

cc/PU

TO:

PRIME MINISTER

FROM:

TONY NEWTON

R. Lee

17 October 1988

HARMONISATION OF RATING: THE CONTRACTORS BASIS

I have seen a copy of Nicholas Ridley's minute of 5 October to you on this subject. *File with PG*

2. The different way in which the contractors test has been applied in different parts of Great Britain, leading to widely different rateable values for very similar plants, has been a bone of contention with the industries concerned for many years. Our intention to harmonise practice north and south of the border has been widely welcomed, with the proviso that harmonisation should mean bringing Scottish practice into line with English, not the reverse. The chemical industry, in particular, has developed a detailed argument in favour of a 5% decapitalisation rate to apply throughout Great Britain, and I would expect them to be very

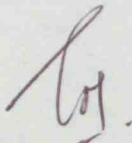
unhappy about any higher figure. They will see this as imposing an added burden on them as compared with the rest of industry, at a time when many of them, as heavy energy users, are being disproportionately affected by electricity price rises.

3. I very much agree with Nicholas that to allow a rate of 7% to apply generally, whatever its technical justification, would produce a level of dissatisfaction, and a volume of legal challenge, which could endanger the objectives of harmonisation.

4. I therefore agree that the power to prescribe a decapitalisation rate should be used. Like Peter Walker, I would have preferred a rate of 5%, but I recognise the desirability of a common rate, and I am prepared to agree to the prescription of a decapitalisation rate no higher than 6%, provided that this applies throughout Great Britain.

5. I would also like to support the proposal to prescribe a lower rate of 4% for all educational institutions.

6. I am copying this letter to other members of E(LF) and to Sir Robin Butler.



TN

LOCAL GOVT: Rating ?PII.

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