected or not. The Government, however, remain prepared, if necessary, to introduce the general scheme of rate limitation (as described in Chapter 4).

3.24 It is not the Government's intention that these measures should alter the credit worthiness of the authorities concerned. The security of loans will be maintained and the position of lenders thus protected.

CHAPTER 4

THE SCHEME FOR GENERAL LIMITATION OF RATES

4.1 The Government propose to seek powers, in the Bill that provides for selective limitation, for the introduction if necessary of a general control over the rates of all local authorities. A scheme of general control should be introduced only by way of an Order under the affirmative resolution procedure. It would be the intention for the general scheme to be introduced and administered separately in England and in Wales, as for the selective scheme.

Scope of General Scheme

4.2 Under a general rate limitation scheme it would not be necessary to select high spending authorities for control. All authorities would in principle be covered. However it is proposed that there should be a power to exclude authorities by reference to the size of their budgets, as under the selective scheme (see paragraph 3.7).

4.3 The Government will consider further whether, under the general scheme, the precepts of lower tier bodies should continue to be included in the budget totals of the rating authorities on which they precept; and whether any direct controls on the precepts of these bodies would be required.

Expenditure Levels and Derogations

4.4 As in the scheme for selective rate limitation, the Secretary of State would set expenditure levels for all authorities as early as possible. The figures would be calculated according to principles applicable to all local authorities or classes of authority, and authorities would be expected to have regard to them in preparing their budgets for the following year.

CONFIDENTIAL

4.5 Authorities would be free to seek derogations from the maximum levels set for them; but the levels would be set in such a way that authorities could generally be expected to contain their expenditure within them, and derogations would only be granted in exceptional circumstances, for example when there had been a major change in a local authority's circumstances.

4.6 As under the selective scheme, authorities granted derogations could be required to enter into undertakings about future expenditure. In later years the Secretary of State would be entitled to have regard to the extent to which such undertakings had been complied with, both in setting the expenditure levels and in considering applications for derogations. The Secretary of State would also need similar powers to require information as are envisaged under the selective scheme (see paragraph 3.12).

Rate Limits

4.7 As under the selective scheme, rate limits would be set for authorities either at the time of the RSG Settlement or as soon as possible afterwards. They would be based on the appropriate expenditure level for each authority (which, as in paragraph 3.16, might be the original level, a revised one, or an interim one pending further discussion); and on its grant entitlement as determined in the Settlement.

4.8 The Secretary of State would have power to take into account the financial resources of individual authorities, including their balances, in setting rate limits, but he would not be obliged to do so.

4.9 Arrangements in respect of interim and final rate limits would be similar to those proposed in paragraphs 3.17-3.21 for the selective scheme. Where a rate limit were agreed by the authority concerned, it would then be formally determined by the

CONFIDENTIAL

CONFIDENTIAL

Secretary of State. Where rate limits were not agreed by the authorities concerned, then the Secretary of State would seek Parliamentary approval for them in a single composite Order, which would be subject to the affirmative resolution procedure in the House of Commons.

4.10 It would be essential, as under the selective scheme, for rate limits to be set in time for authorities to fix their rates and precepts for the forthcoming year. Within this timetable it might not always be possible to complete the discussions between the Department and the local authority and also obtain Parliamentary approval. The Secretary of State would therefore be empowered to determine interim rate limits. These limits would be binding on authorities. The Secretary of State would then have a duty to seek Parliamentary approval for final rate limits (which might be different from the interim limits) as soon as reasonably possible. It would be open to individual authorities, after the Order had been approved, to make representations on the limits set for them, and the Secretary of State would be empowered to increase the limits in particular cases if he thought it appropriate. He would not however be able to reduce the limits approved by Parliament without specific Parliamentary authority.

4.11 In any case where a higher limit were approved after the authority had set its main rate, it would be empowered to make an additional rate to obtain the further revenue.

CHAPTER 5

REFORM OF THE RATING SYSTEM

Rating Reform

5.1 The Green Paper reviewed a number of possible reforms to domestic rates designed to distribute the rate burden more fairly: a levy on earning non-householders; an offset of rates against income tax; and various possibilities for restructuring domestic rate relief. The Government have further considered these possibilities.

5.2 They have concluded that a levy on earners would not be cost effective to administer and collect. An alternative version of this proposal would be a discount for households containing only one earner, but this would also be expensive to administer and it would reduce the perceptibility and accountability of the system. Neither option would relate domestic rates more closely to ability to pay. The Government prefer to rely on rate rebates now part of housing benefit, and supplementary benefit, to mitigate the impact of rates on the less well off.

5.3 An income tax offset for rates would also tend to reduce accountability, and would shift part of the cost of local services to the Exchequer. This would require an increase in national taxes, and would be contrary to the Government's policy of reducing the level of Exchequer support for local spending.

5.4 Restructuring domestic rate relief would be complex and would not achieve major improvements in the system. Accordingly, the Government have decided not to adopt any of these proposals.

Revaluation

5.5 Now that the Government have concluded that rates are to be

CONFIDENTIAL

retained as the major source of local revenue for the foreseeable future, the tax base will need to provide as fair and accurate a measure of liability as possible. The last general revaluation in England and Wales took place in 1973.

A Non Domestic Revaluation

5.6 Many respondents to the Green Paper from commerce and industry, local government, and the professions wanted a rating revaluation of non-domestic property as soon as possible. The Environment Committee also recommended that if non-domestic rates were retained there should be a revaluation soon.

5.7 Significant changes have occurred in the relative values of some categories of property since the 1973 revaluation. This has distorted the tax base. As a result rate bills for some categories of property are much higher or much lower than they ought to be. In particular, the relative rental values of large, old buildings, occupied by labour intensive industries, many of them in the Midlands and the North, have in general declined substantially since 1973. As a result they now bear an unfairly high proportion of the rates burden.

5.8 These distortions should be rectified. The Government propose to set in train the work required for a non-domestic revaluation. This will be carried out on the basis of rental values and will come into effect on 1 April 1987. The Government do not propose to reopen the question of the rating of agricultural land and buildings, which are not at present liable for rates.

5.9 The revaluation of non-domestic property in England and Wales without a simultaneous revaluation of domestic property would tend to shift the present proportional burden of rates from domestic to non-domestic ratepayers. The Secretary of State will therefore make an order adjusting the rateable values of either revalued or non-revalued properties so as to preserve the present ratio between the aggregate values of the two sectors.

CONFIDENTIAL

A Domestic Revaluation

5.10 The Government are considering urgently the case for a domestic revaluation and will issue a consultation document in the near future. Any such revaluation could not take effect until towards the end of the decade.

Accountability

5.11 Since rates are to remain the sole local tax, all local ratepayers should be fully aware of the link between spending and rates. They should be enabled to understand their authorities' expenditure policies, so that they can seek to influence them and so that they are fully informed when casting their votes in local elections. For proper accountability, ratepayers should know to which authorities they pay rates, how much goes to each authority, what each authority provides, and, broadly, how far each achieves value for money.

5.12 Some of the evidence to the Select Committee and some of the responses to the Green Paper suggested that it might be good for accountability to abolish precepting by the upper tier and replace it either with separate revenues for each tier or with separate billing and collection for each tier's rates. But abolishing precepting would be expensive. The cost of billing for rates, collecting and accounting for them and, where necessary, enforcing payment (about £150m in 1982/83) would be virtually doubled if each tier ran its own system. This would be a large new burden on ratepayers.

5.13 However it is possible, without abolishing precepting, to make it easier for the ratepayer to understand fully who spends what. The Government therefore propose that all ratepayers should receive a separate notice of the poundage and amount being levied by the rating authority and by each major precepting authority. Domestic tenants whose rates are paid to their landlord or included in rent payments should also receive this information.

Non-Domestic Ratepayers

5.14 Responses to the Green Paper from industry and commerce confirmed that rates can be a serious problem for businesses. This is particularly so where local authorities are high spenders. The Government's proposals for controlling the level of rates of such authorities will benefit all their ratepayers, including businesses. But other reforms are also needed.

5.15 The Government have decided against the reintroduction of a business vote for the reasons explained in Chapter 2. But they believe that the responsibility which local authorities already have towards all their ratepayers needs to be reinforced. They therefore propose to place a new statutory duty on authorities to consult representatives of businesses before fixing their rates or precepts. The object will be to give these ratepayers a new right to have their views on expenditure heard and considered.

5.16 The Government will seek powers to specify the information to be provided as a basis for consultation. They also propose to issue guidance as to possible methods of consultation to be adopted. They intend to discuss with organisations representative of commerce and industry and with the local authority associations the contents of the guidance. It will outline standards for the timing and extent of consultation, as a basis for the development of arrangements by each local authority appropriate to its own circumstances.

Rates on Empty Property

5.17 In a period of recession, rates on empty property may place a particularly heavy burden on industry. On the one hand they encourage owners to bring empty properties back into full use, if necessary by selling or letting them. On the other hand, such encouragement serves no purpose if there is no market for a property, as for many industrial properties at present. Rates on empty property then represent an unavoidable and often excessive burden.

CONFIDENTIAL

5.18 In 1981 the Government set a limit of 50% of full rates on empty non-domestic property. Fewer than half the local authorities currently exercise their power to rate empty properties. In view of the particular problems being faced by industry throughout the country, the Government consider that it would be right to remove local authorities' discretion entirely in relation to empty industrial property. They will therefore suspend local authorities' powers to levy rates in respect of empty industrial property with effect from 1 April 1984.

Other Rating Measures

5.19 All domestic and many non-domestic ratepayers have the right to pay their rates by instalments. The Government propose first to make a new order under section 50 of the General Rate Act 1967 to raise the rateable value limits for payment by instalments to £5,000 outside London and £10,000 in London, in place of the present limits of £2,000 and £5,000 respectively. The Order would take effect for 1 April 1984. These limits will then be abolished in the main legislation, so that all ratepayers will have the right to pay rates by instalments with effect from 1 April 1985.

5.20 The Government intend to have discussions with the local authority associations and others about ways of improving the procedures for changes in the valuation list between general revaluations. A consultation document will be issued shortly.

5.21 The Government also intend to include in the proposals for legislation a number of minor but helpful reforms and clarifications of the rating system, several of which arose in consultation on the Green Paper. These are outlined in Annex A. Views on these proposals will be welcome.

MINOR RATING REFORMS

1. Rating (Disabled Persons) Act 1978

Premises serving mixed purposes cannot currently receive rate relief under the Act. The Government propose to give local authorities additional powers to enable them to provide partial rate relief to institutions used only partly for the purposes of this Act. Valuation Officers would be able to issue certificates of attributable value in respect of the qualifying parts of the hereditament.

2. Valuation of Public Houses

The Government propose that changes in the assessments of public houses between revaluations should in future be made on the same basis as assessments for other types of property. This would require the repeal of section 20(2)(c) of the General Rate Act 1967. As a result a change in the volume of trade or business would no longer on its own be a reason for an alteration in the assessment.

3. Rate Enforcement

The Government are concerned that the severe sanction of a warrant of distress should not be applied before ratepayers have been given a reasonable time to pay their rate bill. They therefore propose to extend from 7 to 28 days the minimum period which must elapse after demand of the rate before enforcement action may be taken. Local authorities would also be required to issue a reminder before giving warning of an application for a warrant of distress. Most authorities already use their powers reasonably and flexibly along these lines.

4. Formula Rated Industries

- a. At present, the Transport Boards (British Rail, London

CONFIDENTIAL

Transport and British Waterways) pay contributions in lieu of rates. The Government consider that they should be brought into the rating system by means of statutory formulae similar to those applying to other statutory undertakings.

b. The Energy Act 1983 enables private companies to be set up for the generation and transmission of electricity. In order to ensure fair competition and to overcome problems where hereditaments cross several rating areas the Government propose to take enabling powers to formula-rate these hereditaments if this appears necessary. The Electricity Boards are already rated by formula. The new private companies will otherwise be rated by normal methods of assessment and the Government wish also to ensure that where the public and private sector share facilities, double rating cannot occur.

5. Changes in Assessment Procedures

a. At present the rateable value of moorings must be assessed individually. It may be helpful to provide for the assessment of a group of moorings as a whole. Rates could then be collected centrally from the owner.

b. Commercial properties will be valued direct to net annual values at the next revaluation (ie on the basis of the rent the property would command if the tenant undertook to bear the cost of repairs, insurance etc). Due to a defect in the legislation service charges and the cost of upkeep of common parts cannot be properly taken into account. The Government propose to remove this anomaly.

c. Valuation Officers may currently face difficulties in assessing unfurnished buildings after completion notices have been served. The Government will consult the local authority associations about how these problems can best be resolved.

CONFIDENTIAL

CONFIDENTIAL

6. Old Rating Records

The Government propose that the requirement on the Valuation Office to keep old rating records should be restricted to those relating to the current and immediately preceding lists. Older records should be offered to the local authority concerned before being destroyed.

CONFIDENTIAL

22 JUL 1965

121
2
3
4
5
6
7
8
9
0

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

19 July 1983

Dear Muir,

Rate Limitation Legislation:
Local Government Valuation and Rating (Scotland) Bill

The Prime Minister is content, subject to the views of colleagues, with your Secretary of State's proposals on rate limitation and the Local Government Valuation and Rating (Scotland) Bill, as set out in his letter to the Secretary of State for the Environment of 15 July.

I am sending copies of this letter to Colin Walters (Lord President's Office), John Ballard (Department of the Environment), Jonathan Spencer (Department of Trade & Industry), Adam Peat (Welsh Office), John Gieve (Chief Secretary's Office), Christine Duncan (Lord Advocate's Department) and Richard Hatfield (Cabinet Office).

Yours sincerely,

Michael Scholar

Muir Russell, Esq.,
Scottish Office.

CONFIDENTIAL

CONFIDENTIAL



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

3 pps

The Rt Hon Patrick Jenkin MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON SW1P 3EB

②

18 July 1983

Prime Minister

P. Patrick

ms

Mr King argues for direct control of the joint boards' expenditure

RATE LIMITATION LEGISLATION

MUS 19/7

Thank you for sending me a copy of your minute of 29 June to the Prime Minister.

The wider M.C.S.

I agree with your general approach and in particular with your preference for Option B and model 2. While we shall need to specify general criteria, the limitation will affect the GLC and the metropolitan county councils for one year only before they are abolished. In the case of the GLC the criteria will have to take account of the fact that the GLC should no longer have responsibility for London Transport by the time the rating legislation takes effect. For the metropolitan counties we shall have to watch out for the problem that a major part of their expenditure is on public transport and police which cannot easily be reconciled with a general formula.

I have a good deal of sympathy with Leon Brittan's minute to you of 5 July and his reluctance to subject the budgets of the new joint boards to direct control. But I

CONFIDENTIAL

CONFIDENTIAL

see considerable difficulties in trying to control the expenditure of joint boards indirectly through limitation on the constituent districts. Individual districts would have a different approach to the budgets of the joint boards depending on their political control and how their own budgets stood in relation to their limits. If an individual district were subject to limitation it could seek a derogation on the ground that it could not reduce its contribution to the joint board. There would therefore be no effective control over a joint board unless all the constituent authorities were subject to limitation. In practice I do not see any alternative to taking direct control over the budgets of joint boards.

I am copying this to the other recipients of your minute.

2 m
—
lan

TOM KING

CONFIDENTIAL

Handwritten red ink markings on a light-colored paper. The markings include a large, irregular scribble on the left, a small rectangular stamp or mark in the center, and a circular stamp or mark on the right. The circular mark contains several small, illegible characters or symbols arranged in a circle. There are also some faint, scattered red ink marks and lines across the page.



2 MARSHAM STREET
LONDON SW1P 3EB

01-212 3434

My ref:

Your ref:

18 July 1983

Prime Minister

MUS 4/7

Dear Peter,

RATE LIMITATION LEGISLATION

Thank you for your letter of 12 July. I am glad to see that you agree generally with my proposals.

Choice of selective scheme

I agree that the selective scheme now put forward is a little different from that discussed in MISC 79 or E(LF). The main difference is that we should not on this approach require authorities to submit budgets, but set them maximum expenditure levels on a formula basis. We are agreed on the advantages of this approach.

You ask about the relationship between maximum expenditure levels and targets. This is of course an issue under either version of the selective scheme, since the targets - if we continue to have them - will need to be in an appropriate relationship either with the maximum expenditure levels (under my present version) or with the approved budget figures (under the previous version). Since the problem is essentially the same in both cases, it need not affect our choice between the two versions.

I agree with your analysis of the options for targets and maximum expenditure levels. As regards point a) in your letter, we have always recognized that because the maximum expenditure levels for rate control (unlike the targets for grant holdback), will in effect be binding figures, it will be necessary to ensure that they are achievable in a financial year. Otherwise we shall be obliged to grant substantial numbers of derogations if we are to avoid successful legal challenge. This implies some degree of headroom in the figures. On the other hand a small number of high spenders could be given tight maximum expenditure levels under the selective scheme in a way that would not be possible under the general scheme, since there will be far fewer applications for derogations for us to consider.

As regards point b), we shall need to bear in mind the political advantages of giving up targets once the legislation for control is in place. There would be some logic in saying at that stage that taken together the block grant system, with its built in disincentive to high spending for all, and the new rate limitation scheme, directed at the high spenders, made the target system superfluous. But we do not need to take a view on this for some time yet. I suggest that in the White Paper we leave it open.

As regards point c) there is a risk of anomalies if we have both grant holdback targets and maximum expenditure control levels and allow the figures to diverge ie the grant holdback targets would be tougher than the maximum expenditure levels. The problems were discussed in paragraphs 32 to 34 of the report annexed to my minute to the Prime Minister. The underlying reason for them is that holdback of grant leads to higher rates, unless authorities keep their expenditure down; it thus acts as an indirect incentive rather than a direct control. But once rates are controlled directly, grant holdback can have the effect of pushing rates up towards the limits that have been directly set if the local authority choose to ignore the grant holdback target whilst still remaining within the maximum expenditure for control purposes. I recognize the case for keeping targets and holdback under the selective scheme in order to preserve the disincentives to high spending for the authorities that are not selected. But we will have to consider very carefully whether it would be appropriate to keep them if we were to implement the general scheme. However I am content to leave that issue open in the White Paper.

Choice of general scheme

My reasons for preferring Model 2 to Model 1 were set out in my minute to the Prime Minister. In brief a) it would allow us to take account directly of authorities' circumstances and expenditure requirements; b) it would give rise to fewer applications for derogations; and c) it would follow on more naturally from the selective scheme since both would be based on explicit expenditure figures.

I recognize that it would produce a more irregular pattern of rate increases than Model 1, as I said in my minute, but for the reasons given I think that on balance it is preferable.

The imposition of targets and holdback on top of the general scheme of control would of course magnify the irregularity of the rate increase pattern, as you say. That is another reason why I am attracted to the option of abolishing targets and holdback if we ever have to introduce the general scheme. But I agree with you that we should not close that option at this stage. The White Paper should leave the issue open.

Borrowing and accounting conventions

I do not think we need any further statutory constraints on temporary borrowing, since authorities already need the Secretary of State's consent on this. As regards harmonising accounts, there is separate discussion going on between our officials about the possibility of new accounts regulations and a consultation document.

CONFIDENTIAL

I suggest we should let those discussions proceed rather than constraining them to the tight timetable of rate limitation. It is not easy to make rapid progress in this field given the number of interests involved and the differing views even within the accountancy profession.

I am copying this letter to the recipients of yours.

Your ever
Patrick

PATRICK JENKIN



Prime Minister ⁽²⁾

MUS 19/7

2 pp
2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

18 July 1983

Dear Michael

MS

RATE LIMITATION LEGISLATION

Thank you for your letter of 4 July to John Ballard. It is helpful to know that the Prime Minister considers that we are proceeding broadly on the right lines.

You say that the Prime Minister is attracted to the idea of specifying the criteria as far as possible rather than adopting different criteria from year to year, even though this might involve forgoing the maximum freedom for manoeuvre.

My Secretary of State agrees that it could be difficult to persuade Parliament to leave the criteria entirely general. On the other hand it would be unwise to specify the criteria in great detail, because the expenditure and rating decisions of individual authorities can change markedly from year to year. Thus a set of criteria which selected one group of authorities in one year could well produce a very different group in the next year. It may therefore be necessary to vary the criteria from year to year in order to take account of changing circumstances.

My Secretary of State's present view is that the primary criterion should be the relationship between an authority's expenditure and the objective measure of needs represented by its grant related expenditure assessment (GRE). He thinks that the White Paper - of which he will shortly be circulating a draft to colleagues - should state clearly that authorities spending below GRE will not be selected. It would be unfair to select those spending below that level, and a statement on these lines would go a long way to reassure Government supporters in the ACC and ADC regarding the selective scheme.

Other factors would also be taken into account, such as recent trends in an authority's expenditure compared with that of other comparable authorities; its performance against expenditure targets; its manpower levels; and the level of its rates. It may well be appropriate to refer to such criteria in the Bill.

It will of course be necessary to apply the criteria fairly on the basis of general principles as between authorities, in order to minimise the risk of legal challenge.

It may be convenient if I comment also on the points raised in

the letter of 6 July from John Sparrow to the Prime Minister, and in the letter of 12 July from the Chancellor of the Duchy of Lancaster to my Secretary of State, in so far as they are not covered by what is said above.

My Secretary of State takes the view that the purpose of the scheme is to control both expenditure and rates. By controlling both grant and rates directly, the scheme will control expenditure indirectly but no less effectively. The main reason for the proposed de minimis exclusion is that the small authorities have only a small effect on the aggregate of expenditure. But they also make only a small contribution to the rates burden; the average rate in the shire districts (England) this year is about 20p, compared with an average precept for the shire counties of about 140p.

Mr Sparrow questions whether it is necessary to be precise in public about the general scheme. Since the scheme needs to be covered in legislation, and my Secretary of State is committed to consultation on the details of the schemes, it will be necessary to go into some detail in the White Paper. Colleagues will have an opportunity to comment further when the draft is circulated.

Mr Sparrow suggests that the rate and expenditure limits should have primacy over other statutory powers and duties and official advice. These issues were discussed in paragraph 73 of the Report on Rates Control by the Interdepartmental Group of Officials. The Group concluded that it did "not seem practicable, even if it were acceptable on policy grounds, to revise all such legislation so as to eliminate the risk of conflict between statutory duties and the limits to be imposed" under a rate limitation scheme. The magnitude of the problem is clearly demonstrated by the local authority statutory duties and powers set out in Annex F(i) of the Report. It seems more sensible instead to pay careful regard to statutory duties in the way we operate the selective and general schemes. In addition my Secretary of State is of course proposing that interdepartmental arrangements should be set up to ensure that local authorities should not be encouraged by circulars or subordinate legislation to spend monies in ways inconsistent with the control scheme - the last paragraph on page 8 of my Secretary of State's minute of 29 June to the Prime Minister refers.

My Secretary of State will be writing separately on the points raised by the Chief Secretary in his letter of 12 July.

I am copying this letter to the Private Secretaries to the members of Cabinet and to Henry Steel (Attorney General's Office), Murdo Maclean (Chief Whip's Office) and Richard Hatfield (Cabinet Office).

Yours sincerely
Roger Bright

ROGER BRIGHT
Private Secretary



NEW ST. ANDREWS HOUSE
ST. JAMES CENTRE
EDINBURGH EH1 3SX

CC/NO

(1)

CONFIDENTIAL

Prime Minister

Content with

The Rt Hon Patrick Jenkin MP
Secretary of State for the Environment
2 Marsham Street
LONDON
SW1P 3EB

Yes, these proposals, subject to colleagues?

15 July 1983

Dear Patrick,

Mes 18/7

1. RATE LIMITATION LEGISLATION
2. LOCAL GOVERNMENT VALUATION AND RATING (SCOTLAND) BILL

Rate limitation

1. In this letter I am responding first to your minute to the Prime Minister of 29 June; and I then go on to the proposals for the Scottish legislation which will provide the counterpart to yours.

2. So far as concerns the proposals set out in your minute and the detailed paper attached to it, I am content for my interests with what you have in mind for selective action, though it will differ markedly in its administration, but not its effects, from the Scottish system. I see no difficulty in keeping the two systems distinct, based as they are on different traditions and statutes. The criteria which I employ for selective action are not approved in an Order, although I list them in the Reports which are laid before Parliament for approval by the Commons; and I agree with your exclusion of the idea of an annual Order from your White Paper.

3. On Parliamentary procedure I should find it helpful to adapt to composite Orders; and I would myself want to have composite Reports for Scottish local authorities planning excessive and unreasonable expenditure, given the amount of time that is required in the Commons for separate Reports to be debated. If composite Reports are not adopted, at least there is merit in debating the Reports in one day, even if they have to be voted on separately.

4. As regards the general scheme of rate-capping, I agree with what you say about different considerations applying in England, Wales and Scotland for the timing of the introduction of this reserve power. We should keep open at this stage when, if it becomes necessary, rate-capping is introduced in each country; and I absolutely agree with the need to allow some headroom in the limits if they are to be attainable without risk of legal challenge.

5. On default and obstruction I incline to the view that the inclusion of a power to take over the running of a particular local authority in the 1983-84 legislation would be regarded as provocative or defeatist and my preference would have been

to wait and see how matters develop. At all events nothing about such powers should, in my view, appear in the White Papers; and at present I have not included anything about such powers in the preparations for Scottish legislation.

Scottish legislation

6. When Cabinet discussed Local Government Organisation and Finance on 10 May (CC(83) Seventeenth meeting item 3) I was invited to agree with the Ministers concerned changes in the Scottish Rating System. I am now writing to seek your agreement, and that of colleagues to whom I am copying this letter, to the substance of the measures which I propose to include in the Bill which I intend to bring forward.

7. I propose that my Bill should include the provisions necessary to implement for Scotland those reforms (if not already in force here) which you are introducing and which should apply uniformly throughout Great Britain. That includes the need for local authorities to consult commercial interests prior to rate fixing. The Bill should also be the vehicle for purely Scottish provisions which do not exactly parallel yours but are intended to improve the valuation and rating system north of the Border in order to achieve more consistent results in some areas. I set out my proposals below and invite early agreement so that the Lord Advocate's Department may receive instructions for the preparation of legislation.

Rate and Expenditure controls

8. I already have powers to take selective action against individual local authorities to reduce either their rate or their grant or both on the grounds that their planned expenditure is excessive and unreasonable. These powers do not work in the same way as the powers you propose to take but they suit Scottish circumstances and I do not plan to make any fundamental changes. I do propose a power which will allow me to present a combined report to Parliament covering all the authorities which are the subject of selective action in a particular year. At present I have to lay individual reports before Parliament and I hope that a combined report will streamline the procedure. I commented above on your consideration of making public in some way the criteria on which you will base your selective action. I may be under pressure to do the same but I do not think legislation will be needed.

9. I propose a change to my power to withhold rate support grant from authorities generally to make it operate more fairly. At present any general abatement of rate support grant affects authorities according to the distribution of their share of rate support grant (except for very limited protection arrangements covering only those authorities within or close to guidelines). The change I propose will make it possible for me to relate directly loss of grant following a general abatement to an authority's overspending measured against guidelines.

10. Like you I also propose to introduce a requirement on local authorities to consult commercial and industrial ratepayers before setting their rate.

11. I am also proposing to take powers to limit the rate fund contribution to the housing revenue account.

12. I propose to take power to set a general limit on rate increases and will endeavour to make the form of my powers as similar as I can to those south of the

Border but since our timetable and my selective powers are different I do not expect to parallel your arrangements. I also propose that the use of general limiting power should be introduced by Affirmative Order in the House of Commons, not necessarily at the same time as that would apply in England or Wales.

Valuation Problems

13. Valuation in Scotland is undertaken not by civil servants but by assessors, employed by local authorities and responsible to the Courts for their valuations. There is no power to co-ordinate assessment by Scottish assessors and by valuation officers in England and Wales; and in practice there seems to be considerable divergence in their professional practices. The examples brought to my attention suggest that Scottish assessors, with support from the Courts, are rule-bound and indifferent to the ratepayer's ability to pay. In any comparison of values for 1978 (Scotland) and for 1973 (England) Scottish values come off worse. I have seen figures of anomalies for certain types of property and have no reason to doubt that the situation is a serious one. Rates-levels, while important, are only partly to blame.

Valuation Appeal Procedures

14. At present the law in Scotland is much more restrictive than that in England and Wales as to the basis on which rateable values may be changed on appeal between revaluations. This has given rise to numerous problems for Scottish ratepayers who find themselves, in certain circumstances, seriously disadvantaged compared with those south of the Border. I propose to bring our appeal arrangements more in line with those in your General Rate Act 1967 by changing the definition of a "material change of circumstances" which is the test to be satisfied in order that rateable values may be changed between revaluations: in future any decision of a court which has altered the value of lands and heritages on which an appellant wishes to found by way of comparison will be admissible and the existing exclusion of grounds relating to changes in rents and changes in the general level of valuations should be removed. I would retain the existing provisions for valuation as at the time of the roll (section 15 of the Local Government (Scotland) Act 1966) which are closely equivalent to your provisions. That would enable ratepayers - domestic and commercial alike - to raise appeals based on reductions in rents generally or a general drop in the level of valuations or values of comparables. This change would bring about a situation much closer to that operating in England and Wales at present.

15. I propose to introduce an explicit right for a new occupier of any lands and heritages to lodge an appeal on taking up occupation on the same basis as if he had been the occupier at the time of the last revaluation. This should remove the inequitable position whereby a new occupier finds he is time-barred from lodging an appeal when the previous occupier (perhaps because the premises were vacant or because they knew they were about to leave) did not lodge an appeal. I propose that these provisions should be effective from the date of Royal Assent and, as with other valuation appeals, should allow for values to be changed as from the beginning of the financial year then current. That would allow appeals to be lodged in summer 1984 which might lead to changes in value with effect from 1 April 1984.

16. After the last revaluation in Scotland in 1978 considerable problems arose from the failure of the appeal machinery to resolve a large number of cases within a reasonable time. The Lord Advocate and I have therefore been looking for ways to streamline the appeal machinery and I propose that improvements in

the structure should be included in the Bill. The details have still to be finalised but I hope my colleagues will agree that, subject to any clearance with Treasury on costs, this proposal is acceptable in principle and of purely Scottish relevance. At present the alternatives we are considering are the introducing of the Lands Tribunal as an appellate body of first instance to consider particularly complex cases; or the appointment of a Court of Session Judge as president of a local valuation appeal committee which is to hear a particularly weighty or difficult case. I will try to slim down (and so speed up) the present secondary appeal machinery in the Lands Valuation Appeal Court. The Lord Advocate is still to discuss the possibilities with the Lord President of the Court of Session to determine which route is likely to be the most practicable and most likely to achieve the desired results of uniform justice accompanied by speed but once these consultations are completed I shall be in a position to decide which option to choose and clear it with Treasury.

Specific Valuation Anomalies

17. To relieve the occupiers of certain classes of lands and heritages who are seriously disadvantaged by differences in valuation law and practice north and south of the Border, I propose to introduce specific measures to remove these anomalies.

18. In Scotland commercial reed beds are subject to valuation and hence to rates. In England and Wales they have been held to be eligible for agricultural derating. Since agricultural derating provisions were always intended to operate similarly north and south of the Border, I propose to remove such reed beds from valuation and thus save the commercial reed beds in the mouth of the River Tay from extinction.

19. The Rating (Caravan Sites) Act 1976 was introduced on a Great Britain basis. Considerable problems have arisen through the different practices of Scottish assessors and the Inland Revenue Valuation Office in applying the law. The Valuation Office has allowed Valuers in England and Wales to apply a discount of up to 40% to the aggregate value of individual caravans and this has resulted in static leisure caravans carrying significantly higher rate burdens in Scotland. Since Scottish methods have been upheld by the Courts, legislation is required to bring about an equitable position as between Scotland and England in the operation of the 1976 Act. I propose to take power to prescribe by order, subject to Parliamentary approval, a percentage derating to apply to the domestic element (ie the caravan values only) of these caravan sites with the intention that the percentage applied should be that which is in general used by the Valuation Office in aggregating caravan values. This should restore equality of treatment north and south of the Border. I propose also to introduce for Scotland the right of the individual caravanner to seek a separate entry in the valuation roll, along with the associated appeal rights. This would put the individual caravan owner on a par with those in England and Wales.

20. The final area in which we face serious problems in Scotland is that of the stadia for certain spectator sports. Race-courses and football grounds in particular carry comparatively high valuations. Some are now on the point of closure in large part because their current takings are not sufficient to meet their rates bills. While their position should improve at the next revaluation this cannot be guaranteed. I therefore propose to take measures to enable the burdens on this specific group of lands and heritages to be more closely aligned north and south of the Border, by introducing partial derating for specified classes of lands and heritages consisting of stadia for spectator sports. As with industrial derating, any order would run until the next revaluation either in Scotland or England and

Wales and on each such occasion the relative positions should be reviewed.

21. I appreciate that derating may be an awkward precedent for DOE, but the circumstances surrounding the need for it are unlikely to occur in England, and so offer no precedent as does the remedy. The alternative, to do nothing to help race-courses and football grounds crippled by a method of valuation that disregards ability to pay, is unthinkable and I invite your support for a long term system of improvement for the removal of valuation anomalies.

22. I also propose that the forthcoming Bill should be the vehicle for a number of very minor technical amendments to valuation legislation which will not have implications across the Border and in most cases will be of the nature of legal pre consolidation tidying-up amendments rather than substantive measures.

23. Once colleagues have agreed to the proposals I propose to publish a White Paper - at the same time or shortly after your equivalent White Paper - setting out my proposals in advance of their introduction. It would be helpful if this could be done early in the summer recess.

24. I am copying this letter to the Prime Minister, the Lord President, the Secretary of State for the Environment, the Secretary of State for Trade and Industry, the Secretary of State for Wales, the Chief Secretary to the Treasury, the Lord Advocate and Sir Robert Armstrong.

Yours ever,
Cunze

LOCAL GOVT: Rating Reevaluation
Pr 2



19 JUN 81



cc No
Prime Minister (4)

MUS 12/7

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Patrick Jenkin MP
Secretary of State
Department of the Environment
2 Marsham Street
London SW1P 3EB

12 July 1983

MS

Dear Secretary of State,
RATE LIMITATION LEGISLATION .

Thank you for sending me a copy of your minute to the Prime Minister of 29 June. I agree with many of the points you make, and should just like to raise a few questions for clarification.

Choice of selective scheme

For the selective scheme, you put forward a new option which was not included in the earlier papers for MISC 79 or E(LF). This would be to give selected authorities a formula-based expenditure target; to invite applications for derogations; and to set rate limits for the selected authorities so that:

$$\text{rate limits} = \text{expenditure target} - \text{grant},$$

with or without allowance for borrowing to run down balances.

This strikes me as an ingenious suggestion, which has at least three advantages. It could ensure consistency between the rules for expenditure, grant and rates. It would put the onus on authorities seeking derogations to bring forward their own evidence. It could make the selective scheme more like the general scheme, and therefore make it easier to manage the transition from one to the other.

But before we commit ourselves to an option of this sort, I should like to be clearer about the relationship between the expenditure targets, which would determine the rates limits, and the existing expenditure targets, which determine holdback of grant for over-spending. This is touched on in the paper by officials which you circulated. I imagine there are three main possibilities:-

- a. We could use the same expenditure targets for determining rate limits as for determining holdback. But there would be risks in this. At present we can, if we want to, set very tight targets for some authorities, because they are not absolutely binding. If they were used to determine binding rate limits, it is arguable that some, at least, might have to be somewhat less tight. I am naturally concerned that this could lead to an increase in the generality of targets used to determine holdback, which are set to be consistent with the provision in the public expenditure white paper for local authority relevant current spending. I am sure that none of us would want to weaken in this way the pressure on the majority of local authorities.
- b. Expenditure targets used to determine rate limits could displace altogether the targets used to determine holdback. We could simply drop holdback. But again, this could mean that we would reduce the pressure on the majority of local authorities. The only major restraint on them would be the threat of a general limit on rate increases.
- c. The expenditure targets used to determine rate limits could be avowedly different from - and probably higher than - the targets used to determine holdback. We might justify this on the ground that the targets used to determine rate limits would be more nearly binding than those which determine holdback. If local authorities choose to spend more than their existing targets, they will remain free to do so. But they will not remain free to do so to the point where rates go through the roof.

I am not clear which of these options you propose to adopt. I have no settled view myself. But my starting point is that the new rate limits should supplement our existing pressures on expenditure, and not substitute for them. My inclination, therefore, is that if we are to adopt the new approach you suggest, we might well have to adopt course c. above. I should be grateful for your advice on whether this would be sustainable. If it would not, I am not sure that we should close, in your white paper, the option of framing the selective scheme in the terms considered earlier by MISC 79 and E(LF).

Choice of general scheme

For the general scheme, you suggest again that:-

Rate limits = expenditure target - grant,

with or without an allowance for borrowing to refinance balances. In this case, the paper by your officials says explicitly that holdback would be superfluous. I have two comments.

First, while the formula you suggest would be logical and consistent, it would make rate limits the residual of the system. As you say in your minute, rate increases would be controlled indirectly. If targets are distributed on one basis and grant on another, roughly as now, the difference between the two could be a pretty random number. As you say, the resulting rate limits could be quite different for different authorities. As a newcomer to the subject, it is not obvious to me that this would be better than a simple reassurance for ratepayers (your model one) that rates should not rise in any one year by more than x per cent, or by x per cent for one class of authorities and y per cent for another. I believe that that is how many will have interpreted our manifesto commitment.

Second, I am not convinced that a general scheme for limiting rate increases will necessarily make holdback superfluous. I have an open mind. But I think Tom King argued, on occasion, that some local authorities might spend up to a rate limit, regarding it as a norm as well as a ceiling. If this risk exists, I am not clear how you would propose to deter them. It could be, in these circumstances, that we should do well to maintain targets and hold-back, to keep a constraint directly on expenditure. At any rate, I should be unwilling to close that option unless and until we are sure that the alternatives are sufficiently robust.

Borrowing and accounting conventions

This leads me to a few more general observations.

First, none of us wants to limit rates and grant only to see a surge in borrowing to finance extra spending. I entirely agree that we should take powers enabling us to take account of balances, if we so wish, in setting limits on rate increases. It is conceivable that we might want to impose stipulations about borrowing and the use of balances on at least some authorities subject to control.

It seems to me that some direct constraint on expenditure, of the kind given by targets and holdback, might also be helpful in this context. If we limit rates and grant, and keep an independent pressure on expenditure, that should in principle imply some restraint on borrowing, as the only remaining variable in the system.

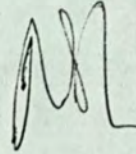
One trouble with this is that it is not always intuitively obvious what counts as expenditure. The picture is complicated, for example, by the use of special funds. I rather suspect that it will be difficult to operate any of our systems fairly without a much greater harmonisation of accounting conventions than there is now. I understand that, on the capital side, we now have statutory definitions of prescribed expenditure. I do not know whether we need go that far for current expenditure. But my first impression is that we badly need not only a standardised form of accounts but also some detailed central guidance on accounting conventions, especially in relation to the use of balances and special funds. This would also help us with the monitoring of local authority

CONFIDENTIAL

spending and borrowing, to which I attach importance. It would be helpful to know how you see this fitting into the work on the rates white paper.

I am sending copies of this letter to the Prime Minister and the colleagues who had your minute.

yours sincerely



for PETER REES
(approved by the Chief Secretary &
signed in his absence).

CONFIDENTIAL

COVAZ GOVT
Rakhye Keralakatsa
KZ



22 JUL 1985



Chancellor of the Duchy of Lancaster

②

Prime Minister

CABINET OFFICE,
WHITEHALL, LONDON SW1A 2AS

MUS 13/7

12 July 1983

Dear Patrick,

RATE LIMITATION LEGISLATION

There are two points I would make on your minute of 29 June to the Prime Minister

1. The Criteria for Selection

This is essentially a matter for the lawyers: but I instinctively share John Sparrow's view that there is serious risk of legal challenge if so ill-defined a test as "excessive expenditure" is used. The Courts could well take the view that expenditure was not "excessive" unless it was so outrageously excessive that no one could reasonably pretend otherwise. The essence of the problem is that what we regard as "excessive" a lot of people do not regard as "excessive": and the Courts might well decline to arbitrate between the two.

If criteria are specified they do not have to be specified in an exclusive sense. It does not follow therefore that specifying necessarily "constrains us too much". On the contrary, it could greatly strengthen our hand.

2. De Minimis Exclusion

The genesis of the proposals was hardship and unfairness to the ratepayer. How therefore do we defend excluding the victims of "small authorities" from the relief we propose? I well understand the merits of exclusion: but surely there should be some test of reasonableness.

I am copying this letter to Cabinet colleagues, the Attorney-General, the Chief Whip and to Sir Robert Armstrong.

J. M. Arthur
COCKFIELD

The Rt Hon Patrick Jenkin MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London SW1P 3EB

Local Govt,
Rating Resolution,
Pt 2



11/12/11
2011
11/12/11
11/12/11

11/12/11



Ce No
Prime Minister (4)
Mus 7/7

DEPARTMENT OF EDUCATION AND SCIENCE
 ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH
 TELEPHONE 01-928 9222
 FROM THE SECRETARY OF STATE

6 July 1983

Ken Parcell

MA

Rate Limitation Legislation

Thank you for sending me a copy of your minute of 29 June to the Prime Minister.

I am broadly content with the lines you propose to take in the draft White Paper. I agree that we should think in terms of about 15 of the higher-spending authorities for the selective scheme, and that comparison between expenditure and GRE assessment will be an important criterion for selection. I also agree that any system of general control should take into account individual authorities' circumstances. The alternative of standard limits on rating increases, unrelated to eg changes in population, would lead to some indefensible anomalies.

I have just two suggestions to make at this stage. First, I believe that the White Paper should acknowledge our need to take into account local authorities' statutory responsibilities for specific services when we consider the criteria for selection (and applications for derogation). Secondly, I agree that the relationship between a selective scheme of rating control and a general scheme of targets and holdback will need careful consideration. One means of avoiding the potential conflict here would be to strengthen the disincentives to high spending within the block grant itself, so that general targets were unnecessary in 1985-86. We ought to consider taking the first steps in this direction in the Settlement for 1984-85, as I suggested in my letter of 20 June.

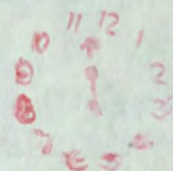
I am copying this minute to the Prime Minister and the other recipients of your minute.

Ken Parcell

The Rt Hon Patrick Jenkin MP
 Secretary of State for the Environment
 2 Marsham Street
 London SW1P 3EB

011 Local Govt: Nalis, PTZ

6 JUL 1988



2

070



DEPARTMENT OF TRADE AND INDUSTRY

Prime Minister

Room 11.01 Ashdown House 123 Victoria Street SW1E 6RB

Telex 8813148
Telegrams Advantage London SW1
Telephone Direct Line 01-212 3301
Switchboard 01-212 7676

Mus 7/7

JF3729

Secretary of State for Trade & Industry

6 July 1983

CONFIDENTIAL

The Rt Hon Patrick Jenkin MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON
SW1P 3EB

Dear Patrick,

I was pleased that you made special mention in your speech during the debate on the Address of the need to offer relief to hard-pressed business ratepayers.

2 On one issue in particular - the proposal to abolish the rating of empty industrial buildings - I believe it is essential to act quickly and forcefully to curb the nonsense of industrialists removing the roofs from empty properties. You mentioned in your speech the possibility of reducing the present 50% maximum from next April. This reduction must be to as low a figure as possible; if for technical reasons nil is not feasible, the maximum figure should be 10%.

3 I am copying this letter to the Prime Minister, Leon Brittan, Nigel Lawson, Keith Joseph, Norman Fowler, Norman Tebbit, Tom King, Michael Jopling, Nicholas Edwards, George Younger, Quintin Hailsham, Willie Whitelaw and to Sir Robert Armstrong.

Yours
Lest,
Leon

27 JUL 1983

0 1 2 1
9 8 7 2
6 5 4 3
7 6 5 4

CONFIDENTIAL



Prime Minister ⁽²⁾

SECRETARY OF STATE FOR THE ENVIRONMENT

MUS 5/7

mt

RATE LIMITATION LEGISLATION

Thank you for sending me a copy of your minute of 29 June to the Prime Minister. I welcome the urgency with which you are carrying forward the implementation of this policy.

I readily agree that further work should proceed on the basis described in your minute, subject to one important reservation which I have about the financing of joint boards in Metropolitan Counties. I quite see why, from the point of view of financial control, you have decided that the joint boards must be dealt with directly rather than through their constituent District Councils. But I have to say that dealing with them in that way would, in my view, bring the Government into very considerable difficulty.

Whatever form of control was used, applying it to a single service joint board, for example the police, would inevitably draw the Government into deciding what was the reasonable level of expenditure on that service in that area. That is very different from setting a level of expenditure for an authority which has responsibility for several services, and can be shown to have a means of meeting an overall target without cutting back on services to which the Government attaches priority. Further, in the case of the police and fire services, such a degree of central control would be out of line with the local responsibilities which exist for policy.

For the police, direct funding of joint boards would represent a wholly new financial arrangement outside London, contrasting starkly with the arrangements which exist for combined police authorities, where funding is to the constituent local authorities. Those combined authorities, consisting as they do of elected members from the constituent authorities, and local magistrates, are, in my view, a proper parallel for joint boards. The Metropolitan Police arrangements offer no parallel, since in that force there is no police authority containing elected members, and the budget and precept are approved by me. To apply that model to joint boards would easily be seen as a first step towards a national police force. And it is not difficult to imagine what our political opponents might make out of an appearance that we were taking control over the police in inner city areas.

I hope and believe that the alternative I am suggesting of indirect funding to constituent District Councils would not detract from the effectiveness of the rate limitation scheme. I have asked my officials to explore further with yours how such an alternative might be made to work effectively so that we can take a view on this in full knowledge of all the available options.

I am copying this minute to the recipients of yours.

L.B

5 July 1983

CONFIDENTIAL

Coral Gables
Resting Reservation
Pr 2

JUL 1968

11 12 1 2 3 4
5 6 7 8 9 10



CONFIDENTIAL

Ru



cc	AWO	D/N	NO	FCO
	LOD	WFO	SO	HMT
	CO	C&O	MAFF	WCO
	DOT	DHSS	MOD	HO
	COL	MOT	NIO	DOE
	DIM	LPO	DES	

10 DOWNING STREET

From the Private Secretary

4 July, 1983

Dear John,

RATE LIMITATION LEGISLATION

The Prime Minister was grateful for your Secretary of State's minute of 29 June about the details of the selective and general schemes for rate limitation.

The Prime Minister has commented that she is very pleased with the way in which this work is shaping. Subject to the views of her colleagues, she agrees with the broad thrust of what is proposed, and has expressed a preference for Option B and for Model 2.

On points of detail the Prime Minister is doubtful about the wisdom of adopting different criteria from year to year by reference to which the powers of control should be exercised (paragraph 1, page 3). She is attracted to the idea of specifying, as far as possible these criteria, and foregoing the maximum freedom for manoeuvre. She agrees with your Secretary of State that the best vehicle for Parliament to exercise the power to approve or reject rate level determinations would be Orders laid before both Houses, but subject to affirmative resolution only in the House of Commons, as under the present Scottish arrangements.

I am sending a copy of this letter to the Private Secretaries to the members of Cabinet and to Henry Steel (Attorney General's Office), Murdo Maclean (Chief Whip's Office) and Richard Hatfield (Cabinet Office).

Yours sincerely,

Michael Scholar

J. Ballard, Esq.,
Department of the Environment

da

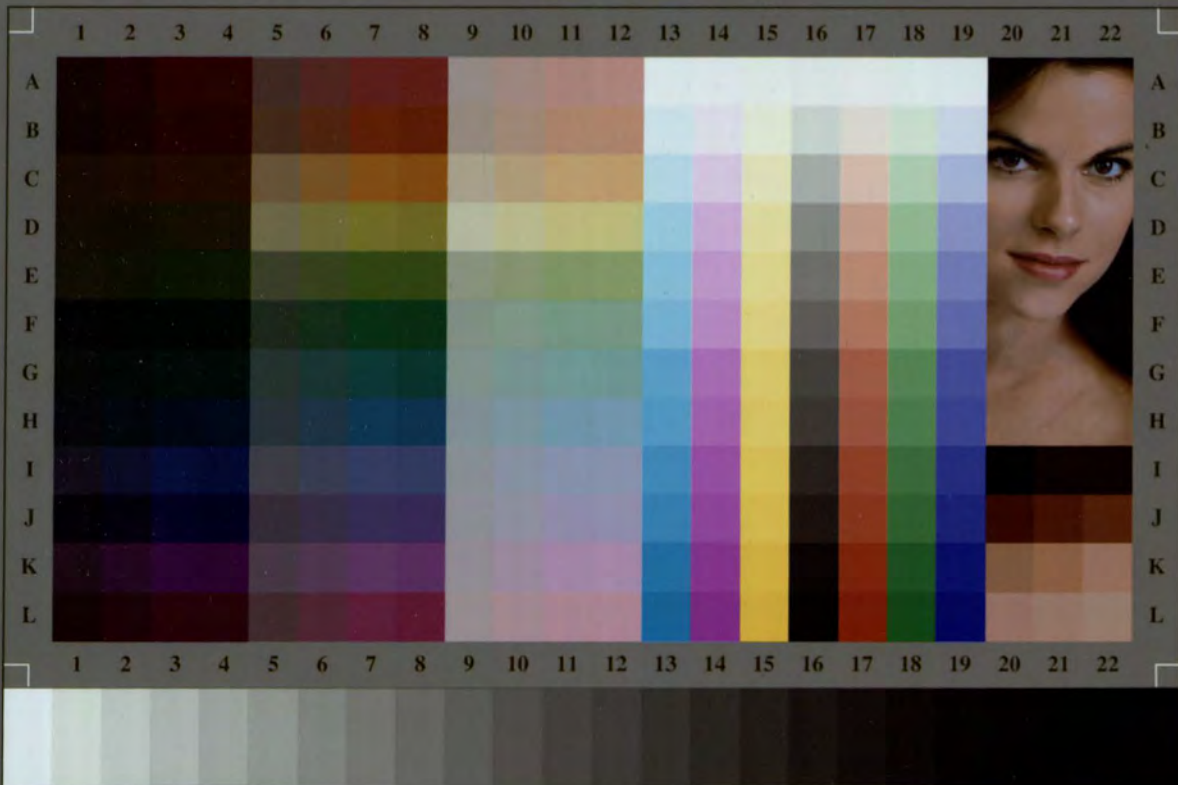
CONFIDENTIAL

PART 2 ends:-

SS/Environment to PM 29.6.83

PART 3 begins:-

MSC to Environment 4.7.83



IT8.7/2-1993
2007:03

[FTP://FTP.KODAK.COM/GASTDS/Q60DATA](ftp://ftp.kodak.com/gastds/q60data)

Q-60R2 Target for
KODAK
Professional Papers

