

CC (PS)



Y WYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switsfwrdd)
01-233 6106 (Llinell Union)

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-233 6106 (Direct Line)

Oddl wrth Ysgrifennydd Gwladol Cymru The Rt Hon Nicholas Edwards MP

From The Secretary of State for Wales

12 November 1986

CONFIDENTIAL

J. Willie

with DRW

Nicholas Ridley copied to me his letter of 5 November about the future of non-domestic rates.

I agree that we should confirm the Green Paper proposals that a National non-domestic poundage should apply in Wales and England. As Nicholas notes in his letter, separate poundage would need to apply in Wales. In fact, for Wales this year the highest non-domestic poundage is only 25 per cent above the lowest, so unless there is a sharp divergence in poundages in the next two years, which seems unlikely, the gains and losses for business ratepayers should not be very dramatic. This makes the case for a uniform poundage, as opposed to freezing existing poundages, less strong, of course, but at the same time it means that there is unlikely to be strong opposition from those presently at the lower end of the scale. As Nicholas says, it is important in this respect that both Wales and England are in step. The CBI Wales, after a detailed presentation of the Green Paper proposals, have come out firmly in favour of the uniform non-domestic rate without the reservations which have been entered in England. They were, however, concerned about the possibility that in the final year of the existing system local authorities might deliberately set high poundages with the aim of maximising their yield from the pool in the first year of the new system. I think that we shall have to bear this possibility in mind and retain the power to set the initial poundage at, say, the up-dated average of the preceding five years if this seems likely.

I would prefer to see the GDP deflator used as the index for operating the poundages. Although the RPI is well known, it is not the most appropriate

/index to use ...

The Rt Hon Viscount Whitelaw CH MC
Lord President of the Council
Privy Council Office
Whitehall
London
SW1



index to use, being simply the price movement of a basket of consumer goods, including the interest cost of mortgages. The GDP deflator is generally acknowledged to be more appropriate for public expenditure purposes. While it is subject to retrospective adjustments, which would need to be reflected in the poundages set for following years, I do not see that this need cause any major problems. In fact it would have some presentational advantages, since it would then illustrate to both local authorities and non-domestic ratepayers that we were being scrupulously fair to them both.

I am content with Nicholas' proposal for the treatment of buoyancy, despite Norman Tebbit's letter of 9 November arguing for an off-set to benefit businesses. One of the virtues of the new system is that the gearing means that expenditure decisions are fully reflected in the community charges; but if we reduce the yield from the non-domestic pool then this would also have a direct effect upon charges. The result may, in fact, be a blurring of accountability, since local authorities will not be slow to turn round and lay the blame at our door for not allowing them the full yield from the pool. Businesses will still have the full benefits of a move to a uniform poundage which, as we have always proposed, will be uprated in line with inflation.

I am content with Nicholas' proposal for the treatment of discretionary reliefs.

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

J. C. M.
N. S.

LOCAL GOVT ! Rates: P65.

