PAUL GRAY 7 February 1989

NON-DOMESTIC RATING

You sought comments on Nicholas Ridley's minute of 3 February.

The four points on which he has reached agreement with the Treasury can all be endorsed. The Treasury has won its point that whatever the impact of the 1990 revaluation on rates paid by local authorities for their own properties, revenue support grant will be adjusted to hold constant total Exchequer finance for local authorities. This is clearly correct. And Environment has won its point in keeping as low as possible the "decapitalisation rate" for special properties which cannot be given a market rental value in the normal way. Schools and hospitals will in fact get a special lower rate (4% instead of 6%); previously only educational charities (ie public schools) got such a concession.

An early announcement of the transitional arrangements for the new business rates system is planned, depending on a decision on the rating appeals question (see separate note). The agreed arrangements will 'cap' annual losses and gains up to 1995 as follows:

	Losers	Gainers
Large premises	20%	11%
Small premises	15%	16%

The announcement will be coupled with a consultation document on the mechanics of the transition Regulations. Appended to this will be a summary of an Inland Revenue survey of the impact of the new business rates by region and type of business. Publication of this honours an earlier commitment, but it will give ammunition to lobbies and opponents seeking selective examples of large increases. Robust defence will be needed along the lines of:

- overall equilibrium. 46% of businesses gain; 53% lose. Transitional arrangements to cushion impact.

- benefitting regions. Business in the North-West will pay 30% less rates in 1990/91.

- correction of drift to the South-East. Business there will pay an extra £850 million. All of this will be saved by business in the North.

- fairer contribution from service industries and a reduced burden for manufacturing.

But the survey will indicate some substantial likely increases, with 23% of all business properties facing rates increases of over 50% against only 8% facing similar large decreases. Shops will face particularly high increases. This will require careful handling because of the perceived impact on prices. For this reason, it would be wise to make an announcement as soon as possible to avoid being too close to the RPI figures due on Friday 17 February. And this will respond to major press comment now emerging (eg today's lead in the Telegraph).

Recommendation

- Agree Nicholas Ridley's package as agreed with the Treasury.

- Endorse publication of the Inland Revenue data emphasising the need for care in handling individual results.

- Urge an announcement as soon as possible to avoid close linkage of the Inland Revenue data on shops with the monthly RPI announcement (and to minimise chance of leakage of proposals on appeals).

JK

JOHN MILLS