CONFIDENTIAL

## PRIME MINISTER

## INDEXATION OF NON-DOMESTIC RATES

The Chancellor and the Chief Secretary, as you know, favour indexing the poundage of non-domestic rates to the RPI, rather than the yield.

There is one further argument on this which they have felt unable to circulate to a wider group of colleagues. They believe that if central Government takes over the yield of non-domestic rates in order to finance education, under the proposed reform of the structure of education, the Exchequer will need the flexibility given by the buoyancy arising from indexation of the poundage.

BEN

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David Norgrove

19 November 1986

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