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10 DOWNING STREET

From the Private Secretary

28 February 1985

Rates and Revaluation in Scotland

The Prime Minister held a meeting this evening to discuss rates and the revaluation in Scotland. Present were the Lord President, the Secretary of State for Scotland, the Chief Secretary, and Mr. Alison. Also present were Mr. Penman and Mr. Jamieson.

The Prime Minister said she accepted that the rate rises facing some domestic ratepayers in Scotland were excessive. These appeared to stem from a number of factors. Local authorities in Scotland had spending levels even higher than those in England and the revaluation had produced a shift in the burden of rates from industry to the commercial sector and domestic ratepayers. She regretted that a revaluation had been undertaken and asked whether, even at this late stage, it could be postponed; or whether the percentage of industrial derating could be reduced.

The Secretary of State for Scotland said that while revaluation was a factor the major influence was RSG settlement. The low spending authorities did not have any margin for cutting back expenditure and so higher rates were their only response to the reduction in Aggregate Exchequer Grant. He gave examples of the rate rises in some Scottish authorities - Borders 31%, Dumfries and Galloway 29% and Grampian 23%. It was very hard to explain how rises of this size were justified in areas which had adhered to the Government's policies.

The Secretary of State explained that it was too late to postpone the revaluation which, objectively, was justified by the relative movements in property values in the industrial, commercial and domestic sectors. The notices were about to be sent out and would, in any case, be known. If these were postponed, all those who would have gained would appeal, leaving local authorities with an unknown rate base for the coming year. In any case, an Order would need to be passed.

The Prime Minister said it was not possible to accept the Secretary of State's proposals for an addition of £64 million to public expenditure. One possibility would be to reduce the derating percentage still further. Industry was now much more profitable than it had been a few years earlier. Unlike domestic ratepayers industry met its rates out of pre-tax income. Mr. Penman explained that industrial rates represented only 10% of the total; it would require a very large change in the derating percentage to have even a small impact on domestic ratepayers. The effect could be to negate totally the effect of the revaluation.

Another possibility discussed was to amend the RSG formula to give a better outcome to those councils with a good record on spending. This would be difficult, however, as it would require all councils to rework their budgets.

The Secretary of State for Scotland said the most promising approach was an increase in domestic rate relief, the benefit of which fed through directly to ratepayers rather than permitting higher expenditure by councils. The Chief Secretary said that if the Secretary of State was prepared to find the sums required from elsewhere in the territorial block he would raise no objection. The Secretary of State agreed to consider this, though he doubted whether he could find savings sufficient to finance more than a gesture of additional rate relief.

Summing up the discussion, the Prime Minister noted that a postponement of the revaluation was no longer possible. She asked the Secretary of State for Scotland and the Chief Secretary to consider what could be done to ease the impact on the domestic ratepayers most seriously affected by an amendment of the RSG formula, a lower measure of industrial derating, or increased domestic rate relief financed from elsewhere in the Scottish block, or some combination of the three.

I am copying this letter to Janet Lewis-Jones (Lord President's Office) and Richard Broadbent (Chief Secretary's Office).

(Andrew Turnbull)

John Graham, Esq.,
Scottish Office.