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CHIEF SECRETARY TO THE TREASURY

Treasury Chambers. Parliament Street. SW1P 3AG

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

29 February 1988

Dear Secretary of State,

NON-DOMESTIC RATE TRANSITION

Thank you for copying to me your minute of 24 February to the Prime Minister. I am also responding to your letter of 27 January to Nigel Lawson, and John Cope's letter of 18 February to Michael Howard which he copied to Nigel, about the availability of information on the likely effect of the revaluation and move to a uniform business rate.

I agree with you that it would be prudent to take powers to apply a transitional scheme to the 1995 and subsequent valuations (which might be broadly drafted to allow us maximum flexibility at the time); that we cannot afford to add automatically to the substantial benefit that business can expect from the indexation of business rates to the RPI; and (as I suggested earlier) that we should retain the duty on local authorities to consult with business, to avoid giving the wrong signals.

I am, however, worried about the position we now seem to have reached in your latest proposals for managing the transition after 1990. We agreed in E(LF) in April 1987 that major losses and gains, from the change to a National Non-Domestic Rate and from the revaluation, would be phased in over 5 years. Although no figure was settled, we then envisaged a maximum increase in rates bills (in real terms, i.e. before allowing for annual indexation to the RPI) of 20 per cent or 25 per cent, with corresponding phasing for gainers so the transition would be financially neutral. As I understand it, your latest proposal involves phasing for losers (but not gainers), offset financially by a supplement to the NNDR in 1990-91 of around 10 per cent for everyone apart from significant losers. This is far from the option touched on in your minute of 25 June to the Prime Minister of a "small" supplement. I doubt if it would be attractive to business. We should therefore consider amending the Bill to revert to the E(LF) decision. If we do, and if there is no choice but to announce a figure shortly, I would favour as high an annual limit as possible, closer to 25 per cent than 15 per cent, to phase in the long over-due effects of revaluation as fully as we can before 1995.

I see very great difficulties in reaching a decision on this in the timescale you suggest, nor am I clear that we have yet to take a final decision. Although you and John Cope have suggested collecting one form of information about the likely effects of revaluation, I understand that a very different form of survey would be needed to assess the likely distribution of gainers and losers, so we can consider a final decision on transition on the basis of some firm information about the likely range of effects on business. That survey would be best done in the initial stages of the revaluation itself, which will begin in July. To make a decision prematurely runs the risk of getting the transition wrong.

I therefore see merit in announcing that we will amend the Bill to take broad regulation making powers to determine the transition in the light of evidence actually gathered in the course of the revaluation. We would hope to make an announcement in the Autumn after studying the results of the Survey. This could be presented as a response to the concerns of industry - the Institute of Directors have, for example, written to Norman Lamont to suggest discussions of phasing for which, they say, the crucial point to know is the distribution of increases. We would, of course, assure business that their representation will be taken into account, and assure Parliament that they will have an opportunity to consider our conclusions when they come to the regulations.

I am copying this letter to the Prime Minister, to other E(LF) colleagues and to Sir Robin Butler.

Yours sincerely,

Jill Rutter

pp JOHN MAJOR

(Approved by the Chief Secretary and signed in his absence).

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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

29 February 1988

Dear Roger,

NON-DOMESTIC RATE TRANSITION

The Prime Minister has seen your Secretary of State's minute of 20 February and the Chief Secretary's response of 29 February.

The Prime Minister shares the Chief Secretary's view that your Secretary of State's latest proposals for managing the transition are a long way from the approach endorsed by E(LF) last year. She believes that the right approach would be to have a transition in which the phasing for losers and gainers was broadly balanced, rather than to have phasing for losers, but not gainers, offset by a substantial supplement to the NNDR.

The Prime Minister would therefore be content for your Secretary of State, in Committee this week, to set out the position as described by the Chief Secretary. If this cannot be agreed in correspondence she would, however, be prepared to discuss the position with your Secretary of State and others following her return from the NATO Summit.

I am sending a copy of this letter to the Private Secretaries to members of E(LF) and Trevor Woolley (Cabinet Office).

Yours,

Paul.

PAUL GRAY

Roger Bright, Esq.,
Department of the Environment

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