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CONFIDENTIAL

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

*NBM at this stage
B/F 1 week.*

REC 6 5/13

23 March 1989

Dear John

BUSINESS RATES IN SCOTLAND

at flap
Thank you for your letter of 13 March.

This is a very helpful advance, and I am grateful both for your recognition of the need for quick progress, and for your acknowledgement that it would be appropriate to provide some additional financing from the Reserve.

I agree, on reflection that it would be reasonable to plan for Scottish community charge payers to contribute, by the end of the transition period, up to £70 million towards the cost of relief for non-domestic ratepayers.

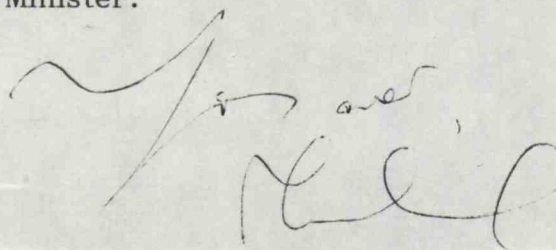
If however we accept on the basis of your figures that the implied total gap to be eliminated amounts to some £280 million, and assume the proposed contribution from community charge payers, I would if I settled for your offer from the Reserve, still be left to find some £140 million from the Scottish Block. I entirely accept that it is appropriate to look to the Block for a substantial contribution, but £140 million is very high, and I could not confidently expect to find so much without serious risk to other programmes. I would therefore like to ask you to think again about the level of contribution you might make from the Reserve. I do of course realise that you may be reluctant to pre-empt any larger amount from the Reserve; and that you will also no doubt attach some importance to resolving my problem with the least possible increase in public expenditure. It was against that background that I asked my officials to explore the option of using the provision of £72 million and £77 million which remain in the Scottish Block in 1990-91 and 1991-92 respectively following the 1988 rate support grant settlement and subsequent Survey settlement. My point, with which I hoped you would sympathise, was that these amounts already score as public expenditure, and that their application now to the business rates problem would have allowed us to make substantial inroads on that problem without any increase in public expenditure. You may like to reflect further on that.

There is one other important point which I will need to consider further with you. This is the question of timescale. I think our objective must be to eliminate the problem over broadly the same timescale within which the unified business rate would be achieved in England. I would be quite content with the period of 7 years which you suggest as long as that reflects our common understanding of that timescale and at this stage it may well be the most appropriate basis on which to work. But given that there are still some uncertainties I think it would be wise not to tie ourselves down too specifically in public. I would also like, for obvious presentational reasons, to be seen to make a significant impact on the problem in the first year. That would both reassure our critics in the business community, and allow us greater flexibility - in case we need it - as to the measure of progress we make in each succeeding year. I therefore propose to look very hard at my Block with the intention of finding a way to contribute rather more than £20 million in 1990-91, and if I succeed in doing this I hope that you will agree to a matching increase in your contribution for that year. This would of course be without prejudice to either the overall timescale for eliminating the problem, or to the overall cost.

In summary, I am content with the proposed contribution from Scottish community charge payers; I am happy with a timetable which is in step with the introduction of the UBR in England; and I also agree that a substantial part of the cost should be met from the Scottish Block, but I would ask you to increase your contribution to an annual figure reaching, in due course, £105 million (that sum to be equal to the total contribution I would make from the Block); and I would like to make a more significant impact than you propose in the first year.

I think we are now well on the way to sorting this problem out and that it would be helpful if we could now have a discussion. My office will be in touch to arrange a meeting.

I am copying this letter to the Prime Minister.

A handwritten signature in dark ink, appearing to read 'Malcolm Rifkind', written in a cursive style.

MALCOLM RIFKIND

WAL GOVIT: Relations
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