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PRIME MINISTER

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UNIFORM BUSINESS RATE: TRANSITIONAL ARRANGEMENTS
[E(LF) (89) 5]

DECISIONS

This joint paper by Mr Ridley and Mr Walker seeks agreement to changes in the transitional arrangements for the Uniform Business Rate (UBR), following consultation on the Government's proposals.

2. The basic protection for losers would remain unchanged: the annual increases in their rate bills would still be limited to 20% in real terms for large properties and 15% for small properties as proposed in the consultation paper. The main issues are:

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i. the definition of small properties. The consultation paper proposed rateable value thresholds of £7,500 in London and £5,000 elsewhere, on the new valuations. Mr Ridley and Mr Walker now propose to increase these thresholds to £15,000 in London and £10,000 elsewhere. The Chief Secretary favours a smaller increase, to £10,000 in London and £7,500 elsewhere. You will wish to decide whether to endorse Mr Ridley's judgement of the right level.

ii. how protection for the losers should be financed. The consultation paper proposed that gains should be phased in to pay for the protection for losers, with annual limits on reductions in rate bills of about 10% in real terms for large properties and 15% for small properties. Instead of this, Mr Ridley and Mr Walker now propose to pay for the transition mainly through a premium on the UBR poundage, with a 20% limit on real gains in the first year only. The Chief Secretary would prefer to retain the original proposal. You will wish to decide which would be better.



iii. the treatment of new occupiers of existing premises. The consultation paper proposed that new occupiers would benefit from transitional protection. Mr Newton wants to stick to this. But Mr Ridley and Mr Walker now wish to exclude them. You will wish to decide whether their approach would be better.

3. Amendments are needed to the Local Government and Housing Bill to provide powers for the transitional arrangements. These would need to provide specifically for a premium on the UBR poundage if E(LF) accept the proposals from Mr Ridley and Mr Walker. Decisions are therefore needed before Lords Committee stage towards the end of July.

MAIN ISSUES

Definition of Small properties

4. The aim is to give special protection to small businesses facing increases in their rate bills. Because of the difficulty of defining a small business it has been agreed that the protection should given to all ratepayers with small premises. The difficult judgement is where to fix the threshold, so as to include as many small businesses as possible while excluding so far as possible individual premises operated by larger businesses such as banks and multiple retailers.

5. The consultation paper proposed limits of £7,500 in London and £5,000 elsewhere on the new 1990 list. About 60% of all non-domestic hereditaments in England would fall below these thresholds (a figure which however includes a large number of minor sites like advertising hoardings, lock-up garages and small sheds). Representatives of small businesses have unanimously criticised the proposed limits as being too low. They claim that in many areas no real business premises at all would benefit.



6. Mr Ridley and Mr Walker propose to meet these concerns by accepting the alternative limits put forward by the Forum for Private Businesses, of £15,000 in London and £10,000 elsewhere. This would bring in 78% of all hereditaments in England, accounting for 16% of the total rateable value on the new list. The Chief Secretary believes this is too generous. He proposes limits of £10,000 in London and £7,500 elsewhere, bringing in about 70% of hereditaments and 12% of total rateable value.

7. You may want to ask what the extra cost of Mr Ridley's proposals would be compared with Mr Major's. Our understanding is that in England it would amount to about £80 million spread over 5 years, which would be small enough to avoid any substantial change in the limits on gains needed to finance the transitional protection for losers. If so, you may feel that the arguments point to the slightly more generous treatment of small businesses proposed by Mr Ridley.

Financing protection for losers

8. The consultation paper proposed that the cost of the transitional protection for losers should be met by delaying the larger gains. Because of the skewed nature of the gains and losses, annual limits of 10% for large premises and 15% for small premises would be necessary. Following consultation, Mr Ridley is concerned that such tight limits would create great resentment among businesses which would benefit from substantial reductions in their rates were it not for the transitional arrangements. He therefore proposes to finance the transition through a premium on the UBR poundage (4p in 1990/91 and 1991/92, falling to 2.5p, 1.5p and 1p in subsequent years) and a 20% limit on real gains in 1990/91 only. Mr Walker proposes a similar arrangement, although smaller premia would be necessary in Wales (2p, 1½p, 1p ½p and 0p in the first 5 years). But Mr Major opposes any change from the proposals set out in the consultation paper.

9. The main advantages of Mr Ridley's proposal are:



i. it would allow real gains up to 20% to come through in 1990/91, and all gains to come through completely by 1991/92 subject to the premium added to the UBR poundage (about 11% in England in both years);

ii. it would meet points made by many consultees, particularly the Association of British Chambers of Commerce (ABCC), the body which Mr Ridley believes is most representative of business as a whole;

iii. it would simplify the transitional arrangements, particularly after 1990/91 when the limit on gains would disappear.

10. The main disadvantages are:

i. it involves an increase in real terms of 11% in the UBR poundage in 1990/1991. If the RPI is still around 8% in September when the UBR indexation is fixed, that would mean a 19% cash increase in rates for 100,000 businesses which could otherwise expect an increase roughly in line with inflation (those who are neither gainers or losers from the UBR);

ii. it increases the number of losers in 1990/91 from 53% to 61% of all ratepayers, and reduces the number of gainers from 40% to 32%;

iii. it might therefore simply promote opposition from a new group of businesses (those with modest gains and losses, or none at all) which were content with the consultative proposals. It is noteworthy that the CBI have refused to express a preference on this issue.

11. You will wish to consider the balance of these arguments. When E(LF) last discussed the transition to the UBR in April 1988 (E(LF)(88)3rd Meeting) they discussed the possibility of a



premium on the UBR poundage to help finance the transition. They concluded that it would be right to retain the flexibility to put a small premium on the general NNDR poundage if that proved necessary to avoid too tight a limit on reductions in bills; but that it would be better to avoid a complex scheme of that sort if at all possible.

Treatment of new occupiers of existing premises

12. The consultation paper proposed that protection for losers should apply to all existing (but not new) premises, even if there was a change of occupier during the transition. Consultees have suggested extending protection to new buildings, to avoid distorting the market as between new and existing premises. Mr Ridley proposes to move in the other direction, by removing transitional protection from existing premises if there is a change of occupier. Mr Newton disagrees on the grounds that it could distort the normal turnover of commercial property by giving businesses an incentive to stay put; and could even cause hardship where an occupant found the value of his lease reduced because of the rate bill a new occupant would face.

13. You will wish to decide whether Mr Ridley's proposal to remove the protection for new occupiers of existing premises would be the better option. No option appears to provide a perfect solution to the risk of market distortions during the transition. Mr Ridley's proposal would at least avoid distortions in the market for commercial premises, whether new or old. Some adjustment in the value of leases as a result of the UBR may be inevitable.

HANDLING

14. You might ask the Secretaries of State for the Environment and Wales to speak first. You might then invite the Chief Secretary, Treasury and the Chancellor of the Duchy of Lancaster to put their views. The Secretary of State for Scotland has said that he has no objection to Mr Ridley's proposals, although he does not propose to follow them in Scotland, where the 1990

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revaluation should be less traumatic than the introduction of the UBR in England and Wales. But he and other members of the Sub-Committee may wish to comment.

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R T J WILSON

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