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*ppp*



FROM: JILL RUTTER  
DATE: 2 March 1988

APS/CHANCELLOR

*Handwritten notes:*  
A longer trans. *Ch*  
point might well be key. *EST minded*  
will be to key. *to go some way*  
Mr. *to meet*  
Darius *Mr Ridley*  
EST.

cc:  
Sir Peter Middleton  
Mr Anson  
Mr Phillips  
Mr Hawtin  
Mr Potter  
Mr Call

NATIONAL NON-DOMESTIC RATE: TRANSITION *hprw 2/3*

... The Chief Secretary discussed this today with Mr Ridley. I attach two letters that I have now sent to Roger Bright - one recording the Chief Secretary's discussion and one commenting on the speaking note for Committee tomorrow.

2 Mr Ridley stressed to the Chief Secretary that he faced very real difficulties in Committee tomorrow where he had a natural majority of one and 6 potential rebels supporting the small business lobby's demands for an easier transition. Mr John Butterfill had tabled an amendment to provide for a slower transition for businesses with a rateable value less than £15,000.

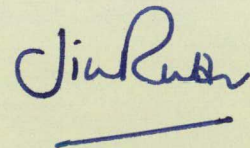
3 Mr Ridley accepted there was no question of Exchequer support for the transitional arrangements. He accepted that the costs would have to be financed from a cap on the gains - subject to retaining the possibility of a very small supplement - 1 or 2p - to the national non-domestic rate. He wished however to acknowledge in Committee that there might be a case for a differential regime for small businesses. This does of course have minuses as well as plusses - if it is to be self-financing it postpones the gains for small businesses as well as the losses.



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4 As you will see the Chief Secretary undertook to consider a form of words that Mr Ridley might use to stave off the possibility of defeat. Mr Ridley pointed out to the Chief Secretary that there was a considerable premium in having the Local Government Finance Bill emerge unscathed from the House of Commons Standing Committee - that this had successfully been achieved with the Community Charge proposals but there was a real risk of going down. On this amendment if the Government were unprepared to offer even sympathetic consideration. The Chief Secretary acknowledged the difficulties Mr Ridley faced and agreed to consider a form of words; stressing that Mr Ridley should make no commitments to a differential regime.

5 The Chief Secretary has subsequently seen Mr Ridley's form for words and proposed the amendments marked. This reflects discussion with Messrs Felgett and Potter.



JILL RUTTER  
Private Secretary



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Treasury Chambers, Parliament Street, SW1P 3AG

Roger Bright Esq  
Private Secretary to the  
Secretary of State for the Environment  
Department of Environment  
2 Marsham Street  
London  
SW1

2 March 1988

*Dear Roger,*

**NATIONAL NON-DOMESTIC RATE: TRANSITION**

Your Secretary of State came to discuss the problems he was facing in the Standing Committee consideration of the Local Government Finance Bill on the transition to the national non-domestic rate and the introduction of the new non-domestic rateable values. He said that there was a strong risk of rebellion from Conservative members tomorrow which necessitated addressing three issues:

- (a) how big the annual uprating above inflation should be during the transition - the small business lobby was arguing for a 10 per cent cap on real rate bill increases;
- (b) how the transition should be financed - whether it should be financed through a cap on gains or through a higher NNDR pouage and
- (c) whether there was a case for a special transition regime for small businesses.

The timing of data on new rateable values meant that it would be impossible to devise the right transition scheme until the Bill was on the statute book. But the backbenchers would not simply take the Government's position on trust. He accepted the points made by the Prime Minister and the Chief Secretary that the gainers should pay for the transition scheme - gainers



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would therefore be capped and losers safety netted. It was unclear yet whether the cap and safety net would be symmetric because the balance of gains and losses would be different. The size of the NNDR would depend on how the scheme would be devised - there might be a case for a small supplement or discount on the NNDR of 1 to 2p.

The Chief Secretary noted that ELF had envisaged 20 to 25 per cent caps on increases.

Continuing, your Secretary of State said that there was no question of the Exchequer providing a penny more. He would drop his idea of a supplement on the rate. But he wanted in Committee tomorrow to hold out the possibility of increases less than 20 per cent in real terms. The lobbies were producing horror stories and were demanding a special regime for small businesses. He wanted to be able to say that he would consider the case for an easier transition - a limit of say 15 per cent a year on both gains and losses for small businesses. He would therefore like to make three points in Committee tomorrow:

- (a) that the phasing should be affordable - in the range of 15 to 20 per cent per annum real increases;
- (b) that it should be paid for by a cap on gainers and
- (c) that he accepted that there might be a case for slower transition for small business. He would not be committed to such slower transition but he believed that it was tactically essential to be prepared to acknowledge the case.

The Chief Secretary said that he was pleased that Mr Ridley accepted the point on gainers. But he was far from clear that there was a need to give an indication of figures tomorrow. He believed it would be very hard for Tory rebels to vote against the Government on the basis that the Government would indicate the figures once it had more reliable information on the scales of gains and losses rather than taking a leap in the dark. If such a broad indication had to be given it should be of a range of 15 to 25 per cent. Your Secretary of State said that since the E(LF) decision had been in the terms of 5 year transition the figure of 25 per cent had not arisen. The Chief Secretary pointed out that phasing over 5 years only implied ~~to~~ 20 per cent increases if no-one faced an increase larger than 100 per cent.

Your Secretary of State said that the reassurance he was seeking would not have a cost to the Exchequer. Mr Butterfill had tabled an amendment to provide for a more gentle transition for small businesses with rateable values of under £15,000. He was not going to accept the amendment as such although he thought



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that the principle behind it was quite sensible. He wished therefore to be non-committal but sympathetic in the Committee consideration the next day. He would stress that any scheme would be paid for by the gainers. He would acknowledge there might be a case for an easier transition for smaller businesses.

The Chief Secretary asked Mr Ridley to produce a form of words which he would then consider.

I am copying this letter to Paul Gray at No. 10.

Yours,

Jill

JILL RUTTER  
Private Secretary



005/4206



Treasury Chambers, Parliament Street, SW1P 3AG

Roger Bright Esq  
 Private Secretary to the  
 Secretary of State for the Environment  
 Department of the Environment  
 2 Marsham Street  
 London  
 SW1

2 March 1988

*Dear Roger,*

**NATIONAL NON-DOMESTIC RATE: TRANSITION**

As I told you we had certain amendments to the draft speaking note which your Secretary of State proposed to use in Standing Committee tomorrow.

These amendments are designed first to make clear that while we are prepared to consider a scheme for differential transition for small businesses we are not committed to such a scheme. It would of course have the disadvantage of postponing the gains for small business gainers beyond the delay for large business gainers as well as easing the phasing of increases for small business losers. The draft you sent to me gave too much of the impression that the only problem with Mr Butterfill's scheme was the precise methodology and in particular the rateable value limit of £15,000.

The Chief Secretary also wanted the speaking note to make clear that any small business scheme that might be agreed would have to be self-financing.

Secondly the Chief Secretary was unhappy with the reference to the "supplement" in Point III and has made amendments to the passage to make clear that this would only be introduced if the balance of losses and gains made it unavoidable. In line with what your Secretary of State said at today's meeting, we have said that any premium would be "very small".



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... I attach a copy of the speaking note with Treasury amendments in manuscript. You told me that you would let me know if these caused you any difficulty.

I am copying this letter to Paul Gray at No. 10.

Yours,  
Jill

JILL RUTTER  
Private Secretary



To: ROGER BRIGHT - DCE  
From: JILL RUTTER, HMT

DRAFT SPEAKING NOTE ON NON-DOMESTIC TRANSITION

### POINT I

THE FIGURES BEING BANDIED ABOUT SEEM A MOST UNRELIABLE GUIDE TO THE GENERAL IMPACT OF THE REVALUATION. IT IS TOO EASY TO TAKE PARTICULAR EXAMPLES AS THE BASIS FOR ALARMIST SPECULATION. OF COURSE THOSE THAT ARE MAKING THE CASE FOR CONCESSIONS WILL WANT TO DRAW ATTENTION TO THE WORST CASES BUT THOSE WHO MAKE THESE CASES ARE IN NO BETTER POSITION TO KNOW THE TRUE OUTCOME OF THE REVALUATION, THAN WE ARE. NO ONE - NOT EVEN THE VALUATION OFFICE - CAN KNOW UNTIL THE REVALUATION IS ACTUALLY COMPLETE. ONLY THEN WILL WE HAVE THE NATIONAL PICTURE WHICH WILL ALLOW US TO GET A CLEAR VIEW OF THE UBR POUNDAGE AND ASSESS THE IMPACT ON INDIVIDUAL BUSINESSES. I DO WANT TO MAKE THIS POINT, HOWEVER, THERE IS THE IMPRESSION BEING GIVEN THAT ALL BUSINESSES WILL BE LOSERS. THAT CANNOT BE THE CASE. THERE IS NO REASON TO BELIEVE THAT THERE WILL NOT BE AT LEAST AS MANY GAINERS AS LOSERS. TO BE FAIR TO THE NFSE THE EXAMPLES THEY CIRCULATED TO THE COMMITTEE CONTAIN SOME EXAMPLES OF SIGNIFICANT GAINS AS WELL AS LOSSES: - 47% IN A SHOE SHOP IN GLOUCESTERSHIRE, - 32% FOR A SHOP IN HULL - 62% FOR A SHOP IN PRESTATYN. BUT THE BALANCE OF LARGE LOSSES THEY SHOW IS NOT CREDIBLE, IF IT IS TAKEN TO INDICATE THE BROAD PATTERN OF THE REVALUATION.

### POINT II

THUS WE CANNOT KNOW NOW HOW LONG A PERIOD OF TRANSITION IS NECESSARY. WE HAVE ALREADY ACCEPTED THAT THE LARGEST INCREASES



SHOULD BE PHASED IN OVER AT LEAST 5 YEARS. BUT I AM SURE HONOURABLE GENTLEMEN WOULD AGREE THAT THE SIZE OF THE MAXIMUM ANNUAL INCREASE IN RATE BILLS WHICH WE PROPOSE TO SET UNDER CLAUSE 43 SHOULD DEPEND, TO SOME EXTENT ON THE SIZE OF THE GAP THAT IS TO BE BRIDGED. BUT I CAN GIVE THIS ASSURANCE: THAT I AM VERY MUCH AWARE OF THE NEED TO ALLOW ENOUGH TIME FOR BUSINESSES TO ABSORB THE CHANGES IN RATE BILLS - PARTICULARLY INCREASES - AND FOR THOSE INCREASES TO BE TAKEN INTO ACCOUNT IN FUTURE RENT NEGOTIATIONS WITH LANDLORDS.

### POINT III

I INTEND TO ANNOUNCE SPECIFIC PROPOSALS WHEN I MAKE REGULATIONS IN THE AUTUMN. IT IS TOO EARLY TO TAKE A FIRM VIEW NOW.

I THINK THE WHOLE COMMITTEE WOULD ACCEPT THAT LIMITS ON RATE INCREASES WILL HAVE TO BE MATCHED BY THE DEFERRAL OF GAINS WHICH WOULD OTHERWISE BE DUE, OTHERWISE THE TOTAL YIELD OF THE BUSINESS RATE WOULD BE REDUCED. OBVIOUSLY, THOSE THAT STAND TO GAIN, ARE THOSE THAT HAVE BEEN PAYING TOO MUCH FOR SOME TIME NOW. IN DECIDING BY HOW MUCH TO LIMIT ANNUAL INCREASES, WE MUST TAKE ACCOUNT OF THE IMPACT ON THOSE THAT HAVE LEGITIMATE EXPECTATIONS OF SOME RELIEF. THERE WILL INEVITABLY BE A COST OF PROTECTING THOSE THAT LOSE AND IT <sup>WILL</sup> ~~MAY~~ <sup>NECESSARY</sup> BE APPROPRIATE TO ARRANGE FOR THERE TO BE OFFSETTING LIMITS ON THE RATE AT WHICH GAINS CAN BE TAKEN. <sup>WE WILL BE BRINGING FORWARD APPROPRIATE AMENDMENTS AT A LATER STAGE</sup> THE SYSTEM IS NOT SYMMETRICAL SO ANY LIMITS MAY HAVE TO BE IN THE FORM OF AN X% LIMIT ON INCREASES AND A Y% LIMIT ON REDUCTIONS IF WE ARE TO ACHIEVE THE OBJECTIVE THAT THE EFFECT ON THE POOL AS A WHOLE IS NEUTRAL. <sup>IT</sup> ~~IT~~ <sup>IS CONCEIVABLE THAT A VERY</sup> ~~MAY ALSO BE THE CASE THAT A~~ <sup>MAY BE NECESSARY</sup> SMALL PREMIUM ADDITION TO THE UBR POUNDAGE UNDER THE PROVISIONS OF PARA 7 OF SCHEDULE 4 IS REQUIRED - AT LEAST IN THE FIRST YEAR - IF THE X AND Y FACTORS DO NOT PRODUCE A REASONABLE BALANCE. <sup>WE WOULD WISH TO AVOID THAT AND SO FAR</sup> ~~BUT~~ <sup>SO FAR AS POSSIBLE</sup> WE WILL SEEK TO MATCH THE CONCESSIONS TO THE LOSERS WITH A LIMIT ON THE GAINERS.



I CAN SEE THE CASE IN PRINCIPLE FOR EASING THE TRANSITION FOR SMALL BUSINESSES - ALTHOUGH THE END-STATE WOULD BE THE SAME FOR BOTH SMALL AND LARGE BUSINESSES.

POINT IV

MY HON FRIEND THE MEMBER FOR BOURNEMOUTH IS SPECIFICALLY SEEKING A LIMIT ON THE TRANSITIONAL ARRANGEMENTS AS THEY APPLY TO SMALL BUSINESSES. HE HAS SUGGESTED A DIVIDING LINE BETWEEN SMALL AND LARGE BUSINESS AS A RATEABLE VALUE OF £15,000 ON THE NEW LISTS.

I DO NOT FIND THAT IDEA UNACCEPTABLE, ALTHOUGH I WOULD LIKE TO LOOK MORE CLOSELY AT THE METHOD HE PROPOSES FOR GIVING THAT HELP, AS WELL AS THE PARTICULAR DIVIDING LINE. I WANT TO EMPHASIZE THAT WHAT ATTRACTS ME TO THIS SCHEME IS THAT IT PROPOSES DIFFERENT TRANSITIONAL REGIMES FOR SMALL AND LARGE BUSINESSES RATHER THAN DIFFERENT END STATES. IT DOES NOT SEEM TOO DIFFICULT, OR WRONG IN PRINCIPLE, TO SAY THAT LARGE BUSINESSES COULD BE LIMITED TO ANNUAL INCREASES OF X% WHILE SMALL BUSINESSES COULD BE LIMITED TO <sup>A LOWER PERCENTAGE</sup> ~~X%~~ INCREASES, AND REDUCTIONS IN THEIR RATE BILLS IN REAL TERMS.

THERE ARE PROBLEMS ABOUT THE EXACT NATURE OF THE DIVIDING LINE BECAUSE A VALUE OF £15,000 WILL INVOLVE VERY DIFFERENT PROPERTIES IN DIFFERENT PARTS OF THE COUNTRY AND BECAUSE ANY PARTICULAR PROPERTY MIGHT CROSS THE BOUNDARY - IN EITHER DIRECTION - DURING THE COURSE OF THE TRANSITION - BECAUSE OF PHYSICAL EXTENSIONS OR SUCCESSFUL APPEALS. I AM HAPPY TO UNDERTAKE TO CONSIDER SUCH A SCHEME WHEN I MAKE REGULATIONS UNDER CLAUSE 43 IN THE AUTUMN. I FEAR THIS MUST BE WITHOUT COMMITMENT ~~TO ANY PARTICULAR FIGURES~~ AT THIS STAGE BECAUSE AS I HAVE SAID, WE DO NOT YET KNOW THE FIGURES WITH WHICH WE WILL BE DEALING, NOR IS IT CERTAIN WHAT BUSINESSES THEMSELVES <sup>WOULD</sup> ~~WILL~~ MAKE OF SUCH A PROPOSITION, SINCE THE SCHEME WOULD OF COURSE NEED TO BE FINANCIALLY NEUTRAL.



POINT V

I REALISE THAT THIS OR ANY OTHER SCHEME OF TRANSITION COULD TAKE US BEYOND 1995 BEFORE ALL THE EFFECTS ARE PHASED IN. TO THOSE THAT HAVE URGED THE CASE FOR A LONGER PERIOD OF TRANSITION, I CAN SAY THAT I ACCEPT THAT THIS SHOULD BE A POSSIBILITY. I SHALL THEREFORE BE BRINGING FORWARD AMENDMENTS AT A LATER STAGE TO ALLOW FOR A FURTHER SET OF TRANSITIONAL ARRANGEMENTS TO BE INTRODUCED TO DEAL WITH THE COMBINED EFFECTS OF THE REMAINDER OF THE 1990 REVALUATION AND THE NEXT REVALUATION IN 1995. AND THAT IS A COMMITMENT.