

PRIME MINISTER

*MS*

UNIFIED BUSINESS RATE

Mr. Ridley, supported by Mr. Rifkind and the Chief Secretary, proposes that there should be a uniform poundage for business rates once the reforms take effect, and that the poundage should be indexed to the RPI. The non-domestic rate base typically grows by 1-2 per cent a year, so under this proposal local authorities would get the benefit of that buoyancy, which would amount to 1/4-1/2 per cent of their total income.

*Should go up by an amount which does not exceed*

Mr. Tebbit, Mr. Clark, Mr. Channon and the Policy Unit favour RPI minus x, with x either 1 or 1/2 per cent.

*the RPI is (both measured w/ inflation) -*

This is likely to have to be settled in a meeting of E(LA) or E(LF). Two questions arise.

*amount to be determined each*

First, there is the question whether you or Lord Whitelaw should take the meeting. This seems to be more for Lord Whitelaw than for you, and it can be tacked on to a meeting Lord Whitelaw will anyway be taking. Agree that Lord Whitelaw should chair the meeting?

*yes. no*

*No - I will take it*

*no*

Secondly, there is the question whether you should express a view on the argument over RPI against RPI minus x.

RPI minus x is attractive, and it is easy to see why the people concerned support it. However, there are arguments against it. First, like it or not, local authority expenditure is likely to grow faster than inflation (as central Government expenditure has) pushed on by real growth in earnings in the public sector which is not offset by higher productivity, either because the higher productivity is not achieved, or because it is taken in the form of higher output. The result would in practice be to add overtime to the community charge or to pressures for higher central Government grant. Neither would be attractive, particularly since the



new system will be coming in during the year or two before an election in 1991 or 1992. Secondly, the buoyancy of the rate base comes from business growth, which in principle adds to the demand for local authority services. Thirdly, the Government have decided on RPI indexation for the BBC, though if necessary that decision could be re-opened.

---

This is a ragbag of arguments, and they are certainly not decisive. But they suggest that the point is certainly worth talking through before a decision is taken, and on that basis I would suggest that you need not express a view. Do you wish to express a view either way, subject to the discussion, or leave it to the meeting?

Peter Stredder of the Policy Unit has made the useful suggestion that further thought needs to be given to how the poundage will be altered to reflect regular revaluations under the new system. If you decide that the Lord President should take the meeting, I shall pass this point on to his office.

---

*S. maui*

*P.P.* David Norgrove

14 November 1986