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Treasury Chambers, Parliament Street SW1P 3AG

The Rt Hon Christopher Patten MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London SW1

31 October 1989

Dear Secretary of State

NNDR MULTIPLIER AND AGGREGATE EXTERNAL FINANCE

Thank you for your ^{*with R?*} letter of 30 October. I have also seen the subsequent letters from Norman Fowler and Nick Ridley both arguing (as is customary in tax matters) for setting the lower figure.

It still seems to me that the figure of 36p in the pound which you previously saw (and I think still see) as being justifiable would be an appropriate multiplier to assume in setting the NNDR distributable amount.

In the first place, we cannot view with indifference the prospective erosion of the NNDR tax base and yield by appeals and the consequences for our broader taxation strategy, not least on income tax. We have to assume that successful appeals will almost invariably be read back to 1990-91 tax bills, even if the bulk of them are not settled until after 1990-91.

Second, I am far from convinced that it would be right, as Norman Fowler suggests, to reduce the financial pressures on business at a time when pay deals are excessive.

Third, Nick Ridley's undertaking in the House on 15 February this year spoke of setting the business rate poundage in 1990-91 so as to raise "broadly" the same amount in real terms from private business and nationalised industries as in 1989-90. I believe the small upward rounding to 36p is extremely modest in the circumstances and that the new tax, with its unique RPI cap, will in general be extremely favourable to businesses. The effect on yield in the first year would in fact be relatively modest (perhaps of the order of £60 million on a total business yield of some £9 billion) because of the transitional arrangements. The longer-run annual loss of revenue, which could not be made good under the RPI capping arrangements, would be of the order of £140 million.

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Fourth, we need anyway to bear in mind that what we have to decide now is the multiplier to be assumed in setting the amount to be distributed to local authorities next year. We are not due to set the actual multiplier until December. It seems to me important to err on the high side in the multiplier we assume now since it will be much more difficult to raise it in December, when final decisions have to be taken, than to reduce it.

Against this background, I suggest we base the distributable amount calculation on a 36p multiplier and say we have done so. I would hope and expect that we can confirm this figure in December. If we encounter substantial problems, on the other hand, or further evidence from the revaluation process indicates revisions, we would still have the option in December of setting the actual multiplier at 35½p if necessary.

I hope that we can agree to proceed on this basis in which case the aggregate external finance figures set out in my previous letter will remain valid.

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

*Yours sincerely
C Lamont*

NORMAN LAMONT
(approved by the
Chief Secretary and
signed in his absence).

