Prime Minister!
Note that one of Mr Ridley's detailed proposals involves winding down (but not abolishing) the appeals system for domestic rates.
Questions to you are in the margin. DRN 17/7

PRIME MINISTER

1 July 1987

(Treasury comments were late I'm afraid.)

NON-DOMESTIC RATING

AT FLAP

Nicholas Ridley minuted you on 25 June about a number of aspects of introducing the national non-domestic rate. Most of these are technical, but some have a direct impact on Rate and Community Charge payers.

Operation of the NNDR Pool

Local authorities will collect the non-domestic rate. Where they collect more than they are entitled to on a per capita basis they will make a payment to the Secretary of State and where the reverse is true, he will make a payment to them. At the start of the year it will possible only to estimate the amount that the NNDR will raise because, for example, of new developments and changes in the number of vacant buildings. In order to take account of this uncertainty Nicholas Ridley wants to be able to build a contingency margin into what is collected from and paid to the local authorities. Assuming his estimate of income in the first year is broadly right, this should leave a surplus to be carried forward to later years and finance most, if not all, the contingency margin thereafter. But in the first year local authorities may receive less than the full proceeds of the non-domestic rate.

In order to bridge the gap they will need to levy a higher community charge. The amount of this extra charge will probably be about 1% for every 1% contingency margin the Secretary of State wants to have. So a 5% contingency charge could have a noticeable effect on the community charge. The DoE believe that this will be "lost in the wash" of all the other changes that will be involved in the first year in which the community charge is introduced. However, it will increase the number of losers and reduce the number of

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gainers from the change. This point is not brought out in the Secretary of State's minute. The alternatives need to be explored before a decision is taken. The Chief Secretary has proposed one possible method.

Agree? Yes

Paying for transition

The transitional arrangements agreed before the election mean that no non-domestic ratepayer will face an increase in his bill of more than 20% in any one year. Other ratepayers will move to the new level of rates in a single year. These transitional arrangements therefore have a cost which Mr Ridley proposes to meet by levying a slightly higher non-domestic rate than would be needed without transitional arrangements. Although regrettable, we accept this approach since Mr Ridley proposes to ensure that the additional poundage involved is phased out by the end of the transitional period.

Rating of empty commercial property

Mr Ridley proposes that empty shops and offices should be rated at 50%. At present local authorities have discretion in this matter. I understand that most urban authorities already levy rates at 50%, but some rural authorities do not. Clearly with a move to a national non-domestic rate practice must be standardised. Levying rates on such premises provides an incentive to owners to keep them in use — alternatively they may take the roof off as they have done in the past.

Duty to consult businesses

Mr Ridley proposes that the statutory duty on local authorities to consult business interests should be abolished since it is less relevant, with the introduction of the national non-domestic rate, and in substance unenforcable. We agree with this conclusion. The Chief Secretary thinks this may give the wrong signals. Agree to write in support of the Chief Secretary?, asking Mr Ridley to reconsider this? Yes no

Nevertheless the lack of any incentive in the new system for local authorities to create a climate that favours new businesses is unsatisfactory. This highlights the importance of the various measures now being developed to circumvent local authorities that are hostile to the private sector and enterprise.

Conclusion

Agree? (including winding down the appeals system for domestic rates?)

We support most of the detailed measures Mr Ridley proposes on the non-domestic rate. But further consideration should be given to the alternatives, to including a contingency margin in the non-domestic rate pool in view of the impact on the community charge.

I don't think we can delay appeals so long as we have rates

mt

Peter Stredder

PETER STREDDER

LOCAL GOVT. Rates - Pt 6