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ccBG

SECRETARY OF STATE FOR THE ENVIRONMENT

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My ref:

Your ref:

The Rt Hon John Major Esq MP
Chief Secretary
HM Treasury
Parliament Street
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9 September 1987

W BRM

Dear John

NON-DOMESTIC RATE POOL

Thank you for your letter of ~~31~~ at Flap July. I think we are now at one on all points of substance. I can accept 5% of the threshold for special in-year protection.

You suggest that where an authority collects more from its ratepayers than it is required to pay into the pool by way of payments on account, it should be given an incentive to pay this additional income into the pool as soon as possible rather than waiting for the year end adjustment. You propose to achieve this by charging interest on sums in hand. I fear that such a requirement would be unduly onerous to police and unlikely to achieve its objectives in practice. For example, it would involve us in monitoring not only what changes in rateable value had taken place during the year and when they had effect, but also when they were entered in the valuation list so they could form the basis for a rates demand. I doubt if the earlier receipt of income would suffice to justify this further layer of complications. It would also raise the question of whether over payments should similarly attract interest from the pool. And in practical terms, unless the rate of interest was penal - which we could not justify - I doubt whether local treasurers would choose to give up the cash flow advantages of retaining the cash even if they were unable to lend it at a profit.

On your final point, I entirely accept that the risk of shortfall should be borne by local authorities collectively. The problem is purely one of timing. In the course of year 2, authorities will report their outturn receipts on the prescribed basis for year 1. Individual authorities can reasonably expect to have an adjustment made at that point. It is possible, though unlikely, that authorities collectively will be in deficit against their payments on account. If so, the repayments can be met first from the safety margin for yeer 1, and second from the safety margin for year 2. Only in the very unlikely event of one year's shortfall exceeding two years' safety margin could there - temporarily - be a call on the Exchequer. I think the risk is so slight that I do not believe it would justify taking power to reduce payments out of the pool mid-year, which would be the alternative. That would be bound to be used as an excuse for unnecessary precautionary increases in community charges.

I am copying this to members of E(LF) and to Sir Robert Armstrong.

Yours ever

Nick

NICHOLAS RIDLEY

Local Gov't Rating PT 8