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The Rt Hon John Major MP  
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*NBPM at this stage 11 March 1988*

*RECC  
14/3*

*Dear John*

#### NATIONAL NON-DOMESTIC RATE TRANSITION

The Debate in Standing Committee on the proposals for the transition went fairly well last week. No fewer than 7 of our colleagues spoke strongly on the need for adequate transitional arrangements. But they were generally satisfied with the assurances I was able to give, in the terms we agreed, and did not press their amendments to the vote.

It is clear, however, that there is a considerable head of steam behind some special scheme to give small businesses preferential transition arrangements, though the Debate in Committee gave a taste of how difficult it may be to define a small business for this purpose. I have asked my officials to put in hand the preparations of a paper which I can put to E(LF) on this issue and others related to the transition. I hope this can be discussed before Easter because I shall need to prepare amendments to provide for a special scheme for small businesses, if we decide on that, and to provide for the capping of gains to balance the pool.

On that point, I have seen the note which was produced of our meeting on 2 March. I am generally content with it except that I do not believe that I accepted, in the absolute terms suggested, that I would drop altogether the proposal for a supplementary poundage or that I believed all of the cost of transitional protection could be met by the limit on gains. I accept that our objective should be that losers should be compensated by gainers, but it will be difficult to achieve such a result precisely even if we can avoid giving a figure for the level of transitional protection until after Royal Assent. If the effect on the national pool is to be neutral, which I take to be our principal objective, we must keep the option of a small supplementary poundage open. At least I do not think we should remove the power from the Bill.

Finally, although things went well with our own people, the Labour Party were quick to spot that the limit on gains meant that the benefits to manufacturing industry particularly in the North would be deferred. Those benefits were, of course, our strongest argument against their rejection of the UBR proposals and they are certain to be making the most of this deferral in their constituencies. We should, therefore, take any opportunities to stress the good news for the losers - of which there will be some even in the North - in the coming weeks, and of course to draw attention to the large benefits for the gainers even though these may not be realised in full at the outset. I hope that Peter Walker, Malcolm Rifkind, Kenneth Clarke and John Cope, may also be able to take any opportunities for this.

I am copying this letter, with a copy of the speaking notes on which I drew in Committee, to the Prime Minister, members of E(LF) and to Sir Robin Butler.

*Nicholas Ridley*

NICHOLAS RIDLEY

## DRAFT SPEAKING NOTE ON NON-DOMESTIC TRANSITION

### POINT I

THE FIGURES BEING BANDIED ABOUT SEEM A MOST UNRELIABLE GUIDE TO THE GENERAL IMPACT OF THE REVALUATION. IT IS TOO EASY TO TAKE PARTICULAR EXAMPLES AS THE BASIS FOR ALARMIST SPECULATION. OF COURSE THOSE THAT ARE MAKING THE CASE FOR CONCESSIONS WILL WANT TO DRAW ATTENTION TO THE WORST CASES BUT THOSE WHO MAKE THESE CASES ARE IN NO BETTER POSITION TO KNOW THE TRUE OUTCOME OF THE REVALUATION, THAN WE ARE. NO ONE - NOT EVEN THE VALUATION OFFICE - CAN KNOW UNTIL THE REVALUATION IS ACTUALLY COMPLETE. ONLY THEN WILL WE HAVE THE NATIONAL PICTURE WHICH WILL ALLOW US TO GET A CLEAR VIEW OF THE UBR POUNDAGE AND ASSESS THE IMPACT ON INDIVIDUAL BUSINESSES. I DO WANT TO MAKE THIS POINT, HOWEVER, THERE IS THE IMPRESSION BEING GIVEN THAT ALL BUSINESSES WILL BE LOSERS. THAT CANNOT BE THE CASE. THERE IS NO REASON TO BELIEVE THAT THERE WILL NOT BE AT LEAST AS MANY GAINERS AS LOSERS. TO BE FAIR TO THE NFSE THE EXAMPLES THEY CIRCULATED TO THE COMMITTEE CONTAIN SOME EXAMPLES OF SIGNIFICANT GAINS AS WELL AS LOSSES: - 47% IN A SHOE SHOP IN GLOUCESTERSHIRE, - 32% FOR A SHOP IN HULL - 62% FOR A SHOP IN PRESTATYN. BUT THE BALANCE OF LARGE LOSSES THEY SHOW IS NOT CREDIBLE, IF IT IS TAKEN TO INDICATE THE BROAD PATTERN OF THE REVALUATION.

### POINT II

THUS WE CANNOT KNOW NOW HOW LONG A PERIOD OF TRANSITION IS NECESSARY. WE HAVE ALREADY ACCEPTED THAT THE LARGEST INCREASES

●OULD BE PHASED IN OVER AT LEAST 5 YEARS. BUT I AM SURE HONOURABLE GENTLEMEN WOULD AGREE THAT THE SIZE OF THE MAXIMUM ANNUAL INCREASE IN RATE BILLS WHICH WE PROPOSE TO SET UNDER CLAUSE 43 SHOULD DEPEND, TO SOME EXTENT ON THE SIZE OF THE GAP THAT IS TO BE BRIDGED. BUT I CAN GIVE THIS ASSURANCE: THAT I AM VERY MUCH AWARE OF THE NEED TO ALLOW ENOUGH TIME FOR BUSINESSES TO ABSORB THE CHANGES IN RATE BILLS - PARTICULARLY INCREASES - AND FOR THOSE INCREASES TO BE TAKEN INTO ACCOUNT IN FUTURE RENT NEGOTIATIONS WITH LANDLORDS.

### POINT III

I THINK THE WHOLE COMMITTEE WOULD ACCEPT THAT LIMITS ON RATE INCREASES WILL HAVE TO BE MATCHED BY THE DEFERRAL OF GAINS WHICH WOULD OTHERWISE BE DUE, OTHERWISE THE TOTAL YIELD OF THE BUSINESS RATE WOULD BE REDUCED. OBVIOUSLY, THOSE THAT STAND TO GAIN, ARE THOSE THAT HAVE BEEN PAYING TOO MUCH FOR SOME TIME NOW. IN DECIDING BY HOW MUCH TO LIMIT ANNUAL INCREASES, WE MUST TAKE ACCOUNT OF THE IMPACT ON THOSE THAT HAVE LEGITIMATE EXPECTATIONS OF SOME RELIEF. THERE WILL INEVITABLY BE A COST OF PROTECTING THOSE THAT LOSE AND IT ~~MAY~~ <sup>WILL</sup> BE ~~APPROPRIATE~~ <sup>NECESSARY</sup> TO ARRANGE FOR THERE TO BE OFFSETTING LIMITS ON THE RATE AT WHICH GAINS CAN BE TAKEN. THE SYSTEM IS NOT SYMMETRICAL SO ANY LIMITS MAY HAVE TO BE IN THE FORM OF AN X% LIMIT ON INCREASES AND A Y% LIMIT ON REDUCTIONS IF WE ARE TO ACHIEVE THE OBJECTIVE THAT THE EFFECT ON THE POOL AS A WHOLE IS NEUTRAL. IT MAY ALSO BE THE CASE THAT A SMALL PREMIUM ADDITION TO THE UBR POUNDAGE UNDER THE PROVISIONS OF PARA 7 OF SCHEDULE 4 IS REQUIRED - AT LEAST IN THE FIRST YEAR - IF THE X AND Y FACTORS DO NOT PRODUCE A REASONABLE BALANCE. BUT SO FAR AS POSSIBLE WE WILL SEEK TO MATCH THE CONCESSIONS TO THE LOSERS WITH A LIMIT ON THE GAINERS.

MY HON FRIEND THE MEMBER FOR BOURNEMOUTH IS SPECIFICALLY SEEKING A LIMIT ON THE TRANSITIONAL ARRANGEMENTS AS THEY APPLY TO SMALL BUSINESSES. HE HAS SUGGESTED A DIVIDING LINE BETWEEN SMALL AND LARGE BUSINESS AS A RATEABLE VALUE OF £15,000 ON THE NEW LISTS.

I DO NOT FIND THAT IDEA UNACCEPTABLE IN PRINCIPLE ALTHOUGH I WOULD LIKE TO LOOK MORE CLOSELY AT THE DETAILED PROPOSAL FOR GIVING THAT HELP, ESPECIALLY AT THE PARTICULAR DIVIDING LINE. I WANT TO EMPHASIZE THAT WHAT ATTRACTS ME TO THIS SCHEME IS THAT IT PROPOSES DIFFERENT TRANSITIONAL REGIMES FOR SMALL AND LARGE BUSINESSES RATHER THAN DIFFERENT END STATES. IT DOES NOT SEEM TOO DIFFICULT, OR WRONG IN PRINCIPLE, TO SAY THAT LARGE BUSINESSES COULD BE LIMITED TO ANNUAL INCREASES OF X% WHILE SMALL BUSINESSES COULD BE LIMITED TO X-5% INCREASES AND REDUCTIONS IN THEIR RATE BILLS IN REAL TERMS.

THERE ARE PROBLEMS ABOUT SETTING A DIVIDING LINE BY REFERENCE TO RATEABLE VALUE BECAUSE ANY PARTICULAR RATEABLE VALUE CHOSEN WILL INVOLVE VERY DIFFERENT PROPERTIES IN DIFFERENT PARTS OF THE COUNTRY AND BECAUSE ANY PARTICULAR PROPERTY MIGHT CROSS THE BOUNDARY - IN EITHER DIRECTION - DURING THE COURSE OF THE TRANSITION - BECAUSE OF PHYSICAL EXTENSIONS OR SUCCESSFUL APPEALS. BUT I AM HAPPY TO UNDERTAKE TO CONSIDER SUCH A SCHEME WHEN I MAKE REGULATIONS UNDER CLAUSE 43 IN THE AUTUMN. I FEAR THIS MUST BE WITHOUT COMMITMENT AT THIS STAGE BECAUSE AS I HAVE SAID, WE DO NOT YET KNOW THE FIGURES WITH WHICH WE WILL BE DEALING. NOR IS IT CERTAIN WHAT BUSINESSES THEMSELVES WILL MAKE OF SUCH A PROPOSITION.

POINT V

I REALISE THAT THIS OR ANY OTHER SCHEME OF TRANSITION COULD TAKE US BEYOND 1995 BEFORE ALL THE EFFECTS ARE PHASED IN. TO THOSE THAT HAVE URGED THE CASE FOR A LONGER PERIOD OF TRANSITION, I CAN SAY THAT I ACCEPT THAT THIS SHOULD BE A POSSIBILITY. I SHALL THEREFORE BE BRINGING FORWARD AMENDMENTS AT A LATER STAGE TO ALLOW FOR A FURTHER SET OF TRANSITIONAL ARRANGEMENTS TO BE INTRODUCED TO DEAL WITH THE COMBINED EFFECTS OF THE REMAINDER OF THE 1990 REVALUATION AND THE NEXT REVALUATION IN 1995. AND THAT IS A COMMITMENT.



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