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Prime Minister

NON-DOMESTIC RATE TRANSITION

We have so far agreed that we should provide transitional phasing for the combined effects of the revaluation and the Uniform Business Rate by spreading the increases over the five years to the 1995 revaluation and setting a ceiling on the maximum increase in any year.

The various representative organisations of business have now united in supporting a package which would:

- limit annual increases to 10%
- require increases to be spread over 10-15 years
- link future increases in rate poundages to RPI-3%.

This package is supported by the CBI, the ABCC and IoD as well as the representatives of small business.

We are now being pressed to make our position on transition clearer. These questions are the subject of backbench amendments on the Local Government Finance Bill Committee. I expect to have difficulty resisting some of these unless I can make a firmer statement of what is on offer. We are also being pressed by the national retailers who say that uncertainty is damaging their forward planning of investment. They are of course a group which will be hard hit by the changes.

I think we must stick to our resolve to get the great bulk of the rate changes through within 5 years. We could not possibly achieve this with a ceiling on rate increases as low as 10% pa. Without knowing the results of the revaluation in detail, the lowest it would be prudent to go would be 15% pa compound, plus the annual indexation increase. On that basis we would get all increases up to 100% through by 1995.

I have made clear that these arrangements are to be self-financing within the business sector, that is, that they will have to be paid for by a temporarily higher poundage, phased out over the 5 years and outside the indexation arrangements. Without details of the distribution of increases on revaluation, I cannot say precisely how high the premium will have to be. Our best guess is that it is likely to be no more than 10% in the first year, probably less, and diminishing thereafter. I should note that this arrangement has the disadvantage, which I can see no way of avoiding short of additional Exchequer grant, that a large majority of business ratepayers - all except those due for reductions of more than 10% - will face initial increases in 1990.

I do not propose to give in to suggestions that there should be statutory provision for the transition to last longer than 5 years. It would be very confusing to try to implement the 1995 revaluation while still trying to complete transition from 1990. There will however be a significant number of businesses - particularly shops in the very low-rated Conservative boroughs in London - facing increases well above 100%, thus leaving substantial amounts still to come through in 1995. I think it would be wise, therefore, to take powers to apply a transitional scheme to the 1995 and subsequent revaluations. We will then be able to argue that any rate increases from 1990 which are outstanding in 1995 can be looked at alongside the later revaluation and appropriate arrangements made then.

We considered previously the question of whether to limit the indexation of the business rate to an "RPI minus" formula. Our conclusion then was that a direct link to the RPI was generous to business in the light of the rate increases they have experienced in recent years and in the light of the higher rates of increase in local authority costs. We have agreed that there should be a power for the Chancellor to set a lower indexation increase and amendments to the Bill are being prepared for that purpose. In my view we should not go any further. As it stands the RPI indexation

will put considerable pressure on community charge. A lower level of indexation will merely transfer pressure onto the Chancellor to increase the level of Exchequer grant. If the Chancellor wishes to alter the burden of business taxation the discretionary power already agreed will be adequate.

Business consultation

I had earlier proposed to drop the duty on local authorities - which we introduced in 1984 - to consult local businesses before setting their rates, on the grounds that without locally variable rates, there was no peg on which to hang it. I have however received persuasive arguments from the ABCC, and CBI and others that local consultation still has a valuable role in relation to local spending and especially the services authorities provide to businesses. I therefore propose to reinstate an equivalent duty in the Bill, and to announce this at the same time as the announcement on transition.

Conclusion

I would like to be able to announce our position - a 15% pa ceiling on increases and a duty to consult - by the time the Standing Committee reaches non-domestic rates on 1 March. I would therefore be most grateful for colleagues' agreement by lunchtime on 29 February.

I am copying this letter to the other members of E(LF) and to Sir Robin Butler.

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24 February 1988