



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

CONFIDENTIAL

The Rt Hon Nicholas Ridley MP
Secretary of State for the Environment
2 Marsham Street
LONDON
SW1P 3EB

14 November 1986

Dear Secretary of State

PAYING FOR LOCAL GOVERNMENT - NON-DOMESTIC RATES

I have seen your letter of 5 November to Willie Whitelaw in which you make proposals for the future of non-domestic rates in England, and I am content that these will cause no difficulty for the introduction at the end of this month of my Abolition of Domestic Rates Etc (Scotland) Bill.

UNIFORM NON-DOMESTIC RATE

As you say, freezing and indexing the existing diversity of non-domestic rate poundages can only be a temporary solution, and Michael Ancram and I have always made it clear that our proposal to do so in Scotland is no more than an interim measure pending harmonisation of the valuation systems north and south of the Border. I have therefore no hesitation in supporting your proposal for a uniform national non-domestic rate poundage, which I shall want in due course to apply in Scotland also (subject to adjustment for the different "basket" of services supplied by our local authorities, notably water and sewerage). I am grateful also for the recognition, implicit in your remarks, of the importance in presentational terms of our making progress with valuation harmonisation, about which I wrote to Norman Lamont recently. Finally I note Paul Channon's letter of 11 November raises points about the base from which the uniform national non-domestic poundage should start, and we shall have in due course to consider these in E(LF).

PHASING-IN AFTER REVALUATION

With our recent experience of a traumatic 1985 revaluation after only a seven-year gap, I certainly agree that it would be wise to plan for transitional measures in advance of the 1990 revaluations, and shall welcome discussing proposals for phasing-in new valuations in E(LF) in due course.

INDEXATION

I am perhaps a little less convinced than you of the appropriateness in the context of non-domestic rates of the Retail Prices Index as a measure of inflation, compared with the more broadly-based, whole-economy, GDP deflator favoured by Nicholas Edwards, but in the course of recent

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further consultations in Scotland it emerged that the CBI and the Chambers of Commerce did not feel strongly on this point and would be prepared to accept the more well-known RPI. I note that Paul Channon's view is similar. If business finds the RPI acceptable, I see no reason to disagree. Like you, I think it preferable that indexation should reflect past rather than projected inflation. The next print of my ADRES Bill will therefore incorporate in its non-domestic rates formula specific reference to the RPI as a measure of past inflation.

BUOYANCY

I had come to a similar conclusion to your own about the treatment of buoyancy in the non-domestic rate base, and the ADRES Bill is being drafted accordingly to index the poundage rather than the yield. Revaluation years have to be an exception however, since there has then to be a deliberate adjustment of the indexed poundage downward to match the upward step in the revalued rate base, and the effect of a wider rate base due to new properties etc cannot be separated from the general rise in values in making this adjustment. Thus in revaluation years only, the ratepayers get the benefit of any buoyancy; in all the years between, the local authorities do. I am afraid I am not attracted to the suggestion made by both Norman Tebbit and Paul Channon that we should try to 'split' the benefit of buoyancy in any other way, and I hope they will feel able to agree to the treatment in the ADRES Bill print to be circulated shortly.

DISCRETIONARY RELIEFS

Like you, I have no plans at present to disturb the existing arrangements for non-domestic rate reliefs and the ADRES Bill is silent on the subject. I note the potential for future anomalies here however and my officials will keep in close touch with yours in considering solutions. Meanwhile the arrangements I am proposing in the Bill for the calculation of grant will be flexible enough to enable me to take into account factors like the reduction in rate yield due to reliefs.

FUTURE DISCUSSIONS

There are still clearly a number of points related to non-domestic rates in England and Wales which E(LF) will have to discuss, including those you identify as items (iv) to (vi) in your letter. But for the present you will understand my preoccupation with publication of the ADRES Bill, scheduled for the end of the month, and trust you and other colleagues will agree that none of the points still outstanding need cause me any delay here.

I am copying this letter to the Prime Minister, to other members of E(LF) and to Sir Robert Armstrong.

Yours sincerely
Malcolm Rifkind

MALCOLM RIFKIND

Approved by the Secretary of State
and signed in his absence

