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cc BG

SECRETARY OF STATE FOR THE ENVIRONMENT

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My ref:

Your ref:

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
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26 February 1988

Dear Nigel

NATIONAL NON-DOMESTIC RATES: OPERATION OF THE POOL

I have been considering the best way to operate and run the National Non-Domestic Rate (NNDR) pool. The Local Government Finance Bill, as presently before the House, is more or less silent on this and I shall need to be ready to explain in Committee, when we reach Clause 45, what our intentions are, although I will not aim to table amendments until Commons Report. I am writing now to seek your agreement to the establishment of a pool operated at arm's length through a fund managed by the National Investment and Loans Office.

Since we launched the Green Paper "Paying for Local Government" we have sought to assure local authorities that non-domestic rates will remain a tax raised by and for local government. We have refuted suggestions that the NNDR will be a national tax used to increase the Revenue Support Grant total. This has been one of my major concerns in considering the possibilities. Our officials have identified only two feasible options. The first would be for my Department to administer the pool within the Consolidated Fund side by side with payments of RSG. Payments out of the fund would of course be Voted monies. Although we would want to amend the Bill so that we were required to distribute all NNDR receipts taking one year with another, I have no doubt that it would appear to the business ratepayer that his rates were being annexed as a national tax.

I see great presentational advantage therefore in a fund run by an organisation more at arms length, although the rules for payments in and out would of course remain the same. The National Investment and Loans Office (NILO) would be entirely suitable for this; they do of course already administer the National Insurance Fund and the Public Works Loan Board. The extra cost of this option would be small. NILO have estimated it at between £50,000 and £100,000 per year for England and Wales, compared with the total proceeds of the NNDR of £8.5bn in England, on the assumption that they would be making the payments to authorities. In practice however I propose that my Department should do this, in order that we can make net payments of NNDR and RSG; the cost of such a fund should therefore be significantly lower than this estimate.

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Our officials have identified a technical problem about how we deal with deficits and have had some discussion about the possibility of having a working margin on the fund. (This issue arises whether the fund is operated separately or within the Consolidated Fund if we are to avoid undue fluctuations from year to year). However building up such a margin could have an impact on the level of the community charge, on some assumptions as much as £5 in 1990/91. I do not think this is sensible. I think it best for the fund to borrow to cover any short term deficit arising from temporary failure by one or more authorities to remit, which seems a fairly remote possibility anyway. As to the effect of successful valuation appeals, which seem more likely to happen but is hard to quantify, I would prefer to deal with this by making allowance for it in calculating the amount of an authority's contribution to the pool. In this way we can minimise the risk of any difference between their estimated contributions and outturn figures.

As I have said some amendments will be required to the Bill and these will need to be ready for Report. I am copying this to the Prime Minister, John Major, Peter Walker who will of course have a separate pool for Wales, other members of E(LF) and to Sir Robin Butler. Because of the imminence of debate in Committee I would be grateful for agreement by 4 March.

Yours ever
Nicholas

NICHOLAS RIDLEY