UNCLASSIFIED

FROM: H C BURNS

DATE: 15 April 1988

1. MR POTTER BP 15/4

2. FINANCIAL SECRETARY

cc PS/Chancellor
PS/Chief Secretary
Sir P Middleton
Mr Anson
Mr Phillips
Mr Monck
Mr Hawtin
Mr Fellgett
Mr Tyrie
Mr Call
Mr Jaundoo (IR)
Mr Morgan (CVO)

NON-DOMESTIC RATE TRANSITION

Mrs Chaplin of the Institute of Directors (IOD) wrote to you on 16 February and on 11 March; and Mr Grylls MP of the Small Business Bureau wrote on 17 February. The letters concern the information available to assess the effects of the 1990 rating revaluation and move to a National Non-Domestic Rate on business rates bills. Mrs Chaplin's second letter seeks an assurance that business will be consulted before regulations are made on a transition scheme. Draft replies are attached.

2. This submission also advises on a point about "zoning", mentioned in Mr Clarke's letter dated 1 February (received 1 March) to Mr Ridley, which Mr Clarke said he may take up with you separately.

Background

3. Following the Chief Secretary's discussions with Mr Ridley at the beginning of March, no official study of the revaluation effects is planned before the revaluation itself begins in July. In the Summer the Valuation Office (VO) will collect sample information as the revaluation proceeds. Information now available is inadequate to assess the distribution of gains and losses from revaluation; there are only estimates of average effects on various

categories of business in different areas. Although rental forms are now being returned to valuers, the information does not yet produce an adequate assessment of the impact on all types of business.

4. The Chief Secretary agreed the principles of the transitional arrangements at a meeting with Mr Ridley on 2 March. Their agreement was that new rates bills would be phased in by placing an annual percentage limit on increases, matched by the deferral of gains, over a five year transition period. (The IOD acknowledge, in their first letter, that the transition should be self-financing.) Until full information is available numerical limits on increases and reductions cannot be set.

5. E(LF) on 14 April agreed that there should be a lower annual percentage limit for small businesses but concluded that further consideration needed to be given to the way the scope of this should be defined. Mr Ridley will make an announcement to that effect. It is still the intention that specific proposals for both schemes will be announced in the Autumn when regulations are made; this would allow business some 18 months before the new bills come into effect. Amendments will be made to the Local Government Finance Bill to allow for these transitional arrangements, and for further arrangements to deal with the remaining effects of the 1990 revaluation and the next revaluation in 1995.

6. Regulations will be based on the best information available (and may require minor adjustment as more comes in). You can assure Mrs Chaplin that businesses will be consulted on the regulations, in the light of information revealed by the VO sample survey.

<u>Zoning</u>

7. The Small Business Bureau also showed some concern that the valuation technique of zoning would further increase the impact on small firms. This is a technique which is only applied to shops. The immediate shop frontage area is given a higher rateable value than the back area and the technique is necessary to establish

rateable values for (the majority of) shops where current rental information is inadequate. Smaller shops tend to have a much higher proportion of their floor space in the higher rateable zones and so pay a higher level of rates per square foot overall.

8. The Chief Valuer's Office have advised that the technique does not discriminate; rentals tend to be calculated by landlords with the shopfrontage in mind. There is therefore a sound financial basis for the technique.

9. The question of zoning can be addressed fully if Mr Clarke writes again; I suggest you need not respond to him at present. A more comprehensive brief can be prepared if you wish.

Hugh Burns

H C BURNS

7/012

DRAFT LETTER

Mrs Judith Chaplin
Institute of Directors
116 Pall Mall
LONDON
SW1Y 5ED

Thank you for your letters of 16 February and 11 March.

I appreciate your concern and your desire to keep your members informed about the likely effects of the forthcoming rate revaluation. However, reliable information is not yet available on the distribution of gains and losses. Forecasts at the very broad level undertaken by some private firms of Surveyors are not sufficiently detailed to help us in planning the transitional arrangements, which will require much more detailed information. As the revaluation itself proceeds, starting in the Summer, the valuation office will be collecting sample information which will provide a good indication of the likely effects of the revaluation itself.

I can assure you that business organisations will have an opportunity to comment on the information and the Government's proposals before the regulations are made.

[NL]

7/015

DRAFT LETTER

Michael Grylls Esq MP
Chairman
The Small Business Bureau
32 Smith Square
LONDON
SW1P 3HH

Thank you for your letter of 17 February.

I appreciate your concern and your desire to keep your members informed about the likely effects of the forthcoming rate revaluation. However, reliable information is not yet available on the distribution of gains and losses. Forecasts at the very broad level undertaken by some private firms of Surveyors are not sufficiently detailed to help us in planning the transitional arrangements, which will require much more detailed information. Those revaluation forms of return which, as you mentioned, are being returned to the Inland Revenue will not be received in sufficient number to permit a full analysis until the Summer.

As the revaluation itself proceeds, starting in the Summer, the valuation office will be collecting sample information which will provide a good indication of the likely effects of the revaluation itself.

The Government has always recognised that there will be a need to protect those businesses which would otherwise face the immediate impact of large increases in their rate bills, as a result of the combined effect of the revaluation and the move to a National Non-Domestic Rate. ~~The Secretary of State~~ Nicholas Ridley for the Environment has made our proposals in detail to the Committee on the Local Government Finance Bill on 3 March (an extract from Hansard is attached). There will be an annual percentage limit on increases in rates bills, with a corresponding defferal of gains, over the five years between 1990 and 1995. ~~Mr~~ He Ridley has made clear that he will take power to extend this period for the largest changes, if necessary. The Government is giving special consideration to the position of small businesses.

[NL]

Mr. Shaw: I shall be brief as we are anxious to hear what the Secretary of State has to say because it will be important for business. Both small and large business should be supported. If we do not speak up for them we cannot rely on anyone else to do so.

While the community charge and the uniform business rate are good bases for local government finance raising, revaluation will have a major effect and will have many strange results, especially in the south of England where costs will increase substantially.

The amendments are probably flawed in minor detail, but the sentiments behind them are correct. Business will be asked to accept an unreasonable burden and those of us with business experience are aware that today business planning is carried out not for six months or a year but for five years ahead. Let us imagine what it has been like for businesses in council areas where rate increases of 60 and 70 per cent. have become the norm. It has been impossible for businesses to plan. The Government must be seen to be mitigating the effects of revaluation as much as possible.

If the increase in any one year is much over 10 or 15 per cent., that could affect investment or staff numbers. Recruitment may be deferred or delayed. One of the curious aspects of such tax and rate increases is that they tend to be taxes on success. A company may be making quite large profits according to its accounts, but it needs those profits to generate more investment. Investment might be deferred in successful businesses—those that we most need in this country.

There have been rumours that the Department of the Environment is sympathetic to the problem and the Secretary of State may confirm that, but some of us are anxious about my right hon. Friend and his civil servants being able to convince the Treasury. Even if he is unable to go into detail, I hope that he can tell us on Report that he has won all the battles with the Treasury, which should be sympathetic to the plight of both small and large businesses.

I am not asking for the amendments to be accepted today, but for some understanding and perhaps some action.

Mr. Ridley: We have had a very good debate which, for once, was not too wide-ranging. That may be because my hon. Friends stuck closely to the subject.

The figures being bandied about on the levels of rate increases for businesses are an unreliable guide to the impact of revaluation. It is too easy to take particular examples as the basis for alarmist speculation. Those arguing for concessions will naturally draw attention to the worst examples, but they are in no better position to know the true outcome of revaluation than we are. No one—not even the chief valuation officer in the Valuation Office—will know the figures until revaluation is complete.

My hon. Friend the Member for Harrow, East (Mr. Dykes) referred to an 18 times increase for hoardings. It is impossible for me to comment on that. It is probably the highest figure that he could think of, but I do not believe that it is likely. The hon. Member for Truro (Mr. Taylor) told us last Tuesday that all the values in Truro would increase enormously, simply because he had been to school there. That may be a factor, but I doubt it.

The hon. Member for Birmingham, Perry Barr (Mr. Rooker) referred to a grocer shop in the constituency of my hon. Friend the Member for Birmingham, Northfield (Mr. King). To maximise the horror stories, as the hon. Gentleman calls them, he referred to the community charge and the full safety net and explained that it was perfectly proper for him to do so. However, he talks about the business rate after transition and not before it. If he wants to compare like with like, let him compare pre-safety net and pre-transition rates. My hon. Friend the Member for Northfield has such patience and tolerance that he has not sought to intervene in the speeches made by the hon. Member for Perry Barr, but I think that he would like that point to be stressed on this occasion.

Only when the national picture has emerged will we be able to get a clear view of the poundage for the uniform businesses rate and assess the impact on each business. An impression has been conveyed that all businesses will be losers, but that cannot be the case. There is no reason not to believe that there will be at least as many gainers as losers. To be fair, the National Federation of Self Employed, whose examples have been widely quoted in the Committee, also circulated examples of significant gains such as 47 per cent. for a shoe shop in Gloucestershire, although I do not know whether it is in my constituency, 32 per cent. for a shop in Hull and 62 per cent. for a shop in Prestatyn. But the balance of large losses that it shows is not credible if it is taken to indicate the broad pattern of the revaluation, so I do not think that that is likely to be the consequence.

A number of hon. Members suggested different annual progressions from where we are now to where we will be after revaluation, but I am not sure whether they had the matter straight. The hon. Member for Perry Barr and my hon. Friend the Member for Chichester (Mr. Nelson) seemed to think that if the figure was 20 per cent. it would be 20 per cent. of the gap in each year of the transitional period. I believe that the thinking of my hon. Friend the Member for Bournemouth, West has been that we would limit increases to 20 per cent. above current rate bills in each year, which is a very different concept. If there were to be a very large increase, 20 per cent. a year on the basis that I am describing would take far longer than on the basis of 20 per cent. of the gap suggested by the hon. Member for Perry Barr.

Mr. O'Brien: Given that there could be a large gap because of revaluations, does the Secretary of State believe that there will be many appeals against revaluation? It could take a great deal of time to determine valuations because of the number of appeals brought to the valuation courts. Does he think that that is likely to cause problems?

Mr. Ridley: Probably there will be quite a lot of appeals, but that will depend on how people regard their assessments for valuation. However, we expect

[Mr. Ridley]

to be able to cope with those appeals, so I do not believe that that is relevant to my argument.

My hon. Friend the Member for Kensington (Sir B. Rhys Williams) suggested a 10 per cent. limit while my hon. Friend the Member for Bournemouth, West and the hon. Member for Dumbarton (Mr. McFall)—especially in relation to shops in the case of the latter—suggested a limit of 15 per cent. I take those figures to mean, first, that they are added to the rate of inflation and, secondly, that they are limits on the amount by which rates bills would increase in each year. The hon. Member for Dumbarton cited an example of manufacturers in London and said that theirs would be going up two to four times and they will almost certainly be gainers because the likely multiplier or divisor is between five and six times. It is obvious that the hon. Gentleman has not got the point that it is not the amount by which it goes up but the amount by which it goes up relative to the average.

We cannot know how long a period of transition would be appropriate until we know the real figures more accurately. The Government have accepted that the largest increases should be phased in over at least five years and we have always made that clear. I am sure that the Opposition will agree that the size of the maximum annual increase, whether of 10, 15, 20 per cent. or any other percentage, which we propose to set under clause 43 should depend to an extent at least on the size of the gap that is to be bridged.

6.45 pm

I can give an assurance that I am well aware of the need to allow enough time for businesses to absorb the changes in their rate bills, especially the increases, and for those increases to be taken into account in future rent negotiations with landlords. There was wide discussion of that point. My hon. Friend the Member for Kensington was right to draw attention to the severe problems that will occur in inner London, and we have not sought to disguise them. On the other hand, hon. Members may have tended to underestimate the extent of the effects of keeping rates down. Worthy boroughs such as Kensington have kept rates down in inner London. That has had the effect of allowing landlords to drive up rents to high levels. The future effect of higher rates will be to force landlords to drop rents because there is a limit to how much small businesses can pay in combined rent and rates.

That is an important reason why we should allow sufficient time for those processes to happen. I point out to my hon. Friend for Bournemouth, West that many such agreements have rent clauses which allow for no falls but only increases. However, if landlords think that they are in danger of having no tenants those clauses will disappear like snow in May. Landlords will drop rents as soon as they realise that they must do so to ensure that they have tenants.

My hon. Friend the Member for Stockton, South (Mr. Devlin) made an excellent speech. I should like to follow him into the realms of the pamphlet that he mentioned, but I shall not do so as I know that you, Sir Michael, do not like to be late for your dinner. Many anomalies will arise in not only the north but throughout the country. That is why a good transitional system is vital if we are to introduce the new system without too much turmoil.

Mr. Rooker: We have to wait until revaluations have been carried out, but does the Secretary of State have a maximum time limit in mind? Surely the matter is not open ended, although the end of the century or 10 years could be thought reasonable in some circumstances. If the right honourable Gentleman is coming to that matter, I shall await his reply.

Secondly, if, all of those landlords and owners of property will be going round the country telling their tenants, "Of course you can have rent reductions", have there been any discussions with the investors of pension funds about the consequences that might flow from that?

Mr. Ridley: I shall come to the hon. Gentleman's first point in my own time if I may. In regard to his second point, it is not for me to comment on how the pension funds will find the next way of improving their position but I am sure that they are perfectly capable of making that decision.

In regard to paying for any transitional arrangement, I am sure that the Committee will accept the point made by my hon. Friend for Romsey and Waterside (Mr. Colvin) that the limits on any rate bill 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 who stand to gain are those who have been paying too much for some time. I know that my hon. Friend the Member for Kensington was hoping for me to mention a more cheerful policy, but it must be right that in deciding by how much to limit annual increases we should take acount of the impact on those who have legitimate expectations of some relief. There will inevitably be a cost of protecting those who lose and it will be necessary to arrange for offsetting limits on the rate at which gains can be taken. In addition, the system will not be entirely symmetrical. Any limits may have to be in the form of an X percentage limit on increases and a matching but probably different limit on reductions if we are to achieve the objective that the effect on the pool as a whole should be neutral.

It may also be the case that a small premium addition to the UBR poundage under the provisions of paragraph 7 of the schedule might be required, at least in the first half year, if the factors that I have just quoted are not to produce an unreasonable imbalance. As far as possible, we shall seek to match the concessions to the losers with the limit on the gainers' gain.

Amendment No. 661, tabled by my hon. Friend the Member for Bournemouth, West, seeks a limit under traditional arrangements as they apply to small businesses. I have hitherto been talking about all businesses. The amendment suggests a dividing line between small and large businesses as a rateable value at current levels of £15,000. I am afraid to say too much in welcoming that proposal because I may be accused of ideological impurity by my hon. Friend the Member for Canterbury (Mr. Brazier). Nothing daunted, I find my hon. Friend's idea acceptable in principle, but I should like to consider the proposal in more detail, especially the dividing line. I am attracted to the scheme because it proposes different transitional regimes for large and small businesses rather than different end states. It is not wrong in principle to say that large businesses could be limited to annual increases of X per cent. and matching limits on reductions and small businesses could be limited to X minus 5 per cent. increases, with matching limits on reductions in their rates bills in real terms.

There are problems about setting a dividing line by reference to rateable value, as the hon. Member for Newcastle upon Tyne, Central (Mr. Cousins) and others have rightly said, because any particular rateable value chosen will involve very different properties in different parts of the country. There are particular problems because of the high values in inner London which my hon. Friend the Member for Kensington ensures that we take into account. Any property might cross the boundary in the five year period. If there were an appeal and the appellant were successful and his rateable value droped below £15,000—I use that figure as an example; I do not necessarily accept it—he would fall into a different transitional regime from the previous one. That must be taken into account because although it is a detail of the proposal it could happen. Because of extensions to the building, property might cross the boundary in the other direction if it were uprated. I shall be happy to consider such a scheme when I make regulations under clause 43 in the autumn. I fear that that must be without commitment at the moment because, as I have said, we do not yet know the figures with which we shall be dealing, and we cannot fashion such a scheme until we do. Nor is it certain that, having studied what I have said today, the representatives of large and small businesses will agree that the suggestion is a good idea. We shall have to listen to the views of industry before going firm on such a scheme.

In considering whether there should be a 10, 15 or 20 per cent. increase, hon. Gentlemen will realise that if I were to follow the scheme proposed by my hon. Friend the Member for Bournemouth, West, there would be considerable complications. The figures that have been bandied about are mostly haywire and as we do not know what the real figures are I cannot recommend a percentage to the Committee. I have spoken about a 5 per cent. differential, but if I were to be specific now—I should almost certainly have to return to the House in the summer and say, "I am sorry, but I got it wrong on 3 March—I made a guess, but it has turned out not to be very satisfactory." That would achieve nothing. However, I hope that what I have said will encourage people to feel that the Government wish to respond to the spirit of the debate.

I turn now to amendment No. 360, tabled by my hon. Friend the Member for Kensington. I am happy to tell him that I am prepared to meet that amendment on Report. He will forgive me if I seek to redraft it. I am certain that under any of the schemes that we have been discussing the transition will not be over for all businesses by 1995. That should not be taken as a sign of panic or pessimism because at least a handful of businesses will face large rises mainly because their value is far too low at present. It is unlikely that we shall sort out all the problems in the system in the first quinquennium. We should wait until the next revaluation in 1995. My successor will be handling the matter and he—

Mr. Rooker: Or she.

Mr. Ridley: Or she. He or she will be from the Conservative party. My successor will want to take into account the results of the second revaluation and the numbers still in transition, and will probably design a different and better scheme suited to the needs at the time. All that we need to do now is to take power for the second transitional scheme to be put into effect nearer the time. I hope that my hon. Friend will feel happy to seek leave to withdraw his amendment so that I can table an appropriate amendment on Report.

Mr. Butterfill: I thank my right honourable Friend for the way in which he has approached the problems that I attempted to identify in my amendment. He recognised the difficulties that will exist for all businesses, especially small businesses, and his suggestion that there should be a 5 per cent. differential between the two is imaginative and helpful. I am pleased that my right honourable Friend was able to respond to some of the anxieties expressed by other members of the Committee. On the basis of his assurances, I beg to ask leave to withdraw the amendment.

The Chairman: Order. The hon. Gentleman did not move the amendment.

7 pm

Mr. Rooker: I do not wish to delay the Committee, but I wish to protect the rights of anyone who wants to make a small contribution before the magic words are uttered as I assume that the hon. Member for Kensington and Chelsea will seek leave to withdraw the amendment.

The Secretary of State made an interesting speech, which we shall study. He said that it was designed to "encourage people to feel" that the idea was good and that the Government would do something about it. He also gave caveats to the effect that the revaluation and the transitional period will never end. He may criticise the figures, but we have received hundreds of examples throughout the country showing that some will lose and some will gain. The picture is a snapshot from those who have examined the figures. A nursery in Canterbury will have an increase of 722 per cent. It will take a long time to phase that in at 20 per cent. per year.

Who is to pay for that? The Secretary of State answered the question by saying that as the provision will be self-financing and the yield will remain the same, the losers will pay for the gainers. He also said

Mr Dickson
your have this in hand.
R.F.

IOD
Institute of Directors

14 MAR 1988

Mr ~~[illegible]~~
Let IR do the reply but we will need to make an input, not least to leaving out 'x's considerably overstated.
JMP
14/3

Rt. Hon. Norman Lamont MP
Financial Secretary
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

Mr. Jaundoo IR
PPS, CST, PMG, EST
Mr. Anson Mr. Kemp
Mr. Hawtin Mr. Potter
Mr. Culpin Mr. Hoare
Mr. Tyrie PS/IR

11 March 1988

Dear Norman,

NON-DOMESTIC RATES - REVALUATION.

I wrote to you on 17 February urging you to publish as soon as possible preliminary estimates of the outcome of the revaluation to assist the Parliamentary discussions about the phasing arrangements in the Local Government Finance Bill.

Since then the Secretary of State has made the welcome announcement in Standing Committee that he accepts the case for extending the phasing over a longer period than five years and for more generous relief for small business premises. He said that he could not settle the percentage limits on year-on-year increases in rates bills or the length of the phasing period until he knew the outcome of the revaluation and would wish to consult with business organisations before coming to a final decision. He also said that he would be bringing forward regulations under clause 43 "in the autumn".

The implication, therefore, is that preliminary information on the revaluation is to be made available in good time for consultations before those regulations are laid. We would welcome your confirmation that this is correct.

Yours
Judith

Judith Chaplin
Head of Policy Unit

Institute of Directors 116 Pall Mall London SW1Y 5ED Tel: 01-839 1233 Telex: 21614 IOD G Fax: 01-930 1949

THE SMALL BUSINESS BUREAU

32 Smith Square London SW1P 3HH   01-222 0330

cc Mr Fellgett

As agreed. I have told the FST's office that you are in the lead on this topic.

18/2

cc Mr Calder
Mr Gonzalez
Mr Pauley (CVO)

17th February, 1988.

FINANCIAL SECRETARY
REC. 18 FEB 1988
ACTION Mr Jacobs IC
COPIES TO PPS, CST, EMG, EST
Mr Hawtin
Mr Culpin
Mr Horace Mr Tyrie
PS/IC

The Rt. Hon. Norman Lamont, M.P.,
Financial Secretary,
H.M. Treasury,
Parliament Street,
LONDON SW1P 3AG.

Dear Norman,

You will remember I spoke to you the other day in the Lobby about the need to ask the Inland Revenue to work out some figures on the rate revaluation.

As I mentioned I took a delegation consisting of all the main business groups to see Nicholas Ridley on the question of the very high increases that firms would have to pay as a result of revaluation and the non domestic rates. Most of the business organisations produced their own figures as to what the likely effects to revaluation would be. These figures came from individual firms and were calculated by their own professional advisors. Unfortunately, Nicholas Ridley was unable to produce any figures of his own although he strongly claimed that the increases would be nothing like what was being suggested by the business groups. Clearly the Government is not in a very good position if it cannot put forward its own figures.

As I said I understand that already half the forms for revaluation have been returned to the Inland Revenue, and I would therefore hope you may be able to get them to make some calculations. You will be receiving similar requests for this information from the Institute of Directors.

You will be the first to agree, I am sure, that it is not acceptable to leave businesses with so much uncertainty and that business really must know what it has to pay well in advance.

Please forgive me for not signing this letter personally but I have had to leave for an overseas visit.

Yours sincerely

pp

Michael Grylls, M.P.
Chairman.

THE SMALL BUSINESS BUREAU

32 Smith Square London SW1P 3HH 01-222 0330

THE AFFECT OF UNIFORM BUSINESS RATE ON SMALL FIRMS

Whilst it is recognised that a significant part of the rise in rates envisaged when the UBR comes into force is occasioned by the revaluation of property, the new method is likely to impose an added and uneven burden on businesses in the better controlled councils where business rates previously were low (e.g Kensington and Chelsea). Even though it is apparently part of the Government's aim to encourage businessesto move to the North, businesses in various Northern areas will face similar difficulties.

The increase in business rate will affect small firms more dramatically than large firms because:-

1. Small firms have few premises compared to large firms and the rises will not be able to be averaged with decreases. In addition small premises bear a higher rate due to zoning and other revaluation techniques.

2. Small firms in retailing are likely to face rises due to shop locations whereas manufacturers will face decreases and the large multiple retail stores will be more able to take advantage of the reduction in manufacturer's rates' bills than small firms.

3. In small firms rates account for a higher proportion of pre tax profits (Forum of Private Business estimate 25% for small firms compared to 5% for PLC's).

The evidence of potential inequities has been gathered by NFSE, Forum of Private Business and National Chamber of Trade and is summarised as follows:-

NFSE Sample 74 of shops offices and factories

71 increases of which 13 would rise less than 50% and 58 would rise more than 50%.

FORUM OF PRIVATE BUSINESS   Sample 2400

Business	Average	Median	Average
Distribution	+104%	+49%	-6%
Services	+ 72%	+25%	-22%
Manufacturing	+ 10%	-22%	-53%

NATIONAL CHAMBER OF TRADE   Average increase 25% but wide discrepancy from -60% to +240%

RETAIL CONSORTIUM   Survey of 28 retail companies with 8,487 shops/stores and an average percentage increase of 75%

CONCLUSION

All the evidence shows that a very large number of businesses are facing a substantial increase in costs. For many small businesses, on whom the Government has relied to revitalise the economy and reduce unemployment, this would be an insuperable problem and would lead to closure particularly in city areas. The most realistic solution is that rises should be limited in any one year for small firms (however defined).

IOD

Institute of Directors

CHIEF SECRETARY

REC. 17 FEB ...

ACTION Mr Potter

CX, EST

Mr Anson, Mr Gieve

Mr Hawtin, Mr Turnbull

[redacted] Mr Call

16 February 1988

Rt Hon Norman Lamont MP
Financial Secretary
Treasury Chambers
Parliament Street
London SW1P 3AG.

Dear Norman

NON-DOMESTIC RATES - REVALUATION

I enclose a copy of our letter of 4 February to the Secretary of State for the Environment concerning the need for generous phasing of the introduction of new rateable values and the National Non-Domestic Rate in 1990. Our fears that a significant number of small businesses in particular, in all parts of the country, will face increases of several hundred per cent in their rates bills are shared by the other main business organisations and a joint deputation went to discuss the matter with the Secretary of State on 8 February. We are not raising this matter now to create in any way a lobby against the legislation but because our members are expressing their concern to us and we need to know how to answer them.

The Secretary of State made the remarkable assertion that nobody knows yet what the outcome of the revaluation will be, even in broad terms and therefore there is no point in speculating about what phasing may be required. This was despite the fact that some of the figures placed before him by the organisations had been prepared in conjunction with district surveyors.

It would be unacceptable for businesses to have no official indication of what the likely National Non-Domestic Rate is and the phasing arrangements before publication of the valuation lists on 1st January 1990. Businesses need to plan ahead and they are already very concerned about the impact of the changes in 1990. I am writing, therefore, to ask if you can help to throw any light on this matter by publishing preliminary estimates of the effects of the revaluation before Part III of the Local Government Finance Bill is debated in Committee. The crucial point to know is the distribution of increases, preferably by region. We understand that district valuers have been monitoring all new lettings in their areas for some time now and have received over 50% of the revaluation forms already. We cannot, therefore, believe that the valuers do not now have a pretty shrewd idea of the shape of the final outcome.

it is in the interests of the Treasury to ensure that the 1990 changes do not lead to the closure of large numbers of small businesses with a consequent loss of income, corporation and value added tax and national insurance revenues and increase in social security expenditure. We therefore urge you to make available as much information as possible at this stage so that the question of phasing relief can be discussed on an informal basis.

I hasten to add that we accept that it is not realistic to expect the general Exchequer to fund the phasing relief. It will have to be funded by a corresponding phasing of reductions in rates bills.

Mrs Judith Chaplin
Head of Policy Unit

dti

the department for Enterprise

CONFIDENTIAL

The Rt. Hon. Kenneth Clarke QC MP
Chancellor of the Duchy of Lancaster and
Minister of Trade and Industry

Rt Hon Nicholas Ridley MP
Secretary of State
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FINANCIAL SECRETARY
REC. 2 MAR 1988
ACTION Mr. Potter,
COPIES TO CST, Mr Anson, Mr. H. Phillips, Mr Hawtin, Mr. Turnbull, Mr Fellgett, Mr Call, PS IR

Direct line 215 5147
Our ref
Your ref
Date 2 MARCH ~~February 1988~~

Dear Nick.

NATIONAL NON-DOMESTIC RATE:TRANSITION

I am broadly content with your proposals in your minute of 24 February to the Prime Minister.

I agree, in particular, with your judgment that the transitional arrangements must be complete, for all but the most extreme cases, by the time of the 1995 revaluation, particularly as the safety net arrangements for the Community Charge will end at the time.

Nor would I wish to reopen the decision that the costs of the transitional arrangements for the national non-domestic rate should be met by other non-domestic ratepayers. But I am concerned that the price of doing so might be an increase of as much as 10% in the initial level of the NNDR. If this becomes known, it is bound to reinforce the opposition to the NDDR on the part of the business community. I do not suggest that you revert to the idea of meeting the cost of the transitional arrangements for losers by imposing parallel delays on the rate at which gainers benefit from the NDDR, since many of these will be in the North and in the inner cities. But the presentation of this aspect, and the timing of any announcement of the likely figure, will be very important.

EC7ADX

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I do not suggest that you now accept an amendment to write an "rpi minus x" indexation formula for the NNDR into the Bill. But the phasing out of the transitional arrangements means that in the first four years the NDDR will in fact rise consistently by less that the rpi. This may be a useful presentational point.

I remain sceptical of a statutory requirement on local authorities to consult business. But I will not oppose a concession on the point if you think it would help.

There is one point not mentioned in your minute which is of serious concern to organisations representating small businesses- the "zoning" method of valuing business premises, which is widely believed to discriminate against smaller businesses. I may wish to take this up with you and with Norman Lamont separately.

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

Jo Ken,

K.

KENNETH CLARKE

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