Prime Minister

You will want to consider whether you prefer a new fund or use of the Consolidated Fund. The attached minutes set out more fully the opposing DOE and Treasury views. Policy Unit support DOE's case for a new fund. I personally find the case more evenly balanced. Do you wish to express a view?

PRG 14/3

PRIME MINISTER 14 March 1988

NON-DOMESTIC RATING

I should like to discuss it briefly

Last July you asked Nicholas Ridley to look at the alternatives to a contingency margin for the non-domestic rate pool. You were concerned that a contingency margin would have to be funded by a higher community charge. Nicholas Ridley and the Chief Secretary have now discussed the options and identified two possibilities.

The Options

The first is to set up a new central Government fund, analogous to the National Insurance fund. The effects of this would be:

- Although there would not be a formal contingency margin, the Government would under-estimate the amount to be raised from the National Non-Domestic Rate (NNDR) in the first year, which would have the same effect. As a result, the Community Charge would be up to £5 higher in that year (1990/91) although Nicholas Ridley's latest letter says that the extra might be rather less.

- The interest on the new fund would accrue to the benefit of local Community Charge payers.

The second option is to account for the money raised by the NNDR through the Consolidated Fund. This would:

- Avoid the need for a margin, because the money would be subsumed in the much larger flows involved there. In effect, taxpayers would fund the necessary margin and, as a quid pro quo, benefit from any interest earned.

- There would have to be a Ways and Means resolution which would be debated on the floor of the House, probably at report stage. This would draw attention to the fact that the money was being treated on a par with other central Government revenues.

- But thereafter, there would probably be little difference in the occasions on which the NNDR came up for debate each year.

Mr Ridley favours setting up a new fund in order to counter local Government suggestions that the NNDR is, in reality, a central Government tax. The Chief Secretary prefers the Consolidated Fund option because it avoids extra administrative costs and the need for a contingency margin. He points out that the BBC licence fee is accounted for in this way.

Assessment

The balance of advantage is fine. Nicholas Ridley's option will certainly not prevent the Opposition criticising the NNDR but the Government will have a stronger case if it can point out that interest on the NNDR will accrue to the benefit of local rate and chargepayers. The extra initial cost of this option will not be apparent, because of the way Nicholas Ridley proposes to provide the margin of safety and over a period of years will be offset by the interest earned. The danger with the Chief Secretary's option, although initially attractive because of the slightly lower Community Charge in year 1, is that it will allow the Government's opponents to claim that the Treasury is benefitting from the interest on rate and chargepayers money.

Conclusion

We therefore recommend that you agree to Nicholas Ridley's proposal on condition that he seeks further to minimise the impact on the Community Charge.

Peter Stredder

PETER STREDDER