

PRIME MINISTER

NON DOMESTIC RATING

You expressed concern about the impact of indexing in full the National Non Domestic Rate (i.e. an increase of 10.9 per cent) on those small businesses also affected by the transitional provisions. For some small businesses, the rise in rate bills next year could be as much as 25 per cent.

Accordingly I wrote to PS/Environment Secretary asking DOE to consider whether the transitional provisions might be changed to moderate the impact on those worst affected.

The Secretary of State has now responded (Flag A). There is also a minute from the Chancellor (Flag B). Both are in favour of full indexation of the NNDR and opposed to any change in the existing transitional arrangements.

Comment

First, it is important to remove one potential misunderstanding. The issues of indexation of the NNDR and changing the transitional provisions are quite separate. You accepted earlier that there was merit in full indexation of NNDR for business in general. But rate bills for businesses determined under the transitional arrangements are not influenced by the indexation decision. This is because the transitional provisions, which are set in primary legislation, prescribe over a period of five years that changes in rate bills are linked to RPI movements - irrespective of what happens to the indexation of the NNDR poundage.

Second it follows that any change in the transitional provisions would require primary legislation. Any further primary legislation on local government finance next year is an unattractive prospect.

POLICY IN CONFIDENCE

Third, I doubt whether the scale of the problem could justify difficult legislation. As Mr. Patten's minute points out, of the 1.25 million small businesses, about 400,000 would be losers next year under the transitional provisions - although not all would face the maximum 25 per cent increase. Even for those that do, that would amount to only a 5 per cent increase in occupancy costs. Moreover, even if primary legislation were enacted to reduce the maximum real increase from 15 per cent to, say, 10 per cent, it would only reduce occupancy costs by one per cent.

Fourth, the September RPI figure has now been known for several days (and were broadly clear for some time beforehand). So are the consequences for business rates affected by the transitional provisions. There has been no outcry, nor lobbying of DOE to make further changes in the transitional arrangements. Also, though DOE are not aware of this, the proposed package on Statutory Sick Pay and NICs is marginally favourable to small businesses. This will to some degree offset the impact of higher rate bills.

Conclusion

There may well be some disquiet about the impact on certain small businesses of the RPI-linked increase through the transitional provisions. But short of difficult primary legislation, it would not be possible to alleviate the burden. The increase in rate bills does not happen till next April: there could be scope for other (Budget?) measures to help small businesses.

- i) Content to accept full indexation of NNDR? Yes

- ii) Content not to pursue further the idea of changing the transitional arrangements for small businesses?

BHP

Yes - dis
not

BARRY H. POTTER

18 October 1990

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