CCBG

Prime Minister

NON-DOMESTIC RATING

E(LF)(87)7th [ATTACHED] agreed most of the main issues on the operation of the National Non Domestic Rate (NNDR). I am writing now to seek agreement to some outstanding issues on that and with proposals for amendments to the operation of the non-domestic rating system itself.

REMAINING NNDR ISSUES

Operation of the NNDR Pool

It is central to the Green Paper proposals that local authority funding from external sources including the NNDR should be fixed in advance of the financial year so that all of the variations in expenditure decisions will fall to be met by local electors. At the same time we wish to minimise the risk that we could become committed to paying out more than we are able to collect in. I therefore propose to provide in legislation that the amount to be paid out from the pool in any year need not be dependent upon the estimated income but only that all income to the pool should be paid out to local authorities taking one year with another. This will enable me to set the level of pay-out at a level which should guarantee that the fund does not go into deficit.

Of course, the possibility of a deficit cannot be entirely eliminated and it will be necessary to make provision for temporary "overdraft" facilities especially to cover any temporary gaps which may emerge on a cash flow basis. It seems that the most practical way of achieving this within any year might be by providing for greater flexibility in the use of the vote provision for Exchequer grant to local government. There are a number of difficult technical issues for officials to resolve but I should be grateful for agreement to the principle so that the necessary legislative instructions can be prepared.

We have previously agreed that there should be a reserve power for the Treasury to override the automatic indexation provisions for the NNDR poundage. The exercise of that power would, of course, affect the income from the NNDR and could well have implications for either the level of the community charge or for the amount of Exchequer grant. This means that normally it would be appropriate for consideration of whether to exercise the power to form part of the annual E(LA) discussions on the RSG settlement.

I understand that while the Chancellor may accept that as the normal position, he may be reluctant to become bound by that procedure. I can see that there may occasionally be circumstances in which for example evidence of growth in rateable values beyond that allowed for by E(LA) might become available in the September preceding the RSG settlement and justify some late compensating adjustment to the national poundage. But it should never be necessary to make such an adjustment once the RSG settlement - including the level of pay-out from the pool - has been approved by Parliament. We can certainly expect pressure for a statutory limitation to the power to set a lower poundage for any year so that it has to be exercised before the RSG settlement is approved by Parliament. Providing we can agree in principle, that use of the power would be limited in this way, in practice I would be prepared to try to resist any explicit statutory provision while recognising that we may later have to concede the point.

Paying for Transition

At the last meeting of E(LF) we agreed on proposals for phasing in the impact of the move to the NNDR and the new 1990 valuations and agreed that the cost of these arrangements should be met within the NNDR pool. In practice this means setting an NNDR poundage in 1990/91 slightly above the average poundage for 1989/90. In order to prevent this additional poundage becoming enmeshed in the procedure for indexation and to allow it to be phased out, it will need to be determined separately. This will unfortunately draw attention to the proposal. I invite colleagues to note this implication.

Other amendments to rating legislation

While the basic legislative structure of non-domestic rates will be carried over to the new system, the specific statutory provision will have to be extensively amended to recognise the fact that 90% of existing hereditaments will no longer be subject to rating. It will be desirable therefore to make a number of amendments designed to clarify provisions, and simplify procedures in order to reduce the resource costs of the system especially the appeal arrangements. Subject to the agreement of colleagues I would like to publish these proposals as soon as possible. A draft document detailing each of the proposals is being circulated at official level. The main items are:

(i) Rating of Empty Commercial Property. At present, empty factories and warehouses are not rated; but authorities have discretion to rate empty shops and offices at up to 50%. Most do so, including almost all urban authorities where most of these properties are situated. This raises roughly £50m. It does not seem appropriate, or practical, to leave this matter to local discretion in future when other aspects of non-domestic rating will be standardised and when the cost of any discretionary concession has to be met by community charge payers. I therefore propose - subject to consultation - to standardise the rating of empty commercial property at 50% of full rates everywhere and to allow the cost of this to fall on the NNDR pool.

(ii) Future Revaluations. The Green Paper said that it was essential to return to regular revaluations in the non-domestic sector. I therefore propose that the legislation should provide for a return to revaluations at intervals of not more than five years, with the next general revaluation in 1995. The Green Paper also said that there might be advantages in a system of "rolling revaluations", with a cross-section of the sector revalued each year and used to

develop indices to be applied to properties not revalued in that year, and indicated that a further consultation paper would be issued on this subject. In the event, it has not been possible to agree on detailed proposals for a scheme of rolling revaluations and it is not yet clear whether this will prove workable. Moreover, it would be desirable for such a scheme to start from the base of a fully up-to-date valuation list. It would not be practical to introduce the system in 1990, because of the complex transitional arrangements already agreed for 1990.

(iii) Winding down the domestic appeals system. Local valuation Panels already have a heavy backlog of outstanding appeals. It is essential that the bulk of these are cleared before they assume their new responsibility for determining community charge appeals (the first of which will come on stream in the autumn of 1989) and in advance of the expected upsurge in non-domestic appeals in 1990 following revaluation.

Abolition ~~This~~ has been discussed in E(LF).

Assuming colleagues agree to my proposal that domestic rates should cease to be payable after 1 April 1990 there will be little justification for retaining the full panoply of the appeal system right up to that date. I therefore propose, as from Royal Assent, to limit alterations to the valuation in respect of domestic hereditaments to those hereditaments being brought into rating for the first time and to allow for downward revision of rateable value only where there has been a major physical change to the property or to correct a valuation error. Other appeals would not be allowed although those outstanding at Royal Assent would be determined in the normal way.

(iv) Duty to Consult Businesses. In the Rates Act 1984, we introduced a duty on local authorities to consult business ratepayers on their budget and rate proposals. The evidence

is that this has served little purpose. Those authorities which have anyway wished to consult seriously have done so. Others have paid lip service or less. The record is particularly poor in the high spending areas.

Under the new system, the decision on the rate poundage will no longer be available as a focus for consultation with business, and businesses' interest in authorities' spending policies will be much reduced. There will remain issues on which it will be desirable for authorities to consult business interests, including the level of services provided specifically for them, any fees and charges for such services, and any measures to promote economic development in the area; but these seem insufficient to justify a statutory duty enforceable through the Courts and without a linkage to the rate there would be no effective sanction for non-compliance. The CBI has suggested that authorities should be bound to consult on these matters if local business interests request it.

This seems to miss the point. If authorities are interested in genuine consultation, they will join in if asked anyway. If they are not, an unenforceable duty of this kind will not compel them to enter into constructive discussions. I propose to repeal the present duty to consult.

I should be grateful for colleagues' early agreement to the various proposals above. I am copying this letter to the other members of E(LF) and to Sir Robert Armstrong.

NR

N R

25 June 1987

LOCAL GOVT — Rating
Pt 6