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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Nicholas Ridley AMICE MP
Secretary of State for the Environment
Department for the Environment
2 Marsham Street
London
SW1P 3EB

17th July 1987

Dear Nick,

NON-DOMESTIC RATING

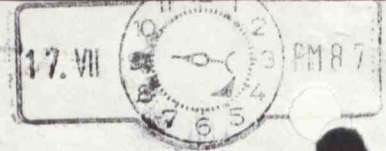
at trap PT6

You wrote to the Prime Minister on 25 June putting forward proposals for the operation of the national non-domestic rate (NNDR) pool and for certain amendments to rating legislation. I have also seen the comments from Kenneth Clarke.

Operation of the NNDR pool

I agree with your proposal that the income to the NNDR pool should broadly be paid out taking one year with another. But I do not accept that the Exchequer should be expected to meet any temporary deficit in the pool, in order to assure local authorities of their income. Certainty of income from the pool is clearly desirable to help local authorities in their financial planning: but to achieve that certainty, we must require authorities to collect non-domestic rates efficiently and pay them promptly into the pool. And mechanisms must be devised which avoid, so far as possible, the Exchequer making up any shortfall.

I therefore suggest that we should provide for schedules of payments to be fixed each year for each LA's contributions into the pool as well as the payments out of it. The contributions and payments should be set to generate a very small surplus as a safety margin, as part of the administration costs of the scheme. In that way, we should be able to avoid



any call upon the Exchequer; only on a contingency basis should there therefore be any recourse to the Vote provision for grant. This proposal would also mean that these authorities, and in particular those which have a greater non-domestic rates yield than their entitlement would have to collect their rates efficiently and promptly to meet the schedules - or borrow to the cost of their chargepayers.

Indexation of the NNDR

You propose that a decision in principle to override the automatic indexation of the NNDR should be taken before the rate support grant settlement has been approved by Parliament. I agree with this.

Other amendments to rating legislation

I am content with your proposals on the rating of empty commercial property and future revaluations.

I note that Kenneth Clarke supports your view that the duty on local authorities to consult business should be repealed. I appreciate that the duty is unenforceable; but might not repeal give the wrong signal and suggest that Government does not continue to attach importance to local authorities seeking businesses' views on their spending policies.

I am copying this letter to the Prime Minister, other members of E(LF) and to Sir Robert Armstrong.

JOHN MAJOR