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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Nicholas Ridley AMICE MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London
SW1P 3EB

14 February 1989

Dear Secretary of State

BUSINESS RATES

Thank you for your letter of 13 February.

will R?

I accept that, in practice, we might need to look again at the starting point for the yield of non-domestic rates in 1990-91, if the overall rate increase in 1989-90 turned out to be abnormally high, compared to real increases in the last few years, and particularly if local authorities were abusing their powers in the last year of the present system by imposing unreasonable extra burdens on business ratepayers. But I see little advantage, and considerable danger, in volunteering this now.

It is too early to say how rate increases generally are likely to turn out. And I am sceptical that repeating our earlier statements about the yield will actually encourage local authorities to go for higher rate increases. Each authority will realise that the level of its individual rates in 1989-90 will have only a very marginal effect on its receipts from the NNDR. Collectively they will know that we have the power to set a lower yield if we choose. Other factors, not least the County elections, will be far more important. Stepping back from our earlier statements would have a much bigger impact on the business organisations, who would immediately treat the lower yield not as a minimum but as a maximum, and focus their lobbying on that. So we would be putting ourselves on the defensive before we know what rate increases will be, and before people have had time to consider our proposals.

SECRET

I feel therefore, that your statement should not go beyond the commitment that has already been given, and that the Prime Minister agreed to, in response to your 3 February minute. This would mean simply omitting the last sentence of the third full paragraph. But if you are pressed hard - as I realise you may be - I could accept your saying that, if (against expectations) rate increases overall turned out to be abnormally high and there was evidence of local authorities abusing their powers in the last year before the new system, the Government would consider whether these should feed through in full into the new system.

On a smaller point, it is obviously very important for us to stress the benefits of this reform to businesses in the North and the Midlands. But I wonder if the figure of £850 million appears too precise at the moment, since it is based on the Inland Revenue sample survey, and thus can only be a broad indication of the effect of the change, rather than an objective. It might be better for that sentence to come after the caveats on the Survey are explained. I also suggest you replace "will" with "is projected to" and perhaps "about £850 million" with some "£800 million."

I am copying this letter to the Prime Minister, members of E(LF), and Sir Robin Butler.

Yours sincerely
John Major

JOHN MAJOR
(Approved by the Chief Secretary
and signed in his absence)

