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10 DOWNING STREET  
LONDON SW1A 2AA

From the Private Secretary

24 July 1987

Dear Robin,

**NON-DOMESTIC RATING**

Thank you for your letter of 22 July which commented on mine of 20 July. The Prime Minister has noted the position on the pool, on domestic appeals and on the duty to consult business and is content for your Secretary of State to proceed as he proposes.

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

Yours,  
David

(DAVID NORGROVE)

Robin Young, Esq.,  
Department of the Environment.

DJS



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cc BS

10 DOWNING STREET

LONDON SW1A 2AA

*From the Private Secretary*

24 July 1987

*Dear Bob,*

**COMMUNITY CHARGE EXEMPTIONS**

The Prime Minister has seen your Secretary of State's minute of 20 July which made more detailed proposals on community charge exemptions. She has noted in particular that the decision to exempt residents in homes and hostels was taken on the basis that the homes and hostels would themselves be liable to rates. This is apparently not the case. The Prime Minister nevertheless accepts that the exemptions should be as proposed by Mr Ridley, subject to the views of colleagues.

I am copying this letter to the Private Secretaries to the Lord President, members of E(LF) and Sir Robert Armstrong.

*Jan  
David*

D R NORGROVE

Robin Young, Esq.  
Department of the Environment



CEBG



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The Rt Hon John Major MP  
Chief Secretary  
HM Treasury  
Parliament Street  
LONDON  
SW1P 3AG

My ref:  
Your ref:

*WBM*

24 July 1987

*Dear John*

NON-DOMESTIC RATING

*FILE on S/C/P*

Thank you for your letter of 17 July in reply to my minute of 25 June to the Prime Minister.

OPERATION OF THE NNDR POOL

I accept that we should, so far as possible, avoid a short-fall arising on the pool which might have to be covered temporarily by the Exchequer, and to that end we need to have fixed schedules of payments into the pool as well as fixed schedules of payments out. In practice there should be no difficulty in achieving this because it has always been our intention that, in order to avoid large sums of money flowing around the country, the amount due to be paid in would be netted off against amounts due to be paid out and indeed from grant payments. In this way the control over the timing of payments will be effectively in the hands of my Department.

The schedule of payments into the pool would have to be based initially on authorities' own estimates of the likely yield of the uniform rate poundage, though that estimate would have to be made in accordance with rules prescribed by order. In practice, the income which the authority can achieve by raising the uniform poundage each year will be different at outturn from this initial estimate as a result of changes in rateable value, bad debts and so on. Some of these changes will be within the control of the Local Authority and the rules for calculating the product of the rate should provide every incentive to them to minimise any losses which are within their control. Other changes, up and down, will be outside their control and arise from the appeals procedure and the process of new development. We cannot therefore escape from the need to provide for an adjustment to payments, which also might be up or down, after the end of the year when the final rate product has been certified. I think there is nothing between us on this point. The only issue which arises, therefore, is whether we should allow for adjustments to payment schedules during the course of the year in exceptional circumstances. We have been forced to recognise this need under previous financial systems. In the past it has usually been



associated with the closure of steel works, although now that empty industrial property is fully de-rated, the situation could in principle arise from the closure of any large industrial premise. I anticipate that we will come under strong pressure from the local authority associations to concede an arrangement whereby an authority with an appropriately large reduction in rate income as a result of a large industrial closure might exceptionally be given permission to adjust its payment schedules during the course of the year to avoid imposing undue borrowing costs on its community charge payers. I think we would have to consider such a concession if we are pressed on it during the passage of the legislation.

The remaining issue is whether we need to provide for any shortfall on the pool. The arrangements we are now firming up on make it extremely unlikely that any overall shortfall will arise, but we have to face up to the following sorts of possibility:

(i) we may be forced to concede an arrangement for mid year adjustments to payments into the pool in respect of individual authorities in the circumstances described above. This would reduce net income.

(ii) an overall net contributor to the pool, the City of London or Westminster, might fail to pay for some reason - industrial action or computer failure, say. We would be able to enforce payment eventually by making them borrow, but a temporary short-fall could arise.

(iii) there will be adjustments to payments for an earlier year in the light of the outturn yield of the national rate poundage. The evidence suggests that in aggregate the tendency will be for income to increase at outturn, but we have not been so long between revaluations before and it is difficult to say how successful the Revenue will be in defending the valuation list. Even if the overall trend is up, in the short term until payment schedules are adjusted, a cash flow shortfall could conceivably arise.

The first call for any of these eventualities would be on the small operating balance which we envisage the fund would establish by planning to pay out slightly less than the estimated income. For the reasons set out in PS/Prime Minister's letter of 20 July, however, we would not wish that balance to be larger than absolutely necessary because of the impact on the community charge. In the event, therefore, that any shortfall exceeded the balance on the fund on any particular day, we would need to provide for the fund to be kept in balance. The mechanism I propose is by drawing on the AEG vote within the financial year and by adjustments to payments out of the pool in subsequent financial years where any shortfall had to be carried over to another financial year. I hope this arrangement is acceptable to you.



DUTY TO CONSULT BUSINESSES

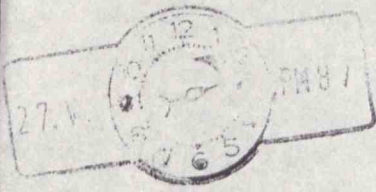
I note what you say about the duty to consult businesses. This point has been picked up too in PS/Prime Minister's letter of 20 July. Whatever we do, we cannot continue to consult about the level of the rate - some change is inevitable. I have proposed that we should proceed to consultation and return to this point in the light of responses.

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

*Tom  
Nawlas*

NICHOLAS RIDLEY





LOCAL COST

RATES

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