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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
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13th March 1989

Dear Malcolm,

BUSINESS RATES IN SCOTLAND

You mentioned to me after Cabinet last week that an impasse had been reached between the officials of our two departments in their discussions of the E(LF) remit to us concerning the financing of harmonisation of business rates in Scotland with those in England. E(LF) asked us to agree on a precise method and timetable of meeting the cost, before the necessary provisions can be introduced into the Local Government and Housing Bill. Part of the financing was to come from the Scottish community charge payer, and part from elsewhere within the Scottish block, because the higher level of local authority expenditure in Scotland is a major reason for the extra burden on the Scottish business rate payer.

I have looked into the matter, and I find that the reason for the impasse is clear. Your officials appear to be under a misapprehension about the agreement that you and I reached last autumn about the presentation of your 1988 Survey settlement. You will recall that you argued then that you did not want to show the full local authority current expenditure figures in the two later years, 1990-91 and 1991-92, in the Autumn Statement and PEWP plans; you wanted to hide some of the provision within your central government lines. I reluctantly agreed to your presentation, "on the strict understanding that when the new planning total baseline is established for the 1989 Survey these sums will be treated as part of the local authority current element of your existing block, with a corresponding reduction of £72 million and £77 million elsewhere" (my letter of 27 October:

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those amounts are what is necessary to project local authority relevant expenditure as flat in real terms from the 1989-90 provision). You replied on 9 November agreeing: "I accept the approach you intend to take when the new planning total baseline is established, although that does not imply a commitment by me at this stage to any particular outcome from next year's Survey so far as my Scotland programme is concerned".

That is clear enough. But your officials have, rather oddly, suggested that part of that £70-odd million a year which is already in the local authority part of your block should be double-counted as the contribution from your block for this new financing burden. That is of course out of the question.

Turning to the real issue of how harmonisation might be financed, I am very ready to try to help to make speedy progress, so that you do not run out of time in which to introduce the necessary legislative provisions into the Local Government and Housing Bill. With that in mind, I make the following proposals.

E(LF) required us to agree on a precise method and timetable of financing, specifying that the timetable should be similar to the introduction of the UBR in England and Wales, ie at least 5 years and possibly as much as 10 years. The gap to be eliminated over that period is I understand estimated at £2-300 million, at present prices.

I therefore suggest that we aim at elimination over 7 years, financed by the following means:-

- i. a contribution of grant found from within your block (from your genuine central government money of course, not from the £70-odd million pa referred to above!), starting at £20 million in 1990-91 and rising in annual £20 million steps;
- ii. a contribution from the Scottish community charge payer starting at £10 million in 1990-91 and rising in annual £10 million steps; and
- iii. a contribution of extra grant to local authorities found not from your block but from the Reserve, starting at £10 million in 1990-91 and rising in annual £10 million steps.

The amounts quoted above would be in real terms, ie they would be indexed from 1989-90 prices using the GDP deflator.

If the estimate of the gap to be financed proves correct, it should thus be eliminated within 7 years, or quite possibly less. If the gap proves to be rather greater, the contributions might have to continue rising for another year or so.

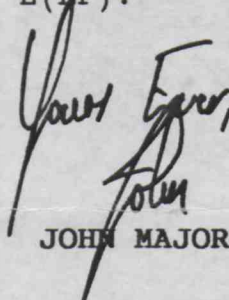
I consider that this is a reasonable, indeed generous, offer. E(LF) did not suggest that there should be any contribution at all from the Reserve. Since the problem of high Scottish business rates arises in large part from the profligacy of Scottish local authorities, I could indeed argue that the Scottish block and the Scottish charge payer should between them bear the full costs. Given the enormously greater level of Scottish public expenditure, relative to need, than in England - which, as you know, my officials estimate at well over £1 billion pa - it is hard to see why the English taxpayer should contribute anything at all.

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However, I am mindful that it would not do to impose too great an extra burden on the Scottish charge payer, when we do not know how great a burden will fall on him as a result of other pressures. In addition, I want to help you with your presentation of the policy.

I am therefore prepared to agree to the above contribution from the Reserve, provided you can agree to the rest of the package. I trust that you can, and I suggest that our officials might sort out any remaining details.

I am copying this letter to members of E(LF).


JOHN MAJOR