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PRIME MINISTER

LOCAL GOVERNMENT (SCOTLAND: BUSINESS RATES)

There is a complex argument underway between the Scottish Secretary and the Chief Secretary about business rates in Scotland.

As you may recall, the business rate poundage, and therefore business rates, are higher in Scotland than elsewhere in Great Britain. It is agreed policy to bring rate poundages in Scotland into line with those in England and Wales over a period of years.

There is an agreed arrangement for financing this (real) reduction in business rates in Scotland: the cost is borne in part by the Exchequer; in part by Scottish community chargepayers; and in part by reducing public expenditure within the Scottish Block.

A problem has emerged this year. So high is the uprating factor for business rates, (i.e. 10.9 per cent) if it is applied to Scottish business rates, then despite the schedule of agreed reductions in Scottish business rates, the absolute gap between the business rate poundage in England and Scotland will grow.

The Scottish Secretary understandably wants to make further progress in narrowing the gap - not widen it. Accordingly he sought additional resources from the Exchequer to meet the costs of keeping down the Scottish rate poundage. He argued that this did not affect total LA expenditure (that is correct); and that the burden of uprating should fall more on the general taxpayer, and less on the hard pressed Scottish business taxpayer. (But that assumes no contribution should come from the Scottish block.)

Initially the Chief Secretary sought to reject the argument entirely. But in the later letter (attached at Flag A) he proposes a compromise.

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This would increase the business rate poundage in Scotland in absolute terms by at least the same amount as in England i.e. 3.8p. But the Treasury would provide an additional amount from the Exchequer to meet the costs of keeping the increase in the business rate poundage down to an addition of 3.8p (or a little above), rather than the 6.2p justified by the earlier agreement. However one-third of this sum would be met from the Exchequer; the other two-thirds would be met from the Scottish Block i.e. reducing public spending on other services in Scotland.

Comment

The proposed deal seems reasonable. Progress needs to be sustained towards harmonising business rate poundages between Scotland and England. But public spending in general is higher in Scotland (one-third per capita higher than in England): so too is local authority spending.

It seems sensible to seek some contribution from the Scots themselves, who already enjoy these higher levels of public services, while nonetheless making some contribution from the Exchequer.

There is of course room for difference in views about the precise proportions. But the 2 : 1 ratio proposed by the Chief Secretary is reasonable.

Do you want to intervene in support of the Chief Secretary's position?

Or

Are you content for the Chief Secretary and Scottish Secretary to resolve the matter bilaterally?

Yes

BHP

(BARRY H. POTTER)

16 November 1990

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