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A
2 MARSHAM STREET
LONDON SW1P 3EB
01-276 3000

My ref:

Your ref:

The Rt Hon Norman Lamont MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1P 3AG

25 October 1989

Dear Chief Secretary

NNDR MULTIPLIER AND THE NNDR DISTRIBUTABLE AMOUNT

As you know, I am hoping to make on 6 November an announcement about RSG for 1990/91 and to publish the draft distribution report. For that purpose we need now to agree the distributable amount of NNDR grant. This in turn will require an assumption about the level of the NNDR multiplier for 1990/91. The multiplier will be set in the RSG report itself, to be laid early in January. But we shall certainly be criticised by business if we give no earlier indication of the likely figure and, in any event, I am bound to be asked when I make my November statement what figure we have assumed. I therefore propose that I should announce then our provisional conclusion, making it clear that the final figure may vary slightly in the light of later information about the non-domestic revaluation.

We have repeatedly undertaken, in fixing the multiplier, to raise in 1990/91 broadly the same aggregate amount in real terms from business and the nationalised industries as they paid in rates in 1989/90. Our officials have estimated the yield from business rates in 1989/90, using as a base the large and representative sample of properties assembled by the Inland Revenue to forecast the effect of the non-domestic revaluation, to be £9.1bn. The multiplier needed to raise this yield is 33 pence. The revaluation is sufficiently far advanced for us to be pretty confident of the robustness of this figure. In order to uprate it to 1990/91 prices I propose that we should use the September RPI increase of 7.6%, giving a figure of just over 35.5 pence. This is the approach that business will be expecting, given that the Local Government Finance Act 1988 provides that after 1990/91 the multiplier should be uprated each year by no more than the September RPI increase in the preceding year.



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Businesses can themselves get a rough approximation of the poundage by dividing the average non-domestic rate poundage for 1989/90 (258.3 pence) by the average revaluation factor (now emerging at about 7.8) and uprating the resultant figure to 1990/91 prices. This gives a figure of 35.6 pence. Business is expecting a poundage at about this level and if we were to pitch the multiplier much higher than this we would be accused of renegeing on our undertakings to hold the yield broadly constant in real terms.

There is an argument that the poundage should be increased to offset the prospective reduction in rateable values, at the margin, as a result of successful appeals against the 1990 rating list. But we have never said publicly that we might do this and any significant increase on this account would be seen as inconsistent with our public undertakings. Also, of course, if we were to adopt this approach, there is a real risk that ratepayers would quote on appeal our estimate of the reduction in values and that it would become self-fulfilling. I think that the new power which Valuation and Community Charge Tribunals will have from April 1990 to raise as well as to reduce rateable values will deter some would-be appellants and that we should therefore not exaggerate the effect of appeals.

In any event, any erosion of the yield which does occur as a result of appeals will be substantially offset by two factors. The first is the fact that the target yield and multiplier derived from it quoted above are overstated because they take no account of the large overhang of outstanding appeals against the 1973 list which could in due course reduce aggregate 1973 rateable values by 2-3% (though I accept that there will be some knock-on effect on the 1990 list from such successful appeals). Second there is the effect of the buoyancy of the rate base as a result of new buildings and the improvement of existing ones. Given the boom in the construction industry in recent years it is reasonable to expect an increase in rates yield in 1990/91 of at least 1.5% and possibly rather more.

Ideally I would like to set the multiplier for 1990/91 at 35.5 pence. I think that the most that I could defend would be to round it up to 36 pence. A figure higher than this would be bound to provoke an outcry from business and would likely to cause trouble with our own supporters. It would also cause difficulty with local authorities because of the implications, explained below, for RSG.

Assuming a multiplier of 35.5 pence would give, after adding income from rates on local authority property and crown contributions, and making various adjustments for the effect of reliefs, costs of collection etc, an NNDR distributable amount for 1990/91 of £10.413bn (£10.452bn if the multiplier were 36 pence). Your



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officials have a detailed breakdown of these figures. A distributable amount of this size would give a figure for RSG of £9.503bn, which is only 4.2% higher in cash terms than in 1989/90 and 0.94% lower in real terms. This will be presentationally difficult and arises largely because of the increase of 12.7% which I understand has been agreed in the survey for specific grants. If we were to pitch the multiplier higher this problem would obviously get worse. The higher the multiplier the more it would look as if the 8.5% increase agreed when fixing AEF, which we presented to local authorities as a generous settlement, was to be financed largely by businesses rather than by the taxpayer generally.

I therefore hope that you can agree a multiplier of 35.5 pence for 1990/91 and distributable amount of £10,413bn. If I am to be able to make a statement on RSG on 6 November, as I would like, we need to agree these proposals by the end of this week, in order to allow time for printing of the exemplifications and the draft RSG report.

I am copying this letter to the Prime Minister, to other members of E(LG) and to Sir Robin Butler.

Yours sincerely

RB

PP CHRIS PATTEN

(approved by the Secretary of State and signed in his absence)

