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FROM: CHIEF SECRETARY  
DATE: 14 June 1989

PRIME MINISTER

*Ble with Pz*

**UNIFORM BUSINESS RATE AND REVALUATION: TRANSITIONAL ARRANGEMENTS**

Nicholas Ridley sent me a copy of his 7 June minute about the transition to the uniform business rate. I have also seen Peter Walker's 9 June minute.

2. I agree with Nick that we should retain the present limits on increases in rate bills for the losers. And I also agree that some increase is justified in the threshold for defining small properties. But I wonder whether it is right to go quite as far as Nick suggests. The problem is to set a limit which covers the genuine small businesses we want to help, without extending the special treatment to branches of very large businesses. I think Nick's proposals go too far, by including nearly 80 per cent of all properties. Peter Walker's proposal would extend even further, to some 85 per cent of properties in Wales. I propose instead an increase to £10,000 in London, and £7,500 elsewhere in England; this would cover 70 per cent of business properties. A £7,500 limit in Wales would cover 80 per cent of properties.

3. Nor can I support the proposal to finance part of the protection for losers by means of a premium on the UBR poundage. As you will recall, we considered this last year, and discussed it in E(LF), and the arguments which led us to reject it then are equally compelling now.

- Even with the cap on gainers in the first year, the premium would be substantial - an increase of perhaps 10-12 per cent in England on what the poundage would otherwise be and thus a real increase in the business rate poundage.

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- This would be a substantial additional impost on a large number of businesses, and would mean many more losers, overall, in the first year. Compared to the existing proposals, over 100,000 properties which currently stand to gain would instead find their bills unchanged. And a further 100,000 who currently break even would actually become losers.
  
- For all these and more, the rate bill would be 10-12 per cent higher than it ought to be. The average businessman would find it very hard to square this with our repeated assurances that the new Uniform Business Rate would be set so as to produce broadly the same yield as in 1989-90 in real terms.
  
- Moreover, unlike the gainers whose gains are phased in under the present proposals, these businesses do not have substantial reductions in their rate bills to look forward to. They would be paying substantially more, so that the gainers could receive their gains earlier.

4. The principle we agreed upon on last year, that the phasing for the losers should be matched by phasing for the gainers, still seems to me the right approach. The new system represents a much better deal for business overall: after years in which rates have consistently risen faster than inflation, and sometimes by massive amounts, they have an assured commitment to a stable climate in which rates cannot rise faster than inflation. Moving to this new system, combined with the revaluation, is bound to involve significant shifts in rate bills, which it is reasonable to phase in. Starting with an additional rate for a broad band of businesses would get the new system off on the wrong foot. It would risk undermining the credibility of our pledges about future increases.

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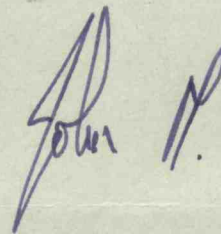
5. Obviously, the phasing will not be popular with the big gainers, whose views are reflected in the response to the consultation paper. But I am not sure that Nick is right to say that the Association of British Chambers of Commerce is more representative than other bodies - they have a substantial number of firms from the North and the Midlands. I understand that the CBI, for example, have not expressed a firm view on the idea of a premium on the poundage.

6. I propose therefore that we should stick to our existing proposal to phase in both gains and losses in parallel.

7. Nicholas also proposes to limit the transitional protection to existing occupiers. I agree this is sensible.

8. Finally, he suggests we might publish an updated survey of the effects of the revaluation. I suggest that Nick, Peter, and I consider the figures, once they are available, with a view to deciding what it would be helpful to publish.

9. I am copying this minute to members of E(LF), to John Wakeham, David Waddington and to Sir Robin Butler.

A handwritten signature in blue ink, appearing to read 'John P.', is written above the typed name.

JOHN MAJOR

Local Govt .

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