



POLICY IN CONFIDENCE

PRIME MINISTER

NON-DOMESTIC RATING

Your Private Secretary's letter of 10 October to mine said that you saw the case for full indexation of the national non-domestic rate poundage in 1991-92 in both England and Wales. However, it asked that officials should look at the possibility of amending the transitional arrangements to ease the burden on small businesses which next year will still not have reached their full rate bills under the new system.

There are about 1.25 million non-domestic properties in England and Wales with rateable values below the thresholds of £15,000 in London and £10,000 elsewhere which we have used to define small properties. About 60% of these will either have reached their full new bills by next year, or will be gaining properties still on a downward transitional path. The remaining 0.5 million will be properties attracting higher bills under the new system and benefitting from transitional protection. Most of these will be subject to the 15% real terms limit. However, you will recall that in July we proposed, as part of the package which emerged from the community charge review, a lower limit of 10% for composite properties, mostly small shops with living accommodation attached. David Hunt and I will be announcing shortly that following consultation we intend to go ahead with this concession with effect from April. About 100,000 properties will benefit.

The transitional arrangements, including the 15% limit, are contained in the Local Government Housing Act 1989 and I have only very limited powers to modify them in respect of particular "cases". These powers are broad enough to facilitate the concession in respect of composites, but I am advised that they do not enable me to change the 15% limit generally, or the



POLICY IN CONFIDENCE

rateable value thresholds as regards all small properties. Nor do they allow me to create new classes of property by rateable value band to which lower increase limits could be applied. I do not see any scope for using these limited powers to select other "cases" for special treatment: there are no arguments which we could present for choosing particular groups of businesses to help that would not simply invite all small businesses to demand the same benefits.

If, therefore, we wished to improve the transitional protection for small businesses as a whole we should need primary legislation. I would be very reluctant to embark on that course, not only because it would again open up the whole of non-domestic rating to Parliamentary debate, but because it would inevitably at this late stage cause the sort of delays in sending out rate bills which we saw this year, with similar effects on local authorities' cash flow and the PSBR.

I think that we can reasonably point out to businessmen who complain about the steep transitional increases next year as a result of inflation that rates are a relatively small part of their costs and that even a 25% increase in rates is equivalent to only a 5% rise in total occupancy costs for a business paying a market rent. As a proportion of total costs, the figure is smaller still. And at a time when business rents are static or falling in many areas the impact on businesses may not be as great as might at first appear. Even if we had power to reduce the 15% limit to, say 10%, for all small properties, this would cut occupancy costs by only about 1%.

I think, therefore, that we must continue with the transitional arrangements as we legislated for them, subject to the help which we are already giving to one of the most vulnerable groups, those with small businesses who live "over the shop". By 1992/93, the



POLICY IN CONFIDENCE

great majority of properties will be out of transition and with much lower inflation we shall have substantially secured the much fairer and more stable system which our reforms were designed to achieve.

I am under no illusion about the political criticism that may be directed against a decision to index fully the UBR for small businesses. But the only alternative would be a costly decision to reduce the uprating for all businesses; there does not seem to be any mechanism for further alleviating the problems of small businesses. The case for full indexation is, of course, a much better one than many of our own parliamentary colleagues will readily accept.

I am copying this letter to John Major, Norman Lamont and David Hunt.

CP

16 October 1990

*Approved by the Secretary of State
and signed in his absence.*