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Secretary of State for Trade and Industry

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// November 1986

The Rt Hon The Viscount Whitelaw CH MC
Lord President of the Council
Privy Council Office
Whitehall
LONDON
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Dear Willie,

NON-DOMESTIC RATES

Nicholas Ridley has copied to me his letter to you of 5 November, setting out his proposals on some important aspects of the non-domestic rate as it will figure in the Green Paper package. I should like to comment on these proposals, and to make one of my own.

I strongly agree that we should confirm our preference, expressed in the Green Paper, for a national non-domestic rate, as against the 'freezing' of poundages locally. Not only will it be indefensible in the context of a national system to perpetuate differences of 100 per cent and more in the rates paid by similar businesses in different areas for similar services. But the pattern of local poundages which would be 'frozen' under the alternative option would be disadvantageous on the whole to those regions and those industries least equipped to bear the burden. I accept that there will be many losers under a non-domestic rate, and that the transition will therefore need handling with great care. But the problems of transition do not justify us in perpetuating a damaging and illogical pattern of non-domestic rates.

I can accept the r.p.i. as the index for adjusting a national non-domestic rate. It would be quite wrong, for the reason Nicholas gives, to accept an index of local authority costs. There

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is an argument that the GDP deflator reflects more accurately than the r.p.i. the general level of inflation in the economy. But I am willing to accept that this theoretical merit does not outweigh the advantages of the r.p.i. in convenience and familiarity to the public.

However, to apply indexation with no allowance whatsoever for the natural buoyancy of non-domestic rateable values, and thereby to ensure that the yield of the national non-domestic rate rises by significantly more than the rate of inflation, seems to me to conflict with our objective of ensuring that local voters bear the full effect of the spending policies of their authorities. Where authorities are prudent, they will derive an increased proportion of their income from the business community; and where they are spendthrift, the business community will contribute to the excess. I think we need to avoid this, either by applying the indexation formula to the yield of the non-domestic rate; or by reducing the r.p.i., as applied to the poundage, by a factor which allows for the buoyancy of non-domestic rateable values. A reduction of 1 per cent, which would not allow fully for buoyancy, might be an acceptable figure. I note that Norman Tebbit has also suggested this.

I am happy to accept the proposal to leave untouched the existing discretionary reliefs for charities and non-profit making bodies. When we come to deal later with empty commercial properties I hope we will consider carefully the economic case for extending to them the 100 per cent exemption applying to empty industrial properties.

Nicholas Ridley's letter does not address the question of the level of non-domestic rates in England and Wales in the period before the new system comes into force. This is a major worry for industry and commerce, who have seen their rates rise markedly in real terms over recent years. There is also the fear that the prospect of the Green Paper package may incite authorities to excessive rate increases in the next two or three years to establish a high base line for the national non-domestic rate. The publication of proposals to cap non-domestic rates in Scotland will inevitably draw attention to the absence of a parallel provision for England and Wales. I think we must look seriously again at the possibility of capping non-domestic rates in England and Wales in the interim period before the new system. If that presented insuperable problems, for example in terms of early legislation, a second best alternative might be to announce that the non-domestic poundage for Year One of the new system would be based not on the immediately preceding year, but on 1986/7, with the r.p.i. applied to the whole intervening period. This would at least reassure industry that excessive increases over the next few years would not be built permanently into the system.

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If you felt that an early meeting of E(LF) would resolve these and any other outstanding issues, I should be very happy to attend.

I am copying this letter to members of E(LF) and to Sir Robert Armstrong.

*Yours,
Paul*

PAUL CHANNON

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LOCAL GOVT: Rating reevaluation: Pt 5.

