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Prime Minister

NON-DOMESTIC RATE TRANSITION

I have seen the minute which the Secretary of State for the Environment sent to you on 24 February.

I agree that transitional protection for non-domestic ratepayers is important, and the Local Government Finance Bill includes provisions for Scotland which are equivalent to those which Nicholas Ridley will be using to limit annual increases. I have some doubts, however, about the detail of the approach he is suggesting. He proposes that the same ceiling on increases - 15% - should apply each year including the first year. In my view transitional arrangements should set out to protect those facing exceptional increases, and I think that we should leave a rather wider band within which the full increase would be borne without assistance in the first year. For example, when revaluation rate rebates were introduced in Scotland in 1985, only those facing increases in rates bills of roughly 30% were eligible for assistance. A higher starting figure would help keep the caseload within reasonable bounds and would also reduce the number of problem cases at the end of the five year period, to which Nicholas Ridley also draws attention. It would also reduce the cost of the transitional provisions and, therefore, the extent to which these provisions postpone the already overdue benefit to those who gain from revaluation.

I acknowledge, however, that my approach would not entirely eliminate those problem cases, and I therefore agree that provision should be made for further transitional arrangements at the 1995 revaluation and subsequently: we would intend that these should also apply to Scotland.

I support Nicholas Ridley's arguments that we should not have an explicit 'RPI minus 3' formula: the changes we are already proposing to make will enable under-indexation if it is thought appropriate in any year, without tying our hands.

Finally, I support the proposal to re-instate the requirement to consult business ratepayers. This is something we have maintained throughout in Scotland and I think it has some value.

I hope that, when the terms of his statement about ceilings are settled, Nicholas Ridley will make it clear that similar principles will apply to Scotland; and that, in order to avoid any confusion, he will make it clear that his announcement about business consultation has no implications for Scotland because we already have provision for it.

I am sending copies of this minute to Nicholas Ridley, other Members of E(LF) and to Sir Robin Butler.

M R

1 March 1988