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From: R T J Wilson  
20 January 1989

MR GRAY

**E(LF): NON-DOMESTIC RATING ISSUES**

1. We spoke this morning about progress with the various rating issues which remain unresolved.

**Burden of business rates in Scotland**

2. This is to be discussed at E(LF) on Thursday 26 January. The papers for that meeting will be the Secretary of State for Scotland's letter of 9 January to the Chief Secretary, Treasury; the Chief Secretary's reply which we are told will be circulated next week; and letters from the Secretary of State for Social Services (dated 17 January) and the Secretary of State for the Environment (to be circulated). I attach a brief for the Prime Minister on this issue.

**Decapitalisation rate, ring-fencing the business rate and Government contributions in lieu of rates**

3. The Secretary of State for the Environment and the Chief Secretary have been engaged in a long-running correspondence about a number of detailed issues concerning the operation of the uniform business rate (UBR). Your letter of 12 December to Mr Ridley's private secretary conveyed the Prime Minister's wish that these issues could be resolved bilaterally.

4. Mr Ridley and Mr Major met on Wednesday, and I understand that they are now expected to reach agreement, probably on the following lines:

- i. ring-fencing the business rate. Mr Ridley has now accepted Mr Major's proposal that ring-fencing should apply to business rates, not to non-domestic rates as a whole. This will avoid an

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unwelcome additional burden on the community charge in 1990/91. Both Ministers are satisfied that the Government's commitments can be interpreted in this way;

ii. decapitalisation rate. The Ministers have agreed to consult on a rate of 6-7%, in the expectation of settling at 6%. This will apply to all premises rated by the contractor's test, except schools and hospitals, which will have a concessionary rate of 4%.

iii. Government contributions in lieu of rates. The Chief Secretary has now withdrawn his proposal that Government contributions in lieu of rates should be abolished, and replaced by a once-and-for-all addition to grant. But Mr Ridley has agreed that any change in the Government's overall contribution will be taken into account when the level of grant is set;

iv. publication of the Inland Revenue report. I understand that Mr Major has now accepted that the Government will have to publish the results of the Inland Revenue work on the effects of the revaluation. A suitable text is being prepared.

5. Mr Ridley will minute the Prime Minister in due course setting out the details of what has been agreed. No E(LF) discussion should be needed unless the Prime Minister or other colleagues object.

#### Rating appeals

6. Mr Ridley minuted the Prime Minister on 6 January, proposing that ratepayers' rights of appeal against the existing 1973 rating valuations should be removed to allow the Inland Revenue Valuation Office to concentrate on the 1990 revaluation. Your letter of 16 January to his private secretary conveyed the Prime Minister's major reservations about this proposal on grounds of equity.

7. I understand that the Chancellor of the Exchequer remains very concerned about the Valuation Office's ability to handle both appeals and the revaluation. He is expected to minute the Prime Minister shortly seeking an informal meeting with her and Mr Ridley as soon as possible. The issue is indeed urgent if provisions are to be

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included in this Session's Housing and Local Government Bill. Parliamentary Counsel has advised that they would have to form part of the Bill as introduced: amendments to the same effect would be outside the scope of the Bill as it stands at present.

*R.T.J.*

R T J WILSON

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