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PRIME MINISTER

13 April 1988

E(LF): THURSDAY, 14 APRIL

At E(LF) on Thursday you will be discussing two papers on transitional arrangements - one on the national non-domestic rate and the other on domestic rates and the Community Charge.

1. Transition to National Non-domestic Rate

Nicholas Ridley's first paper makes proposals for:

- meeting the cost of putting a cap on the annual increases businesses will face with the move to a national non-domestic rate;
- reducing the burden of increases on small businesses.

In principle it is possible to arrange the transition so that increases exactly match reductions because, overall, the total take will be unchanged. The simplest way to do this would be to phase everyone's increase or decrease in five equal instalments (subject to the overall cap on increases already agreed). This would, of course, involve deferring part of all gains as well as part of all losses.

But Nicholas Ridley has already publicly outlined an alternative scheme where it is more difficult to match gains and losses. He envisages that losses will come through in full in year 1, up to a maximum percentage increase. Any balance will come through in year 2 up to that maximum and so on.

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Initially he proposed meeting the cost of these arrangements by temporarily increasing the national non-domestic rate but you were against this idea. Instead, he now proposes meeting the cost by limiting the gains that individual businesses will face in any one year. Because the distribution of gains does not match that of losses, the cap on gains will need to be rather tighter than the limit on losses. Precise figures will have to await the revaluation of non-domestic rates.

Recommendation

Although it might have been better to have a scheme on the lines outlined at the start of this note, Nicholas Ridley's latest proposal seems the best available given where we are now and we recommend that you support it.

2. Small Businesses

Nicholas Ridley proposes extra protection for small businesses by putting a lower limit on losses for premises with a low rateable value - say 10% if the general limit on losses is 15%. The cost of this would be met as part of the general cap on gains.

The case for giving extra protection for small businesses is that Rates are a more significant element of their costs than other businesses and that they are less able to accommodate increases. But we understand from the Treasury that some 40% of businesses would benefit with a threshold of £1,500 so many larger businesses with small premises would also benefit. This suggests that the scheme, as proposed, would be poorly targetted and so reduce unnecessarily the rate at which gains flow through.

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Recommendation

We recommend that you ask for further work on the impact of the proposal and how it might be better targetted on small businesses.

3. Dual Running: The Community Charge and Domestic Rates

Item 2.

Last year E(LF) agreed that dual running of domestic rates in the Community Charge would apply only in those areas with the most excessive level of spending above GRE. The precise threshold was chosen so as to include all of inner London and Waltham Forest. In particular it was deliberately chosen to include Westminster, Kensington & Chelsea and Wandsworth because informal consultation with MPs and Councillors had suggested that they would prefer this.

Since the proposal has been made public those boroughs and Waltham Forest have said that they would prefer not to have dual running. It is possible to exclude them by setting a higher threshold on excess GRE per head than originally proposed.

On the basis of provisional spending figures for 1988-89 the Community Charges in 1990-91 (with safety net) in these boroughs would be:

Westminster	447	=	471
Kensington & Chelsea	386		
Waltham Forest	263		
Wandsworth	197		

The charge in Westminster would be the highest in the country and a pensioner couple there would have to find £1.70 a week from their own resources over and above the £1.70 to be included in income support rates. There is some uncertainty about the figures because the actual charge will

depend on spending in 1990-91, when ILEA will have been abolished.

The original decision was taken largely to meet what were thought to be local wishes. The change of view appears to be based on the cost of dual running. Yet later in his paper Nicholas Ridley proposes a grant to meet most of this.

Recommendation

Question whether this revised judgement is right in political terms or whether it reflects the view of local administrators rather than an assessment of the impact on chargepayers. Suggest further work on the impact on chargepayers in 1990-91.

4. Transitional Grant

Nicholas Ridley's paper also proposes giving a transitional grant to meet the additional administrative costs of dual running in the remaining boroughs. Since those boroughs have no choice about dual running, it seems only right that the extra costs they face should not fall unduly on their ratepayers and chargepayers. For the reasons set out in paragraph 10 of Nicholas Ridley's paper, these extra costs need to be met by a new specific grant of the kind proposed. Clearly the amount of grant should reflect only the costs of the most efficient means of continuing to collect the rates. There is no case for the taxpayer subsidising inefficiency or the high level of arrears in some of these boroughs.

5. Consultation with Business

Nicholas Ridley proposes placing a duty on local authorities to consult local businesses about levels of service to business. We recommend that you support this. Although the law cannot enforce genuine consultation it can provide a

framework that fosters cooperation where there is goodwill.

Conclusions

Item 1

1. Support Nicholas Ridley's general scheme of transitional protection for the move to the national non-domestic rate.

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2. Ask for further work to be done to define a well targetted scheme to give extra transitional help to small businesses.

Item 2

3a. Question whether the proposed exclusion from dual running of Westminster and other boroughs is politically sensible.

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b. Ask for further work on the impact on individual chargepayers before a final decision is taken.

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4. Agree to a specific grant for the extra costs of dual running provided it reflects only the costs of the most efficient method of rate collection.

Item 1

5. Agree to the proposals on consulting business.

Recd.

Peter Stredder

PETER STREDDER