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SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU  
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Prime Minister (2)

To await Treasury response. No  
mention of how this is to be financed.

AT  
24/4

CONFIDENTIAL

The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer  
11 Downing Street  
LONDON SW1

MS  
23 April 1985

Dear Chancellor of the Exchequer,

PROPOSED RATE RELIEF (TEMPORARY PROVISIONS)(SCOTLAND) BILL 1985

1. When we met on 2 April, I promised to develop further my proposed scheme to give relief to those facing excessive rates increases as a result of the 1985 revaluation in Scotland, and to let you have as soon as possible some figures on the probable costs of this. My officials have had a preliminary discussion with yours and while much remains to be done, I think it is essential that we now seek to reach agreement on the main points of a scheme that can be announced at Perth on 10 or 11 May.

2. My proposals are these:

- a) the rate relief should be available to ratepayers whose property has an excessive valuation, defined as a property whose entry in the 1985-86 valuation roll is greater than in the latest edition of the 1984-85 valuation roll by a multiplier of more than C. C would be a constant set by statutory instrument
- b) the relief should be available to ratepayers in respect of both domestic and non-domestic property but not including (i) local authority and Crown property (ii) public undertakings' property valued by a statutory formula set by Parliament (iii) industrial and freight transport property which benefits from industrial derating
- c) the relief should amount to 100% of the rates payable on the amount of assessed value in excess of C times last year's value
- d) the powers should be expressed in terms of 1985-86, but should be renewable for a subsequent year or years, but they should lapse at the end of March 1989.

is 'C' tapered?

3. I know you will welcome my suggestion that the criterion for a claim under the scheme should be a comparison between old and new valuations - thus emphasising that it is the Scottish revaluation that is the special factor requiring emergency action, not simply big rate increases as such. I trust that this will protect you and Patrick Jenkin from pressures to extend relief south of the Border. I think your officials have had some further explanation of the mechanics of the system.

4. Though you had reservations when we discussed this before, I am clearer than ever that we must not restrict relief to domestic ratepayers, but that we must make sure that the worst burdens being imposed on commercial property are also cut down. On the whole, commerce has had neutral treatment in the revaluation, gainers and losers being roughly in balance, but there is evidence of a number of quite extreme values being imposed upon small businesses, particularly in the Borders. Many of these are run by our own supporters, and I need hardly say how difficult it is for me to face those who have valuation multipliers of 3, 4, 5 or more, and tell them that these are fair when the Scottish average all-property multiplier is 2.33. You will be aware of Archy Kirkwood's attempt, with a Ten-Minute Rule Bill, to cash in on this particular discontent.

5. Turning to my evidence of costs, I should emphasise that the need for confidentiality has made it particularly difficult to make estimates, since I have felt unable at this stage to tap directly the information held by the assessors (who in Scotland are local authority employees, not part of the Inland Revenue). Nevertheless, I have derived some figures, which I set out below, for three different 'excessive valuation' thresholds, representing multipliers of C = 3, C = 3.2 and C = 3.5. These figures incorporate some fairly heroic assumptions, but indicate broadly the kind of costs we might expect:

EXCESSIVE VALUATION RATE RELIEF, SCOTLAND, 1985-86 (£ million cash)

	Threshold C = 3.0	Threshold C = 3.2	Threshold C = 3.5
Domestic property	13	7	3
Non-domestic property	51	38	28
	<u>64 (+10)</u>	<u>45 (+10)</u>	<u>31 (+10)</u>

The figures for the non-domestic sector above include industrial, formula-valued, local authority and Crown property, because I have at present no basis for calculating the effect of their exclusion. We will, as I have said, exclude when the Bill is drafted, so the costs in practice may be a little lower, though it is my impression that not very many properties in these categories have the excessive multipliers anyway.

7. You will note that by far the greater part of the cost, whatever threshold we select; is going to be for non-domestic property. This reflects two factors: (a) the action we have already taken to blunt the revaluation's effects for householders, and (b) the very much more heterogeneous nature of the non-domestic sector compared with houses. The average multiplier for non-domestic property is actually lower (2.1) than for all property (2.33) and for domestic property (2.7), but the distribution of non-domestic multipliers shows much wider dispersion of values. For example, 5% of sampled non-domestic properties in Lothian, and no less than 9% in Borders, have multipliers over 4. These are the people who feel that lightning has struck them out of a clear blue sky.

8. Although I think we should certainly go for a valuation criterion for the scheme, we should at the same time not lose sight of the actual effect in terms of rate bills. The figures vary considerably between authorities. As a measure of what each of the thresholds means in setting an upper limit on the percentage increase a ratepayer may still be asked to pay, the following figures are illuminating:

	Threshold C = 3.0	Threshold C = 3.2	Threshold C = 3.5
<u>Domestic property</u>			
Highest authority (Edinburgh - before possible selective action)	53%	63%	78%
Scottish average	34%	42%	56%
Lowest authorities (Aberdeen, Moray, Inverness)	18%	26%	38%
<u>Non-domestic property</u>			
Highest authority (Orkney)	71%	83%	100%
Scottish average	50%	60%	75%
Lowest authority (Inverness)	35%	44%	58%

Put another way, if we set the threshold at 3.5, the least-cost option illustrated, there may be unfortunate ratepayers in Orkney still having to pay 100% more than last year without this falling to be considered 'excessive' by HMG - though no-one anywhere in Scotland would have to pay a percentage increase higher than this

9. On the basis of all the above figures, and of the political pressures still building up, I seriously doubt if we shall be credible if we settle for a scheme with a threshold higher than 3.0, even though this may cost something like half the amount now expected for RSG penalties in Scotland this year. I must therefore seek your agreement to an announcement at Perth that legislation will be speedily introduced to allow Scottish ratepayers to claim full relief of rates on that amount of their valuation in 1985-86 which exceeds 3 times their valuation in 1984-85. I shall be glad to meet you for a discussion if this will help, but it would need to be very soon.

10. I am copying this letter to the Prime Minister and to Patrick Jenkin.

*Yours sincerely*

E. S. GOWANS  
Private Secretary

Approved by the Secretary of State  
and signed in his absence

23 APR 1985

