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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

15 November 1990

Dear Malcolm

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

Thank you for your letter of 9 November.

2. I am very conscious of the difficulties which Chris Patten and David Hunt could face in defending the uprating of NNDR by the full September RPI, if I were to meet your request. I am also conscious of the extent to which the UK taxpayer already finances a higher level of local government services in Scotland than is available in England. I do not accept your argument that in some way the UK taxpayer would gain at the expense of Scottish business under my proposals.

3. Nevertheless, given the priority which you attach to making demonstrable progress towards achieving a common level of NNDR in Great Britain, and given that it is now clear that the gap between English and Scottish rate burdens is greater than had been thought, I would exceptionally be prepared to make some further Exchequer contribution to the cost of reducing the business rate burden in Scotland for 1991-92.

4. You have asked for a "small" though unspecified sum to be added to the "UBR reduction", funded 75% from your Block, and 25% from the Exchequer; and in addition that the Exchequer should bear the entire cost of increasing Scottish poundages on average by 3.8p rather than 6.2p, which is over £50 million in rates income foregone. I could not possibly contemplate generosity on this scale.

5. However, I can offer to provide £1 from the Exchequer for every £2 you draw from elsewhere in your Block to finance this reduction in the burden on Scottish business. This offer is my response to both the proposals you have made. It is more generous

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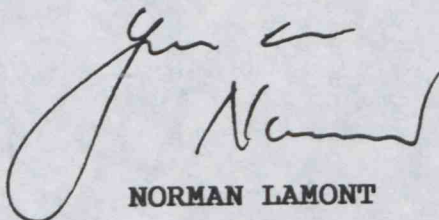
than the general agreement we have in this area but recognises that at this point in the year, now that AEF is fixed, you cannot pass part of the cost to your local authorities.

6. This is however, on the understanding that

- (i) you present the outcome, not as an uprating of business rates in Scotland alone of less than 10.9%, but as a step towards the agreed policy of bringing business rates into line with England; and
- (ii) for the purposes of the overall calculations you increase Scottish poundages on average at least in line with the English poundage increase, ie 3.8p, before deducting the £42 million "UBR reduction" at present in your baseline.

7. The Government does not have an agreed strategy for the convergence of English and Welsh NNDR, and the gap between English and Welsh poundages is of course very much less than the gap between English and Scottish poundages. Nevertheless, if you accept my compromise, I would be prepared to offer David Hunt the same approach for Wales. If David Hunt wishes to reduce the increase in the Welsh poundage for 1991-92 from 4.0p to or towards 3.8p, I would be prepared exceptionally to finance £1 of the cost in additional RSG for every £2 he draws from elsewhere in his Block. This is without prejudice to any arrangements we might agree for the future for harmonising English and Welsh NNDR; in particular, I would expect Welsh community chargepayers to make a significant contribution to the cost of this policy.

8. I am copying this letter, as you did yours, to the Prime Minister, Chris Patten and David Hunt, and to Sir Robin Butler.



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