

CONFIDENTIAL

CC BKP

CC BCP



NBN at this stage

Treasury Chambers, Parliament Street, SW1P 3AG

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

17 November 1986

Dear Nidds,

PAYING FOR LOCAL GOVERNMENT: NON-DOMESTIC RATES

with DRN

Thank you for sending me a copy of your letter of 5 November to Willie Whitelaw. I have also seen the comments made by Norman Tebbit, Paul Channon and Nicholas Edwards.

I agree with your conclusion in favour of a uniform poundage and that this will need careful presentation given the different interim arrangements which will apply in Scotland. I agree that we cannot afford to reduce the non-domestic rate burden in the way the CBI propose. Indeed, we will need to think very carefully before making any reduction in the burden on industry, given the implications for the level of the community charge and the extra marginal pressure on Government grant. But that can, as you say, be considered nearer the time.

I note that you will be putting more detailed proposals on the transitional problems, which I agree we will need to consider carefully, in due course to the sub-committee.

I also agree with your conclusion on the treatment of buoyancy. Our firm objective must, of course, be to avoid real-terms growth in local authority spending, and I understand why Norman Tebbit and Paul Channon prefer a different approach to the buoyancy issue, to put more pressure on the community charge. It is right to make that pressure as strong as possible provided it is sustainable in the long term and will not simply add to pressure for additional grant.

CONFIDENTIAL

In this instance, however, I think it would be prudent to err on the side of caution, and I share your view that it would be a mistake to set up long-term arrangements for non-domestic rates which abandoned the benefit of this buoyancy for the financing of public expenditure. The danger is that we should come under pressure to replace it by grant financed from other national taxes.

Paul also suggests that we should give further thought to the danger of excessive rate increases in the run-up to 1990. I agree that this should be considered further, and hope you will cover the point in your further proposals.

Nicholas Edwards suggests that we should use the GDP deflator rather than the RPI for the indexation factor. I have a lot of sympathy for his arguments, and the choice is a finely balanced one. In principle the GDP deflator would be better, and it should be possible to deal with retrospective adjustments without retrospective changes in the national non-domestic rate. As an index of consumer prices, including housing costs, the RPI is far from ideal in this context. But it would be more easily understood and its use in a tax context is already familiar. For that reason I would on balance go along with your proposal to use the RPI.

I am content with your proposals on discretionary reliefs.

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

Yours ever,
JH

JOHN MacGREGOR

LOCAL GOVT: Rating revaluation . PLS

