

PRIME MINISTER

UNIFORM BUSINESS RATE AND REVALUATION:
TRANSITIONAL ARRANGEMENTS

There were various exchanges towards the end of last year about the detailed transitional arrangements for the uniform business rate. Key conclusions, on which DOE have been out to consultation, were:

- the transitional protection/costs for losers and gainers should be self-balancing. You were very keen on this principle;
- no-one should face an increase in rates of more than 20 per cent in real terms in 1990/91, or 15 per cent where the rateable value was below £7,500 in London and £5,000 elsewhere. These limits would apply in each year up to 1994/95;
- the precise matching figures for gainers were left imprecise; it was thought likely to be a maximum reduction of 10 per cent a year in real terms (15 per cent for small properties);
- all of these transitional arrangements would apply only to existing properties.

The consultation exercise is now complete. Nick Ridley ~~is~~ ~~minute at Flag A reports on the results, and~~ seeks agreement to a number of changes in the package:

- ✓ (i) to retain the limits on rate bill increases of 20 per cent a year for large properties and 15 per cent for small ones;
- (ii) but to increase the threshold for small properties to £15,000 rateable value in London and £10,000 elsewhere. This would bring some 78 per cent of properties in England below the thresholds;
- ✓ (iii) rather than limiting protection to existing properties, to tighten this limitation to existing occupiers;

- (iv) to abandon the idea of a self-balancing package. Instead of the gainers having to wait through the transitional period they would get their reductions straightaway; except that, in 1990/91, there would be a 20 per cent limit on rate reductions in real terms for gainers. But the protection to losers would then have to be financed by a premium on the poundage. The precise premium would be decided in the light of new survey information from the Inland Revenue; but would be of the order of 10-12 per cent in the first year.

Nick Ridley seeks agreement to announcing these revised conclusions in July.

Peter Walker (~~Flag B~~) proposes parallel changes in Wales.

John Major (~~Flag C~~) is unhappy with this revised approach. He agrees with points (i) and (iii), but disagrees on the other points:

- (ii) he wants to limit the increased thresholds to £10,000 in London and £7,500 elsewhere; he estimates this would cover 70 per cent of properties in England and 80 per cent in Wales;
- (iv) he wants to maintain the principle agreed last year that the phasing for the losers should be matched by phasing for the gainers.

Tony Newton has also commented (~~Flag D~~). His only concern is

- (iii) where he raises worries - not very strongly expressed - that removing transitional relief from a property on a change of occupant could distort the normal turnover of commercial property.

John Mills in the Policy Unit has provided an assessment at Flag E. He recommends a compromise:

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- resist Tony Newton's objection to tightening up the transition of protection to existing occupiers rather than properties;
- support John Major on point (iv), and retain the original principle that there should be a balanced package of losers and gainers. He points out that Nick Ridley's new approach would increase the number of losers because the premium would hit a lot of properties in the middle range;
- on the small business threshold (point (ii)) support the Ridley/Walker proposal to double the figures to £15/10,000.

Since no announcement is necessary until July I think you have two main options on handling. If you think the issue should be debated in a collective forum, you could ask for these papers to be added to the agenda for the forthcoming series of E(LF) meetings, e.g. we have meetings pencilled in for 6 July and 11 July. Alternatively, you may want to set out your views on the points at issue and hope that other colleagues will then concur without the need for a meeting. My impression is, however, that both Nick Ridley and John Major feel strongly.

Conclusion

- (i) Do you want to remit the issue to E(LF)? Yes ✓
Or
- (ii) Do you want to support John Mills' compromise package at Flag E?
Or
- (iii) Do you favour any alternative package?

Recg.

PAUL GRAY

16 June 1989

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