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PRIME MINISTER

BUSINESS RATES IN SCOTLAND

Before Easter you saw a note from the Chief Secretary to Malcolm Rifkind proposing a resolution to the argument between them about the financing of the costs involved in moving towards a common GB business rate poundage.

John Major's proposals were:

- transition over seven years;
- total contributions over that period of:
  - £70 million from Scottish community charge payers
  - £140 million from the Scottish block
  - £70 million from the Reserve
- he also stressed that the £140 million cumulative contribution from the Scottish block should be in addition to savings of £72 million and £77 million in 1990/91 and 1991/92 which Malcolm Rifkind undertook to make in the last Survey. (For presentational reasons these sums remained in the published figures for the block in the last Public Expenditure White Paper.)

At that time you decided that rather than wait for Malcolm Rifkind's response, you would endorse John Major's package - which seemed fairly to reflect the spirit of the last E(LF) discussion.

Unfortunately your intervention has not stopped Malcolm Rifkind from seeking to renegotiate. His letter of 23 March (flag A) proposes:

- (i) rather than the block funding of £140 million and the Reserve £70 million, they should find equal shares of £105 million;

CONFIDENTIAL

CONFIDENTIAL

- 2 -

- (ii) he should be allowed to use the promised savings in the block from the last Survey towards financing business rates, rather than having to find wholly additional savings;
- (iii) the time profile of the payments should be adjusted, with more of the costs following in the first year.

John Major's further response of this April (flag B) accepts point (iii). But this is a relatively minor point. He resists Malcolm Rifkind's main proposed concession on (i) and (ii).

You will want to consider whether to intervene again at this stage or to await a meeting between Malcolm Rifkind and John Major. If you do intervene now, I imagine you will want to reinforce your support for John Major's position.

- (a) do you want to intervene now to reinforce your support for John Major's approach? Or
- (b) do you want to let the two of them try to sort the details out bilaterally, while reminding Malcolm Rifkind you feel John Major's proposals are 'a well judged package which fairly reflects the spirit of the last E(LF) discussion'.

*Rec.*

*Conrad (W) please*

PAUL GRAY

7 April 1989

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