



Treasury Chambers, Parliament Street SW1P 3AG

The Rt Hon Christopher Patten MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London SW1P 3EB

30 October 1989

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Dear Secretary of State,

NNDR MULTIPLIER AND AGGREGATE EXTERNAL FINANCE (AEF)

WITH PER/ WITH REQUEST IF REQUIRED

Thank you for your letter of ~~25~~ October about the NNDR multiplier and distributable amount for next year. The distributable amount for next year will appear, along with the other components of aggregate external finance for local authorities (AEF), both in the Autumn Statement and in your own statement on 6 November about the grant settlement for next year. I hope very much therefore that we may reach firm agreement on these and related matters by close on Monday.

2 On the key issue of the NNDR multiplier, we do as you say face the troublesome prospect that the tax base and yield of the NNDR may be significantly eroded over the next few years as a result of appeals against the new rateable values list. We shall not be able under last year's NNDR legislation to offset such erosion by raising the multiplier.

3 That being so, I am sure that our approach must be to set the multiplier for next year at the highest level that can be defended in relation to the undertakings we have given. Your letter identifies this level as 36p in the pound. I hope that we may reach agreement on that basis.

4 It will as you say be important when announcing the multiplier to emphasise that the figure is provisional. We must be prepared to adjust it if subsequent work by the Inland Revenue indicates the need for this.

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5 As a longer term matter, we shall need also to consider the case for amending legislation at the appropriate time so as to provide more freedom of manoeuvre in setting the multiplier and in particular to enable us to adjust for erosion of the tax base.

6 With a multiplier of 36p in the pound, the NNDR distributable amount for next year will be £10.4 billion and the breakdown of AEF (England) for next year will be as set out in the accompanying table. The precise figures remain subject to some technical adjustments, which we must ask officials to resolve as quickly as possible. The numbers are not likely, however, to change significantly from those shown.

£ million

Aggregate External Finance (England)

	1989-90*	1990-91	1991-92	1992-93
NNDR distributable amount	9493	10418)		
Revenue support grant	9136	9498.5)	20554	21143
ILEA grant	-	100	70	50
Low rateable values grant	-	89)		
Area protection grant	-	-)	475	275
Other current grants within AEF	2657	2994.5	3159	3281
TOTAL AEF	21286	23100	24258	24749

* consistent with local authorities' budgets and adjusted for functional changes in 1990-91.

7 As agreed earlier in E(LG), the AEF figures for years 2 and 3 have been derived by uprating next year's AEF total in line with the projected GDP deflator except for the transitional grants within AEF (ILEA, low rateable values and area protection), which will be phased according to the agreed profiles. Transitional household relief grant will be outside AEF. The Autumn Statement will not include any breakdown for years 2 and 3 between the NNDR distributable amount and revenue support grant.

8 With apologies for the short notice, which reflects the tightness of your timetable, I hope we may assume that the proposals set out in this letter are agreed unless colleagues indicate to the contrary by close on Monday. Corresponding figures will need to be agreed for Wales and Scotland, too, in the course of the next two or three days.

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

Yours sincerely
P. Warless

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*[Approved by the Chief Secretary
and signed in his absence.]*