1. ~~Alex~~ - to see x

2. BF 18/3

X pl. m

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:
Your ref:

CHIEF SECRETARY
11 MAR 1988
Mr Potter
CX Mr Anson Mr H Phillips
EST Mr Hawtin Mr Turnbull
Mr Fellgett Mr Call.

The Rt Hon John Major MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1P 3AG

11 March 1988

Dear John

NATIONAL NON-DOMESTIC RATE TRANSITION

The Debate in Standing Committee on the proposals for the transition went fairly well last week. No fewer than 7 of our colleagues spoke strongly on the need for adequate transitional arrangements. But they were generally satisfied with the assurances I was able to give, in the terms we agreed, and did not press their amendments to the vote.

It is clear, however, that there is a considerable head of steam behind some special scheme to give small businesses preferential transition arrangements, though the Debate in Committee gave a taste of how difficult it may be to define a small business for this purpose. I have asked my officials to put in hand the preparations of a paper which I can put to E(LF) on this issue and others related to the transition. I hope this can be discussed before Easter because I shall need to prepare amendments to provide for a special scheme for small businesses, if we decide on that, and to provide for the capping of gains to balance the pool.

X On that point, I have seen the note which was produced of our meeting on 2 March. I am generally content with it except that I do not believe that I accepted, in the absolute terms suggested, that I would drop altogether the proposal for a supplementary poundage or that I believed all of the cost of transitional protection could be met by the limit on gains. I accept that our objective should be that losers should be compensated by gainers, but it will be difficult to achieve such a result precisely even if we can avoid giving a figure for the level of transitional protection until after Royal Assent. If the effect on the national pool is to be neutral, which I take to be our principal objective, we must keep the option of a small supplementary poundage open. At least I do not think we should remove the power from the Bill.

Finally, although things went well with our own people, the Labour Party were quick to spot that the limit on gains meant that the benefits to manufacturing industry particularly in the North would be deferred. Those benefits were, of course, our strongest argument against their rejection of the UBR proposals and they are certain to be making the most of this deferral in their constituencies. We should, therefore, take any opportunities to stress the good news for the losers - of which there will be some even in the North - in the coming weeks, and of course to draw attention to the large benefits for the gainers even though these may not be realised in full at the outset. I hope that Peter Walker, Malcolm Rifkind, Kenneth Clarke and John Cope, may also be able to take any opportunities for this.

I am copying this letter, with a copy of the speaking notes on which I drew in Committee, to the Prime Minister, members of E(LF) and to Sir Robin Butler.

Yours ever
Nicholas

NICHOLAS RIDLEY

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 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 ~~MAY~~ WILL BE ~~APPROPRIATE~~ NECESSARY TO ARRANGE FOR THERE TO BE OFFSETTING LIMITS ON THE RATE AT WHICH GAINS CAN BE TAKEN. 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. IT MAY ALSO BE THE CASE THAT A 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. BUT SO FAR AS POSSIBLE WE WILL SEEK TO MATCH THE CONCESSIONS TO THE LOSERS WITH A LIMIT ON THE GAINERS.

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 IN PRINCIPLE ALTHOUGH I WOULD LIKE TO LOOK MORE CLOSELY AT THE DETAILED PROPOSAL FOR GIVING THAT HELP, ESPECIALLY AT 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 X-5% INCREASES AND REDUCTIONS IN THEIR RATE BILLS IN REAL TERMS.

THERE ARE PROBLEMS ABOUT SETTING A DIVIDING LINE BY REFERENCE TO RATEABLE VALUE BECAUSE ANY PARTICULAR RATEABLE VALUE CHOSEN 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. BUT 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 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 WILL MAKE OF SUCH A PROPOSITION.

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.

24/1/DJS/2328/32

pmg papers?

UNCLASSIFIED

FROM: R FELLGETT

DATE: 17 March 1988

1. MR HAWTIN 17/3

2. CHIEF SECRETARY

cc PS/Chancellor
PS/Financial Secretary
Sir P Middleton
Mr Anson
Mr H Phillips
Mr Scholar
Mr Turnbull
Mr Potter o/r
Miss Sinclair
Mr Call
Mr Tyrie
PS/Inland Revenue
Mr Morgan (CVO)
Mr Jaundoo (IR)
Mr Gonzalez (IR)

NATIONAL NON-DOMESTIC RATE TRANSITION

Mr Ridley's letter of 11 March is primarily a record of the approach he took in Committee, following his agreement with you on the broad nature of the transition to new non-domestic rates bills after 1990.

2. However, he comments that he did not wish to drop altogether the idea of a supplementary poundage alongside a transition in which phasing for losers would be broadly offset by phasing for gainers. I suggest that you accept this, in the terms of the amendments you suggested to Mr Ridley's draft statement, which he accepted in spirit (although not quite as fully as we might have hoped). A brief response to Mr Ridley's letter would also provide an opportunity to circulate the notes of your meeting with him, for which there have been a number of requests from other Departments.

3. Mr Ridley also mentions that he hopes to put a paper to E(LF) on the transition issue. This should be directed primarily at the question of what additional powers he needs in the Bill to provide flexibly for a transition, to be set out in Regulations once genuine information about gainers and losers is available.

There is, however, a chance that Mr Ridley will try and reopen the understanding that no details of the transition need be announced until the Autumn.

4. You might also wish to note that, consistently with your understanding with Mr Ridley, the VO and IR have in hand some work to prepare to provide a representative sample of revaluation information. This will be collected over the Summer as the revaluation begins, with the aim of informing Autumn decisions on the transition.

Robin Fellgett

R FELLGETT

24/1/DJS/2328/33

DRAFT LETTER FOR THE CHIEF SECRETARY'S SIGNATURE TO SECRETARY OF STATE FOR THE ENVIRONMENT

NATIONAL NON-DOMESTIC RATE TRANSITION

Thank you for your letter of 11 March.

2. I was pleased to hear that the debate in Committee went well, and that our supporters were satisfied with the line that we agreed.

3. On the point you raised about the minutes of our meeting on 2 March (attached for colleagues who have not previously seen them) I am happy to confirm that I am not pressing you to remove the power to set a supplementary poundage from the Bill. There is much to be said for retaining the maximum flexibility. But, as we agreed, it will be necessary for the phasing for losers to be broadly offset by phasing for gainers, so any supplement to the NNDR poundage in 1990-91 or later years that may be needed to balance the financial consequences of these two sides of the phasing will be very small.

4. I am copying this letter to the Prime Minister, other members of E(LF) and to Sir Robin Butler.

[J.M]

002/3298

PS/Chancellor
PS/Financial Secretary
Sir Peter Middleton
Mr Anson
Mr H Phillips
Mr Scholar
Mr Turnbull
Mr Potter
Mr Hawtin
Miss Sinclair
Mr Fellgett
Mr Call
Mr Tyrie

PS/IR
Mr Morgan (CVO)
Mr Jaundoo (IR)
Mr Gonzalez (IR)

Treasury Chambers, Parliament Street, SW1P

The Rt Hon Nicholas Ridley AMICE MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London
SW1P 3EB

21st March 1988

Dear Secretary of State,

NATIONAL NON-DOMESTIC RATE TRANSITION

Thank you for your letter of 11 March.

I was pleased to hear that the debate in Committee went well, and that our supporters were satisfied with the line that we agreed.

... On the point you raised about the minutes of our meeting on 2 March (attached for colleagues who have not previously seen them) I am happy to confirm that I am not pressing you to remove the power to set a supplementary poundage from the Bill. There is much to be said for retaining the maximum flexibility. But, as we agreed, it will be necessary for the phasing for losers to be broadly offset by phasing for gainers, so any supplementary to the NNDR poundage in 1990-91 or later years that may be needed to balance the financial consequences of these two sides of the phasing will be very small.

I am copying this letter to the Prime Minister, other members of E(LF) and to Sir Robin Butler.

Yours sincerely,

pp **JOHN MAJOR**

(Approved by the Chief Secretary and signed in his absence)

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 poundage 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 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 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

CONFIDENTIAL

Ch/less good stuff (pup)

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

CHIEF SECRETARY
REC. 24 MAR 1988
ACTION Mr McIntyre
COPIES TO Cx Mr Anson, Mr Phillips, Mr Hawtin, Miss Peirson, Mr Turnbull, Mr Gibson, Mr Call

MPW 25/3

housing benefit

Paul Gray Esq
Private Secretary to
The Prime Minister
10 Downing Street
LONDON
SW1A 2AA

23 March 1988

It is [illegible] that [illegible] fails to recognise (a) that there is a tax/NIC problem [illegible] (b) that [illegible]

Dear Paul,

Thank you for your letter of 17 March which my Secretary of State saw with those from Jill Rutter of 8 March and Rod Clark of 9 March.

My Secretary of State is happy for the work to be carried forward in the DHSS group to a remit broadly as proposed by the Chief Secretary. He remains convinced that the problems raised in his minute of 19 February are real ones and must be addressed urgently: in his view, the marginal tax rate illustrated in that minute of 90.1% for low earners is already excessive, particularly after the income tax reductions in the Budget; and it would now be all the more unwise to increase that tax rate to 93.4% by steepening the housing benefit taper to 70% for 1989/90. He is coming under increasing pressure in the Local Government Finance Bill where the issue is beginning to be understood by a number of backbenchers. He fears the subject will be difficult to handle at Report Stage, and even more so when the Bill is in the Lords. It may also arise on the Housing Bill.

Accordingly, my Secretary of State hopes that the group can consider the options quickly, to a timetable which would allow for collective Ministerial discussion before, say, the end of May, in advance of the main PES discussions. Perhaps Geoffrey Podger could confirm that such a timetable is achieveable.

I am copying this letter to Jill Rutter (Treasury), Geoffrey Podger (DHSS), Margaret Jones (Scottish Office), Jon Shortridge (Welsh Office), Alison Brimelow (DTI), Nick Wilson (Employment) and Trevor Woolley in Sir Robin Butler's Office.

Yours sincerely,

Deborah

DEBORAH LAMB
Private Secretary