Prime Minister
Agree to write as proposed?
DRN 2/6.

papers please.

Too soon - prefer discussion first

22 May 1986

MR NORGROVE

PAYING FOR LOCAL GOVERNMENT: 1986-87 SCOTTISH LEGISLATION

Malcolm Rifkind and the DoE are corresponding about the arrangements for grants and non-domestic rates in the Scottish legislation.

The DoE letter makes three points.

Capping non-domestic poundages for an indefinite period

We are planning to move to a non-domestic rate uniform across the whole of Great Britain. Scottish non-domestic rates tend to be higher than in England. The Scots therefore need to work out a way of financing a reduction in their non-domestic rates without getting subsidies from English taxpayers or ratepayers. This is a tricky task, and the DoE are afraid that the Scots will shirk it and never get beyond the interim solution of capping the non-domestic rates.

Capping non-domestic rates is fine as a temporary measure: it does ensure that variations in spending will fall on the community charge. But the Prime Minister might want to back the DoE in pressing the Scots to think carefully about what comes after it.

Local authority responsibility for collecting non-domestic rates

It would be very odd if local authorities ceased to be responsible for collecting non-domestic rates. We don't want central government to get into this game. The DoE are right to be worried. I recommend the Prime Minister back them.

Can authorities levy less than the poundage set?

This is an interesting possibility. Imagine that a prudent council is elected in place of a spendthrift one. They cut their expenditure so much that they can lower the non-domestic poundage to below what is required for the central pool and meet the balance from their low-rated householders. They can thus encourage business into their area. This is attractive, and the DoE are wrong to want to rule it out.

Their worry is that a new spendthrift council can increase their spending without increasing the community charge if they have headroom on the non-domestic rate. This problem can be met by a requirement that non-domestic poundages should not be increased suddenly by more than the rate of inflation. I recommend that the Prime Minister propose this compromise so that local authorities remain free to levy less than the set non-domestic poundage.

David Willetts

DAVID WILLETTS

LOCAL GOVT

RATES

PTY