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The Rt Hon Sir Geoffrey Howe QC
Privy Council Office
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4 June 1990

Dear Lord President

HOLIDAY CARAVANS: STANDARD COMMUNITY CHARGE AND BUSINESS RATES

Michael Portillo wrote to you on 15 May about the introduction of the Bill to move caravans in England, where no one is solely or mainly resident and therefore liable for the personal community charge from liability for the standard community charge to liability for non-domestic rates and I have been following the subsequent correspondence on this. As Michael noted in his original letter, the policy decision which led to the need for this Bill had implications for Scotland and I am therefore writing to you to indicate what the Scottish clauses will cover and when they are likely to be ready for inclusion in the Bill.

You will recall from Chris Patten's letter of 27 March that our policy intentions, that residential caravans which had no one resident in them should be treated like second homes and therefore be subject to the standard community charge and that holiday caravans should be liable to non-domestic rates, had not been fulfilled in England where many holiday caravans were liable for the standard charge. Because of the difficulty of attempting to achieve these policy intentions by amending legislation Chris decided to move all caravans without residents into rating, with provision for retrospection to 1 April 1990. As I said in my letter of 29 March this decision would cause difficulties in Scotland, where, from 1 April 1989, our policy intentions had been met, both because it would result in residential caravans in Scotland being taxed differently from those in England and because any decision to move such caravans into more favourable local tax arrangements would probably raise demands for retrospection back to the date of the abolition of domestic rates in Scotland.

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I think you will appreciate the legal and practical difficulties of replacing quite detailed statutory arrangements involving local taxation, which have worked satisfactorily without attracting adverse comment from either local authorities or taxpayers, with new provisions which might include retrospection to a previous financial year. One of the consequences is that residential caravans which have always been treated as domestic property subject to domestic rates would be placed under non-domestic rating. These difficulties have been added to by the limited information available about the precise effects the changes would have in individual circumstances. In the short time I had in March to consider the proposals put forward by Chris I could not give a detailed commitment as to my intentions and the reference to Scotland in the statement which was made said simply that I had decided to bring Scotland into line with England.

I have now decided to bring forward provisions which would have the same effect in Scotland as in England from the same date, that is 1 April 1990. In addition, in order to deal with the possible criticism that owners of caravans in Scotland liable for the standard charge would otherwise be denied during 1989-90 the more favourable tax arrangements which will be introduced from 1 April 1990, I intend taking powers to enable them to receive reimbursement from local authorities for part of the payments they made, so as to bring them closer in financial terms to the position that will prevail from 1 April this year. I am however still awaiting final advice on the justification for reimbursement and the amount and this may affect the nature of these provisions.

As I mention above, a consequence of these changes will be that residential caravans will become subject to rating. It is evident now that the valuation of caravans has not been harmonised between Scotland and England as at 1990 with Scottish values being higher than those in England. Although we had allowed for this, albeit it now appears insufficiently, in the case of static holiday caravans by retaining a measure of derating in Scotland, this does not apply to residential caravans and it is questionable whether these owners would now be better off under rating than the standard charge. This results from the combination of high rateable values and high rate poundages relative to England and while I can defend the continuation of higher poundages in Scotland on the basis that we are committed to eliminating these over time, I would find it difficult to deal with criticism arising from the adverse effect of high rateable values. It is vital therefore that I should have scope to deal with this and I would wish to use the Bill to enable me to tackle the matter of harmonising values. This is likely to simply involve the repeal of the existing caravan derating powers leaving the way clear for me to use general powers I have to make orders modifying rateable values for the purpose of levying rates.

Drafting these provisions is not proving to be easy but it would seem to me to be preferable to introduce the Bill with the Scottish provisions in the form we want them, rather than to proceed on the assumption that we will be bringing forward substantive amendments during the Bill's progress. Also, given the retrospection which the Bill will provide for England and Wales, I believe that it is essential that we avoid creating

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grounds for fresh controversy about the nature of any retrospection in Scotland or for the Opposition to claim that retrospection has only been conceded under duress. We are doing our best to complete drafting next week so that it may be possible for the Bill to be considered by L Committee on 12 June.

I understand Michael Portillo's desire to introduce the Bill soon but I hope he can bear with me while we sort out the Scottish provisions as fully as possible. Given the attention which any primary legislation affecting the community charge is bound to attract at this time I am sure he would share my view that it is essential to ensure that the Bill is tightly and accurately drafted on its introduction.

I am copying this letter to Michael Portillo, David Hunt, the Chief Whip and to Sir Robin Butler.

Yours sincerely
Ken Hunt

MC **MALCOLM RIFKIND**

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

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