

CONFIDENTIAL

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CHANCELLOR

FROM: B H POTTER

Date: 7 April 1988

Ch/cur officials have put a stop on Cabinet Office circulation of NNDR/ small business paper. If you agree that we ought to register objections, do you want draft minute? (Difficult how to get the Treasury paragraph inserted in paper as time is short.)

cc: PS/Chief Secretary  
Sir Peter Middleton  
Mr Anson  
Mr Phillips  
Mr Monck  
Mr Hawtin o/r  
Mr Turnbull  
Mr MacAuslan  
Mr Fellgett o/r  
Mr Morgan (VO)

mhpw 7/4

NOR @ (handwritten)

E(LF): NON-DOMESTIC RATE TRANSITION AND DUAL RUNNING

I attach copies of two papers which are to be considered next week by E(LF). The paper on dual running has only just arrived: it proposes that the number of dual-running authorities within London should be reduced from 14 to 10 and that a specific grant should be made available towards the cost of dual running. We will advise once we have had time to digest the proposals.

2. The other E(LF) paper on the non-domestic rate transition is most unsatisfactory. It is another example of a half-baked proposal put together hurriedly by DOE officials to meet a supposed political need for further concessions or clarification at a critical step in the progress of the Local Government Finance Bill - this time Report Stage on 18 April. I recommend that we oppose the proposal and call for a more considered appraisal of the best transitional arrangements.

#### Background

3. E(LF) accepted last year that there should be transitional arrangements for introducing the NNDR. The Chief Secretary agreed that the Secretary for State for the Environment could

POTTER  
TO  
CH/EX  
7 APRIL

hint to the Standing Committee on the Finance Bill in March that there might be a special small business transition scheme; but he should emphasise that any slower phasing-in of losses for small businesses would have to be wholly paid for by postponing the gains for beneficiaries under the NNDR. Mr Ridley stuck to this line.

#### The DOE proposals

4. DOE have now come forward with specific proposals for the small business transitional arrangement. The scheme is designed to give less rapid rate increases for small losers (maximum 10% real pa against 15% real for larger businesses), and for the transition to full valuation to be extended over up to 10 years. These slower increases in rates for small businesses would be paid for by all gainers ie there would be a cross-subsidy from both large and small gainers to the small business loser. And there is a clear hint in paragraph 6.iii that a small premium on the NNDR poundage might be necessary to smooth the way for these transitional arrangements.

5. The fundamental problem with Mr Ridley's scheme is that it is targetted not on the small business but upon the small hereditament. DOE officials have persisted with this approach despite advice from the Valuation Office that some other basis of selection would be necessary to produce efficient targetting. There are major objections to this form of transitional arrangement:

- (i) it would apply to all small hereditaments irrespective of their need for cross-subsidy and the size (and profitability) of the business; if the cut-off were applied at £1,500 rateable value it might cover up to 40% of the total non-domestic rate base;
- (ii) it would benefit all large businesses which operate through small hereditaments eg specialist clothing

stores like Tie Rack, many branches of betting shops, chain fast food shops etc; the paper comes surprisingly close to acknowledging this - paragraph 10 says "... I suggest that the threshold should be set so as to include almost all corner or neighbourhood shops but exclude most high street retail units";

(iii) it is unclear whether Mr Ridley wishes to apply just a rateable value criterion in determining eligibility or also a class description criterion; unless the latter is also applied any guest houses, small workshops, sports grounds etc which face large increases in rates would also be covered; but even if such a criterion were applied, the Valuation Office believe that it would not work - many descriptions are out of date;

(iv) unless the cut-off rateable value is varied regionally it would cover very different-size businesses; (Mr Ridley's proposal that we could get round this by reference to criteria set on post-1990 rateable values does not seem very sensible: why announce a scheme now and try to defend the arrangement, while admitting that it was not yet clear who would qualify?

#### Assessment

6. There are of course economic objections to such a generous scheme - not least that a ten-year transition gives maximum benefit to the very ratepayers who have done best for the last ten years from delayed revaluations. But I suspect arguments of political acceptability are critical. How could manufacturers in the North be persuaded to cross-subsidise successful small retail chains (like Tie Rack) in the South? DOE officials probably well recognise this. And to avoid that outcome they would press for an Exchequer subsidy to pay for the additional costs of general phasing-in of losses for small businesses. We must avoid that.

7. I agree with the Valuation Office that if a special transitional scheme for small businesses is to go ahead, it should be based on targetting small businesses not small hereditaments. The solution might be to base selection on turnover data from VAT returns either on its own or in combination with information on rateable values. Despite the claim in paragraph 8 of the paper that no other categorisation of firms would operate, the Valuation Office believe a turnover criterion might be practical; have suggested this to DOE officials on a number of occasions; and are surprised it has not been pursued by them. But I should emphasise that we still have to check what alternative qualification criteria can be made to operate.

#### Handling

8. It would be difficult to hold up circulation of the E(LF) paper now. But you can write before the meeting pointing out the practical difficulties in Mr Ridley's proposed approach and suggesting that alternatives be investigated. We are ready to draft a letter or paper for E(LF) if you wish.

9. But you will also want to make the point that there is no need to define how any transitional arrangement for small businesses might work before Report Stage of the Bill. There is no reason why Mr Ridley cannot stick to the line he took at Committee Stage ie that he will make best efforts to devise a suitable scheme and will bring forward specific proposals in the autumn once preliminary information from the rating revaluation has been completed. At the Committee discussion, Mr Ridley said "... I find my hon Friends idea (a limit under transitional arrangements as they apply to small businesses) acceptable in principle .... I shall be happy to consider such a scheme when I make regulations under Clause 43 in the autumn."

10. If Mr Ridley can be persuaded to go no further than his earlier statement, it would give us time to work out whether a VAT or joint VAT/rateable value approach is practical; and if not how extra criteria can be applied to narrow down the range of small businesses which would benefit under Mr Ridley's proposals.

Barry H. Potter

BARRY H POTTER

Thanks.  
On dual money, this seems OK  
provided the new specific grant is not  
an addition to total grant.  
On NCR transition, 2 points.  
First, it is essential that we state X.  
of shops, while I take the point about class  
a solution, since it is open to much the same  
objection. It would be better to stick to Mr. R's  
a chain, as it is the combined rateable  
value of the chain that determines  
eligibility.  
Mr

DRAFT E(LF) PAPER

DUAL RUNNING: THE COMMUNITY CHARGE AND DOMESTIC RATES

1. Last November (E(LF)(87) ) we agreed that in most parts of the country, the community charge could be introduced in a single stage subject only to transitional grant arrangements. In 14 London authorities, however, we saw that the likely level of community charges on their current spending levels could be very high and decided that there the community charge should be phased in over 4 years as domestic rates are phased out.

2. We now need to review that decision in the light of:

i. later information about spending;

ii. the proposal for the abolition of the ILEA;

iii. the continued wishes of some of the local authorities and their Members of Parliament to be excluded from these arrangements.

The Present Schemes

3. Our criteria for including authorities within the dual running regime are set out on the face of the Bill. Any authority area where budgeted total expenditure per head in 1987/88 exceeds the assessed needs for that area by more than £130 per head is required to implement dual running. Annex A shows in rank order the spending in local authority areas on the basis specified in the Bill. The lowest spending area caught by that test is Kensington and Chelsea.

4. Annex A also shows expenditure per head on the basis of provisional 1988/89 budgets. This shows that a big gap has now opened up between the highest cost Conservative controlled area, Wandsworth (+£145, all attributable to ILEA) and the lowest cost Labour controlled area, Hammersmith and Fulham (+£213). The London Borough of Waltham Forest has virtually disappeared from the reckoning as a result of rate capping this year (+£54).

9. I believe that the 3 central boroughs have made a compelling case for revising our criteria so as to exclude them from dual running. We can achieve this by increasing the cut off on 1987/88 based expenditure from £130 to £200 per head. This would exclude each of the 4 authorities. We could alternatively use 1988/89 expenditure where we could set a lower £150 cut off. While I see the advantages of a less dramatic increase in the cut off level I favour, on balance, retaining the 1987/88 base which is now firmly fixed. The 1988/89 numbers remain provisional and subject to change.

#### Grant aid

10. Whatever our conclusions on the scope of dual running, it is inescapable that the operation of two revenue systems will cost more than one. If we do not take account of that in our grant distribution community charges in the affected areas will be further increased. I believe we will be subject to justifiable criticism if we do not make some arrangements for compensation. I have considered:

- including appropriate amounts in the safety net grant payments for the affected boroughs. But the safety net will be removed in stages throughout the transitional period. The extra support would therefore be withdrawn in stages before the costs to which they related had disappeared; or

- including an amount to reflect the cost of an efficient collection of domestic rates in the needs assessments for the boroughs. This would suffer from the obverse problem that the transitional safety net would override the benefit of that addition, which would only be felt as the safety net was withdrawn.

11. Even if these technical difficulties could be overcome, neither approach would easily satisfy an inevitably critical audience that any extra funds had been received by the authorities concerned. Nor can we be sure that any funds are spent for these purposes. I have therefore concluded that, notwithstanding the normal objections to the creation of specific grants, that should be both a desirable and effective solution in this case. Specifically I propose a high level of specific grant (90-100%) for pre set amounts of administrative expenditure for the duration only of the dual running arrangements.

## Attitude of the Affected Boroughs

5. Most of those authorities affected by dual running belong to the Association of London Authorities which is of course fundamentally opposed to our reforms. None of those authorities has pressed for exclusion from the scheme. Four affected authorities are, however, members of the London Boroughs Association. Collectively and individually they have pressed for exclusion from the arrangements. They are:

Kensington and Chelsea  
Westminster; and  
Wandsworth.

Waltham Forest have subsequently associated themselves with these views.

6. Essentially their arguments are that the dual running provisions will be onerous and costly. At a time when they will be having to cope with the administrative arrangements for the introduction of the community charge and the take over of education, together with the implementations of many of the reforms in the Education Reform Bill, they will also be required to run both their domestic rating system and a new and special rebate scheme which would only apply in inner London.

7. Nor do they see the benefits from these proposals which we saw earlier. With the exception of Waltham Forest, each of these boroughs, on its own account, is relatively low spending. Each spends below its needs assessment. Its selection results entirely from the overspending by the ILEA. Even without abolition, each borough was already planning to take over education functions and anticipated significant savings over the 4 years to 1994. To that extent our selection criteria which focus on current overspending and the theoretical implications for community charges in 1994, in their view, miss the point. They point out correctly that the effect of the transitional safety net grant proposals is to have community charges in 1990/91 which are higher in high rateable value areas like Surrey or Buckinghamshire (which will not be subject to dual running than in some of those boroughs which will.

8. These views are supported by those Conservative members of Parliament for the 4 boroughs I have consulted. Interestingly the conservative members representing other selected authorities have supported the retention of dual running.



12. On present figures I estimate an annual cost for 4 years of up to £15m. The details of the scheme must be the subject of official discussions with the Treasury. However, if I am to take the necessary powers, I need agreement in principle now so that Counsel may be instructed.

Conclusion

13. I invite colleagues to agree:

(i) that the criteria for selecting authorities for the dual running arrangements should be increased so that it applies only where reported expenditure in 1987/88 is greater than £200 per head

(ii) in principle, that there should be a specific grant to compensate authorities for the additional costs of dual running and that I should amend the Local Government Finance Bill to take the necessary powers.

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## RANKED OVERSPEND ON GRANT-RELATED EXPENDITURE PER HEAD AT AREA LEVEL

	1988/89		1987/88	
	Overspend (underspend) on GRE per head	Ranked overspend on GRE per head	Overspend (underspend) on GRE per head	Ranked overspend on GRE per head
City of London	£ 7,671	1	£ 7,630	1
Camden	£ 349	2	£ 481	2
Tower Hamlets	£ 329	3	£ 344	5
Greenwich	£ 298	4	£ 321	6
Lewisham	£ 294	5	£ 378	4
Hackney	£ 290	6	£ 382	3
Southwark	£ 243	7	£ 301	7
Lambeth	£ 225	8	£ 278	8
Islington	£ 220	9	£ 229	9
Hammersmith and Fulham	£ 213	10	£ 215	10
Wandsworth	£ 145	11	£ 190	11
Brentwood	£ 145	12	£ 125	15
Westminster	£ 131	13	£ 158	12
Harlow	£ 131	14	£ 102	17
Kensington and Chelsea	£ 105	15	£ 137	14
Brent	£ 82	16	£ 80	22
Scunthorpe	£ 77	17	£ 62	35
Langbaugh-on-Tees	£ 75	18	£ 64	33
Calderdale	£ 73	19	£ 61	37
Wansbeck	£ 71	20	£ 60	42
Hartlepool	£ 69	21	£ 61	39
Stevenage	£ 67	22	£ 41	84
Bolsover	£ 67	23	£ 67	28
Rotherham	£ 67	24	£ 68	27
Basildon	£ 66	25	£ 46	69
Doncaster	£ 66	26	£ 77	24
Sheffield	£ 65	27	£ 54	53
Blyth Valley	£ 65	28	£ 59	43
Thurrock	£ 64	29	£ 48	66
Sedgefield	£ 64	30	£ 59	44
North East Derbyshire	£ 64	31	£ 56	50
Liverpool	£ 63	32	£ 93	20
Newham	£ 63	33	£ 94	19
Barnsley	£ 63	34	£ 65	31
Manchester	£ 63	35	£ 95	18
Haringey	£ 63	36	£ 117	16
Welwyn Hatfield	£ 62	37	£ 36	92
Oxford	£ 62	38	£ 32	102
Wear Valley	£ 62	39	£ 55	51
Wakefield	£ 61	40	£ 57	49
Knowsley	£ 59	41	£ 64	34
Middlesbrough	£ 59	42	£ 69	25
Derwentside	£ 59	43	£ 69	26
Burnley	£ 58	44	£ 45	71
Wigan	£ 58	45	£ 50	62
Newcastle upon Tyne	£ 57	46	£ 88	21
Carlisle	£ 57	47	£ 66	30
North Tyneside	£ 56	48	£ 66	29
Rochdale	£ 56	49	£ 43	81
Salford	£ 56	50	£ 49	64
Stockton-on-Tees	£ 56	51	£ 49	63
Bedford	£ 56	52	£ 52	56
Gateshead	£ 56	53	£ 65	32

## RANKED OVERSPEND ON GRANT-RELATED EXPENDITURE PER HEAD AT AREA LEVEL

	1988/89		1987/88	
	Overspend (underspend) on GRE per head	Ranked overspend on GRE per head	Overspend (underspend) on GRE per head	Ranked overspend on GRE per head
St Helens	£ 56	54	£ 49	65
East Yorkshire	£ 55	55	£ 39	86
North Warwickshire	£ 55	56	£ 23	128
Chesterfield	£ 55	57	£ 52	55
Copeland	£ 55	58	£ 61	38
Thamesdown	£ 54	59	£ 45	74
High Peak	£ 54	60	£ 51	59
Darlington	£ 54	61	£ 54	52
Waltham Forest	£ 54	62	£ 143	13
Tameside	£ 53	63	£ 58	45
Sunderland	£ 53	64	£ 62	36
Bristol	£ 53	65	£ 45	72
South Tyneside	£ 52	66	£ 58	46
Barrow in Furness	£ 51	67	£ 61	40
Boothferry	£ 51	68	£ 34	94
Walsall	£ 50	69	£ 10	180
Mansfield	£ 50	70	£ 44	77
Basildon	£ 50	71	£ 60	41
Derbyshire Dales	£ 50	72	£ 44	78
South Lakeland	£ 48	73	£ 57	48
Kingston upon Hull	£ 48	74	£ 52	54
Allerdale	£ 48	75	£ 57	47
Great Grimsby	£ 48	76	£ 31	106
Derby	£ 48	77	£ 45	76
Romney-upon-Thames	£ 46	78	£ 44	79
Rossendale	£ 46	79	£ 37	90
South Derbyshire	£ 46	80	£ 41	82
Glanford	£ 45	81	£ 27	114
Beverley	£ 45	82	£ 31	107
Amber Valley	£ 45	83	£ 45	73
South Bedfordshire	£ 45	84	£ 43	80
Erewash	£ 44	85	£ 46	70
Milton Keynes	£ 44	86	£ 31	104
St Albans	£ 44	87	£ 20	140
Sandwell	£ 44	88	£( 2)	261
Three Rivers	£ 43	89	£ 20	139
Crawley	£ 43	90	£ 31	109
Eden	£ 43	91	£ 50	60
Holderness	£ 43	92	£ 28	113
Hertsmere	£ 42	93	£ 26	116
Enfield	£ 42	94	£ 16	161
Durham	£ 41	95	£ 37	89
Tynedale	£ 40	96	£ 34	95
Watford	£ 40	97	£ 21	135
Castle Morpeth	£ 39	98	£ 32	100
Alnwick	£ 39	99	£ 32	101
Northavon	£ 39	100	£ 33	99
North Bedfordshire	£ 39	101	£ 46	68
Woodspring	£ 39	102	£ 32	103
Bath	£ 39	103	£ 36	91
Winnal	£ 39	104	£ 51	57
Winnal	£ 39	105	£ 25	120
Nuneaton and Bedworth	£ 38	106	£ 16	160

NATIONAL NON-DOMESTIC RATE AND NON-DOMESTIC REVALUATION TRANSITIONAL  
ARRANGEMENTS AND BUSINESS CONSULTATION

1. This paper invites the sub-committee's further views on my proposals for transitional arrangements to protect those non-domestic ratepayers who would otherwise face substantial rate increases on introduction of the national non-domestic rate (NNDR) and non-domestic revaluation in 1990, and for a continued duty on local authorities, to consult their business ratepayers.
2. The sub-committee last discussed the subject at its meeting of 30 April 1987 (E(LF)(87) th). Since then, members of the sub-committee have seen my minutes to the Prime Minister dated 25 June 1987 and 24 February 1988 and associated correspondence. I subsequently gave the Standing Committee on the Local Government Finance Bill on 3 March an outline of the approach I now propose (Hansard cols. 1211-1216).
3. This paper seeks the sub-committee's agreement to some elaboration of the detail of those proposals, which I would then plan to announce at Report Stage, probably on 20 April. Unless I am able to do so, I would expect a rough ride from some of our backbenchers, who have been subject to an intensive campaign of lobbying by the small business organisations.

Transition

4. The need for transitional measures, which colleagues have accepted, arises because some businesses would otherwise face very large rate increases on 1 April 1990. These fall into two categories. Firstly, there are several London boroughs where rates are very low, because of a combination of prudent spending policies and the generous treatment of London in the present block grant system. They would face big increases from moving to the NNDR set at the present average rate poundage. The extreme case is Kensington, where the increase, if the NNDR had been introduced in 1988/9, would have been 104%; the City, Wandsworth, Westminster, Bromley, Croydon and Redbridge also show increases of 40% or more. Overall, however, we now estimate that 60% of business premises <sup>SES W</sup> will gain from NNDR.
5. Secondly, there are classes of property which will face big increases in rateable value on revaluation, as a result of the major changes in relative demand for property since the last revaluation in 1973. Those most severely

affected are likely to be prime high-street shops especially in southern England, mostly owned by multiple retailers, many of which will face increases in the range 70-100% and sometimes more. Many small shops will also face fairly big increases.

6. My proposals for smoothing the transition, as announced to the Standing Committee, are as follows:

i. There will be a ceiling on the percentage by which the rate bill for any hereditament may increase in the first five years of the new system. My view remains that the appropriate level for that ceiling in terms of what business can be expected to tolerate is 15% plus the RPI increase, but I have accepted colleagues' arguments for deferring a decision until we know more about the effects of revaluation.

ii. I shall take power to extend the transitional arrangements beyond 1995, when they would take account also of change arising from the next revaluation. With a 15% ceiling, the tiny number of businesses facing increases of 300% or more could have a full ten years phasing, if necessary.

X | iii. In line with our earlier discussion, I have agreed that the transitional protection should be paid for by a cap on the larger gains. I should say that this proposal is already meeting hostility from manufacturers. Moreover such figures as I have on the distribution of gains and losses suggest that the cap may need to be very tight, with possibly a 10% cap on gains required to pay for a 15% ceiling on losses. I am therefore keeping open the option of a small premium on the poundage to ease this problem.

7 | iv. Fourthly, I have agreed under pressure to consider sympathetically more generous transitional arrangements for small businesses. It is difficult to assess the case for this without a firm view on the overall ceiling; but I would expect to have severe difficulty in resisting Government backbench amendments at report stage if I were not to come forward with such a scheme, which to be worthwhile would have to offer small businesses a ceiling say 5% below the general ceiling. Paragraphs 7 - 14 below consider how such a scheme would work.

Special transitional scheme for small business

7. The object of a scheme such as I propose is to acknowledge that rates tend to form a higher share of costs for small businesses, and that small businesses may be more vulnerable to shocks and therefore need more time to adjust to increased rates. It is also relevant that small businesses are concentrated in retailing, which is the sector likely to face the biggest increases on revaluation.

8. The rating system, however, operates on buildings rather than on firms. The transitional arrangements will be operated by local authorities, who hold information only on the rateable value of the property, not the size of firm that occupies it. Moreover there is no universal categorisation of firms into large and small for other statutory purposes, and therefore no evidence that an occupier could produce to the authority to demonstrate that it was a "small business". (The one possible exception is Corporation Tax, but there the distinction between small and large is based on profits and so reflects success rather than size.)

9. I have therefore concluded that, to be capable of being operated by local authorities, a "small business scheme" must in practice be a "small hereditaments scheme", whereby properties below a specified rateable value benefit from a lower ceiling on rate bill increases. I recognise that this means that some of the benefit will spill over to those organisations which operate through small branches.

*McDonalds!*

10. The pressure for such a scheme is coming principally from organisations representing very small shopkeepers. Both for that reason and to contain the costs, I suggest that the threshold should be set so as to include almost all corner or neighbourhood shops, but exclude most high-street retail units. (It is the application of the criterion to shops that matters, because few manufacturers and office based businesses will face large increases.) It is possible to select a rateable value threshold that would achieve that result either by reference to present rateable values (where the figure would be £1000 or £1500) or post-1990 rateable values (£10,000 or £15,000 since rateable values for retailers seem likely to increase about tenfold). These limits are far lower than the £15,000 old rateable value which was urged on me in Committee, but that

would be far too generous, bringing in all high-street multiples and even some superstores. Using present RVs would have the advantage that businesses would know for certain, once we announced the figure, whether they would benefit; it would also avoid complications where values were changed on appeal. Using new RVs however is better presentationally, since a bigger number sounds more generous, and it may also help in fending off protests from businesses who on the former basis would know they were just outside the scheme. On balance I prefer setting the threshold by reference to new rateable values.

*No one will know what it means.*

11. There may be a case - as was also urged on me in Committee - for setting a higher threshold in London and the south-east, to reflect higher values there; but I would prefer to suspend judgment on this until we know more about the distribution of new rateable values.

12. As noted above, I think that the appropriate differential between the two thresholds is 5%. That makes the difference, over five years, between increases of 100% coming through in full, and limiting them to 60%. It is not possible to cost such a differential in detail, but in year 1, it might mean a 5% reduction for possibly 10-20% of hereditaments, ie. an increase in the amount to be found by deferring gains of possibly  $\frac{1}{2}$ % to 1% of total rate yield.

13. On timing, I am now persuaded that we would offer too great a hostage to fortune by going firm on the level of the general threshold at this stage. I understand that privately, the main business organisations would accept 15%, though they are arguing publicly for 10%; but if they knew we were already prepared to concede 15% they might be encouraged to press for more.

14. For the same reasons, I think it would be a mistake to announce full details of a small business scheme now. Moreover we do not have the information that would be needed to cost it properly. My judgment is that the backbench critics will be sufficiently placated if I am able to announce at report stage that there will be a more generous ceiling for small businesses based on a rateable value test, and to reiterate that the transition period can continue for more than five years for the larger losers. I seek the sub-committee's agreement to my making such an announcement.

### Business consultation

15. Colleagues were generally content with the proposal in my minute of 24 February that we should retain a duty on local authorities to consult local business organisations, adapted to focus mainly on levels of service to business. The CBI and the Association of British Chambers of Commerce have separately put to me proposals for how this should operate.

16. The CBI propose an elaborate and prescriptive scheme, which in particular would give business organisations "stop powers" to defer expenditure in some circumstances. I do not think this is acceptable, both because it would involve giving unelected bodies power to override local decisions, and because it would require the definition, in detail, of those subjects in which business has an interest. This would offer endless scope for litigation. I am therefore, attracted by the ABCC's more realistic scheme, which would require authorities to consult business representative organisations on their expenditure proposals, and give the latter some *privileged* access to *non-public* information. (I shall consult the Audit Commission on the latter point.) Only the outline of the duty would appear in statute; there would be a code of practice giving guidance to authorities on the operation of the scheme, on which I would consult colleagues in due course.

### Conclusion

17. I therefore invite the sub-committee:

i. to reaffirm that they are content with the general transitional arrangements set out in paragraph 6;

ii. to agree that I should announce that there will be a lower ceiling on rate bill increases for hereditaments below a specified rateable value, but that I should defer an announcement on the levels of the two ceilings and on the threshold between them;

iii. to agree that the duty on authorities to consult business should take the less rigid form proposed by the Association of British Chambers of Commerce;



iv. to note that, if they agree, I propose to announce these decisions at Commons Report stage on 20 April, with the necessary amendments to the Bill then being tabled in the Lords.

N R

April 1988

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FROM: MISS M P WALLACE  
DATE: 7 April 1988

*mpw*

MR POTTER

cc PS/Chief Secretary  
Sir P Middleton  
Mr Anson  
Mr Phillips  
Mr Monck  
Mr Hawtin o/r  
Mr Turnbull  
Mr MacAuslan  
Mr Fellgett o/r  
Mr Morgan (VO)  
PS/IR

*cl*  
*Not on agenda but  
may be useful as background.*

*AA*

**E(LF): NON-DOMESTIC RATE TRANSITION AND DUAL RUNNING**

The Chancellor was grateful for your minute of 7 April.

2. On dual running, he thinks this seems OK, provided the new specific grant is not an addition to total grant.

3. On NNDR transition, he has commented that:

- (i) It is essential that we stick to the principle recalled in paragraph 6(iii) of Mr Ridley's paper - namely that transitional protection should be paid for by a cap on larger gains; and
- (ii) while he takes your point about chains of shops, he does not see the turn over route as a solution, since it is open to similar objections. He thinks it would be better to adapt Mr Ridley's suggestion so that, when a shop is part of a chain, it is the combined rateable value of the chain that determines eligibility.

WALLACE  
TO  
POTTER  
7 APRIL

*mpw*  
MOIRA WALLACE