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SCOTTISH OFFICE
WHITEHALL, LONDON S.W.1

Andrew Turnbull Esq
Private Secretary
10 Downing Street
LONDON
SW1

1 May 1985

Dear Andrew,

PRIME MINISTER'S MEETING ON RATES: 1 MAY

Michael Alison requested last week a draft of what the Prime Minister might say on the subject of rates at the Perth Conference next week. As this is to be discussed at this afternoon's meeting my Secretary of State thought it would be helpful if I circulated the draft prepared here for the Prime Minister's speech and for his own speech the previous day. I am copying this letter and the enclosure to Margaret O'Mara and Richard Broadbent (Treasury), John Ballard (DOE) and Janet Lewis Jones (Lord President's Office).

Yours sincerely,
John Graham

J S GRAHAM
Private Secretary

DRAFT EXTRACTS FOR PM - PERTH - SUBJECT RATES

There is, I know, one problem above others troubling you at the moment; Rates and the recent Revaluation. I am fully aware of your deep concern, not only from the regular reports I have received from George Younger and Michael Ancram, but from your Conservative Members of Parliament, and from the many, many moving letters I have received from so many of you. I share that concern.

I know that George yesterday explained why revaluation happened, why it was necessary and unavoidable in Scotland. That necessity and inevitability in no way diminishes the difficulties and hardships which the revaluation at its extremes has created. That is why I know you will have welcomed the urgent action we took on increasing eight-fold the domestic rate relief to bring help to those whose valuations had risen most sharply. And the relief George announced yesterday for those commercial enterprises hardest hit by revaluation is a further step towards mitigating the worst effects of the uninformed independent judgements.

We have, and at some cost, met the rough end of revaluation and given real help to those hit by it. If anyone doubted our concern for ratepayers in Scotland, our actions have proved them wrong, and highlighted once again that the real enemies of the ratepayer are those local authorities, thankfully not much more than half now, who continue to budget and to spend way above their guidelines and ask the ratepayer to foot the bill. They above all ruin the picture for everyone.

That said there can be no doubt that Revaluation has served another purpose. By the very fact of its extremes it has highlighted and underlined the anomalies and inequities within the rating system itself. We, as a Party, have known for a long time of, and attacked the fact that the rating system as it stands militates against local democracy in the true sense.

Too few pay rates, indeed only a small minority of those who elect the councils who raise those rates. There is, as a result, little or no direct accountability of local authorities for their spending decisions to those who pay the consequences. Where is the democracy in that?

Worse still is the old example of the single person living on their own paying the same rates as the next door family with three or more earners in a similar sized house. Where is the equity in that?

But perhaps Revaluation's greatest single message is more profound. The rating system has put a greater burden on those who have through the ravages of recession maintained or improved their properties, often at great personal sacrifice, or the business which has striven against the odds to retain and increase its viability; while those who have let their properties or their businesses decline have seen their burden lessened. Where is the justice in that? It is a contradiction of all that this Government stands for. It is the epitome of disincentive and the opposite of self-determination and self-help.

This is not the result of revaluation, which is but a mirror, but the result of the system itself. That system must go. It has outlived its time and its usefulness. It is now an unfair and unacceptable burden on so many aspects of the aspirations and initiatives for which we as a Party and a Government have fought.

The status quo is no longer an option. And nor is the luxury of a competition between the various alternative options which in the last Parliament so disappointing produced a stalemate.

This time we will grasp the bull by the horns and produce a better system of financing local Government. As you know we have a ministerial team, including Michael Ancram, with full and expert backup working urgently to produce a scheme. It is too early to predict the details - but the die is cast, there will be no going back. The only danger lies within ourselves, that is if we indulge in arguing alternatives in the way which has already failed and have not the courage of our convictions that the need for change is paramount.

If I cannot give you the details, I can tell you this. There are a number of criteria it will meet. It will be fairer than the rates. It will create greater accountability of local government than the rates. And it will be more readily understandable and justifiable than the rates. In future elections as they go

to the polls will have a good idea what they are being asked to pay, and what they will get for it. We will create a far more open system, and that must be good for local government itself.

My intention is that we will, after due consultation, legislate within this Parliament. Before the next election the rates to all intents and purposes will be dead.

- Reasons for revaluation - "so long as the rating system exists".
- The growing failure of local government accountability under the rating system.
- The consequent overspending of councils who know that those who pay are a minority and cannot effectively call them to account.
 - $\frac{2}{3}$ of this years domestic rate increase due to overspending.
- Concern for the extreme effects of revaluation. - there are gainers - examples.
 - Domestics - substantially relieved by 8 fold increase in Domestic relief. £88m - what it means in practice, and in certain areas.
- Commercial:

"One of the strangest factors of this revaluation, and perhaps that of the greatest concern has been the range within the commercial sector. While as I have said there has been many gainers, apparently stunned into silence by their good fortune, there have been some big losers too.

None of us can hear with equanimity the evidence of commercial enterprises faced with increases in rating burden resulting from revaluations of the order of 100% or more. No Conservative who cares for the small business sector can be other than troubled by examples of massive revaluations of four, five or more times which put the very future of those enterprises at risk. Knowledge of the fact that there is as much rating gain as loss within the commercial sector does not mitigate the painful truth that at the extremes the increases could lead to run-down or even closure.

I have studied the pictures closely, as it has become apparent, and am now in no doubt that we must take action to help those most threatened, those hardest

hit. At the moment I have not the means of doing so. I intend however to legislate to enable me to give relief to both commercial and domestic ratepayers who face, after all existing reliefs have been taken into account, increases in their valuations in excess of three times.

These are the genuinely hard hit and it is my intention that they will pay no more rates than if their valuation had been so limited. I will obviously reimburse councils for the loss of rating revenue occasioned by this decision.

This will meet, I believe, the case that has been put forward by those who represent these interests. I may say, however, that their estimates of the costs are wild underestimates. Nevertheless I believe that in the interests particularly of the small business, who are so vital to our Conservative philosophy, this action is both urgent and necessary.

I will be introducing an enabling measure in Parliament at the earliest opportunity, and I look with confidence to opposition parties to ^{L/p}see it through without delay."

"That then is the short-term. We have accepted the need for revaluation in the existing system, but we have gone to unprecedented lengths to ensure that those worst hit are protected.

What then for the longer term? I can say only this. We have for years now accepted that the days of the rating system were numbered. Its anomalies, its inequities and now its over-sensitivity to changing economic patterns have determined its unacceptability. The time for change has come, and come it will.

There is one danger. In this debate as in previous ones we have heard the advocates of many different alternative options. There is nothing wrong with options, or indeed with their advocacy. But when the moment comes divided support can drive us into the ground, as it has before.

This time we cannot afford and will not allow it to do so. If we are serious about reform, about change in the way we finance local Government then we must be clear on this. That whatever the option chosen, or combination of options, of which the detail can and will be debated, we must back it.

If we are serious about change, this will be our chance . If we oppose it, it may not come again."