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The Rt Hon Nicholas Ridley AMICE MP
Secretary of State for the Environment
2 Marsham Street
LONDON
SW1P 3EB

9 December 1988

Dear Nicholas,

HARMONISATION OF RATING: THE CONTRACTOR'S BASIS

I refer to your most recent letter dated 29 November on this subject. *file with x*

I am glad that we are in agreement that decapitalisation rates should be prescribed on a national basis: this will be an important element in the harmonisation of the valuation system and will also simplify preparations for the 1990 Revaluation.

I think the most important question is the basic decapitalisation rate on which we should consult. As I said in my minute of 19 October to the Prime Minister, I think we should recognise that there is a range of possibilities, though I do not think we need imply, as John Major is suggesting that we are tending to look at a figure somewhat above 6%.

It is important that the consultation process should make very clear that we are willing to respond to the points that are put to us. I am aware of some problem issues such as sports grounds (valued on the contractor's principle in Scotland) but there may be others: and we want to avoid unnecessary criticism. I hope we can make early progress on this basis.

For the rest, I agree with you that, whatever the structure of rates we adopt, we should not attempt to ring-fence private business ratepayers. This would not be possible within the existing statutory provisions in Scotland, but apart from that I think we must accept that any redistribution of burdens resulting from revaluation, including changes attributable to harmonisation, must apply to the whole of the non-domestic sector. Nor can I accept John Major's proposal that there should be a trade-off between RSG and rates payments by central and local government.

Turning to the rates to be prescribed for the public sector and for charities, I find the balance of the arguments between you and John difficult to judge. Your approach offers if anything a marginal benefit to local authorities in Scotland, because of the large number of schools they own, valued on the contractor's principle but means added costs for the Crown (NHS, prisons and MOD); John's approach means less change, given the decapitalisation rates at present established in Scotland. On these grounds I am inclined to favour his proposal of 5% for the public sector generally and 4% for charities, though I would be content for the consultation to proceed on a basis which reflects a range of possibilities.

I must re-emphasise that on the basis you have proposed, there will be an additional rates burden on the Crown and it is clear that additional funds will have to be made available to reflect these additional payments.

I am copying this letter to the Prime Minister, John Major and other Members of E(LF) and to Sir Robin Butler.

*Yours ever,
Malcolm*

MALCOLM RIFKIND

Louise Gouin: Rates

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