



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

CONFIDENTIAL

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Prime Minister

RATES AND REVALUATION IN SCOTLAND

I have had reports of the meeting which you had with Sir James Goold on 14 February when he expressed great concern about the effects of revaluation on domestic rate bills in Scotland. I have myself been keeping a close watch on what is certainly a worrying situation and Michael Ancram and I saw Sir James yesterday.

The full position is not yet clear and indeed it will not be until 5 March, the statutory date by which rates must be struck. However our estimate is that the increase in domestic rate bills will on average be 24%. The figures we have for authorities which have struck their rates are alarming. The following are announced percentage increases in domestic rate bills:

Angus	30.9%
Banff and Buchan	15.3%
Gordon	23.6%
Moray	10.8%
Kincardine and Deeside	17.2%
Eastwood	38.5%
Kyle and Carrick	14.9%
Cunninghame	18.5%
Berwickshire	23.3%
Ettrick	24.4%
Roxburgh	18.6%
Tweeddale	23.8%

Three quarters of these authorities are Conservative or Independent and two thirds are spending in line with our guidelines.

Obviously we could not foresee in detail what domestic rate levels would be when we discussed the 1985-86 rate support grant settlement last July. However, I was aware that revaluation would mean a shift of the rate burden to domestic ratepayers and for this reason argued strongly against the severe reduction in rate support grant which I had to accept. A revaluation year is not a time to have to cope with large grant reductions as well. You may remember that I minuted to you on 1 August to express my concern about the settlement so that you would not be taken by surprise if, as I then expected, we ran into a very serious political situation in Scotland.

Attached

I returned to the question of rate support grant in the Autumn when the effects of revaluation were much clearer in the form of assessors' estimates available in confidence at the beginning of September. I put to Peter Rees proposals for a substantial increase in grant to ensure comparable treatment with England and to enable me "to increase the domestic element and head off the serious political problems emerging as a result of revaluation with politically unacceptable increases in domestic rates." In the event Peter Rees was able to agree to an increase in grant very much below what I considered necessary.

My own conclusion is that we are facing a very serious situation in Scotland. Over the past four years rates have been one of our success stories. In 1980-81 and 1981-82 increases were over 30% each year. In 1982-83 partly by selective action we got the annual increase down to 12%, in 1983-84 to 0.5%, in 1984-85 to 5%. All that will be obliterated by increases of the kind I have listed above. There is no doubt about the severe political damage this will cause - a point Sir James has already put forcibly to you.

Time is now very short for taking any action to retrieve the situation. The postponement of revaluation is impossible. The new valuation rolls are available. Those who are gaining - in particular industrial ratepayers - know their new valuations and what would be lost by postponement. The mechanical problems of postponement are formidable. Sir James accepts this and has said so publicly.

We need to decide in a matter of days what to do. The only course open is to increase the level of domestic rate relief. Within the limited amount of grant available to me I have already done as much as possible to mitigate the effects of revaluation on the domestic ratepayer, increasing domestic rate relief five fold. What I should like to do is to increase domestic rate relief by £64 million.

E.R.

This would enable the level of increase in domestic rate bills to be halved. The figures for domestic rate increases would become manageable, 12% on average, although still twice the English figures which I understand will average in single figures, perhaps about 6%. Only action on this scale will restore ratepayers' confidence and even then they will complain they are doing worse than England.

I would argue that there need be no consequence for England of such a step.

G.Y.

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