



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

Dear Malcolm,

23rd January 1989

THE BURDEN OF BUSINESS RATES IN SCOTLAND

Thank you for your letter of 9 January. I have also seen John Moore's letter of 17 January.

We are to discuss the issue in E(LF) this week. However I should make it clear at the outset that I do not think it would be right to contemplate extra grant from the Exchequer, in order to reduce quickly the business rate poundage in Scotland to the level of the UBR in England. Nor do I suppose that either Nicholas Ridley or Peter Walker will be attracted to harmonizing business rate poundage in Scotland, if it means diverting grant from England and Wales to Scotland. It would not be fair to put the burden of harmonizing business rate poundages on the Community Charge payers in England and Wales.

In your letter, you refer to our commitment to a level playing field for non-domestic rates. But we have never indicated a timescale for achieving that policy objective. Still less have we given consideration to how it should be financed.

Expenditure per head on local authority services is currently some 20 per cent higher in Scotland than in England. Grant per head is already 65 per cent greater than in England. To move speedily and harmonize rate poundages in Scotland and England would involve extra grant of around £300 million flowing to Scotland. Grant per head in Scotland would be nearly double that in England; no difference in the services covered or variation in needs could explain that.

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I would find it extremely difficult to justify such a level of additional grant against other public expenditure priorities across a range of Departments. This relative priority becomes even more difficult to justify since, as you know, I believe there is already a large over-provision in the Scottish block that reflects the level of the original baseline which has been perpetuated by the annual increases through the block formula, and the fact that no account is taken of Scotland's declining population. You will be aware of the criticism of relative provision by members of the TCSC and, in my judgement, it would be a provocative move to contemplate a further £300 million grant for Scotland.

I recognise that your proposal does touch on the possibility of finding a portion of this cost from the Community Chargepayer in Scotland although as John Moore has pointed out, it would raise public expenditure through the social security system. But your paper makes no mention of the contribution that could, and in my view should, be made from provision within the Scottish block - if colleagues accept that it is an overriding objective to move speedily to a harmonized business rate with England.

When we discuss this issue at E(LF) this week, I will not be prepared to support any arrangement that results in any extra Exchequer grant flowing to Scotland in the next few years.

I am copying this letter to the other members of E(LF) and to Sir Robin Butler.

John Major

JOHN MAJOR

