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cc/s
SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

The Rt Hon Nicholas Ridley MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON
SW1P 3EB

Prime Minister
Relevant to E(LF)
Thomson. JRS 13/7.
13 July 1987

Dear Secretary of State

ABOLITION OF DOMESTIC RATES

I have been giving some thought to the political effect of the proposed community charge and the abolition of domestic rates on the General Election in Scotland. In what follows I am taking into account both my own experience and that of fellow candidates, both successful and unsuccessful, as reported to me.

Although the election results in Scotland were very bad I do not believe that rates reform was a major contributory factor. That is not to say that it was not a significant issue during the campaign. It was. It was raised at most public meetings and it aroused strong feelings on both sides of the argument. However, it seems probable that its political effect was broadly neutral. It won back a significant proportion of those who left us over revaluation; it alienated many who had no intention of voting for us anyway.

This is my general conclusion although I must report that a number of candidates, particularly in the rural areas where the need for rate reform has never been felt so strongly, believe it had a damaging and net vote losing effect.

The following is a more detailed assessment beginning with the beneficial political effect of rates reform during the campaign.

1. It largely neutralised the furore over revaluation - Amongst those who felt strongly about the subject (and there were many) there was a general feeling that the Government had responded in a helpful way and that, at long last, rates abolition was going to become a reality.
2. The principle of the community charge, and especially that all adults will in future contribute, was welcomed by most of those who have heavy rates burdens.

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3. The single pensioner and the elderly on fixed incomes gave a warm welcome to the reform when it was properly explained.

4. We have easily won the battle that domestic rates is an unfair anomalous, discredited system that needs to be replaced by 'something'.

5. There was a general acceptance that it is right and proper that all adults who benefit from local services should contribute to the cost of them.

6. There was general recognition that those on lowest incomes should be protected by rebates though great uncertainty as to who would benefit.

These were the beneficial aspects. There were also substantial negative and harmful effects.

1. By far the greatest was a general feeling, even amongst many who will benefit, that the community charge was unfair because all will pay the same. There is an uneasiness amongst those with substantial incomes that they will gain great benefit while poor families or, at least, those on modest incomes will pay more. The argument that the charge will be personal and not on households was not accepted as valid and there was a perception that "large families will pay far more" as if this was a collective charge rather than one on individuals.

2. Related to this was a deep feeling that 'ability to pay' should be the basis of taxation. It can be, and it was pointed out, that ability to pay is taken account of by rebates and that Government support for local government will continue to be funded by central taxation based largely on ability to pay. While the logic of these arguments was accepted they have not had a significant impact on public opinion. It was particularly notable that the concessions we had agreed at a late stage, especially additions to income support levels to cover the minimum contribution to rates, scarcely seemed to be appreciated.

3. There remained much ignorance about the community charge, who will be liable, how it will be collected, what it will be based on. There was considerable concern about whether the new scheme would be workable and at what cost, about the possibility of large scale avoidance of registration and about the difficulty and expense of collecting charges from those who refuse to pay.

4. The Opposition parties had an inevitable field day with black propaganda. Because no one is yet paying the community charge the Labour Party, in particular, have published numerous 'studies' and 'calculations' of what the size of the community charge will be in different localities. Local authorities, whether Labour-controlled or not, have aided and abetted them in this. These predictions have caused considerable alarm amongst those least able to assess their accuracy.

5. As has already been seen in England the attempt to describe the new payment as a community charge rather than a poll tax has

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been largely ignored by the press and media and by other commentators.

6. There is an assumption amongst many parents that even if they have no legal obligation to pay the community charge of their adult children they will end up having to do so. (Farmers assume the same in respect of their employees.)

7. Beneficiaries of rates relief such as the churches and charities have drawn attention to the disadvantage of the new system from their point of view.

I have concentrated on the community charge and domestic rates but one major problem we will have to contend with is the implication for the size of the community charge of the limitation on the amount raised by non-domestic rates. While we can point out that any increase in spending beyond the rate of inflation ought to be paid for by the electorate this argument will not be accepted where local authority burdens increase, for instance, because pay increases over which the individual authority has no control are higher than the rate of inflation; because central government reduces its support to local government; or because the actual rate of inflation experienced by local authorities is higher than Government allows for.

In these cases the full additional cost will fall on the community charge payer and could lead to very high community charge increases even by a local authority whose expenditure in real terms is static. This issue began to be raised during the General Election campaign and is, perhaps, the most significant 'smoking gun' around.

In general if we can win the argument on fairness and on ability to pay and if we can demonstrate that the limitation on the amount raised by non-domestic rates will not lead to dramatic increases in community charge, rates reform will be a political asset. If we cannot the best we could hope for, in my judgment, is that it will be politically neutral. In Scotland the actual experience of a massive revaluation proved to many the need for major reform. You are in the best position to know whether the threat of a revaluation in England will have a similar effect.

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

Yours sincerely

Malcolm Rifkind

MALCOLM RIFKIND

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

