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P 03063

PRIME MINISTER

NATIONAL NON-DOMESTIC RATE AND NON-DOMESTIC REVALUATION
TRANSITIONAL ARRANGEMENTS AND BUSINESS CONSULTATION

[E(LF)(88)7]

DECISIONS

1. The early part of Mr Ridley's paper explains proposals for the transition to the national non-domestic rate (NNDR) which he cleared with the Chief Secretry at the end of February and announced during the Committee Stage on the Local Government Finance Bill on 3 March. Although he invites the Sub-Committee to reaffirm that they are content with these proposals, you will probably not wish to spend very long on them since they have already been settled and announced.

2. The main issue for decision at this meeting is whether there should be more generous transitional arrangements for small businesses. Following pressure from business interests Mr Ridley wants to set a lower ceiling on the annual increase in rate bills for small premises (perhaps 10 per cent rather than 15 per cent, with a differential of 5 per cent), with the aim of helping small businesses. The Chief Secretary may not be content.

3. There is also a minor point about consultation to be decided. Mr Ridley proposes to impose a duty on local authorities to consult local businesses about expenditure proposals, and to give those businesses some privileged access to non-public information.

4. If E(LF) agrees, Mr Ridley proposes to announce these further proposals at Commons Report State next week and to table amendments to the Bill in the Lords. He only proposes to say however that

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there will be a more generous ceiling for small businesses, not what that ceiling is. He accepts that decisions about the detailed operation of the scheme, including the annual ceiling on gains and losses, can best be decided when more information is available about the effects of the 1990 rating revaluation. He also wants to avoid announcing a specific figure for the ceiling on annual increases, for fear that it would encourage business representatives to press for yet more generous treatment.

BACKGROUND

5. E(LF) considered the transition to the NNDR on 30 April 1987 (E(LF)(87)7th Meeting). They agreed a transitional arrangement very similar to the one now proposed, under which there would be a percentage limit on real increases in rate bills in any year. The cost of this protection was to be met by a similar phasing of large reductions in bills. But at that stage a limit of 15-25 per cent per annum was envisaged.

6. Subsequently Mr Ridley reconsidered this proposed method of financing protection for the largest losers. Delaying reductions in bills (ie gains) is controversial, because it requires those who are recognised as having been overcharged in the past to go on paying higher bills. This applies particularly to industry in depressed areas. Mr Ridley therefore proposed last June that transitional protection for losers should instead be paid for by all other non-domestic rate payers (by setting a higher general NNDR poundage in the transitional period).

7. However when Mr Ridley minuted you on 24 February 1988 he estimated that a ceiling on increases at the level he now favours (15 per cent per annum in real terms) would cost all other non-domestic rate payers a premimum of 10 per cent on their bills. The Chief Secretary opposed this, on the grounds that it would greatly increase the controversy surrounding the NNDR. At a subsequent meeting with the Chief Secretary, Mr Ridley agreed to revert to the arrangement earlier endorsed by E(LF) under which

and following your intervention. PRC6.

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phasing of large losses would be balanced by phasing of large gains. He also agreed that it was unnecessary at this stage to announce the actual ceiling which would apply, and that decisions could be delayed until the effects of the 1990 revaluation were clearer.

8. Mr Ridley made a statement along these lines at Committee Stage on the Local Government Finance Bill on 3 March. The main elements were:

i. a fixed percentage ceiling on the real increase in any individual rate bill in each of the first five years. Mr Ridley favours an annual figure of 15 per cent in addition to the uprating of the NNDR for inflation, but this has not been announced;

ii. the costs of this protection would be met from within the NNDR pool by capping the larger gains. An annual limit of 10 per cent on gains in real terms might be needed to finance a ceiling of 15 per cent on losses. Mr Ridley would also keep open the possibility of a small premium on the general NNDR poundage to reduce the extent to which gains were constrained;

iii. further powers to impose new transitional arrangements at the end of the first 5 years. These powers could be used to cover both any remaining losses from the introduction of the NNDR and the revaluation in 1990 and the effects of the second revaluation in 1995.

He was however pressed to devise a more generous scheme for small businesses, and he agreed to give this sympathetic consideration.

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MAIN ISSUES

Special scheme for small premises

9. The main decision for ~~their~~ this meeting therefore is whether to introduce a more generous arrangement for small premises. Mr Ridley would like to find a criterion for more generous transitional protection which selected small businesses. But no such criterion has been identified although both the Corporation Tax and VAT regimes have been considered. He has therefore proposed a scheme related to premises with rateable values below a threshold. The annual ceiling on increases in rate bills on such premises might be 5 per cent below that which applied to businesses generally.

10. This scheme should soften the impact of the NNDR on many small businesses, particularly small shops which are likely to suffer large increases in rates, and further reduce opposition to the Bill from business interests. On the other hand there is no firm evidence that small businesses will be hit particularly hard. Moreover, the scheme which Mr Ridley is proposing cannot help small businesses without also helping all businesses which operate out of small premises, eg retailers or service companies with many small outlets. Examples might include Sock Shop, newsagency chains and chains of service outlets such as dry cleaning companies. Furthermore, a more generous scheme for small businesses will increase bills for other businesses which have to bear the costs. The costs under Mr Ridley's proposal would fall on the rate bills of non-domestic rate payers who would otherwise benefit from larger reductions in their bills. E(LF) will want to decide whether on balance the arguments justify a special scheme for small businesses on these lines.

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Business consultation

11. The present duty on local authorities to consult local businesses was introduced to improve accountability under the existing system, which involves businesses paying locally determined rates. With the introduction of a uniform national non-domestic rate this rationale will cease to apply. The Government therefore originally proposed to remove the duty. However Environment Ministers subsequently encountered pressure from business interests to retain the duty, and colleagues agreed to this general proposal in response to Mr Ridley's minute of 24 February.

12. The CBI and the Association of British Chambers of Commerce (ABCC) have separately put forward proposals on how the new duty should operate. The CBI have proposed an elaborate scheme, involving "stop powers" for business over some types of local authority expenditure. It is difficult to see how this could be justified. Mr Ridley instead proposes to accept the ABCC's more modest proposals. Consultation would focus mainly on levels of service to businesses. E(LF) will probably want to agree this proposal.

see para. 16 of paper

13. You may however want to explore one aspect. Mr Ridley suggests that business consultees should have privileged access to some non-public information. At first sight this seems difficult to justify: community charge payers will be affected much more directly by expenditure proposals, and it is hard to see why their representatives should have less information than business consultees. You may want to press Mr Ridley on this.

VIEWS OF OTHER MINISTERS

14. The Chief Secretary, Treasury supports the general principles of the transitional arrangements. But he may oppose any special arrangement for small premises, on the grounds that it is not well targeted, and that the case for a special deal has not been made

even for small businesses. On the other hand, the Secretary of State for Wales is likely to support the proposals, on the understanding that the powers can be operated separately for Wales. The Chancellor of the Duchy of Lancaster is also likely to give broad support.

HANDLING

15. You will want to ask the Environment Secretary to introduce his paper. The Secretaries of State for Wales and for Scotland, the Chancellor of the Duchy of Lancaster and the Chief Secretary, Treasury may wish to comment. The Business Managers may wish to comment on the implications for the Local Government Finance Bill of any announcement at Commons Report Stage and of the amendments which will need to be made in the Lords.

RTJW.

R T J WILSON
Cabinet Office

12 April 1988