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

26 April 1985

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

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