PRIME MINISTER

BUSINESS RATES IN SCOTLAND

E(LF) discussed the handling of business rates in Scotland at the end of January. You summed up by asking Malcolm Rifkind and John Major to seek to agree urgently the precise basis on which the costs involved in moving towards a common GB business rate poundage should be met and over what timescale. You said that these discussions had to be completed before there could be agreement to Malcolm Rifkind's proposals being introduced into the Local Government and Housing Bill. Your full summing-up is at Flag A.

Discussions between the Scottish Office and Treasury seem to have become deadlocked. John Major has now decided to seek to break that impasse with his own proposals - see letter at Flag B.

There are three key points in his package:

- he is resisting the Scottish Office attempt to say that any savings they find from within the block should simply count towards savings they agreed to find in the 1988 Survey, rather than being additional to them.

- the timetable for bringing the Scottish business rates into line with a common GB UBR should be about seven years.

- over that period the annual contributions should be £20
10 million from the Scottish block, ~~£20~~ million from Scottish Community Charge payers and £10 million from the Reserve.

I imagine Malcolm Rifkind will be tempted to renegotiate parts of this offer. But it seems to me rather a well-judged package, which fairly reflects the spirit of the last E(LF) discussion. There might therefore be advantage in your quickly endorsing John Major's proposals, and so seeking to prevent further haggling.

(i) Content to endorse John Major's package? Yes

or

(ii) Would you prefer to await Malcolm Rifkind's response?

S. L. Hodge.

pp. PAUL GRAY
13 March 1989

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THE PRIME MINISTER, summing up the discussion, said that within the new system of local government finance there was no justification for a higher burden of business rates in Scotland in the long term. That was the reason the Government had entered into commitments to move towards a common business rate poundage throughout Great Britain. But they had also made it clear that they would have to be realistic about timing. In England and Wales the UBR was being introduced over a transitional period of at least 5 years and possibly as much as 10 years, and a similar transitional period could be justified in Scotland. The main issue which remained to be decided was how the cost of reducing the burden of Scottish businesses should be financed. The higher level of local authority expenditure in Scotland was a major reason for the extra burden. It would therefore be reasonable to look for contributions from Scottish community charge payers and offsetting savings from elsewhere within the Scottish block. The Secretary of State for Scotland and the Chief Secretary, Treasury should seek to agree urgently the precise basis on which the costs should be met and over what timescale. Pending the outcome of those discussions, the Sub-Committee were not able to agree to provisions being introduced into the Local Government and Housing Bill to give effect to the Secretary of State for Scoltand's proposals.

The Sub-Committee -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.

2. Invited the Secretary of State for Scotland and the Chief Secretary, Treasury to seek to agree urgently the basis on which the costs of removing the additional burden of rates on Scottish businesses should be met.

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