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My ref:

Your ref:

The Rt Hon John Major MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1

AMBPM

This stage.

REC 6

13/4

13 April 1989

Dear John

from
You copied to me your letter of 13 March to Malcolm Rifkind, in which you set out proposals for the funding of a phased reduction in the business rate in Scotland until such time as harmonisation of the rate poundage throughout GB is achieved.

Like you, I consider your offer a generous one. As you said in your letter of 23 January to Malcolm Rifkind, expenditure per head on local authority services is currently around 20% higher in Scotland than in England and grant per head 65% greater. Whilst I accept that needs may be different on either side of the border, so large a disparity is already hard to justify, and the problem will be exacerbated if additional grant assistance is provided to cushion Scottish community charge payers.

Your proposals ensure that the relief for Scottish businesses is not paid for by either a diversion of grant from England and Wales or by businesses south of the border (through a common pool) - which were my original concerns - but your offer of 25% of the funding from the Reserve does of course mean that English and Welsh taxpayers will meet part of the cost. I note, however, your proposal to match this with a 25% contribution from community charge payers - which will increase the pressure on profligate Scottish local authorities to reduce their expenditure - and I welcome this.

It follows that I should have preferred that no part of the cost should be met from GB-wide sources and I should not want to support any proposition for a further contribution from the Reserve beyond your present proposals.

I am copying this letter to the Prime Minister, Malcolm Rifkind and other members of E(LF), and to Sir Robin Butler.

Nicholas Ridley

NICHOLAS RIDLEY

LOCAL GOVT: Rates PT12

