

MA

Meeting with Scottish Back
Bench Committee - Thursday,
28th March at 3.45 p.m.

Those attending will be:-

Sir Hector Monro

Nicholas Fairbairn

Albert McQuarrie

Michael Forsyth

Michael Hirst

B.H.

Press release issued by Gwynn in G
type mark on 29/3/85.

We had a good meeting with the Prime Minister and we were able to spell out the many constituency examples of very high rate increases.

The Prime Minister expressed serious concern about the situation as it affected individuals, both domestic and small businesses.

Although the Secretary of State for Scotland had been able to find an extra £38.5 m to help domestic rate relief, the Prime Minister asked him to see what could be done to speed up the Appeals procedure.

She recognised the need to give further protection to ratepayers next year. Meanwhile the Government was pressing ahead with the broader review of Local Government Finance which was set in train last year to improve the system.

28/3/85

15th March 1985

Michael Alison has asked me to arrange a time when Sir Hector Monro could bring the officers of the Scottish Backbench Committee to see the Prime Minister to discuss Scottish rates. I am writing to ask whether 3.45 p.m. on Thursday, 28th March, would be a suitable time. The meeting would take place in the Prime Minister's room at the House of Commons.

I would be most grateful if you could give me a ring to let me know if this is possible. (930-4433)

Tessa Gaisman (Mrs)
Political Office

Mrs S Hibbert

BRIEFING FOR THE PRIME MINISTER

Michael
Aislin

RATES AND REVALUATION IN SCOTLAND

Meeting with Scottish Backbenchers: 28 March 1985

Revaluation

1. Revaluations of property at 5 year intervals have been required by Scottish legislation since 1956. There have been revaluations in Scotland in 1961, 1966, 1971, 1978 and 1985. There is a power for the Secretary of State, exercisable by statutory instrument, to postpone, but not to cancel, a revaluation, and that power was exercised in relation to 1983.

2. Revaluations in Scotland are carried out by independent assessors employed by local authorities. No extra staff are required, unlike England, where the Inland Revenue is responsible for valuation.

3. As circumstances change valuations need to change with them if the rating burden is to be fairly spread. Scottish industry was keen on a revaluation now so that new valuations could reflect the changes in their profitability and prospects since 1978. The views of commerce were mixed although the Chambers of Commerce accepted the need for revaluation. The 1985 valuation has shown the extent to which industry was carrying more than its share; commerce also was, to a lesser extent. Industry has benefited significantly from revaluation with some firms seeing cash reductions in their rate bills (examples in Annex A). The CBI has welcomed the revaluation. Obviously if one sector gains from revaluation, another must lose. The householders, who gained from the 1978 revaluation, lose from the 1985. House prices, and hence rentals, have increased significantly since 1978. Industrial rents relatively have fallen.

4. Revaluation is a complex process taking a considerable time. The decision to proceed with a revaluation in 1985 was taken in 1982 when a statutory instrument was made to postpone the revaluation then due for 1983. It is not practicable to cancel a revaluation once it is in progress without some very cogent reason. It was impossible to cancel or postpone it in February 1985 when this was suggested since local authority finances would have been thrown into confusion less than one month before the statutory date by which rates had to be

fixed. By then the new valuation rolls had already been made public and all those who were gaining from revaluation - in particular industry - would have protested very strongly.

Domestic rate relief and Industrial derating

5. The Secretary of State has available two mechanisms for altering the effects of valuations:

a. Domestic rate relief - a central government subsidy which reduces the amount domestic ratepayers have to pay in rates by a fixed amount per £ of rateable value;

b. Industrial derating which reduces the amount industrial ratepayers have to pay.

The Secretary of State used both mechanisms to offset the effect of the 1985 revaluation.

6. Domestic rate relief was increased eight fold from the equivalent of 1p to 8p by an addition to aggregate exchequer grant of £57.5 million. The relief reduces the average domestic rate bill by £1 a week (11.5%). (From 1978 to 1984 domestic rate relief was worth 14p a week.) Industrial derating has been reduced from 50% to 40%. Industry is still better off as a result of revaluation but the reduction in derating benefits other ratepayers principally domestic.

7. The result of the Secretary of State's action (including the significant addition to domestic rate relief of £38.5 million announced on 7 March, which he achieved by reordering his own programme,) is virtually to cancel out the effect of revaluation on the domestic sector as a whole.

Grant Reductions and overspending

8. Two other factors affect rates in 1985-86.

a. the Rate Support Grant settlement. The grant percentage is 2.7% lower than in 1984-85. This is the equivalent of £84 million less grant. Together with inflation this implies a 6.5% increase in domestic rates, and

- b. the spending decisions of authorities. Overspending adds a further 10.7% to domestic rates.

The overall increase in domestic rates is therefore 17.2% despite the Secretary of State's action to counter the effects of revaluation.

Individual authorities and individual ratepayers

9. While the Secretary of State's action has virtually cancelled out the effects of revaluation for domestic rate in national terms, revaluation has in many cases affected individual authorities and individual ratepayers significantly.

10. Individual authorities have been affected by loss of resources element of rate support grant (RSG) where their rateable values on revaluation have gone up by more than the average. The resources element is an automatic device to equalise taxable capacity and is payable to almost all authorities so that 1p on the rates raises the same per person everywhere. However loss of resources element does push up rates. Table B shows the estimated effects on rateborne expenditure of revaluation alone through changes in resources element.

11. Rates of individual authorities have also been significantly affected by changes in needs element of RSG. This has nothing to do with revaluation and is caused by (a) the continued move to the fairer client group method of distributing grant (from which there are gainers and losers); (b) a change in the shares of grant between regions and districts which has a neutral effect on ratepayers as a whole but has pushed up the rates of districts; (c) the cut in the total of RSG, part of national policy to put pressure on authorities to cut their spending. These factors account for the difference between columns 1 and 2 of Table B.

12. The cut in the rate support grant percentage affected the rates of authorities. Within a reduced percentage of grant it was necessary to shift grant from the districts to protect the position of cooperative regions. This led to dramatic increases in the amount which some district councils had to meet from the rates (column 1 of Table B). Even having done this cooperative regions (authorities spending at guideline are marked with an asterisk) still had to face increases in their rateborne expenditure above inflation as they passed on grant percentage reductions to their ratepayers being unable (since spending at guideline) to cut their expenditure further.

13. Individual ratepayers have been affected by increases in the valuation of their houses above the average for their authority. There is a relatively small variation between authorities in the average revaluation multiplier for each authority (2.3 to 2.6). However within authorities the range is much wider with some householders seeing their valuations going up 3 or 4 times. It is this which has caused very high individual rate increases particularly where this is combined with an authority whose rate increase is above average. An individual householder may appeal against his assessment and the assessor, who is an independent person, will need to produce evidence to justify his assessment. (Table C illustrates the effects on some individual householders.)

Local government finance studies

The Secretary of State is very much aware of the serious problems which the revaluation has caused. Significant action has been taken within the limits of the existing system. This system is now under the closest scrutiny by a Ministerial study team which contains Michael Ancram. [It will be reporting to the Prime Minister on 31 March with its initial analysis.] The team is looking at radical proposals for changes in all aspects of the existing system. The experience of Scottish domestic ratepayers will obviously be at the forefront of their minds.

EXAMPLES OF INDUSTRY BENEFITING

	Rates Paid 1984-85	Reduction	Rates Due 1985-86
	£		£
<u>Burroughs Cumbernauld</u>	275,310	23%	212,850
<u>Ideal Timber Dumbarton</u>	80,076	22%	62,205
<u>Chivas Bros Paisley</u>	324,035	19%	262,836
<u>Standard Unit in East Kilbride</u>	5,173	18%	4,234

ANNEX B

Revaluation has affected the rates of authorities by changing the amount of resources element of rate support grant payable to them. Reductions in resources element leads to increases in rates.

Column 1 below shows the increase in the amount which each authority has to meet from its rates in 1985-86 for any reason - the cut in the rate support grant percentage, loss of needs or resources element, high spending. Column 2 shows how much of this change is due to revaluation alone in the form of a change in the amount of resources element. Those authorities with positive numbers have lost resources element and their rateborne expenditure has gone up by the percentage shown. Authorities with negative numbers have gained from resources element changes following on revaluation. The authorities shown are those represented by Conservative MPs. Edinburgh and Aberdeen do not receive resources element and were not affected by revaluation in this way.

Authority	1. Percentage change in rateborne expenditure %	2. Change in rateborne expenditure attributable to revaluation %
<u>Regional Councils</u>		
* Borders	27	16
* Dumfries & Galloway	24.4	15.8
* Grampian	13.4	4.7
Tayside	14.1	3.4
<u>District Councils</u>		
* Annandale & Eskdale	42.4	18.2
Nithsdale	46.4	8.4
Stewartry	50.8	13.7
Wigtown	60.5	-1.1
* North East Fife	39.4	-1.9
* Banff & Buchan	65.2	14.6
* Kincardine & Deeside	70.9	6.3
* Moray	37.9	3.4
* Stirling	40.6	4.6
Eastwood	83.7	11.9

	1. Percentage change in rateborne expenditure	2. Change in rateborne expenditure attributable to revaluation
	%	%
* Bearsden	32.6	10.5
Strathkelvin	13.5	-0.4
Cunninghame	9.6	-12.6
Renfrew	12.6	-8.0
* Inverclyde	-1.8	2.7
* Argyll & Bute	-8.1	3.6
Kyle & Carrick	1.2	1.9
* Angus	54.0	1.2
Perth & Kinross	52.1	8.5

Authorities marked with an asterisk are on present information planning to spend at guideline.

CHANGES IN DOMESTIC RATE BILL

	Rate Bill 1984-85	Rate Bill 1985-86	Cash Change	% Change
	£	£	£	£
AYR AND TROON				
Local Authority				
<u>Immediate Post War</u>				
4 Apt Tenement	394	413	+19	+5%
<u>Inter War</u>				
3 Apt Semidetached	334	340	+6	+2%
4 Apt Semidetached	418	425	+7	+2%
Private				
<u>Post War</u>				
7 Apt Bungalow	1,759	1,535	-224	-13%
5 Apt Tenement	998	972	-26	-3%
4 Apt Tenement	654	773	+119	+18%
<u>Inter War</u>				
9 Apt Detached Villa	1,541	1,679	+138	+9%
5 Apt Detached Villa	819	975	+156	+19%
EDINBURGH				
Georgian Flat (Central)	517	802	+285	+55%
Victorian Flat (Central)	301	702	+401	+133.2%
7 Apt mid terrace stone villa	562	864	+302	+53.7%
7/8 Apt detached bungalow	1,600	2,375	+775	+48.4%
GLASGOW				
Detached house	815	1,117	+302	+37.1%
EASTWOOD				
Detached house	922	1,548	+626	+67.9%

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Kates

Letters sent to:-

Sir Hector Monroe MP

Nicholas Fairbairn

Michael Hirst

Michael Forsyth

Albert McQuarrie

1st April 1985

Thank you for coming to see me to talk about the problems of rates which your constituents are facing. I can understand only too well the deep anxiety felt throughout Scotland on this matter. But I found it especially helpful to talk to you about it because you were able to spell out in more personal terms the many examples in your constituency of the particular increases in rates which face both domestic ratepayers and businesses.

As you know, the Secretary of State for Scotland has allocated an extra £38.5 million to help ease domestic rates; and I have also asked him to see what can be done to speed up the appeals procedure on the revaluations.

But the problem goes deeper than this. Like you, I believe that these rate increases emphasise the weaknesses in the present system of local government finance. I have therefore set up a review into this whole subject, including rates, and one of its main objectives is to bring about improvements to help ratepayers. Work on this is taking place as a matter of urgency. Once it has been completed and decisions taken, we will then be in a position to make an announcement.

.../...

On a personal note, can I say again how helpful it was to see you and hear at first hand about the problems faced by your constituents. I want you to know that I have their interests very much at heart.