



10 DOWNING STREET

From the Private Secretary

6 March 1985

RATES AND REVALUATION IN SCOTLAND

The Prime Minister has seen your Secretary of State's minute of 5 March. She recognises that this is the best that can be done in the circumstances and in the short time available. She has commented that it was a pity that there was insufficient time to alter the RSG formula.

I am copying this letter to Janet Lewis-Jones (Lord President's Office), Richard Broadbent (Chief Secretary's Office, HM Treasury), David Morris (Lord Privy Seal's Office), Colin Jones (Welsh Office), John Ballard (Department of the Environment) and Richard Hatfield (Cabinet Office).

(Andrew Turnbull)

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cc MA *AS*



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①
Prime Minister
Agree this is the best that can be done in the circumstances?

CONFIDENTIAL

It is pretty pathetic - but ^{AT} ^{LB}

PRIME MINISTER

Scotland must carry the 5 March 1985

can for now remedy the situation

RATES AND REVALUATION IN SCOTLAND

in time. We could have altered the R.S.A formula earlier ^{not}

At the end of our meeting on 28 February you asked me to consider with the Chief Secretary what could be done to ease the impact on domestic ratepayers of the revaluation in Scotland.

I have considered carefully the 3 possibilities that you mentioned. Any change now in the formula for distributing RSG in 1985-86 would be vulnerable to acute criticism from the local authority world on the grounds that today is the day by which they are required to have fixed their rates for 1985-86. We should accordingly have to extend the period in which they take their rating decision and since 5 March is a long-standing date which was intended to take account of their management problems I am clear that the resulting postponement and reconsideration (which could be very complex) would cause very great difficulties indeed.

As regards changing the basis of industrial derating, the industrial sector as a whole forms such a small part of the total rateable value that any resort to this sector now can only produce quite marginal benefit. There are also enormous difficulties of practicality and timing which would involve reconsideration of the whole rating timetable. The benefit of any change would in any event accrue to those local authorities which had high percentages of industrial rateable value in their areas and not to those local authorities which have high proportions of domestic ratepayers.

My conclusion is that the only way forward is through some increase in the domestic rate relief element of the RSG. This has the overriding advantage that the money undoubtedly goes directly to the domestic ratepayers whom we are setting out to help.

Following last Thursday's discussion my officials and I have had further discussions with Peter Rees and his officials. In the light of that I now see my way to propose an increase of the domestic rate relief element of the RSG in Scotland of £38.5 million. That sum will enable us to increase the domestic rate relief element which is at present the equivalent of 5 pence in the pound of rateable value to 8 pence in the pound of rateable value. The Convention of Scottish Local Authorities is pressing for me to do something in this field but seemed to have a rather smaller amount in mind.

In the light of the Treasury insistence that new money is not available I now propose, to make adjustments as follows in support of my package:-

a. Public expenditure savings totalling £26 million. These savings would be spread widely across Scottish programmes and would be designed to cause the minimum hardship. After a very tight PES round there is really no slack at all: but taking account, in particular, of the prospect that some carry forward into next year will be allowable under agreed arrangements in respect of underspend in the current year, I am satisfied, after consultation with my fellow Ministers in the Scottish Office, that I can find £26 million:

b. An addition of £12½ million to the product of the severe penalty tariff already agreed within my RSG system. I had already agreed figures with Peter Rees, but my only public statement has been that the penalties were to be more severe than in the current year. The effect of my decision will be to claw back rate support grant from the biggest overspending authorities in an amount and on a timescale that will precisely offset the outflow of the additional £12½ million in domestic rate relief. This component of my proposal will therefore have no effect on the Chancellor's budget arithmetic.

The Chief Secretary is content that these steps should be taken.

10. 18.
We shall have to have an amending RSG order and there will be a good deal of administrative work both on the part of Central Government and Local Government.

I think the package at the level of £38.5 million is just about worth having. Any smaller amount would not, I think, be worth having. The 2 items above represent the absolute maximum in the savings that I can achieve. The effect will be to reduce the average increase in domestic rates from 24% to 17%, but there are bound to be large fluctuations about the average and continuing worries about the bigger houses in certain areas. Sir James Goold and others may wish we would do more, but the answer to those who are still aggrieved will have to be that the amount of money involved in countering all the effects of revaluation is certainly beyond reach.

If you agree, I should like, subject to final clearance with Patrick Jenkin and John Biffen to make an announcement in the House on Thursday.

I shall want to look again at the distribution of RSG for 1986-87 and at the basis of industrial derating in that year.

I am copying this minute to Willie Whitelaw, Peter Rees, John Biffen, Nick Edwards and to Patrick Jenkin.

G.Y.

5 March 1983

G.Y

to those with
still be
instances
of rises of
over 50 per cent
for some
larger houses.