



The Rt Hon Viscount Whitelaw CH MC
 Lord President of the Council
 Privy Council Office
 Whitehall
 LONDON
 SW1A 2AT

2 MARSHAM STREET
 LONDON SW1P 3EB

01-212 3434

My ref:

Your ref:

5 February 1987

Dear Lord President,

"PAYING FOR LOCAL GOVERNMENT": PROPOSED 5% DISCRETIONARY
 NON-DOMESTIC RATE

As you will recall, the Green Paper proposed that local authorities should have power to levy a small discretionary local non-domestic rate, of up to 5% of the national rate. The uniform national poundage would have been set 5% below the previous year's average to allow for this.

The object of the proposal was to retain some link between local business communities and their local authorities; to act as a focus for their duty to consult business, which we introduced in 1984; and to give authorities some incentive to welcome new development into their areas.

Further consideration, though, has led me to conclude that the proposal will not achieve any of these objectives very well. Local authorities will be under severe pressure to levy the full permitted amount in order to keep community charges low. Local business organisations will be much less likely to take consultation seriously if the most that is at stake is a 5% reduction in rates. And in relation to incentives to development, the maximum benefit an authority can gain from attracting even the biggest new development - such as a major power station - into its area is unlikely to be worth more than £2 (1%) off the community charge. That sort of figure is not likely to be significant in overcoming opposition to such developments.

Meanwhile the proposal would have a significant effect on the level of community charges authorities needed to levy, because of existing wide variations in non-domestic rateable value per head, and could thereby have a distorting influence on accountability. The effect could range from an increase of £7 in the charge in some rural areas to a reduction of £178 in Westminster and £54 in Camden. While some of the effects help to restrain the very highest community charge, others do not.

The proposal attracted negligible support during the consultation period; both local authorities - who stressed they would have to levy the full amount - and business organisations, who saw the potential benefits as too trivial, were against it. I therefore suggest that we should abandon the proposal, and retain a uniform business rate everywhere.

If we do agree to drop this proposal, I accept that the criticisms of the non-domestic rate which gave rise to it will persist. While these do not in any sense undermine the case for the national non-domestic rate, I will endeavour to take account of them in developing proposals for its operation.

My proposal relates to England; though, as with most non-domestic rating issues, I would see advantages if Nicholas Edwards - and Malcolm Rifkind, when the uniform rate is extended to Scotland - could adopt a consistent approach.

I should therefore be grateful for colleagues' agreement to my dropping the proposed 5% discretionary rate.

I am sending copies to members of E(LF), to Peter Walker in view of his interest in incentives for local authorities to welcome development, and to Sir Robert Armstrong.

Yours sincerely,

Nicholas Ridley

NICHOLAS RIDLEY

(Approved in draft by the Secretary of State and signed in his absence.)

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✓

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

12 February 1987

Dear Robin,

**"PAYING FOR LOCAL GOVERNMENT";
PROPOSED DISCRETIONARY NON-DOMESTIC RATE**

The Prime Minister has seen your Secretary of State's letter of 5 February to the Lord President which proposed that the idea of a 5 per cent discretionary non-domestic rate should be dropped and that a uniform business rate should be retained everywhere. Subject to the Lord President's views and those of other colleagues, the Prime Minister would be content for this change in the proposals to be made.

I am copying this letter to the Private Secretaries to members of E(LF), Geoff Dart (Department of Energy) and Trevor Woolley (Cabinet Office).

Jan,

David.

(David Norgrove)

Robin Young, Esq.,
Department of the Environment.
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Prime Minister

Agree that the 5% discretion should be ^{Yes} not dropped, and to ask Nicholas Ridley to consider the Policy Unit proposal below in its place? ^{No - i-}

PRIME MINISTER

11 February 1987

PROPOSED 5% DISCRETIONARY NON-DOMESTIC RATE

'Paying for Local Government' proposed allowing local authorities discretion to levy a non-domestic rate of up to 5% of the national uniform business rate. The aim was to give local authorities some incentive to encourage commercial and industrial development in their area. In his letter of 5 February to the Lord President Nicholas Ridley says that he wants to drop this proposal for the following reasons:

- there will be little advantage to the local business community in maintaining links with the council if all that is at stake is 5% of their rate bill;
- the maximum benefit that local authorities will gain from attracting even the biggest development is likely to be at most 1% off the community charge;
- because of wide variations in rateable values for similar types of development between areas, the effect on the community charge of levying the maximum discretionary rate would vary substantially from area to area, weakening accountability in an area with high rateable values;
- the proposal attracted negligible support during consultation.

There should be some incentive to encourage local authorities to welcome development. Otherwise decline will be hastened in inner city areas where local authorities are hostile to commercial activity. But Nicholas Ridley is right to say that the 5% proposal gives local authorities little incentive since they gain at most 5% of the increase

in rate income from new development. Instead, the local authority should receive all the rate income from new development for a limited period, say five years. The rate charged would be the national business rate, so local authorities would have no opportunity to price out new businesses, but there would be a powerful incentive for them to encourage and continue encouraging new business activities. This idea should be administratively feasible because new developments have to be freshly assessed by the Valuation Officer and could then be put on a separate valuation list for a limited period.

Conclusion

We support Nicholas Ridley's proposal to abandon the 5% discretionary rate. But there should be an incentive for local authorities to encourage new business development.

They should therefore be allowed to keep the rate income from new business developments for a limited period, say five years.

Peter Stredder

PETER STREDDER

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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

NRBM

23rd February 1987

Dear Nick,

"PAYING FOR LOCAL GOVERNMENT": PROPOSED 5 PER CENT
 DISCRETIONARY RATE

Thank you for copying to me your letter of 5 February to Willie Whitelaw. I have also seen replies from Norman Tebbit, Malcolm Rifkind, Paul Channon, Nicholas Edwards and from David Norgrove at No. 10. *at hand*

I am not sure whether business appreciated that a 5 per cent discretionary rate would give authorities greater incentive to develop their tax base than the present system, which offsets changes in rates income from this source by grant reductions. However, I recognise that any incentive would be small and I have no objection to dropping the idea of a 5 per cent discretionary non-domestic rate.

Though the general idea of a financial incentive for local authorities to encourage business development is laudable, I think that it will in practice be difficult to design one that is both economic and effective.

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

Yours etc,

JOHN MacGREGOR

LOCAL GOVT. Relation PT31



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Oddi wrth Ysgrifennydd Gwladol Cymru The Rt Hon Nicholas Edwards MP From The Secretary of State for Wales

17 February 1987

De Niall

NBRN

"PAYING FOR LOCAL GOVERNMENT" - PROPOSED DISCRETIONARY
NON-DOMESTIC RATE

Thank you for copying to me your letter of 5 February to Willie Whitelaw. As in England and Scotland, ~~no~~ great enthusiasm has been shown for the proposal in Wales, and I am content that it should be dropped.

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

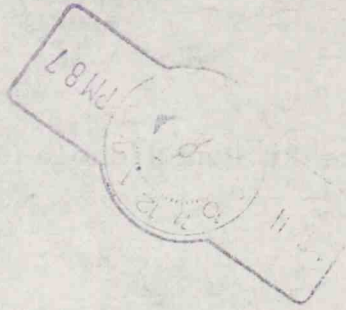
J. am
Niall

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

LOCAL GOVT

MEMORANDUM

PT 31



CCP/G



DEPARTMENT OF TRADE AND INDUSTRY
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Secretary of State for Trade and Industry

CONFIDENTIAL

13 February 1987

The Rt Hon Viscount Whitelaw, CH, MC
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Den Hillie

NBN

**PAYING FOR LOCAL GOVERNMENT: PROPOSED 5% DISCRETIONARY
NON-DOMESTIC RATE**

I have seen Nicholas Ridley's letter to you of 5 February in which he seeks colleagues' agreement to drop the proposal that local authorities should, under the new system of local authority finance, have a power to levy a small discretionary local non-domestic rate.

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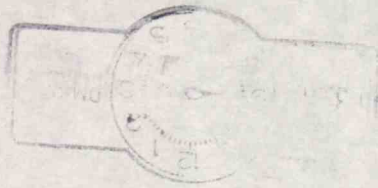
In view of the lack of support for the proposal in the consultation period, and the general opinion that the vast majority of authorities would levy the maximum 5% rate almost as a matter of course, I am content for the proposal to be dropped.

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

[Handwritten signature]
[Handwritten signature]

PAUL CHANNON

JG5ANG





SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

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

11 February 1987

Dear Nick,

**"PAYING FOR LOCAL GOVERNMENT"
LOCAL 5% DISCRETIONARY NON-DOMESTIC RATE**

Thank you for copying to me your letter of 5 February to Willie Whitelaw and E(LF) colleagues. I welcome your proposal and am readily able to agree for my interest that we should drop the idea of a local 5% discretionary rate of non-domestic properties.

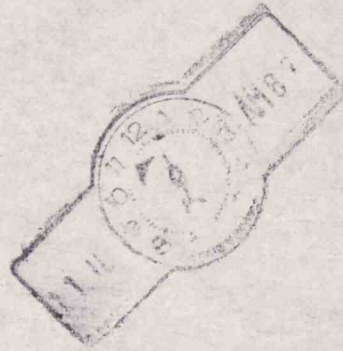
As in England, consultation in Scotland revealed that this proposal had no friends. An additional point against, not mentioned in your letter, was made by business interests here who pointed out that retaining a 5% local discretion would make it much easier for a future less sympathetic Government to reintroduce substantial locally-fixed property taxes upon the wealth-creating sector by simply amending the 5% figure upwards.

I am sending copies of this to members of E(LF), to Peter Walker and to Sir Robert Armstrong.

Yours ever,
Malcolm Rifkind

MALCOLM RIFKIND

LOCAL GOVT: Relations : PE 31



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CABINET OFFICE,
WHITEHALL, LONDON SW1A 2AS

Chancellor of the Duchy of Lancaster

Tel No: 270 0020
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9 February 1987

Robin Young Esq
Principal Private Secretary to the Secretary
of State for the Environment
Department of the Environment
2 Marsham Street
LONDON
SW1P 3EB

NBM

Yours Robin

"PAYING FOR LOCAL GOVERNMENT": PROPOSED 5% DISCRETIONARY
NON-DOMESTIC RATE

The Chancellor of the Duchy has seen your Secretary of State's letter of 5 February to the Lord President. He agrees that the proposed 5% discretionary rate should be dropped, as your Secretary of State advocates.

I am sending a copy of this letter to the private secretaries to members of ELF, the Secretary of State for Energy and to Sir Robert Armstrong.

Yours Sincerely,

ANDREW LANSLEY
Private Secretary

LOCAL GOVT Relations PT31

