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JA

15 February 1989

Dear Carys

BUSINESS RATES

Further to my Secretary of State's letter of 13 February to the Chief Secretary, I now enclose a final version of the statement my Secretary of State plans to make this afternoon on business rates. This takes account of comments from the Chief Secretary and the Secretary of State for Scotland.

Copies go to Paul Gray, to the private secretaries of members of E(LF), to Murdo MacLean and to Trevor Woolley in Sir Robin Butler's office.

John
Logan

R BRIGHT
Private Secretary

STATEMENT ON BUSINESS RATES

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.

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.

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. So this increase in rateable values by 7 to 8 times does not mean that rate bills will go up by 7 or 8 times. That is because, to secure the same overall yield as in 1989/90, the rate in the pound will fall to between one seventh and one eighth of the present national average poundage. On this basis the poundage would be in the range 30-35 pence if the business rate were

introduced today. This means that the average rate bill payable by businesses will be the same as now in real terms. But there will of course be wide variations in actual bills, depending upon how the rateable value of the particular property changes relative to the average and whether the present local rate poundage is above or below the average.

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. Overall business in the North and Midlands is projected to enjoy rate reductions of some £800 million once the transition is complete. 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. Arrangements in Scotland are of course a matter for my Rt Hon Friend, but he proposes comparable protection for business ratepayers facing increases in rates as a result of the revaluation in Scotland in 1990.

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 small properties and 10% for large would offset the cost of the protection for losers. My 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 any changes resulting from ratepayer proposals to amend the value received by the Valuation Office by yesterday. Ratepayer proposals to amend the 1973 list received by the Valuation Office today or in the future, including those posted before today but not received until today, will not be reflected in the transi-

tion. Any changes in rateable values in the 1973 list resulting from existing or future proposals made by the Valuation Office will however be taken into account in the transition.

Ratepayers will still have the right to propose changes to the 1973 list and if such proposals lead to reductions in value will get the benefit until March 1990 but not thereafter. They will also of course have the right to make proposals in relation to the 1990 list.

We believe business ratepayers as a whole 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.

Business Rates

3.30 pm

The Secretary of State for the Environment (Mr. Nicholas Ridley): 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.

My right 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 seven and a half times on average in England and by around eight times on average in Wales.

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. So this increase in rateable values by seven to eight times does not mean that rate bills will go up by seven or eight times. That is because, to secure the same overall yield as in 1989-90, the rate in the pound will fall to between one seventh and one eighth of the present national average poundage. On this basis the poundage would be in the range 30-35p if the business rate were introduced today. This means that the average rate bill payable by businesses will be the same as before the change in real terms. But there will, of course, be wide variations in actual bills, depending upon how the rateable value of the particular property changes relative to the average, and whether the present local rate poundage is above or below the average.

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. Overall, business in the north and midlands is projected to enjoy rate reductions of some £800 million once the transition is complete. 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. Those 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 per cent. generally, but to help smaller businesses there will be a lower limit of 15 per cent. for small properties, those with new rateable values below

£7,500 in London and £5,000 elsewhere. Arrangements in Scotland are, of course, a matter for my right hon. Friend the Secretary of State for Scotland, but he proposes comparable protection for business ratepayers facing increases in rates as a result of the revaluation in Scotland in 1990.

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 per cent. for small properties and 10 per cent. for large would offset the cost of the protection for losers. My right hon. Friend the Secretary of State for Wales will, similarly, base his final decisions on phasing of reductions for Welsh ratepayers on later information, but present projections indicate that 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 prices 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, in order 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 any changes resulting from ratepayers proposals to amend the value received by the valuation office by yesterday.

Ratepayer proposals to amend the 1973 list received by the valuation office today or in the future, including those posted before today but not received until today, will not be reflected in the transition. Any changes in rateable values in the 1973 list resulting from existing or future proposals made by the valuation office will, however, be taken into account in the transition.

Ratepayers will still have the right to propose changes to the 1973 list, and, if such proposals lead to reductions in value, will get the benefit until March 1990, but not thereafter. They will, of course, have the right to make proposals in relation to the 1990 list.

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issue which matters. Industry in this country has not taken the standard-setting process as seriously as it should, and certainly not as seriously as it has been taken by industry in Germany. But in the last year, since we have been urging industry in this country to do more in this respect—and it lies with industry and not with the Government to do it—the situation has improved greatly. But I join the hon. Gentleman in urging particularly those in manufacturing industry to take this matter extremely seriously and to attach as high priority to it as does industry in Germany.

Mr. Dykes: Now that we have been involved with the EEC for nearly 16 years and are gradually getting used to working constructively with our foreign friends at long last, is the Minister satisfied with the developing regime for origin marks and trade marks in the Community on the basis of being voluntary and not compulsory in each country, but with an agreed EC standard if necessary?

Mr. Maude: A directive and regulations on Community trade marks are being negotiated. Those will have the sort of beneficial effect to which my hon. Friend refers and will, at the same time, reduce costs to business and make life easier for it.

Mr. Gould: What confidence can British industry have in a Government who have themselves failed lamentably to make adequate preparations for 1992? Is the political briefing prepared by the Minister's civil servants in response to the Labour party's analysis of the Giacconi report the best they can do, and why were civil servants involved in that exercise in the first place?

Mr. Maude: The hon. Gentleman has so little of substance to offer that he has to make use of that jawdry little effort. I sympathise with him, because he has no experience of Government and has so few colleagues with such experience, that he will not understand that it is not only proper for civil servants, but that it is their duty, to brief Ministers on any report that comments on Government policy. The document to which I believe he

refers mentioned two reports about 1992. One was by the London business school and was rather good. The other was on behalf of the Labour party and was rather bad.

Cars

17. Mr. Adley: To ask the Chancellor of the Duchy of Lancaster if he will make a statement on the implications for the most recently published trade statistics of the practice of United States-owned car manufacturers importing into the United Kingdom cars assembled outwith the United Kingdom.

Mr. Alan Clark: The complex pattern of trade between national plants is subject to so many variables as to rob any estimate based thereon of tangible significance. *[Interruption.]* I must draw the attention of the House to the fact that I wrote that personally.

Mr. Adley: Will my hon. Friend accept that that is intellectually interesting but politically unsatisfactory? Does he agree that the label "British", as applied, say, to cars manufactured by American-owned companies and assembled in Belgium, Spain or West Germany, is inaccurate? Does he agree also that, for example, Japanese cars, which are also foreign owned, are at least being built in this country? In view of the constant advice to "Buy British", is it not important that the statistics that he does not know should be known so that we may use the phrase "Buy British" to mean something?

Mr. Clark: There is a lot in what my hon. Friend says. The mass manufacturers have a comprehensive interchange of component supply which entails some confusion. The engines for the Fords that count in the German production total are made in the United Kingdom, just as the engines for the Vauxhalls and Peugeots that count in the United Kingdom production total are made in Germany or in France. It depends how narrowly my hon. Friend wishes to draw his definition. It might mean that the British consumer, if he really wanted to buy British, would be left with a choice of only Jaguar, Range Rover or Morgan.