

CONFIDENTIAL



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Atached

Prime Minister

NON-DOMESTIC RATING

I have seen Nicholas Ridley's minute of 3 February to you on this matter. Nicholas seeks approval for a number of proposals recently agreed with John Major at a bilateral meeting.

I support the retention of a Government contribution in lieu of rates, payable into the NNDR pool. So far as Crown occupations in Wales are concerned, it will of course be necessary for the payments to be made into the Welsh pool. Treasury officials will need to discuss with mine the appropriate figures - it will be necessary to determine the level of payments to Welsh authorities in 1989-90, so that there can be proper discussion of levels of Revenue Support Grant and contributions in lieu after the reform of business rates in 1990.

On the commitment to maintain the real yield of business rates constant in 1990, I understand that Nicholas is satisfied that this can be reconciled with the ring-fencing of the private sector/nationalised industry contribution. That being so, I accept the proposition.

The proposals on decapitalisation rates seem to me to strike the right balance. I acknowledge the necessity for moving from the 5% figure for the private sector, but earlier suggestions of a move to 7% caused me considerable concern, given the potential impact on industries such as steel and petrochemicals. But I would accept 6%, and also the changes proposed for schools, hospitals and specialist defence installations.

I am glad that agreement has been reached to publish a summary of the results of the Inland Revenue survey - I think we could not have done otherwise. The Welsh Office will be associated with the consultation paper which Nicholas proposes to issue, a draft of which I have already seen, and which deals with problems of implementation of the transitional arrangements which are common to Wales and England. I would be happy for Nicholas to make an early announcement of its publication.

Copies of this go to Nicholas Ridley, John Major, other members of E(LF) and to Sir Robin Butler.

PW

9 February 1989

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