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cc: H

CONFIDENTIAL

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Prime Minister
Mr. Rifkind is asking his RSG colleagues
tomorrow. Contact for him, subject to
clearance from colleagues, to include points
(i) to (iv) below on
the standard community charge?
25 July 1989

Dear Paul,

Rf 6
25/7
Yes -
subject
to the
said
clearance
no

STANDARD COMMUNITY CHARGE IN SCOTLAND

As foreshadowed in my letter of 21 July with which I circulated my Secretary of State's draft statement on the revenue support grant in Scotland for 1990/91, I attach a final version of the statement which includes material dealing with the standard community charge in Scotland.

At the meeting of E(LF) on 11 July it was agreed that the Scottish community charge legislation might be amended so that my Secretary of State would have available similar powers to those provided under the Local Government Finance Act 1988 to prescribe different specified classes of properties for the purpose of determining different standard community charge multipliers and to prescribe different maximum multipliers, within the overall maximum of up to 2 which would remain unchanged, for these specific classes. It was agreed also that both the Scottish legislation and the 1988 Act should be amended so that local authorities may be able to determine different classes of property for the purpose of levying different multipliers. Mr Rifkind was asked to settle with the Secretary of State for the Environment, Wales and the Chief Secretary details of a package based on these principles.

Agreement has been reached on the details of the proposals which Mr Rifkind proposes to announce tomorrow. The changes reflect either powers which DOE already have or which they propose to introduce in parallel with changes to our legislation or subsequently. They are:

- (i) that the Secretary of State will be taking powers to prescribe certain classes of premises for which I will prescribe a maximum multiplier. My intention would be to use this power in limited circumstances, for example to limit the standard charge liability of an elderly person convalescing away from home with a relative;
- (ii) that the Secretary of State will be giving local authorities powers to determine their own classes of premises for which they can set different multipliers. Mr Rifkind proposes to limit this power by prescription to ensure that they cannot, for example, use the power to reintroduce a variable property tax akin to domestic rates;

(iii) that the Secretary of State will be extending the discretion of local authorities to determine multipliers, allowing them to determine multipliers of 0, $\frac{1}{2}$, 1, $1\frac{1}{2}$ or 2; and

Subject to (i) presumably.

(iv) that the Secretary of State will be reviewing the boundary between non-domestic rating and the community charge, with the intention of prescribing circumstances in which single units of self-catering holiday accommodation might be subject to non-domestic rates. This would not require primary legislation in Scotland.

I attach a copy of the statement I am proposing to make. I am copying this letter and attachment to the Private Secretaries to members of E(LF) and to Trevor Woolley.

Yours ever,

David

DAVID CRAWLEY
Private Secretary

Enc

LOCAL GOVERNMENT FINANCE (SCOTLAND): STATEMENT

CC Q
P.R.G.S.
Pay off
DM
D.C.

WITH PERMISSION, MR SPEAKER, I WISH TO MAKE A STATEMENT ABOUT LOCAL GOVERNMENT FINANCE IN SCOTLAND.

FIRST, I WILL ANNOUNCE MY DECISION ON GRANT FOR SCOTTISH LOCAL AUTHORITIES IN RESPECT OF 1990/91. IN REACHING THAT DECISION I HAVE HAD IN MIND THE VIEWS EXPRESSED TO ME BY THE CONVENTION OF SCOTTISH LOCAL AUTHORITIES ON THEIR ESTIMATES OF WHAT THEY REGARD AS REQUIRED SPENDING LEVELS NEXT YEAR. I HAVE ALSO HAD IN MIND THE SUBSTANTIAL INCREASE IN THE PLANNED VOLUME OF SPENDING BY SCOTTISH AUTHORITIES THIS YEAR, AND THE SCOPE THAT UNDOUBTEDLY EXISTS FOR ECONOMIES AND EFFICIENCY IMPROVEMENTS. A FURTHER FACTOR IS MY UNDERTAKING GIVEN SOME TIME AGO THAT - SUBJECT TO PARLIAMENTARY APPROVAL OF THE NECESSARY LEGISLATIVE CHANGES - I WOULD MAKE SUBSTANTIAL INITIAL PROGRESS NEXT YEAR IN REDUCING THE RATE BURDEN ON SCOTTISH BUSINESSES.

WHAT I AM ANNOUNCING TODAY IS THE TOTAL OF AGGREGATE EXCHEQUER GRANT - THAT IS, THE TOTAL OF SPECIFIC GRANTS AND REVENUE SUPPORT GRANT - WHICH WILL BE PAID TO SCOTTISH LOCAL AUTHORITIES FOR 1990-91.

I PROPOSE THAT AGGREGATE EXCHEQUER GRANT FOR 1990-91 SHOULD BE SET AT £2739 MILLION. THIS IS £242 MILLION OR 9.7% HIGHER THAN THE CORRESPONDING FIGURE FOR THIS YEAR. THIS FIGURE, HOWEVER, INCLUDES EXTRA GRANT TO ALLOW BUSINESS RATES TO BE SUBSTANTIALLY REDUCED IN LINE WITH THE GOVERNMENT'S STATED OBJECTIVE OF ELIMINATING THE DIFFERENCE IN NON-DOMESTIC RATES AS BETWEEN SCOTLAND AND ENGLAND.

MY NEW PROPOSALS ON BUSINESS RATES, WHICH I ANNOUNCED ON 8 MAY, HAVE BEEN WIDELY WELCOMED IN SCOTLAND, AND WE LOST NO TIME IN PRESENTING LEGISLATIVE PROPOSALS TO THE HOUSE ON 14 JUNE. I AM HAPPY TO ANNOUNCE TODAY THAT I PROPOSE THAT THE RATE BILL FOR SCOTTISH BUSINESS NEXT YEAR SHOULD BE

REDUCED BELOW WHAT IT WOULD OTHERWISE BE BY THE SUM OF £80 MILLION. THE CBI HAVE ESTIMATED THE EXCESS RATE BURDEN ON SCOTTISH BUSINESS TO BE AROUND £250 MILLION, AND WE WILL THEREFORE BE CLOSING THAT GAP BY ALMOST A THIRD IN A SINGLE YEAR. THIS REPRESENTS VERY SUBSTANTIAL PROGRESS. I KNOW THAT THIS, TOGETHER WITH THE OTHER STEPS THAT ARE BEING TAKEN ON HARMONISATION OF VALUATION PROCEDURES NORTH AND SOUTH OF THE BORDER, WILL BE WARMLY WELCOMED BY SCOTTISH BUSINESS AND BY ALL THOSE FOR WHOM THE PRIVATE SECTOR IN SCOTLAND PROVIDES EMPLOYMENT. LOCAL AUTHORITIES WILL BE COMPENSATED BY INCREASED GRANT OF £67 MILLION, WHICH IS INCLUDED IN THE TOTAL FIGURE OF AGGREGATE EXCHEQUER GRANT WHICH I HAVE ALREADY GIVEN. AS THEIR CONTRIBUTION TO THIS REDUCTION IN BUSINESS RATES, AND IN RECOGNITION OF THEIR WELCOME SUPPORT FOR THIS POLICY, I AM ASKING LOCAL AUTHORITIES TO RECOVER THE BALANCE OF £13 MILLION BY EFFICIENCY SAVINGS. THIS COMPARES WITH TOTAL CURRENT EXPENDITURE FOR NEXT YEAR ESTIMATED BY COSLA TO BE OVER £5,000 MILLION. I AM CONFIDENT THAT IT SHOULD BE WELL WITHIN THEIR CAPABILITY TO ACHIEVE THESE MODEST SAVINGS WITHOUT THREAT TO STANDARDS OF SERVICE. I AND MY DEPARTMENT HAVE ALREADY HAD USEFUL DISCUSSIONS WITH COSLA ON IMPLEMENTATION OF THE NEW POLICY, DETAILS OF WHICH WILL BE ANNOUNCED IN THE AUTUMN.

THE REMAINDER OF THE TOTAL OF AGGREGATE EXCHEQUER GRANT REPRESENTS AN INCREASE OF 7% ON THIS YEAR'S FIGURE. TAKEN TOGETHER WITH BUSINESS RATE INCOME, IT SHOULD ENABLE LOCAL AUTHORITIES, IF THEY ARE PREPARED TO TAKE A GRIP ON THEIR SPENDING, TO SET COMMUNITY CHARGES NOT SIGNIFICANTLY HIGHER ON AVERAGE THAN THIS YEAR'S LEVELS. I HOPE THAT MANY AUTHORITIES WILL ALREADY HAVE RECOGNISED THEIR EXCESSIVE BUDGETING FOR THIS YEAR AND, IN THE KNOWLEDGE OF THE REASONABLE GRANT SETTLEMENT I AM ANNOUNCING TODAY, WILL NOW PLAN FOR REASONABLE LEVELS OF SPENDING AND OF COMMUNITY CHARGE NEXT YEAR.

DETAILED PROPOSALS FOR GRANT DISTRIBUTION WILL BE PUT TO THE CONVENTION OF SCOTTISH LOCAL AUTHORITIES FOR CONSULTATION, IN THE USUAL WAY, IN THE AUTUMN.

I ALSO WISH TO TAKE THIS OPPORTUNITY TO ANNOUNCE A NUMBER OF CHANGES WHICH I AM PROPOSING TO MAKE TO THE ARRANGEMENTS FOR ADMINISTERING THE STANDARD COMMUNITY CHARGE IN SCOTLAND. AS HON MEMBERS ARE AWARE THE STANDARD COMMUNITY CHARGE IS PAID BY OWNERS, OR LONG-TERM TENANTS, OF HOUSES SUCH AS SECOND HOMES WHICH ARE NOT USED AS SOMEONE'S SOLE OR MAIN RESIDENCE.

I HAVE RECEIVED A SIGNIFICANT NUMBER OF REPRESENTATIONS ABOUT THE STANDARD COMMUNITY CHARGE AND RECENTLY RECEIVED A PAPER FROM THE CONVENTION OF SCOTTISH LOCAL AUTHORITIES OUTLINING SUGGESTIONS FOR CHANGE. I AM QUITE CLEAR THAT MANY OF THE PROBLEMS WHICH HAVE ARISEN CAN BE ATTRIBUTED DIRECTLY TO LOCAL AUTHORITIES' DECISIONS IN ALMOST EVERY CASE TO SET THEIR STANDARD COMMUNITY CHARGE MULTIPLIERS AT THE MAXIMUM OF 2 TIMES THE PERSONAL COMMUNITY CHARGE, WHEN THEY HAD BEEN GIVEN DISCRETION TO SET THE MULTIPLIER ANYWHERE BETWEEN ONE AND 2.

NEVERTHELESS AND IN THE LIGHT OF THE REAL PROBLEMS THAT HAVE AS A RESULT ARISEN, I HAVE DECIDED TO MAKE THE FOLLOWING CHANGES TO THE PRESENT ARRANGEMENTS.

FIRST, I INTEND TO TAKE POWERS TO DEFINE CERTAIN CLASSES OF PREMISES FOR WHICH I WILL BE ABLE TO PRESCRIBE A MAXIMUM MULTIPLIER. I WILL USE THIS POWER TO TACKLE, IN PARTICULAR, THE VERY DIFFICULT CASE OF THE HOUSE WHICH IS UNOCCUPIED BECAUSE THE OWNER HAS TO LIVE WITH FRIENDS OR RELATIVES BECAUSE OF ILLNESS OR INFIRMITY. THIS IS ONE SITUATION IN WHICH A MULTIPLIER OF UP TO 2 SEEMS TOO HIGH. IF OTHER CATEGORIES OF A COMPARABLE KIND EMERGE, THESE POWERS WILL ENABLE ME TO MAKE PROVISION FOR THEM.

I WILL ALSO MAKE PROVISION TO ALLOW AUTHORITIES TO DETERMINE, SUBJECT TO CERTAIN CONDITIONS, THEIR OWN CLASSES OF PREMISES FOR WHICH THEY COULD SET DIFFERENT MULTIPLIERS. THIS WILL

ALLOW THEM TO TAKE ACCOUNT OF CIRCUMSTANCES NOT COVERED BY CLASSES I MIGHT PRESCRIBE BUT WHICH IT IS RIGHT SHOULD BE THE SUBJECT OF LOCAL DECISION. THIS WOULD GIVE THEM DISCRETION TO SET A DIFFERENT MULTIPLIER FOR THE HOMES OF OLD PEOPLE IN GENERAL WHO ARE LIVING WITH RELATIVES AND FOR THE HOMES OF PEOPLE OBLIGED BY THEIR JOBS TO LIVE IN TIED HOUSES. LOCAL AUTHORITIES COULD ALSO CREATE OTHER CLASSES, DEPENDING ON LOCAL CIRCUMSTANCES; AND A REGIONAL COUNCIL WOULD BE ABLE TO SET DIFFERENT MAXIMUM MULTIPLIERS FOR ITS CLASSES IN DIFFERENT DISTRICT COUNCIL AREAS, SOMETHING SPECIFICALLY REQUESTED BY COSLA IN THE PROPOSALS WHICH THEY PUT TO ME.

AS A RESULT LOCAL AUTHORITIES WILL HAVE CONSIDERABLY GREATER FLEXIBILITY IN THEIR OPERATION OF THE STANDARD COMMUNITY CHARGE ARRANGEMENTS. I KNOW, THEREFORE, THAT THE NEW ARRANGEMENTS WILL BE WELCOMED. I AM PROPOSING THAT THE NECESSARY AMENDMENTS TO THE ABOLITION OF DOMESTIC RATES ETC (SCOTLAND) ACT 1987 TO ALLOW FOR THE INTRODUCTION OF THESE CHANGES SHOULD BE MADE IN THE CONTEXT OF THE LOCAL GOVERNMENT AND HOUSING BILL AND AMENDMENTS TO THAT BILL ARE BEING TABLED TODAY. THE CHANGES WILL COME INTO EFFECT FOR THE FINANCIAL YEAR 1990-91.

LAST, I PROPOSE TO REDEFINE THE BOUNDARY BETWEEN DOMESTIC AND NON-DOMESTIC PROPERTY SO THAT SINGLE DWELLINGS AVAILABLE FOR HOLIDAY LETTING ARE SUBJECT TO NON-DOMESTIC RATING RATHER THAN THE STANDARD COMMUNITY CHARGE.

THESE PROPOSALS TACKLE THE MAIN PROBLEMS THAT HAVE EMERGED IN RELATION TO THE INCIDENCE OF THE STANDARD CHARGE AND ARE A DIRECT RESPONSE TO THE CONCERNS EXPRESSED BY LOCAL AUTHORITIES AND OTHERS. I HOPE THAT LOCAL AUTHORITIES WILL RECIPROCATE BY USING THE ADDITIONAL DISCRETION THEY HAVE NOW BEEN GIVEN.