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CONFIDENTIAL

The Rt Hon John McGregor MP  
Chief Secretary to the Treasury  
HM Treasury  
Parliament Street  
LONDON  
SW1P 3AG

3 December 1986

*Dear John,*

*NBM*

NON-DOMESTIC RATES: INDEXATION

Thank you for your letter of 26 November.

The Abolition of Domestic Rates Etc (Scotland) Bill provides (in Clause 4) for a ceiling to be set on the non-domestic rate poundage which each local authority in Scotland may charge from 1989-90 onwards. As we have agreed, the ceiling will be index-linked, to the Retail Prices Index. These are interim arrangements, pending the harmonisation of the valuation systems north and south of the border and the introduction of a national non-domestic rate. In presenting our policy I have made the interim nature of these proposals clear, and will continue to do so.

Our discussion at E(LF) on 20 November concentrated on the mechanics of index-linking the national non-domestic rate, and on the responsibilities of the Chancellor in relation to this. I agree with you that it is not necessary to provide for the Chancellor's involvement in the early years when Scotland alone has a reformed system. I was happy to agree the insertion of a reference to the Treasury in Clause 4(2) though, as our respective officials recognise, this is essentially there for form's sake since after the first year of the new system the provisions of the Clause specify the indexation process quite precisely.

In the longer term I can agree that any provisions which are incorporated in the English legislation to provide for a lower increase to be set than the upper limit calculated in accordance with the RPI formula should be applied as appropriate to Scotland, where the interim arrangements are of course likely still to be continuing. It is, of course, too early to say whether the England and Wales Bill should apply to Scotland in this respect or whether another legislative opportunity might be more suitable. If this matter is raised during the passage of my Bill I will avoid giving any hostages to fortune. I will stress the interim nature of my proposals and the fact that, in due course, the position in Scotland must be aligned with that south of the border; detailed comment on how long any aspect of my proposals will last must await final decisions and announcements on the policy to be adopted south of the border.

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

*Yours ever,  
Malcolm*

MALCOLM RIFKIND



LOCAL GOVT. RATES: P.E.S.

