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My ref:

Your ref:

The Rt Hon John Major MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
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2 pps

11 March 1988

Dear John

NATIONAL NON DOMESTIC RATES: OPERATION OF THE POOL

Thank you for your letter of 7 March. I recognise that you have a preference for operating the NNDR pool within the consolidated fund, but I think you overstate the disadvantages of the alternative route, ie. an independent fund managed by NILO.

You quote an administrative cost of up to £50,000-£100,000 a year. But, as I made clear, this was on the basis that NILO would be making the regular payments to local authorities. I intend that my Department should do this (as they would under the consolidated fund option), and that this would significantly lower the cost estimate, which incidentally applied to pools for both England and Wales. NILO have more recently estimated that their costs would be unlikely to be more than £25,000.

As you say, I hope to avoid having to operate a large central margin. I do believe that we would have to make a prudent allowance for retrospective reductions in rateable value as a result of valuation appeals; but we should have to make that allowance sooner or later, whatever route we adopt. If we adopt the consolidated fund option, but made no allowance for appeals, we would have to reduce the level of payments out of the pool in the second year to compensate for this factor. I accept that in the interests of prudence it might be necessary to make a very marginally more conservative estimate about erosion of rateable values through appeals with an independent fund than with the consolidated fund option, but I do not believe that this difference would need to amount to 2%, or £5 per head. Over three or four years the total of payments out of the NNDR would be the same whichever route we adopt.

I hope you will accept therefore that the disadvantages of the NILO option are not as great as you might have envisaged. You make the point that most people have probably heard of neither the consolidated fund nor NILO. I would, however, expect that most people in local government would understand the clear point

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that NNDR income is being held in an account separate from the Government's own money, and that whenever their account is in credit they will earn the interest. To my mind this is a strong presentational point. I therefore hope you will agree that we may adopt the NILO option.

I am sending copies of this to the Prime Minister and other members of E(LF) and to Sir Robin Butler.

Yours ever
Nicholas

NICHOLAS RIDLEY

LOCAL GOVT: rates pt 9