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Chancellor of the Duchy of Lancaster

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9<sup>th</sup> November 1986

The Rt Hon Nicholas Ridley AMICS MP  
Secretary of State for the Environment  
Department of the Environment  
2 Marsham Street  
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NBRN

D Nicholas

at 1104

Thank you for sending me a copy of your letter of 5 November to the Lord President, concerning the implementation of the Green Paper proposals on non-domestic rates.

I concur with your view that the non-domestic rate poundage should be uniform throughout England. I am, however, concerned that we shall invite criticism from businesses, with justification, if we index the rate poundage to the RPI and allow the growth in yield to accrue to local government. Business will regard this as a denial of the opportunity to exert pressure for greater efficiency in local government spending.

In view of the inherent buoyancy of the business rate revenue, I would suggest that the indexation of the rate poundage might be by reference to an RPI - X formula, where X is equal to 1 or perhaps  $\frac{1}{2}$ . The net effect should be to give a broadly constant level of income in real terms from the national non-domestic rate. It would offer to individual firms the assurance that their rate bill will show a consistent, if slow, decline in real terms. It will convey the clear message to local government that spending must be constrained, and efficiency gains made, if they are not to be forced into unpopular increases in domestic rates.

I am sending a copy of this letter to the Lord President, other members of E(LF) and to Sir Robert Armstrong.

NORMAN TEBBIT

LOCAL COVT Rating P2

