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bcc: O Letwin
M Alison

10 DOWNING STREET

From the Private Secretary

1 May 1985

cc MASTER SET

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 symetrically 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).

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