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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Malcolm Rifkind QC MP
 Secretary of State for Scotland
 Scottish Office
 Whitehall
 London
 SW1A 2AU

5 November 1990

Dear Malcolm

1991-92 AEF FOR SCOTLAND : RSG/NDRI SPLIT

— will revert if required
 You wrote to me on 2 November with some suggestions for changing the agreed arrangements by which convergence to a common level of NNDR between Scotland and England (and of course Wales) is to be financed.

2. I acknowledge that on the information now available it is likely that convergence would take considerably longer than we had in mind last year, though no definite timetable was then published. And I can see that this is a matter of concern to business rate payers in Scotland.

3. On the other hand, as you say, it would look very odd if Scottish NDRI were uprated by less than the September RPI, given that the Government has already announced full indexation in both England and Wales and has come under a good deal of criticism for that necessary decision. And given the extent to which the UK taxpayer already provides a disproportionately high contribution to the costs of local Government in Scotland, I am not prepared - particularly so close to the Autumn Statement - to agree to any change in the financing arrangements.

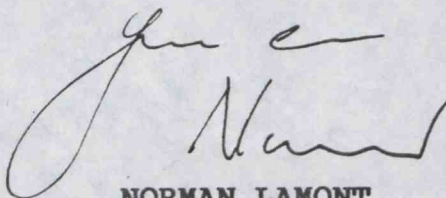
4. It follows that I cannot accept either of your options for what you imply would be a covert reduction in Scottish business rates and a corresponding change to the PSDR. Objections of principle apart, your second option would also undermine the Government's line on the use to which NNDR receipts above forecast are being put in England, which is a matter of some controversy. And in any event, I rather doubt that your suggested tactic would actually go very far to conceal the difference of treatment between Scotland and England/Wales which you propose.

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5. Since I know this is a matter of concern I am however prepared to accept your suggestion that by next June; officials should review the timetable for achieving a common level of NNDR; I have no objection to a further contribution to the UBR reduction for 1991-92 from your Block, were you to take that course. But I cannot increase the cash contribution from the Reserve having just finalised the Autumn Statement plans.

6. I am copying this, as you copied yours, to the Prime Minister, Chris Patten and David Hunt, and Sir Robin Butler.

A handwritten signature in black ink, appearing to read 'Norman Lamont', written in a cursive style. The signature is positioned above the printed name.

NORMAN LAMONT

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