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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Malcolm Rifkind QC MP
 Secretary of State for Scotland
 Scottish Office
 Dover House
 Whitehall
 London
 SW1A 2AU

NRPN.

26th November 1986

Dear Malcolm,

NON-DOMESTIC RATES: INDEXATION

E(LF) on 20 November agreed that, within a statutorily indexed upper limit, it would be right for the Chancellor of the Exchequer to review annually the appropriate share of local government finance that industry and commerce might be expected to bear. Officials have discussed the implications of this for the drafting of your Abolition of Domestic Rates Bill, which was discussed at L Committee yesterday. I understand the following arrangement would be acceptable to you, and would welcome your confirmation.

When central government takes the decision on the percentage uplift, within the RPI, to be allowed for non-domestic rates throughout Great Britain, it will be appropriate for the Treasury to be seen to take the lead. But the same point does not have such force when Scotland alone has a reformed system of non-domestic rating.

I am therefore content for your Bill to go forward as drafted, subject only to the insertion of "with the consent of the Treasury" in Clause 4(2). This is on the understanding that the particular indexation provisions of your Bill are intended to apply in Scotland only so long as Scotland alone has a reformed system of non-domestic rating. You will need to explain this, if asked, during the Parliamentary proceedings on the Bill.

In due course, the Bill to reform rates in England and Wales will need to include provisions both to establish the appropriate initial poundage at the start of the new system and to implement E(LF)'s decision about the Chancellor's responsibility to review the burden of local taxation on industry and commerce. At that stage it would be appropriate for the provisions on the latter point to apply to Scotland too.

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I am copying this letter to the Prime Minister, to other members of E(LF), to John Biffen and to Sir Robert Armstrong.

Yours ever,
JH

JOHN MacGREGOR

