



Treasury Chambers, Parliament Street, SW1P 3AG.

Roger Bright Esq
Private Secretary to the
Secretary of State for the Environment
Department of Environment
2 Marsham Street
London
SW1

2 March 1988

Dear Roger,

NATIONAL NON-DOMESTIC RATE: TRANSITION

Your Secretary of State came to discuss the problems he was facing in the Standing Committee consideration of the Local Government Finance Bill on the transition to the national non-domestic rate and the introduction of the new non-domestic rateable values. He said that there was a strong risk of rebellion from Conservative members tomorrow which necessitated addressing three issues:

- (a) how big the annual uprating above inflation should be during the transition - the small business lobby was arguing for a 10 per cent cap on real rate bill increases;
- (b) how the transition should be financed - whether it should be financed through a cap on gains or through a higher NNDR ~~po~~udage and
- (c) whether there was a case for a special transition regime for small businesses.

The timing of data on new rateable values meant that it would be impossible to devise the right transition scheme until the Bill was on the statute book. But the backbenchers would not simply take the Government's position on trust. He accepted the points made by the Prime Minister and the Chief Secretary that the gainers should pay for the transition scheme - gainers

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would therefore be capped and losers safety netted. It was unclear yet whether the cap and safety net would be symmetric because the balance of gains and losses would be different. The size of the NNDR would depend on how the scheme would be devised - there might be a case for a small supplement or discount on the NNDR of 1 to 2p.

The Chief Secretary noted that ELF had envisaged 20 to 25 per cent caps on increases.

Continuing, your Secretary of State said that there was no question of the Exchequer providing a penny more. He would drop his idea of a supplement on the rate. But he wanted in Committee tomorrow to hold out the possibility of increases less than 20 per cent in real terms. The lobbies were producing horror stories and were demanding a special regime for small businesses. He wanted to be able to say that he would consider the case for an easier transition - a limit of say 15 per cent a year on both gains and losses for small businesses. He would therefore like to make three points in Committee tomorrow:

- (a) that the phasing should be affordable - in the range of 15 to 20 per cent per annum real increases;
- (b) that it should be paid for by a cap on gainers and
- (c) that he accepted that there might be a case for slower transition for small business. He would not be committed to such slower transition but he believed that it was tactically essential to be prepared to acknowledge the case.

The Chief Secretary said that he was pleased that Mr Ridley accepted the point on gainers. But he was far from clear that there was a need to give an indication of figures tomorrow. He believed it would be very hard for Tory rebels to vote against the Government on the basis that the Government would indicate the figures once it had more reliable information on the scales of gains and losses rather than taking a leap in the dark. If such a broad indication had to be given it should be of a range of 15 to 25 per cent. Your Secretary of State said that since the E(LF) decision had been in the terms of 5 year transition the figure of 25 per cent had not arisen. The Chief Secretary pointed out that phasing over 5 years only implied ~~to~~ 20 per cent increases if no-one faced an increase larger than 100 per cent.

Your Secretary of State said that the reassurance he was seeking would not have a cost to the Exchequer. Mr Butterfill had tabled an amendment to provide for a more gentle transition for small businesses with rateable values of under £15,000. He was not going to accept the amendment as such although he thought

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that the principle behind it was quite sensible. He wished therefore to be non-committal but sympathetic in the Committee consideration the next day. He would stress that any scheme would be paid for by the gainers. He would acknowledge there might be a case for an easier transition for smaller businesses.

The Chief Secretary asked Mr Ridley to produce a form of words which he would then consider.

I am copying this letter to Paul Gray at No. 10.

Yours,

Jin

JILL RUTTER
Private Secretary

LOCAL CAT: Rates 879

