

CONFIDENTIAL

FROM: A TURNBULL
DATE: 25 FEBRUARY 1988

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Mr Anson
Mr Phillips
Mr Hawtin
Mr Odling-Smcc
Mr Sedgwick
Mrs Case
Miss Peirson
Mr Potter
Mr Gieve
Mrs R Butler
Mr Deaton
Mr Perfect
Mr G C White
Mr Kidman

Mr Turnbull

I wd prefer to try a different
Compromise. Perhaps might be easier for
Mr R to accept. I have realized
what I have on mind
on this table.

Content to write
no proposed?
25/2

NEW PLANNING TOTAL AND NNDR

Mr Ridley's letter of 23 February does not accept your proposal to include expenditure financed by the NNDR in the new planning total. Nevertheless some progress has been made as he recognises that it would not be right to aggregate the NNDR expenditure with the expenditure financed from resources over which local authorities have genuine discretion.

2. His counter-proposal is to put the NNDR in an intermediate zone so that there are two sub-aggregates within GGE - the "new planning total" and "the new planning total plus NNDR". In our view this will cause confusion about the aggregate against which the Government's performance in controlling expenditure is measured.

3. Attached is a letter which puts a counter-proposal. It seeks to emphasise points of agreement in DOE's acceptance that the NNDR receipts are not local authority money in the same way as the community charge; and our willingness to accept that NNDR receipts will not simply be an extension of RSG. By emphasising that the NNDR would be shown as a separate category, we hope it will be possible for Mr Ridley to accept it will in the planning total. The letter offers a talk if necessary. This could be either by 'phone or in the margins of another meeting.

4. We do not know if this will do the trick. It is clear that Mr Ridley did not go all the way with his officials but it may be that he will still refuse to make the final step of bringing the NNDR within the planning total. If so, we will be faced with three alternatives:

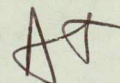
i. having it outside the planning total but not part of local authorities' self-financed expenditure;

ii. seeking a view from the Prime Minister;

iii. putting the issue on one side when we take the full proposals to other departments and putting it to the Prime Minister when, after consultation with other departments, we seek final confirmation on whether to go ahead.

5. In practice (i) is regrettable, but it would not be a disaster. It is unlikely to make any difference to the growth of the NNDR which will be determined by its own rules; and it achieves our most important objective of not aggregating the NNDR financed expenditure with expenditure the level of which is genuinely with local authorities' discretion.

6. The course at (ii) is unpredictable given the Prime Minister's earlier reactions to this project, though she might favour the alternative which appeared to show less scope for local authorities. It also further delays consultation with departments which we are anxious to get on with as soon as possible. On (iii), it is unlikely that we would get a better verdict from a collective discussion than from bilateral ones. A decision can be left until we have Mr Ridley's reaction.



A TURNBULL

CONFIDENTIAL

DRAFT LETTER FOR THE CHANCELLOR TO SEND TO
Secretary of State, Environment

NNDR AND THE NEW PLANNING TOTAL

Thank you for your letter of 23 February. Although I think we have made significant progress towards resolution of this issue, I do not think the proposal you put to me is entirely satisfactory.

2. I welcome ~~both~~ your agreement to keeping the payments to local authorities financed by NNDR proceeds ~~separate from local authorities' expenditure financed by the community charge.~~ I also fully understand your ~~reluctance to show the NNDR figure under the general heading of central government grants to local authorities:~~ for our part, we accept that the expenditure financed by the NNDR should be identified as a separate entry in the table and not as a sub-category under central government grants.

3. But I fear that it would be most confusing in the presentations of one of the main tables in future Public Expenditure White Papers to have two entries identified as 'new planning total' and 'new planning total and NNDR' respectively. Attention would inevitably tend to focus on one or the other as the aggregate or control total the Government was aiming to achieve each year. I do not believe, therefore, that the two

aggregates would be sustainable for any period of time. And, since the NNDR was being clearly linked to the new planning total, ^{in your table} ~~as per table 1 in the final 'new planning total and NNDR' aggregate/~~ we would come under pressure to make that our full planning total.

4. I am anxious to achieve the simplest and least controversial presentation of the new planning total and I believe that in practice there can only be one aggregate labelled as the planning total. I would, therefore, very much prefer to go for a simpler presentation of the separate constituent items within the new planning total, with the NNDR identified as one of these separate items but distinct from central government grant. This would recognise the unique characteristics of the NNDR; would distinguish it from expenditure for which local authorities have complete discretion; but would acknowledge the part which central government undoubtedly plays. By not aggregating the expenditure financed by the NNDR with central government grants, we would avoid the problem which concerns you of overstating the degree of influence exercised by central government.

5. I would like to resolve this issue soon so that we can put an agreed position to departments when setting out the full scheme. If necessary I would be happy to talk to you about it.

TABLE 1: PLANNING TOTAL BY SPENDING AUTHORITY

Central government's own expenditure

Central government grants to local authorities

Current Grants

Revenue Support Grant

Specific Grants

Capital Grants

etc

NNDR

New Planning Total

Other local authority expenditure (excluding debt interest)

Local authority debt interest

etc

General government expenditure



~~BF~~ 3/3

FROM: MOIRA WALLACE
DATE: 29 February 1988

MR TURNBULL

cc Chief Secretary
Mr Anson
Mr Phillips
Mr Hawtin
Mr Odling-Smee
Mr Sedgwick
Mrs Case
Miss Peirson
Mr Potter
Mr Gieve
Mrs R Butler
Mr Deaton
Mr Perfect
Mr G C White
Mr Kidman

NEW PLANNING TOTAL AND NNDR

The Chancellor has seen your minute of 25 February. He would prefer to try a different compromise which might be easier for Mr Ridley to accept - taking Mr Ridley's two sub-aggregates, and renaming the first "central Government expenditure" and the second (which includes the NNDR) the "new planning total". We spoke, and you undertook to consider this. If you see no objections, I should be grateful for a revised draft for the Chancellor to send.

MW

MOIRA WALLACE

Pls X, good gnd.

16 February 1988

Rt Hon Norman Lamont MP
Financial Secretary
Treasury Chambers
Parliament Street
London SW1P 3AG.

MR. JAUNDOO - DR
PPS, CST, M/G, EST
Mr. Anson
Mr. Kemp
Mr. Potts
Mr. Moore
Mr. Tyrie

Dear Norman,

NON-DOMESTIC RATES - REVALUATION

I enclose a copy of our letter of 4 February to the Secretary of State for the Environment concerning the need for generous phasing of the introduction of new rateable values and the National Non-Domestic Rate in 1990. Our fears that a significant number of small businesses in particular, in all parts of the country, will face increases of several hundred per cent in their rates bills are shared by the other main business organisations and a joint deputation went to discuss the matter with the Secretary of State on 8 February. We are not raising this matter now to create in any way a lobby against the legislation but because our members are expressing their concern to us and we need to know how to answer them.

Chapin
→
FST
16/2

What?

The Secretary of State made the remarkable assertion that nobody knows yet what the outcome of the revaluation will be, even in broad terms and therefore there is no point in speculating about what phasing may be required. This was despite the fact that some of the figures placed before him by the organisations had been prepared in conjunction with district surveyors.

✓

It would be unacceptable for businesses to have no official indication of what the likely National Non-Domestic Rate is and the phasing arrangements before publication of the valuation lists on 1st January 1990. Businesses need to plan ahead and they are already very concerned about the impact of the changes in 1990. I am writing, therefore, to ask if you can help to throw any light on this matter by publishing preliminary estimates of the effects of the revaluation before Part III of the Local Government Finance Bill is debated in Committee. The crucial point to know is the distribution of increases, preferably by region. We understand that district valuers have been monitoring all new lettings in their areas for some time now and have received over 50% of the revaluation forms already. We cannot, therefore, believe that the valuers do not now have a pretty shrewd idea of the shape of the final outcome.

It is in the interests of the Treasury to ensure that the 1990 changes do not lead to the closure of large numbers of small businesses with a consequent loss of income, corporation and value added tax and national insurance revenues and increase in social security expenditure. We therefore urge you to make available as much information as possible at this stage so that the question of phasing relief can be discussed on an informal basis.

X/ I hasten to add that we accept that it is not realistic to expect the general Exchequer to fund the phasing relief. It will have to be funded by a corresponding phasing of reductions in rates bills.

J. Chaplin
Judith

Mrs Judith Chaplin
Head of Policy Unit

4 February 1988

Rt Hon Nicholas Ridley MP
 Secretary of State for the Environment
 Department of the Environment
 2 Marsham Street
 London SW1P 3EB.

Nicholas,

LOCAL GOVERNMENT FINANCE BILL - NON-DOMESTIC RATES

I wrote to you on 23 September with our response to the Yellow Consultation paper on Non-Domestic Rates. Since then the Bill has been published and had its Second Reading. In addition, a lot more information has become available - not from the Government but from the private sector - about the likely outcome of the revaluation of non-domestic property and introduction of a National Non-Domestic Rate in 1990.

In particular, it has become clear that the redistribution of the aggregate rates burden meshes rather less well with regional policy objectives than we had hoped. Certainly depressed inner city areas will benefit, but local high streets and small businesses elsewhere in the North will in a significant number of cases face increases in their rates bills of between one hundred and five hundred per cent - as large as those in the South East. Even with generous phasing arrangements this will threaten their survival. Closure of the non-surviving businesses is likely to be swift and final, whereas it will be a while before many new businesses start up in the sectors and locations which benefit from the changes.

In the light of this we have the following comments concerning the proposals in Part III of the Bill:

1. The NNDR Formula

We remain concerned that the Government's strategy is still to freeze the aggregate burden of non-domestic rates, not to reduce it in the longer term. In the absence of such a strategy, we support the recommendation by some other business bodies that the NNDR, rather than being uplifted each year for the movement in the RPI, should be limited to so many percentage points below the RPI increase. A figure of 3% below the RPI has been suggested by analogy with the 3% below inflation restriction on British Telecom and British Gas prices. There is certainly scope for authorities to make efficiency gains of 3% per annum and business should enjoy its share of those gains.

A reduction in the NNDR in real terms of 3% a year after 1990 would have the further benefit of reducing the need for phasing the 1990 changes. Indeed there is no reason why local authorities should not be expected to make savings of 3% in 1990 as well as in the subsequent years.

2. Empty Property

We were disappointed, after the sympathetic comments in your letter of 5 November, to find that clause 36 of the Bill, far from extending the exemption for empty industrial and warehouse property to commercial property, increases the instances where rates will be levied on empty property; rather than authorities having discretion to levy rates up to 50%, clause 36 makes it mandatory to levy 80%. We urge you to reconsider this.

Where a business is no longer viable after April 1990 because of the increase in its rates, the proprietor should in fairness have an opportunity to cease trading without loss; in any event he must cease trading promptly, if he is not to be guilty of wrongful trading. Unfortunately, the high rates which have forced him out of business may well make it difficult to find a buyer for the lease or freehold, as the case may be. He cannot then cease trading without perhaps substantial loss and may try to trade his way out of this hopeless situation, with even worse consequences for himself and his creditors when he fails. There is therefore a particularly strong case for making all business property eligible for 100% empty property relief for the first few years after April 1990.

3. Phasing

In our letter of 23 September we tentatively suggested that the phasing arrangements should include a 25% limit on the annual increase in rates bills as a result of the revaluation and introduction of the NNDR. In the light of more recent information from our members, professional valuers, the Forum of Private Business and the National Federation of Self-Employed and Small Businesses, we now feel that even 25% would lead to an unacceptable level of business closures. We, therefore, urge that the limit on year-on-year increases in rates bills attributable to the revaluation and NNDR should be of the order of 10% in real terms, at least for small businesses and at least until the first rental review of the property on an open market basis after publication of the new valuation lists. The cost of a 25% limit would be modest and could properly be charged to the general Exchequer as the price of preventing business closures which would have adverse consequences for the Exchequer in terms of VAT, income and corporation tax revenues and social security expenditure. The cost of a 10% limit would be more significant and we accept that it might be appropriate in that case to phase some of the rate reductions for those who gained from the changes to pay for at least part of the phasing relief for those who lose. We would not, however, like to express a final view on how the cost of the phasing relief should be shared between the gainers, non-domestic ratepayers generally and the Exchequer, until that cost can be estimated with some accuracy.

An apparent obstacle to a limit expressed as a percentage of the previous year's rate bill rather than of the total increase to be phased in is that it would mean the phasing arrangements continuing past the next revaluation in 1995. But, as we explained in our letter of 23 September, the inherent tendency for periodic revaluations to over-correct (because the new rateable values are based on market rentals distorted by the old values) will be particularly pronounced in 1990. Hence those faced with the largest increases in their rates bills in 1990 are likely to enjoy a reduction in their relative rateable values in 1995 as the over-correction in 1990 is itself corrected (or over-corrected). On the simplifying assumption that real changes in rates bills are passed on in due course to landlords in lower rentals it would only be necessary to implement 50% of the 1990 changes by 1995 and then no further correction would be required other than for market changes arising between 1990 and 1995 (or rather between the relevant antecedent dates).

The combination of a 3% a year reduction in the NNDR (starting in 1990) with a 10% limit on the real year-on-year increase in rates bills would have the effect of allowing increases arising from the April 1990 changes to be phased in at the rate of 13%, not just 10%. Thus by April 1996 increases of up to 108% (i.e. 13% compound for six years) would have been fully phased in; after taking account of offsetting reductions in the 1995 revaluation, few increases under 200% would require further phasing and the balance of larger increases might be reduced to a level at which they could reasonably be phased in fully before the following revaluation in the year 2000.

In essence, therefore, we are suggesting that the 1995 revaluation should be seen as a second stage of the 1990 revaluation, which will put right the large over-corrections at the first stage arising from the long interval between the 1990 and the 1973 revaluations and the combination of the revaluation with the introduction of the NNDR.

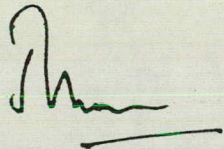
In suggesting a limit on rates bill increases on a compound rather than straight line basis (with perhaps a larger limit for balances remaining after the 1995 revaluation), we have in mind that generous relief is particularly important in the early years while appeals are outstanding and while few properties have had rent reviews which reflect the new rateable values.

We appreciate the difficulty in drafting and applying provisions which would give more generous phasing arrangements to small businesses or small business premises, or which would limit relief to the period up to the next open market rental review. These are, nevertheless, options for concentrating phasing relief where it is most needed, which you may wish to consider.

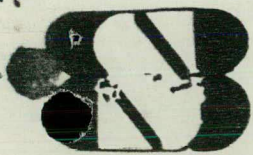
4. Consultation with Business Ratepayers

We welcome your sympathetic comments on the future of mandatory consultations with non-domestic ratepayers under the Rates Act 1984. We would be very willing to come and discuss with you, or one of your Ministerial colleagues, what could be done to ensure the continuance of these consultations on a sound and effective basis. If it would be useful, we could bring along two or three of our members who are involved in these consultations in different parts of the country.

In conclusion, I must stress that phasing of the 1990 changes will be crucial to the survival of many small businesses. It is not their fault that the revaluation has been so long delayed, nor is it something for which they have been able, in the competitive position of most small businesses, to prepare by setting aside financial reserves or negotiating their current rents downwards. We urge you to make a commitment now to provide adequate relief and preferably to enshrine it in the present Bill so that businesses may plan ahead.

Yours ever


JOHN HOSKYNS



THE SMALL BUSINESS BUREAU

32 Smith Square London SW1P 3HH 01-222 0330

cc Mr Fellgett

As agreed. I have told
the FSI's office that you
are in the lead on this topic.

cc Mr Calder

Mr Gonzalez
Mr Pawley (CVO)

17th February, 1988.

[Handwritten signature]
PS/

The Rt. Hon. Norman Lamont, M.P.,
Financial Secretary,
H.M. Treasury,
Parliament Street,
LONDON SW1P 3AG.

FINANCIAL SECRETARY	
REC.	18 FEB 1988
ACTION	MR JAGGARD II
COPIES TO	PPS, CST, ENG, EST MR Hawton MR Culpin MR HORACE MR TUCKER

Dear Norman,

You will remember I spoke to you the other day in the Lobby about the need to ask the Inland Revenue to work out some figures on the rate revaluation.

As I mentioned I took a delegation consisting of all the main business groups to see Nicholas Ridley on the question of the very high increases that firms would have to pay as a result of revaluation and the non domestic rates. Most of the business organisations produced their own figures as to what the likely effects to revaluation would be. These figures came from individual firms and were calculated by their own professional advisors. Unfortunately, Nicholas Ridley was unable to produce any figures of his own although he strongly claimed that the increases would be nothing like what was being suggested by the business groups. Clearly the Government is not in a very good position if it cannot put forward its own figures.

As I said I understand that already half the forms for revaluation have been returned to the Inland Revenue, and I would therefore hope you may be able to get them to make some calculations. You will be receiving similar requests for this information from the Institute of Directors.

You will be the first to agree, I am sure, that it

Grylls
FSI
17/2

Life Patron:	The Lord Taylor of Hadfield			
National President:	Philip Coussens	Chairman:	Michael Grylls, MP	
Vice Chairmen:	Spencer Batiste, MP	Graham Bright, MP	Bill Cash, MP	Neil Hamilton, MP
National Organiser:	Alan Cleverly	Administrator:	Irene Jeffery	

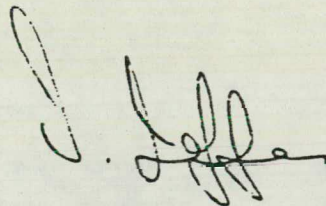
The Rt. Hon. Norman Lamont, M.P.

17th February, 1988.

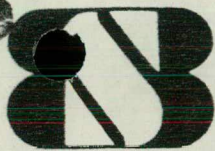
is not acceptable to leave businesses with so much uncertainty and that business really must know what it has to pay well in advance.

Please forgive me for not signing this letter personally but I have had to leave for an overseas visit.

Yours sincerely



20
Michael Grylls, M.P.
Chairman.



THE SMALL BUSINESS BUREAU

32 Smith Square London SW1P 3HH 01-222 0330

THE AFFECT OF UNIFORM BUSINESS RATE ON SMALL FIRMS

Whilst it is recognised that a significant part of the rise in rates envisaged when the UBR comes into force is occasioned by the revaluation of property, the new method is likely to impose an added and uneven burden on businesses in the better controlled councils where business rates previously were low (e.g. Kensington and Chelsea). Even though it is apparently part of the Government's aim to encourage businesses to move to the North, businesses in various Northern areas will face similar difficulties.

The increase in business rate will affect small firms more dramatically than large firms because:-

1. Small firms have few premises compared to large firms and the rises will not be able to be averaged with decreases. In addition small premises bear a higher rate due to zoning and other revaluation techniques.
2. Small firms in retailing are likely to face rises due to shop locations whereas manufacturers will face decreases and the large multiple retail stores will be more able to take advantage of the reduction in manufacturer's rates' bills than small firms.
3. In small firms rates account for a higher proportion of pre tax profits (Forum of Private Business estimate 25% for small firms compared to 5% for PLC's).

The evidence of potential inequities has been gathered by NFSE, Forum of Private Business and National Chamber of Trade and is summarised as follows:-

NFSE Sample 74 of shops offices and factories

71 increases of which 13 would rise less than 50% and 58 would rise more than 50%.

Life Patron: The Lord Taylor of Hadfield
National President: Philip Coussens *Chairman:* Michael Grylls, MP
Vice Chairmen: Spencer Batiste, MP Graham Bright, MP Bill Cash, MP Neil Hamilton, MP
Christopher Kirkham-Sandy, FCA Andrew Rowe, MP Fred Tuckman, MEP
National Organiser: Alan Cleverly *Administrator:* Irene Jeffery

FORUM OF PRIVATE BUSINESS Sample 2400

<u>Business</u>	Average	Median	Average
Distribution	+104%	+49%	-6%
Services	+ 72%	+25%	-22%
Manufacturing	+ 10%	-22%	-53%

NATIONAL CHAMBER OF TRADE Average increase 25% but wide
discrepancy from -60% to +240%

RETAIL CONSORTIUM Survey of 28 retail companies
with 8,487 shops/stores and an
average percentage increase of 75%

CONCLUSION

All the evidence shows that a very large number of businesses are facing a substantial increase in costs. For many small businesses, on whom the Government has relied to revitalise the economy and reduce unemployment, this would be an insuperable problem and would lead to closure particularly in city areas. The most realistic solution is that rises should be limited in any one year for small firms (however defined).

CONFIDENTIAL



FROM: MISS M P WALLACE

DATE: 22 February 1988

MPW
BF

29/2

PS/FINANCIAL SECRETARY

cc PS/Chief Secretary
 Sir P Middleton
 Mr Anson
 Mr Monck
 Mr Burgner
 Mr Hawtin
 Mr Potter
 Mr Culpin
 Miss Sinclair
 Mr Fellgett
 Mr Tyrie
 PS/IR

MPW
 PS/ST
 22/2

INTRODUCTION OF THE NATIONAL NON-DOMESTIC RATE

The Chancellor has seen Judith Chaplin's letter to the Financial Secretary of 16 February, and a copy of Mr Cope's letter of 18 February to Mr Howard. The Chancellor thinks that the latter rather misses the point, as it is not the NNDR which will have the big effect, but - as the IOD letter recognises - the revaluation, which would have happened anyway. The Chancellor had assumed that we would phase in the new ratable values over the same five year period as we phase in the NNDR. But this question ought to be decided, and ^{the decision} announced as soon as possible.

MPW

MOIRA WALLACE



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

The Rt Hon Nigel Lawson MP
HM Treasury
Parliament Street
LONDON
SW1 3AG

H/EXCHEQUER	
23 FEB 1988	23/2
MRTURNBULL	
CST. MR ANSON	
MR HAYDEN PHILLIPS	
MR HAYDEN MR ODLING SMEE	
MR SEDGWICK MR SCARJE	
MISS PERREN MR POTTER	
MR GLEVE MRS R. BUTLER	
MR DORTON MR FELL GERT	
MR GC WHITE MR. W. STANAN	

23 February 1988

Dear Nigel

Thank you for your letter of 15 January about the proposed treatment of the national non-domestic rate (NNDR) in relation to the new planning total. I am afraid I do not agree with your proposal to include NNDR in the planning total.

As I understand it your objective in proposing changing the planning total is to reflect reality by including only what central Government has under its effective control and leaving out items which are controlled only indirectly or at the margin. The NNDR is unique: it is not something over which central Government will have a significant degree of control. It will be collected by local authorities and the proceeds will all be redistributed to them through the NNDR pool. The level of the rate will be indexed by statute to the RPI, subject only to the limited power to under-index. Its inclusion in the planning total would I believe therefore overstate the degree of influence exercised by central Government.

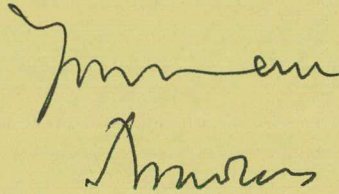
I also consider that treating NNDR on a par with revenue support grant would give substance to the argument that 75% of local authority expenditure was effectively going to be financed by central Government in the new system and undermine our stance that NNDR will form part of local authorities' "own" money. My own conclusion is therefore that NNDR receipts should be classified separately and outside the planning total. I do not regard this as an esoteric accounting issue but something which is important to the relationship between central and local Government.

In my view NNDR has a greater affinity with debt interest than with those items included within the planning total and should therefore be similarly classified. Rateable values in the non-domestic sector depend upon the stock of property and new additions neither of which are under the direct control of central Government. Influence on the yield is restricted to the Government's power to under-index the poundage eg to limit the



increase in non-domestic rates which might otherwise result from buoyancy. In a similar way, central Government cannot influence the total of past debt, and only has limited influence over market interest rates.

If you would not be prepared to go so far as to show NNDR alongside the spending financed by the community charge, I suggest that NNDR should be shown separately from the planning total, but with a new line showing the sum of the two. This alternative proposal is set out in the attached table.

A handwritten signature in dark ink, appearing to read 'Nicholas Ridley', written in a cursive style.

NICHOLAS RIDLEY

TABLE 1: PLANNING TOTAL BY SPENDING AUTHORITY

Central government's own expenditure

Central government grants to local authorities

Current grants

Revenue Support Grant

Specific grants

Capital grants

etc

~~New planning total~~

Central Govt. Expenditure

NNDR

New planning total

and NNDR

Other local authority expenditure (excluding debt interest)

Local authority debt interest

etc

General government expenditure



CH/EXCHEQUER	
REC.	24 FEB 1988 ✓ 25/2
ACTION	CST
STATUS	

R1067
PM
24/2

24/2/88

Prime Minister

NON-DOMESTIC RATE TRANSITION

We have so far agreed that we should provide transitional phasing for the combined effects of the revaluation and the Uniform Business Rate by spreading the increases over the five years to the 1995 revaluation and setting a ceiling on the maximum increase in any year.

The various representative organisations of business have now united in supporting a package which would:

- limit annual increases to 10%
- require increases to be spread over 10-15 years
- link future increases in rate poundages to RPI-3%.

This package is supported by the CBI, the ABCC and IoD as well as the representatives of small business.

We are now being pressed to make our position on transition clearer. These questions are the subject of backbench amendments on the Local Government Finance Bill Committee. I expect to have difficulty resisting some of these unless I can make a firmer statement of what is on offer. We are also being pressed by the national retailers who say that uncertainty is damaging their forward planning of investment. They are of course a group which will be hard hit by the changes.

I think we must stick to our resolve to get the great bulk of the rate changes through within 5 years. We could not possibly achieve this with a ceiling on rate increases as low as 10% pa. Without knowing the results of the revaluation in detail, the lowest it would be prudent to go would be 15% pa compound, plus the annual indexation increase. On that basis we would get all increases up to 100% through by 1995.



I have made clear that these arrangements are to be self-financing within the business sector, that is, that they will have to be paid for by a temporarily higher poundage, phased out over the 5 years and outside the indexation arrangements. Without details of the distribution of increases on revaluation, I cannot say precisely how high the premium will have to be. Our best guess is that it is likely to be no more than 10% in the first year, probably less, and diminishing thereafter. I should note that this arrangement has the disadvantage, which I can see no way of avoiding short of additional Exchequer grant, that a large majority of business ratepayers - all except those due for reductions of more than 10% - will face initial increases in 1990.

I do not propose to give in to suggestions that there should be statutory provision for the transition to last longer than 5 years. It would be very confusing to try to implement the 1995 revaluation while still trying to complete transition from 1990. There will however be a significant number of businesses - particularly shops in the very low-rated Conservative boroughs in London - facing increases well above 100%, thus leaving substantial amounts still to come through in 1995. I think it would be wise, therefore, to take powers to apply a transitional scheme to the 1995 and subsequent revaluations. We will then be able to argue that any rate increases from 1990 which are outstanding in 1995 can be looked at alongside the later revaluation and appropriate arrangements made then.

We considered previously the question of whether to limit the indexation of the business rate to an "RPI minus" formula. Our conclusion then was that a direct link to the RPI was generous to business in the light of the rate increases they have experienced in recent years and in the light of the higher rates of increase in local authority costs. We have agreed that there should be a power for the Chancellor to set a lower indexation increase and amendments to the Bill are being prepared for that purpose. In my view we should not go any further. As it stands the RPI indexation



will put considerable pressure on community charge. A lower level of indexation will merely transfer pressure onto the Chancellor to increase the level of Exchequer grant. If the Chancellor wishes to alter the burden of business taxation the discretionary power already agreed will be adequate.

Business consultation

I had earlier proposed to drop the duty on local authorities - which we introduced in 1984 - to consult local businesses before setting their rates, on the grounds that without locally variable rates, there was no peg on which to hang it. I have however received persuasive arguments from the ABCC, and CBI and others that local consultation still has a valuable role in relation to local spending and especially the services authorities provide to businesses. I therefore propose to reinstate an equivalent duty in the Bill, and to announce this at the same time as the announcement on transition.

Conclusion

I would like to be able to announce our position - a 15% pa ceiling on increases and a duty to consult - by the time the Standing Committee reaches non-domestic rates on 1 March. I would therefore be most grateful for colleagues' agreement by lunchtime on 29 February.

I am copying this letter to the other members of E(LF) and to Sir Robin Butler.

N R

24 February 1988