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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

NB PM at this stage.
PRCC
8/3

7 March 1988

Dear Secretary of State,

NATIONAL NON-DOMESTIC RATES: OPERATION OF THE POOL

Thank you for your letter of ~~26~~ 1 Mar February to Nigel Lawson.

I agree, of course, that non-domestic rates will remain a tax raised for local government. I also agree that in practice it would be best to make net payments of National Non Domestic Rate (NNDR) and Revenue Support Grant (RSG); in effect, a local authority will receive a single cheque from central government covering both.

So far as the technical issue of accounting for these cash flows in Government funds is concerned, the options identified by our officials are, I understand:-

(i) receipts by central government of NNDR revenue would be paid into the Consolidated Fund, and payments to local authorities covered by Supply Estimates. This is, for example, how the BBC licence fee is handled.

(ii) a new fund would be set up separate from the Consolidated Fund or other Exchequer funds, to be run by the National Investment and Loans Office (NILO). This would be similar to the National Insurance Fund.

Under both options, there would be a statutory obligation on central government to pay the full proceeds of the NNDR to local authorities, taking one year with another, and to present accounts to Parliament to demonstrate that this was being done.

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My officials have explained to yours our preference for the Consolidated Fund option, because it would be simple and not involve setting up new machinery.

The alternative NILO option has two disadvantages. First, an administrative cost of up to £50,000-100,000 a year, part of which would be unnecessary with the Consolidated Fund route.

Second, a new fund separate from the main Exchequer funds would normally require a small margin or working balance so that, as a general rule, it did not go into deficit and have to borrow. If the intention is to operate a fund at arms length, to emphasise that any money in it was local authority money and not central government's, it would be appropriate to finance this margin or balance from local authorities; in practice higher Community Charges would be required in 1990-91, because local authority receipts from the separate fund would need to be slightly lower than payments into it.

As I understand it, you hope to avoid the device of a margin but to achieve the same effect by underestimating the receipts that can be expected from the NNDR, so that is little risk of even less money coming in. Because payments to local authorities would be correspondingly lower, one effect would again be higher Community Charges by, as you say, up to £5.

I believe that you are concerned about the presentational problems you foresee with the Consolidated Fund option. I doubt if these are substantial problems. Most people have probably heard of neither the Consolidated Fund nor NILO. And business is certainly well aware that any representations they may wish to make about the National Non-Domestic Rate should be directed in future to central rather than local government.

My preference is therefore for the straightforward Consolidated Fund option. The Prime Minister earlier drew attention to the disadvantages of higher Community Charge in 1990-91 arising from a proposal similar to yours. (The No. 10 letter of 20 July to your office.) I doubt if the presentational advantages of a NILO fund are worth this extra impost on Community Charge payers in 1990-91, which we had thought the Consolidated Fund route would help avoid. Perhaps you could consider the options again and let me know if you still think the balance lies with that option.

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

Yours sincerely,

Jill Rutter

pp JOHN MAJOR

(Approved by the Chief Secretary + signed by in his absence).

LOCAL GOVT: Rating PT9