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FROM: CHIEF SECRETARY

DATE: 25 April 1989

PRIME MINISTER

Prime Minister
This follows the earlier restricted exchanges between Messrs Meja, Riffkind and you. Mr. Riffkind has now signed up to the earlier Meja package which you had supported - which places most of the costs on the Scottish Block and local authorities, not English taxpayers. Contact now to endorse attached to outline? *Yes*

BUSINESS RATES IN SCOTLAND

At the meeting on 26 January E(LF) agreed that the higher burden of business rates in Scotland should be reduced to match the burden in England and Wales over a similar transitional period to the introduction of the UBR in England and Wales. However before the necessary provisions could be introduced into the Local Government and Housing Bill, the Secretary of State for Scotland and I were asked to agree the precise method of financing the cost of reducing the burden on Scottish business, and the timetable, on the basis that part should come from Scottish community charge payers and part from elsewhere within the Scottish Block.

2. Malcolm and I have discussed the matter, and agreed that Scottish local authorities, the remainder of the Scottish Block and the Reserve should contribute to the estimated cost in the relationship 1:2:1 (subject to the qualification below concerning the local authorities). We have agreed that the contributions should generally rise in annual steps of £10 million /£20 million/£10 million (constant in real terms). However, in order that the Government should be seen to make a significant impact on the problem in the first year, 1990-91, we have agreed that the contributions from the Block and Reserve (only) should be doubled in that year to £40 million/£20 million. In subsequent years also Malcolm may wish to suggest some slight variation in the rate of increase in the contributions from these two sources, subject to the 2:1 rule; but again the local authority contribution would not be altered.

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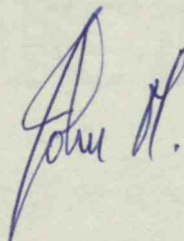
3. On the basis of the present estimate of the cost of harmonisation, ie approaching £300 million, the above plan would eliminate the gap within 7 years, which is broadly comparable to the 5-10 years' transition planned in England and Wales. Of course if that estimate of the gap turns out to have been too low or too high the timetable may be a year or two longer or shorter.

4. Malcolm has suggested, and I agree, that in presenting our decisions we should indicate a presumption that the Scottish local authorities will make their contribution by reducing spending rather than raising the community charge.

5. We shall reflect the above planned contributions in the annual Public Expenditure Surveys and in determining the level of RSG.

6. Malcolm is currently considering the terms of his announcement of this policy.

7. I am sending a copy of this minute to members of E(LF) and to Sir Robin Butler.



JOHN MAJOR

a very
weak
point.
PRCC

LOCAL GOVT: Rety 1972

