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Treasury Chambers, Parliament Street, SW1P 3AG

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

6th April 1989

Dear Malcolm,

BUSINESS RATES IN SCOTLAND

Thank you for your letter of 23 March. *Asap*

I am disappointed that you have not felt able to accept my offer of a substantial 25 per cent (£70 million) contribution from the Reserve towards the cost of harmonisation. You propose that this share should be increased to 37.5 per cent - to equal your proposed contribution from the Scottish block. You also propose to find the Block contribution from central government funds that you had already agreed should be transferred to local authority current provision as part of the 1988 Survey settlement. In other words the net contribution from your block, compared with the outcome of the last Survey, would be only some £30 million.

I have considered the matter carefully but I believe I have gone as far as I can in offering finance from the Reserve to meet the financing gap estimated by your officials. I believe the 25 per cent Reserve contribution is a generous one bearing in mind that there is in principle a good case for requiring the full cost to be met from Scottish resources. I offered to assist with a Reserve contribution only because I saw the presentational and political difficulties you would face without such assistance. However, I am afraid I cannot accept that it is fair that the Reserve and the Block should make equal shares - my proposal for a 2:1 (Block: Reserve) ratio seems to me to be generous and I do not believe I can improve it.

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I do sympathise strongly with your wish to make a significant impact on harmonisation in the first year and I would be willing to consider bringing forward the contribution by the Reserve to help up to a maximum of £20 million. But that would be on the understanding that the contribution from your Block would be at least twice the amount coming from the Reserve to maintain a 2:1 Block: Reserve relationship, as in the overall contribution.

I had hoped that my letter of 13 March had dispelled doubt about the £72 million and £77 million that I agreed you should retain in your central government/LA capital provision purely as a presentational device for the publication of the 1989 White Paper. Our agreement last autumn, which we must abide by now, means that these funds are simply not available. They are already committed to local authority expenditure, as supported by a realistic level of Government grants to Scottish local authorities in the new baseline and a reasonable assumption on "below the line" self-financed LA expenditure. I do not think we can fudge this issue and use the money twice.

I appreciate that the uncertainties surrounding harmonisation may make it prudent not to give too strong a commitment to the timing of harmonisation at the outset. What must not be uncertain at the outset is the specific arrangements for funding harmonisation over whatever period is agreed to be most appropriate. I hope you can make that commitment on the basis of the proposals I made in my letter of 13 March, as adjusted by further contributions in 1990-91 from your Block and from the Reserve on a ratio of 2:1, but nothing further from the Community Charge payer in that year beyond the £10 million you had already proposed.

You suggested a meeting but I thought it would be helpful to write to make it clear that I can offer flexibility only on the timing of the Reserve's contribution to the costs you face. I hope that given that further concession we can reach agreement now on the way forward. Either way we need to report quickly to E(LA).

I am copying this letter to the Prime Minister.

*Yours Ever,
John*

JOHN MAJOR

LOCAL GOVT : Palani PT12

