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We are still committed to abolishing the domestic rating system

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Rt Hon Michael Heseltine MP
Secretary of State for the Environment
2 Marsham Street
LONDON
SW1P 3AH

We have of course issued the Henderson report on the success of local government finance has got to.
February 1981

Dear Secretary of State,

ms

*MS
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FUTURE OF THE RATES

We met under Geoffrey Howe's Chairmanship on 13 January to discuss the control of local authority expenditure, the general issue arising primarily in the context of the future of ILEA. You referred at the meeting to the report on the Alternatives to Domestic Rating which was prepared for us by officials in June 1980. That report has never been tabled for collective consideration. I do not think that our discussion in January was intended to regard that report as having been considered in substance and I think that we ought at least to have it properly discussed in a meeting for that purpose as soon as possible.

The Treasury record of the meeting noted my view that we should not abandon our objective of abolishing the domestic rating system, though other colleagues were inclined to the view that the Layfield Report and the report on Alternatives to Domestic Rating had both demonstrated conclusively that the alternatives were worse than the present system. You agreed to prepare a paper on measures to improve the rating system; and in summing up Geoffrey Howe said that, so far as the rating system was concerned, the broad conclusion was that its retention was inevitable.

*A friend
ms*

I certainly accept that we could not abolish domestic rating in the immediate future and that we shall therefore have to consider, on the basis of your paper, possible improvements to the system. I still feel however that we must regard the abolition of the system as our ultimate objective. I very much hope therefore that we will not rule it out completely, and I should like to table for consideration when we next meet, something on the lines of the enclosed note.

I am sending copies of this letter to Geoffrey Howe, Nick Edwards, Leon Britton and Tom King and, because of her close interest, to the Prime Minister. If we reconvene as on 13 January, I should like Malcolm Rifkind to accompany me.

*Your sincerely
MSW*

Approved by the Secretary of State
and signed in his absence

FUTURE OF THE RATING SYSTEM

NOTE BY THE SECRETARY OF STATE FOR SCOTLAND

1. Our Election Manifesto in 1979 referred to the abolition of domestic rates but made it clear that their abolition was for the longer term. That raised expectations among ratepayers in general and our supporters in particular. Those expectations have not been fulfilled. Our decisions to reduce the levels of Rate Support Grant and Block Grant, coupled with the irresponsible policies of some local authorities, have produced a flood of protests about rate rises. Our supporters, including many in industry and commerce, keep asking why the Government cannot abolish (or amend in time) a system which is widely regarded as iniquitous.
2. We asked officials to look at possible alternatives to domestic rates. Their report of last summer has not yet been considered substantively by us collectively. Moreover, I do not think that the Layfield Report or the officials' report on Alternatives to Domestic Rating demonstrated conclusively that the alternatives to domestic rating are worse than the present system. Our predecessors, in their Green Papers, said that they "reluctantly" accepted the conclusion of the Layfield Committee that the rating system should continue with some modifications. We have given reduction of Income Tax priority over the abolition of domestic rates, but we remain publicly committed to their abolition.
3. The officials' report on alternatives looked at sales tax, local income tax and poll tax schemes and warned that it would take several years to introduce any of these options. I accept that this is so but, despite the conclusions of our meeting on 13 January, I am sure we should collectively discuss whether one or other of those options should be pursued so as at least to be rid of domestic rates, if not the whole rating system.
4. Our officials have given much thought to the demerits of all the alternatives to rates, and these must certainly be faced. We do not, however, seem to have asked them to consider also the demerits of the rating system itself, perhaps because these are to be found in Layfield.
5. There is a strong case to be made that the disadvantages of the rating system are at least as great and perhaps greater than the shortcomings of the alternatives. Rates are not only intensely unpopular, but are based on principles which are quite incomprehensible to any layman, as is the Rate Support Grant which works at the level

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of Government support for the rates. They are not at all related to the ability to pay except at the low levels of income which attract rebate. They are unfair because many of those who are well-off, do not pay them because they are not householders, and they are largely undemocratic because the vast majority of those who benefit from local expenditure made no direct contribution which they can identify towards raising the money. This is made worse by the ill-defined rent collection system which enables most Council tenants to believe that they do not pay rates, only rent.

6. The system as it affects industry is possibly worse, in that the method of assessment is even more obscure and industry as such has no vote at all but pays, in many cases, the lions share of local rates.

7. In any case the situation has changed markedly since the Layfield Report and even since last year. Several local authorities have clearly indicated their intention of abusing the freedom to raise revenue which the present system affords. They plan to incur expenditure in excess of what we regard as tolerable in the national interest. We must respond to the situation and we must respond when the rates are fixed. I accept that immediate abolition of the rating system is out of the question. We need to take some short-term steps to show our awareness of the ratepayers' difficulties and we should ask our officials as a matter of urgency to advise on the best means of sharing that awareness.

8. Those short-term measures must be placed in the framework of our long-term objective - the abolition of the rating system. Abolition will, I accept, have very important consequences for the Treasury; but only if we select one of the alternatives - sales tax, local income tax, poll tax - and make clear our determination to put it in the place of the rates will we convince our supporters and the country as a whole that we mean business. I find it hard to believe that the problems of financial control involved in the alternatives will outweigh those we suffer with rates. We need now to examine seriously the alternatives which officials have presented in their report.

G.Y.



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cc: HMT
DOE
WO
CSO, HMT

10 DOWNING STREET

From the Principal Private Secretary

11 February 1981

Dear Godfrey,

Future of the Rates

The Prime Minister has seen a copy of your Secretary of State's letter of 9 February 1981 to Mr. Heseltine about the future of the rates.

She agrees with Mr. Younger that we must regard the abolition of the domestic rating system as our ultimate objective and she has commented that the Government is indeed still committed to its abolition.

I am sending copies of this letter to John Wiggins (HM Treasury), David Edmonds and Peter Cash (Department of the Environment), John Craig (Welsh Office) and Terry Matthews (Chief Secretary's Office).

Yours sincerely,
Mrs. Whinn.

Godfrey Robson, Esq.,
Scottish Office.

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