



SECRET

*Prime Minister*

*RA Rec 22(A-E) 15/2*

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*X below seems sensible. Other points in the announcement reflect earlier policy agreements, not recently that on raising appeals.*

The Rt Hon John Major MP  
Chief Secretary  
HM Treasury  
Parliament Street  
LONDON  
SW1P 3AG

*Contact with the terms of the proposed statement (Wednesday) re ~~statement~~.*

My ref:  
Your ref:

13 February 1989

*REC 11/2*

*Dear Chief Secretary*

BUSINESS RATES

I am now planning to announce in an oral statement on 15 February the transitional arrangements for the introduction of the Uniform Business Rate (UBR) and the revaluation.

Our present intention is to fix the UBR poundage for 1990/91 at the level necessary to raise broadly the same amount of rates from business in real terms as in 1989/90. Both you and I have said this publicly. I am however concerned about potential local authority rate rises in 1989/90 and in particular the risk that authorities will increase rates in the last year of the old system at the expense of business in order to benefit community charge payers later. Merely repeating without qualification our earlier statements about the post-1990 yield from business rates may indeed encourage authorities to do this.

On the other hand, to simply leave the matter vague in my statement is unsatisfactory, not least because the CBI and others who are concerned about this issue are bound to press for clarification. I therefore propose to say that it is still our intention to base the 1990/91 yield on that in 1989/90, but that if a significant number of local authorities impose unreasonably large rate increases next year, the Government might wish to consider using the 1988/89 yield, uprated for inflation, instead so as not to disadvantage business.

I should be grateful to know urgently whether you would be content for me to say this. I enclose a copy of my proposed statement. Copies of this letter and enclosure go to the Prime Minister, to members of E(LF), and to Sir Robin Butler.

*Yours sincerely*  
*RBR*

*RP*  
NICHOLAS RIDLEY  
(Approved by the Secretary of State and signed in his absence)

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BUSINESS RATES: TRANSITION

Draft Statement

With Permission, Mr Speaker, I shall make a statement on business rates.

The Local Government Finance Act 1988 provides for a uniform business rate in England and in Wales and for a revaluation of non-domestic property. These changes will take effect on 1 April 1990. The new arrangements will mean the end of wide variations in rate poundages between different areas; and rateable values will be brought up to date to reflect accurately the relative benefits of different types of property in different locations. This will provide a welcome incentive for businesses to expand in the currently less economically buoyant areas. Overall business in the North and Midlands will enjoy rate reductions of about £850m a year once the transition is complete.

with a corresponding increase in the South!

My Rt Hon friend the Secretary of State for Wales and I have considered the Inland Revenue's preliminary sample survey of the likely combined effects of the 1990 revaluation and the introduction of the uniform business rate. The results of the survey must be interpreted with caution: they give only a general indication of possible changes in rate bills from 1990. Subject to that important qualification, the survey suggests that rateable values will increase from 1973 levels by around 7½ times on average in England and by around 8 times on average in Wales; but, as expected, there will be wide variations around these averages.

As it is our intention to fix the business rate poundage in 1990/91 so as to raise in real terms broadly the same amount of rates from private business and nationalised industries as in 1989/90, the increase in rateable values will be matched by a corresponding reduction in the rate poundage of between one seventh and one eighth. On this basis the poundage would be in the range 30-35 pence if the business rate were introduced today. However if a significant number of local authorities impose unreasonably large rate increases next year, we may wish to consider using the 1988/89 yield, uprated for inflation, instead of that for 1989/90 so as not to disadvantage business.

The survey suggests that the broad effects of the uniform business rate and the revaluation taken together will be that businesses in the North and Midlands will tend to pay less and businesses in southern England will generally face increases. As a general rule, factories and warehouses will tend to pay less, while shops and offices will pay more. In Wales businesses in the Valleys will tend to gain, but the shift in burden between the Valleys and the rest of Wales will not be very large.

To give businesses time to adjust to their new rate bills, we are proposing transitional arrangements to introduce the changes gradually. These arrangements will be self-financing. There will be limits on the percentage by which the rate bill for any property may change from one year to the next, for the first five years of the new system at least. For properties in England and Wales facing increases the limit will be 20% generally, but to help smaller businesses there will be a lower limit of 15% for small properties, those with new rateable values below £7,500 in London and £5,000 elsewhere.

For properties in England due to benefit from rate reductions, I shall decide finally on the percentages by which changes will be phased when I have fuller information in the summer; but present projections imply that limits on annual reductions of 15% for

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small properties and 10% for large would offset the cost of the protection for losers. Mr Rt Hon friend will similarly base his final decision on phasing of reductions for Welsh ratepayers on later information; but present projections indicate slightly higher limits would be sufficient in Wales to offset the cost of protection for losers.

Compared to present rate bills, the percentage increase for losers is greater than the percentage reduction for the gainers because the losers as a group have substantially lower rate bills at present. All these limits are net of the annual change in the rate poundage resulting from the link to the Retail Price Index; and they are compound, in that after the first year the maximum percentage increase or decrease would be calculated from the rate bill in the preceding year.

We wish to give the highest possible priority to preparing fully and promptly for the new business rating system and have therefore concluded that it would be right to reduce the incentive for business ratepayers to propose changes in the old 1973 rating list, if the sole purpose is to secure a slightly better position under the transitional arrangements. We therefore propose that in 1990/91 the base liability to which the transitional limits will be applied should be calculated using the rateable value in the list today, adjusted only for changes resulting from ratepayer proposals to amend the value received by the Valuation Office by yesterday and those resulting from any existing or future proposals by valuation officers.

Ratepayers would still of course retain the right to propose changes, and if such proposals led to reductions in value would get the benefit until March 1990, although not thereafter. Furthermore, the Valuation Office will remain under a statutory duty to keep the 1973 list up to date; any significant change in the rateable value of a building will therefore be reflected in their own proposals to alter the list, and hence carried forward into the transition. We believe business ratepayers as a whole

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will welcome our intention to concentrate on getting the new system right and thus to discourage further attempts to change rateable values which have stood for up to 16 years.

The powers in the 1988 Act to make regulations are inadequate to facilitate transitional arrangements of the kind I have described. We shall therefore propose amendments to the 1988 Act in the Local Government and Housing Bill. In order to give businesses and local authorities as much certainty about the transition as possible, it is our intention after consultation to bring forward amendments setting out the arrangements in the Bill itself rather than in subsequent regulations.

We are today issuing and placing in the Library a consultation paper, which includes the results of the Inland Revenue survey referred to earlier, setting out the details of the transitional arrangements and inviting comments.