

CONFIDENTIAL



n.b. P.M. *reuby*  
 (P.M. context  
 for the Ministers to  
 sort out)  
 JHP  
 2/11

Treasury Chambers, Parliament Street, SW1P 3AG

Jim Gallagher Esq  
 Private Secretary  
 to the Secretary of State  
 Scottish Office  
 Dover House  
 London  
 SW1

21 November 1990

Dear Jim,

**SCOTTISH AEF FOR 1991-92: THE RSG/NDRI SPLIT**

Yesterday afternoon your Secretary of State met the Chief Secretary to discuss the issue of the level of business rates in Scotland in 1991-92. Mr Ilett, Mr White and Mr Lawrie (HMT) were present. You and Mr McKay accompanied your Secretary of State.

2. Your Secretary of State said that full indexation of Scottish business rates (NDRI) in 1991-92 would widen the gap between English and Scottish rate poundages. This was inconsistent with the Government's policy which was to reduce the gap over time. The yield from the NDRI in 1990-91 was expected to be £76 million higher than earlier foreseen. To add further to the burden on Scottish business at this time would be widely criticised.

3. Your Secretary of State <sup>had</sup> welcomed the Chief Secretary's proposals (his letter of 15 November). These were a step in the right direction. However, they would require the Secretary of State to finance a significant part of the reduction in the NDRI burden from his Block. This was simply not feasible.

4. The Chief Secretary noted that the main issue to be resolved was how the proposed reduction of up to £53 million in the NDRI burden should be financed. He had proposed a 2:1 financing split - for every £2 your Secretary of State financed from his Block, the Chief Secretary was prepared to find £1 from the Exchequer. This was in line with the agreement recorded last year for minor in-year changes to the rate of convergence. Indeed given that a reduction in the NDRI of as much as £53 million could not be

## CONFIDENTIAL

described as "minor" the offer put forward was, in his view, extremely generous. The fact that the NDRI yield in 1990-91 had turned out to be higher than originally forecast did not seem to him to be germane.

5. Your Secretary of State said that he accepted that a reduction in the NDRI of £53 million was reasonable. However, he could not afford to finance this from his Block. The demands on his Block already greatly exceeded the resources available, in part because he had already transferred £46 million to increase support for Scottish local authorities in 1991-92.

6. The Chief Secretary said that he in turn could not afford to provide further resources from the Exchequer. The PSDR was already under strain; your Secretary of State's proposal would increase the pressures further.

7. Your Secretary of State made it clear that he did not expect the Treasury to finance the entire £53 million. However he did hope that the Chief Secretary would not insist on his making a contribution from the Scottish Block to match any resources the Chief Secretary was prepared to offer from the Exchequer. Your Secretary of State said that he was able to transfer a further £8 million from his Block. But he could not go further than that.

8. Mr Ilett noted that, given that the Secretary of State already had £42 million UBR reduction in his baseline, there would be convergence in rate poundages in real terms even if no additional financing were provided in 1991-92.

9. Your Secretary of State pointed out that in cash terms the gap would worsen. This would be seen as a public repudiation of an agreed Government policy; and one that would make the Government look extremely foolish.

10. The Chief Secretary said that he would be prepared, in the special circumstances of 1991-92, to offer a 1:1 split. If your Secretary of State was prepared to put an additional £8 million into the NDRI, the Chief Secretary would match this.

11. Your Secretary of State expressed his gratitude for the Chief Secretary's offer. He wondered, however, whether the Chief Secretary might be prepared to go further. There was already £42 million in his baseline to be used to reduce the NDRI in 1991-92. Half of this had come from the Scottish Block, while a further £11 million had come from the Exchequer. Would the Chief Secretary be prepared to contribute an additional £10 million so that the entire Scottish Block contribution of £29 million (comprising the £21 million already in the baseline, and the further £8 million proposed during the meeting) would be matched 1:1 by the Exchequer?

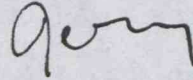
12. The Chief Secretary said that he would reflect on this, but saw difficulty in going beyond a 1:1 matching of additional resources.

**CONFIDENTIAL**

13. Your Secretary of State made it clear that whatever was agreed for 1991-92 was entirely "one-off". In subsequent years he would be happy to revert to the existing agreement. He also made clear that in presenting the outcome he would be careful to keep in mind the Secretary of State for the Environment's concerns.

14. I am copying this note to Barry Potter (No 10), Philip Ward (DOE), Judith Simpson (Welsh Office) and Sonia Phippard (Cabinet Office).

*Yours truly,*



**JEREMY HEYWOOD**  
**Private Secretary**

LOCAL GOVT. Rates Pt 21

