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PO CH/NL/0435 PT.C.

Chancellor's (Lawson) Papers:
Transitional Arrangements for a Uniform Business Rate:

DD's: 25 Years

31/1/96

PO CH/NL/0435 PT.C.

CABINET OFFICE PAPER

The following Cabinet Office papers have been taken off the file. If you require access to these papers please contact the Cabinet Office.

Reference	Date Of Paper
E(LF)(89)4	20/06/1989

Confederation of British Indust---
Centre Point
103 New Oxford Street
London WC1A 1DU
Telephone 01-379 7400
Telex 21332
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CH/EXCHEQUER
REC. 19 APR1989
~~ACTION~~ MR AJC EDWARDS /20/4
COPIES TO

18 April 1989

JMMB/las

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

Dear Secretary of State

Since Local Authority rates constitute an important part of the National overhead burden on business, which has grown (in 1988-9 money) by some £1,000 per employee since 1983, the CBI has consulted widely among its membership on the proposals set out in the Department's consultative paper, Non-domestic Rating: Transition. The attachment summarises our comments on the various technical matters raised. This letter sets out our members' reactions to the two main proposals: that the new Uniform Business Rate (UBR) should be set at a level to yield the same amount as will be raised from business under the present system in the current financial year; and that the cost of limiting the real increases in rates (to 20% in any one year) should be met by those whose rates will be reduced.

As you will be aware, the anomalies and injustices in the present rating and valuation system have been a major source of irritation to CBI members for many years. The Government's determination to tackle this long-standing problem was thus widely welcomed. It is all the more disappointing, therefore, that the transition proposals as they stand do not tackle the long-standing abuses which the UBR was intended to remove. Specifically, the CBI is concerned that:

(i) the Uniform Business Rate is being set at too high an initial level. Business will continue to be paying very substantially for local services from which it does not receive any direct benefit

Nicholas Ridley
Secretary of State for the Environment

(ii) those business ratepayers who have been exploited for years as a result of the combination of the repeated delay of revaluation and by high-spending inefficient local authorities will not see their rates bill reduced significantly

(iii) the situation in Scotland will continue to place business there at a disadvantage.

Since the CBI supported the original proposals on the basis that they would tackle these long-standing abuses, this letter expands on these concerns.

The Initial Level of UBR

The business case against the present system is that it is fundamentally unfair: Local Authorities have been able to increase rates, secure in the knowledge that many local residents will not be paying rates. The result of this process, which has been going on for many years, is that business is now paying for services it does not receive. In our November 1987 document, An Alternative Approach to Paying for Local Government the CBI calculated that the cost of those local services from which business derived any benefit was at least £2 billion lower than the product of non-domestic rates.

Of course, we recognise that the new Uniform Business Rate is not designed either to reflect the cost of services provided, or the ability of individual businesses to pay. So setting the initial level comes down in the end to a political decision. In our view, the UBR should be set no higher than would be needed to raise £7.0 billion from business in England and Wales - this was the amount (in 1988/89 prices) raised in the year when the proposal for a Uniform Business Rate was first proposed, in the Green Paper.

Quite apart from the question of fairness, the CBI members see no reason why business should not benefit proportionately from the elimination of subsidies to Council tenants and the improvements in efficiency to be expected from putting more local services out to tender and implementing the recommendations of the Audit Commission. After all, business has been forced to pay in the past for the failure to tackle these challenges effectively.

And the CBI certainly does not accept that the initial level of the UBR should consolidate real increases in rates since the last General Election - which will cost business some £600 million this year. We have noted that, notwithstanding Ministers' expectations at the time the Rate Support Grant Settlement was announced, rate increases in Metropolitan areas (where business is concentrated) are averaging over 11%. We see no reason why this continued exploitation should be baked into the UBR, particularly when the yield from Corporation Tax (which does at least relate to ability to pay) is rising very rapidly, from £11 billion in 1986/87 to an estimated £22 billion in the current financial year. Moreover, business' share of total Local Authority expenditure increased between 1982/83 and 1988/89 for no commensurate improvement in the level or quality of services.

Introduction Timetable

The Conservative Manifesto states that "Our Uniform Busines Rate will ensure that companies and jobs are not driven out by the high rates of profligate Councils". Since then rates have increased further, and well over 100,000 properties in England expect to see their rates bills reduced by 50% or more.

However, under the proposals, there will be no significant reduction in rate bills for many years for these businesses which have suffered the injustices of the present system. For example, one major manufacturer in the North West with a rate bill last year of £6.7 million will see this reduced to £6.5 million next year, rather than the £1.8 million that they expect to result from the combination of the UBR and revaluation.

CBI members believe there should be no delay in introducing the new UBR.

However in view of the paramount need to keep inflation under control, the transitional cost of limiting the annual increase to 20% (in real terms) for those businesses which will see their rates increase should be met by the Exchequer, out of the increased Corporation Tax receipts. Some 210,000 properties, most of them connected to the retail trade, expect to see their rate bills increase by an average of almost 200%. Retail prices are bound to increase, particularly in the overheated South East; and these increases could well be reflected in further upward pressure on pay, particularly in the public sector where national wage bargaining remains in force.

A National Approach

Finally, it is unacceptable to the CBI that the Government's proposals for introducing the Uniform Business Rate will still mean that similar businesses in different parts of the United Kingdom will be paying widely different rates - because of different valuation practices and a different rate in the pound.

4/

Nicholas Ridley
Secretary of State for the Environment

CBI calculates that businesses in Scotland in particular will still be disadvantaged, to the tune of some £250 million a year. In our view, urgent action should be taken to bring valuation practice and rates in Scotland and Wales into line with the situation in England. The costs of this action, too, should be met by the Exchequer.

* * *

CBI members recognise that, under the latest proposals, they will be protected from future rate rises. But it is simply not enough to argue that they should be satisfied because the present unsatisfactory situation will not worsen. We expect the police to seek to recover stolen property, and would not be satisfied with promises to prevent further robberies.

We very much hope that the Uniform Business Rate, can be introduced so that the anomalies and injustices that the proposals were intended to correct are indeed removed and further inflationary pressures avoided at a particularly inopportune time.

I am writing in similar terms to Malcolm Rifkind and Peter Walker, and I have sent a copy to Nigel Lawson. Since there is widespread interest in a matter affecting over a million properties one way or the other we will also make it available to the media.

Yours sincerely

John M M Banham

ATTACHMENT

NON-DOMESTIC RATING - TRANSITION

CBI RESPONSE TO THE DEPARTMENT OF THE ENVIRONMENT CONSULTATION PAPER

1. The CBI would like to raise the following points in response to this consultation paper. The points below concentrate on the regulations from paragraph 12 onwards. The CBI is prepared to release this response to the media and agrees that it may be placed in the Libraries of both Houses of Parliament.

Qualification for the Transition (Paragraph 12)

2. The CBI believes the transition should apply to all properties which would therefore include those properties occupied after 31 March 1990. The distortions created by the existing proposals would be inequitable and their effect would be to deter the occupation of new buildings. This would compound the effects of the recent imposition of VAT on newly constructed buildings.

Hereditaments Merged or Divided on Revaluation

3. In the regulations it appears that properties which are merged or divided on revaluation will not be subject to the transition either. This point may just be an unintentional omission, however paragraph 27 should apply to these properties. The Cross-Boundary Property Regulations contained in a separate consultation paper, should also provide for properties merged or divided on revaluation.

The Baseline for the Transition (Paragraph 16)

4. The CBI does not believe the deadline of 15 February 1989 for proposals by ratepayers to alter the 1973 list, which then affect the baseline for the transition, is equitable. Any proposal made by a Valuation Officer after that date would affect the baseline; but if this resulted from an appeal by a ratepayer, then that ratepayer would not benefit from the transition. Those who did not appeal, but had their rateable values altered by the Valuation Officer would, however, benefit. This situation is clearly inequitable and should be avoided. The original proposer of the change should benefit and the baseline for the transition should be altered accordingly.

Certification of Composite Hereditaments (Paragraph 17)

5. The certification of the non-domestic part of the 1973 rateable value of composite hereditaments should be automatic. If responsibility for certification is left with the ratepayer then notification that the hereditament is composite and needs to be certified to qualify for the transition should be sent out with the rate demand (the draft statutory instrument on the collection and enforcement of the local non-domestic rate should be

amended to take this into account). In either case there should be a right of appeal against the Valuation Officer's judgement, for the period ending 1 October or the date six months from the receipt of the rate demand, whichever is the later. These procedures are needed because many firms do not yet know whether their properties are going to be declared composite and should not be disadvantaged through ignorance. See also the response to the paper on the valuation of composite hereditaments and the paper on the collection and enforcement of the local non-domestic rate.

Temporary Reduction of Rateable Value to Zero (Paragraph 19)

6. Hereditaments which have their rateable value temporarily reduced to zero due to major building works and other causes before 1 April 1990 should be subject to the transition - in accordance with our general principle. The CBI believes that the rateable value which stood before the building work began should be used to calculate the baseline. But it would welcome the opportunity to discuss other methods with the Department and acknowledges that this particular regulation should not cover those cases where, effectively, a new building has been created. The CBI does not, however, accept the compromise of using the old rateable value only where the occupier was the same as before.

Mineral Producing Hereditaments (Paragraph 31)

7. Special regulations should be provided for mineral producing hereditaments. The commercial decisions of a producer should not be affected by a potential loss of transitional relief. Assuming special provision is made, business should be consulted on the precise form of the regulations. The CBI would be happy to discuss the details of such regulations with the Department. It is essential that regulations are produced as soon as possible, as they will affect mineral producers' decisions in the near future.

Hereditaments in Enterprise Zones (Paragraph 33)

8. The CBI strongly believes that hereditaments formerly in Enterprise Zones should be covered by the transition. There is little difficulty in calculating the baseline and therefore the principle of extending the transition to these properties remains undiluted. These firms will not know their future rate liability in advance as they will not have been on the rating list prior to the ending of the Enterprise Zone. Even if there were some advance warning of rate increases, their impact would not be diminished and these properties will need to be protected from such increases similarly to those who are covered by the regulations.

Operation (Paragraphs 35 & 36)

9. In paragraph 35 it is stated that disputes over the application of the transition by authorities are, in practice, likely to be settled by "negotiation between the ratepayer and the charging authority". In paragraph 36, contrary to this, it is stated that the amount of transitional liability will be a matter of law "with no scope for discretion". The position needs to be clarified.

April 1989
Confederation of British Industry,
Centre Point, London WC1A 1DU

lg1.va/rutnam/minutes/formula2

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CONFIDENTIAL

AJCE
19 iv

1. MR A J C EDWARDS (LG)

2. CHIEF SECRETARY

FROM: P M RUTNAM (LG1)
x4946
Date: 19 April 1989

cc: Chancellor
Financial Secretary
Sir P Middleton
Mr Anson
Mr Monck
Mr Phillips
Mr Moore (PE)
Mr Potter
Mr Bent
Mr Hoare
Mr Hudson
Mrs Chaplin
Mr Call

PMP

[NB CST may keep no change in total NNDR burden up his sleeve].

FORMULA RATING

You asked (Miss Evans' note of 22 March) for a draft letter to Mr Ridley on this.

2. I attach a draft. It reflects further discussion with DOE officials, who have made it clear that:

- they too would favour a firm policy commitment to move these industries back into conventional rating, as soon as practicable;

- Mr Ridley is also likely to support this aim;

- they think that for the present we need only keep options open on the best approach to setting rateable values for these industries in 1990 (decisions on this point will be needed in about a couple of months' time).

3. We have also agreed with DOE officials that a small group of officials must now look urgently at the technical, resource and legislative implications of moving formula-rated industries back into conventional rating. We must be sure that such a move is practical before any announcement can be made, and be clearer on the public expenditure consequences for industries that will still be in the public sector (principally BR and LRT).

4. Given that there is a good deal of common ground between us and DOE the draft adopts a relatively relaxed tone. It sets out the two different approaches that might be adopted to setting new rateable values for the formula-rated industries in 1990, as requested by Miss Evans' note. It points out that this issue can be looked at further in the light of officials' conclusions on the practicability and timing of a move to conventional rating.

5. We have noted your suggestion (in paragraph 3 of Miss Evans' note) that in presenting this to Mr Ridley we should take credit for the fact that we do not propose to allow the higher rates bill of these industries to increase the NNDR yield. We have included a paragraph in the draft letter accordingly.

6. Mr Edwards has, however, suggested that you might consider whether it might be better to keep this point up the sleeve for use later, if (as so often) we end up having to engage in trade with Mr Ridley.

7. Finally, there is one other substantive aspect of this issue of which you may care to be reminded. This is the public expenditure implications of changes in the arrangements for rating formula rated industries that are in the public sector. This is a particular concern for BR and LRT, whose current liability is low and for whom there may be strong arguments for a substantial rise in liability.

8. The public expenditure implications of changes in the rating system are difficult to estimate. They will depend on progress with the privatisation programme and industries' ability to absorb higher costs by raising prices, among other factors. However, assuming that:

- it is not possible to secure absorption of increases in rates liabilities

- BR and LRT stay in the public sector, but electricity and water privatisations proceed as planned

a move to conventional rating may lead to an increase in total EFRs over the longer term of up to £120m p.a. This figure is, however, uncertain: it may be higher. Most of the increase would be likely to fall on BR's EFL. (NB. PE do not expect BR to be privatised before 1993-94 at the earliest.)

9. The figure of £120m does, however, reflect the long term increase in NIs rates bills that we expect over current levels of liability. New formula rating provisions will, as you know, be needed for 1990. These may lead to substantial increases in industries' liability (including BR/LRT) before any shift to conventional rating. To the extent that they do so, the increase in liability following a later shift to conventional rating will obviously be correspondingly reduced.

10. Any increase in these industries' liability - whether under new formula rating provisions, or after a shift to conventional rating - will be phased in. Transitional arrangements will limit the rise in each industry's liability each year. These arrangements mean that it should take at least 6-10 years from 1990 before NI EFRs could rise by as much as £120m on account of changes in the rating system.

11. Because there is uncertainty about the impact of a change to conventional rating on public expenditure, the draft letter protects your position on this point. It refers to the need to investigate the technical and 'other' implications of making such a change before a firm commitment could be given. (We thought it best to avoid mentioning public expenditure as such, because we do not want to imply to Mr Ridley that the decision will necessarily be driven by public expenditure concerns.)

12. We can look further at the public expenditure implications of a move to conventional rating when the study by a small group of officials is completed. This should help to improve our estimates of the effects of such a change on individual industries' liability - though it may be that there will still be some major areas of uncertainty. If so, we can reflect on the significance of these uncertainties before making any public commitment to a move to conventional rating. If, on the other hand, it is clear that such a change would lead to an unacceptable rise in public expenditure, it may well be possible to devise an artificial means of holding the liability down without sacrificing the broad thrust of our policy. All these issues can be considered again nearer the time.

13. Three other, unrelated, points might be relevant here:

i) PE is considering the implications of changes in the system of rating water for the price regulation of the industry.

ii) You may care to be reminded that British Coal will be moved out of formula into conventional rating in 1990. This change, which has already been agreed by Ministers, proved to be practical for this industry alone at such an early date.

iii) Industries which are already privatised will be able to pass on the increased costs through prices to the customer.

14. PE agree that it is right in principle to move to a more soundly based system. Their concern - which is protected for the moment - is that we should avoid any premature commitment to a change which might seriously increase BR and LRT's financing requirement.

P.M. Rutnam

P M RUTNAM

DRAFT

Rt Hon Nicholas Ridley AMICE MP
Department of the Environment
2 Marsham Street
LONDON
SW1P 3EB

REVIEW OF FORMULA RATING

My officials have recently brought to my attention the need to reach a decision over the next few months on the future of formula rating. I know they have been closely involved in discussions with your officials about this. It may be helpful if I let you have my views now on the way ahead.

My starting point is that formula rating is an anomalous and highly unsatisfactory form of tax assessment. It has a number of unattractive features but I would single out two.

First it places Ministers in the invidious position of holding direct responsibility for an industry's tax assessment. As you will be aware, this is a rare situation, which provides unwelcome scope for lobbying by individual industries. In the past, it has been used to hold down the tax liability with decisions taken on political grounds.

Second, recent work at official level indicates that it is very difficult, if not impossible, to develop a satisfactorily robust method for determining rateable values by use of a formula. Our officials have looked at various approaches to this. An approach which has regard to asset values is theoretically attractive here but it would require some hard judgements on our part and create some severe practical difficulties. Other approaches - such as the use of turnover or profitability data - have been canvassed but in my view, are not as attractive nor as publicly defensible. I have to say, however, that not everyone is agreed on the most appropriate substitute and it may be that one universal method, however, desirable, is not achievable and alternative methods including valuation by reference to the accounts may be applicable.

I do not think that these problems with formula rating can be lightly dismissed, and I very much doubt that the current system could ever be made into a fair form of tax assessment.

In the light of these problems, I should like to propose that we aim, in principle, to bring the formula rated industries into conventional rating as soon as possible. I hope that you will feel able to agree that a firm policy commitment to this end would be desirable in due course, though subject to our first investigating the technical and other implications of making such a change.

There will, of course, be various technical difficulties in assessing these industries conventionally. A move to a conventional system of rating would also have implications for Valuation Office resources. The need for legislation will need to be checked carefully.

I should therefore like to propose that we ask our officials to look urgently at the scope for bringing these industries back into conventional rating and to improve their assessment of the costs to the industries. It would not, of course, be possible to make this change in the 1990 revaluation. But I am conscious that we will need to take decisions on how these industries should be handled in 1990 quite shortly. There seem to be two broad approaches that we might adopt to this. We could use the information that has been gathered about these industries by officials to calculate new formula rateable values ostensibly equivalent to values calculated under a conventional valuation. On the other hand, we could use the average increase in rateable values in the non-domestic sector generally since the last revaluation to uprate the existing formulae in a more mechanical fashion.

I have no strong views at present about which approach might be appropriate. If we find that these industries could be moved back into conventional assessment early in the 1990s, it may be that we would decide it was more sensible to treat the 1990 review as an interim valuation, pending a fuller and more accurate conventional assessment. But we could look at this point further in the light of officials' conclusions on the practicability and timing of a move to conventional rating.

[Finally, whatever approach we adopt to these industries, in 1990 and after, I am sure that any increase in their relative rates burden should be used to offset the burden on other non-domestic ratepayers. Depending on when a move to conventional rating was made and on whether this increased the amount paid in rates by these industries significantly, this might imply that we would exercise our power to uprate the business rate poundage by less than the RPI.]

I am copying this letter to Malcolm Rifkind and Peter Walker. I should be particularly interested to hear Malcolm's views on the prospects for bringing the treatment of those industries in Scotland that are formula rated into line with the treatment of those in England and Wales, if we were to move the latter into a more conventional system of assessment.

[J.M]

Private Secretary to Secretary of State for the Environment

Duncan Sparkes

You asked to see the note of my SofS's recent meeting with the CBI.

We will also send you a copy of the SofS's reply to the CBI's follow up letter of 3 May

[illegible]

cc. A. Edwards
Mr Hudson
Mr Potter

Reference..

23/4/89.

Mr Summerton

cc PS/Secretary of State
PS/Mr Gummer
PS/Lord Hesketh
Mr Osborn
Mr Britton
Mr Rawlings (WO)

BUSINESS RATES : MEETING WITH THE CONFEDERATION OF BRITISH INDUSTRY, 27 APRIL

1. You were present yesterday when the Secretary of State met a delegation from the CBI to discuss their response to the consultation paper on transitional arrangements for the new business rate. The Confederation were represented by Mr John Banham and Sir Trevor Holdsworth. Mr Britton and Mr Rawlings (Welsh Office) were also present.

2. The Secretary of State thanked the CBI for their response, which sought a reduced business yield in 1990-91 and the immediate realisation in full of reductions in rate liability for those businesses which gained from the new business rate. He noted that the CBI wanted these benefits to business funded by the Exchequer : but indicated that he saw little scope for agreement on either of these points. The Government was committed to the view that the transitional arrangements should be self-financing and that business should not be subsidised by the taxpayer. The rate poundage set for 1990-91 would be based on the yield in 1989-90 (uprated for inflation), although this might be capped if analysis showed that local authorities had imposed unreasonably high rate rises for the year. A final decision on this would be taken in the summer when the envelope of external support (NNDR and grant) for local authorities was agreed with the Treasury. But there could be no going back to the amount of rates payable by business in the year in which the Green Paper was issued (1985-86), as the CBI were seeking.

3. The CBI noted the Secretary of State's firm resolve that the business community should bear the full cost of the change to the new system. They suggested however that, as neither the delay since the last revaluation nor the level of rate poundages were the fault of business, the Exchequer should make a contribution - as it had done at the time of previous revaluations - from the £5 billion increase in Corporation Tax which could be expected in 1989-90. They warned that, if nothing were done, the Government's proposals would add 1% to the RPI; and argued that a limit on year-on-year reductions would alienate those businesses the Government was trying to help, along with those which would have to bear the cost.

4. The Secretary of State sought the views of the Confederation on the option -which was being argued by the ABCC - of putting a premium on the poundage for all businesses as a means of funding the faster realisation of gains. This would bring swifter relief to the less-buoyant North whilst slowing down the overheated economy of much of Southern England. The CBI acknowledged the benefit this would have for businesses awaiting a long-overdue reduction in rate liability : but again argued that the additional increase for losers - which might be as much as 10% - would increase inflation. The Secretary of State rejected this view and argued that the effect on the RPI would be broadly neutral. A further refinement of this option might be to combine a premium on the poundage with a higher limit on year-on-year reductions for

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Reference..

gainers, although this would not achieve one of the aims of both the Government and the business community that the transitional arrangements should not be unduly complex.

5. The CBI undertook to let the Secretary of State have their considered views on this proposal in due course : and noted that the Secretary of State would be giving further consideration to the possibility of capping the 1989-90 business rate yield. The Secretary of State indicated that he had asked for further analysis of the effect on the distribution of gainers and losers of a premium on the poundage.

6. The CBI also took the opportunity to impress upon the Secretary of State their continuing concern that the rate burden on businesses in England and Wales and in Scotland should be harmonised as quickly as possible. The Government had received representations about the burden - which was of the order of an additional impost of £250 million on Scottish businesses - from a number of business organisations, not least the chemical industries; and the CBI considered the disparity unjustifiable.

7. The Secretary of State briefly outlined the reasons for such a disparity:

- higher average spending by Scottish local authorities, which could only be resolved in Scotland;

- differences of practice and professional approach between the Scottish Assessors and their English counterparts, which ongoing discussions were helping to bring together but which could not be completely harmonised by 1990;

- the different approaches to the contractor's basis method of assessing hereditaments such as chemical plants, which would hopefully be brought into line by the Government's recently announced proposal to prescribe a common decapitalisation rate; and

- the problem of a lack of a common GB-wide poundage, a solution to which the Secretary of State was able to say would hopefully be announced shortly.

C. Ian Pickard

C I PICKARD
FLTA
Room N6/07
276 3132

28 April 1989

doc902sr

CODE 18-77

Confederation of British Industry
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From
John M M Banham
Director-General

CBI

The Rt Hon Nigel Lawson MP

3 May 1989

JMMB/las

~~A~~ A note pse, ASAP.

CH/EXCHEQUER
REC. - 4 MAY 1989
ACTION MR RJC EDWARDS
COPIES TO

✓ 4/5

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

What precisely did MR say?

Dear Nicholas

Trevor Holdsworth and I much appreciated your taking the time last Thursday to discuss the issues relating to the Uniform Business Rate and transitional arrangements raised in my letter of 18 April 1989. We promised to come back to you promptly, hence this letter.

We were much reassured on several counts:

- your assurance that the Scottish anomaly is likely to be substantially removed in the not-too-distant future

- your recognition that the level of the Uniform Business Rate has nothing to do with the level or quality of services business receives from local Government; it is simply another way in which Government has opted to tax business. We understood you to say that in determining the yield from this tax in July, the Government will take account of the overall level of taxation on business, which has been rising rapidly, as my recent letter pointed out (dangerous)

- your evident concern to see that the benefits of the new Uniform Business Rate come through immediately. As presently proposed, the Government faces the unenviable prospect of getting the worst of all worlds: there will be no "winners" at all as a result of the introduction of the Uniform Business Rate, and a very large number of heavy losers. We believe, therefore, you are right to consider changing the arrangements so that the winners under the new scheme benefit immediately. eh? | misleading

We remain of the view that transitional protection will be needed, and consider that the proposals outlined in your Department's paper are

The Rt Hon Nicholas Ridley AMICE MP
Secretary of State for the Environment

acceptable, although we would still like to see the ceiling for losers lower than is now proposed. It is my duty to warn you that retailers with whom I have had the opportunity of discussing the issue have made it clear that they will seek to recover the increased rates in prices. This will inevitably have an effect on retail prices in the South-East particularly; and, given the somewhat arthritic public sector pay bargaining arrangements and the way these affect expectations in the private sector, there is a clear risk of yet further Government-induced inflationary pressures at precisely the wrong moment.

It remains our view, therefore, that the Uniform Business Rate should be set as low as possible, with the cost of transitional protection met from the Exchequer - as we understand, incidentally, has been the case in earlier revaluations. Our members are disinclined to accept pleas of Exchequer poverty, recognising the large increase in receipts from Corporation Tax in recent years, and the resulting public sector surplus.

Moreover, we were intrigued that you were prepared to use the "buoyancy" argument when discussing the level at which the UBR should be set - since you had explicity rejected it when we had suggested that the maximum rate of increase of the UBR in future should be RPI - 3%. As it is, if the UBR is increased in line with the RPI, the yield is likely to increase in real terms by some 2% a year. As you would undoubtedly have pointed out had we sought to make this point, you cannot respectably have it both ways!

Finally, we have examined the figures on the yield from business rates on which your officials had briefed you. It seems that they have included rates paid by schools, hospitals, universities and colleges and other non-business payers of non-domestic rates. This cannot make sense when we are discussing a tax on business. The figures on which our arguments are based are consistent with those published in Local Government Financial Statistics for England; we have calculated the rates paid by industrial and commercial companies and public utilities, on the basis of CIPFA figures showing that these account for 41.5% of total rateable values.

In any case, the message is the same: the current 'take' from business rates is over 25% higher in real terms than the average for the first half of this decade, and is likely to be approaching 20% higher than in early 1986. The table shows the yield we have assumed for the rates paid by industrial and commercial companies and public utilities in England and Wales adjusted by the GDP deflator. The figures in the paper provided by your officials are included for convenience.

The Rt Hon Nicholas Ridley AMICE MP
Secretary of State for the Environment

Table: YIELD FROM BUSINESS RATES IN ENGLAND AND WALES.
£bn, at 1988/9 prices

Y/e March 31	CBI	DOE Staff Paper
1981	£5.71bn	6.67
1982	6.21	7.29
1983	6.63	7.73
1984	6.75	7.86
1985	6.63	7.90
1986	7.04	8.09
1987	7.72	8.77
1988	7.89	8.89
1989	8.10	8.93
1990 (est)	8.25	not available

I am sending a copy of this letter to Nigel Lawson, Malcolm Rifkind and Peter Walker.

Yours sincerely

John

John M M Banham

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

9 May 1989

Alan Ring Esq
Private Secretary
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON
SW1P 3EB

cc: PS/Chief Secretary
Sir P Middleton
Mr Anson
Mr Edwards
Mr Potter
Mr Hudson

Dear Alan,

BUSINESS RATES: MEETING WITH THE CBI ON 27 APRIL

As I mentioned to you on the telephone last week, the Chancellor was most concerned to read John Banham's letter of 3 May to your Secretary of State recording the main points of their meeting on 27 April. In particular, the Chancellor was perplexed by Mr Banham's claim that he had received reassurance that, in determining the yield from the uniform business rate, "the Government will take account of the overall level of taxation on business, which has been rising rapidly" and Mr Banham's belief that there will be "no winners at all" from the introduction of a uniform business rate.

You kindly sent me your own record of the meeting and its silence on both these points suggests that Mr Banham is being characteristically mischievous. However, I would be most grateful if your Secretary of State's reply to Mr Banham could contain a firm rebuttal of these two points.

Yours sincerely,

Duncan Sparkes

DUNCAN SPARKES
Assistant Private Secretary

4945

BJF

25/5

CHANCELLOR OF THE EXCHEQUER

Ch/

You queried Banham's letter to Mr Ridley, (behind at flag).

DOE deny that Banham's record of his meeting with Mr Ridley is a correct one. I have nevertheless written to voice your concerns; Mr Ridley will be replying to Banham shortly and DOE have undertaken to let you comment on the letter before it is sent.

Andrew Hudson would like to wait to see DOE's comments on Banham's detailed figuring before he comes back to you with comments.

OK?

OK ✓

DJS

CH/EXCHEQUER 24/5
Rec. 24 MAY 1989
ACTION CST
COPIES TO

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

John M M Banham Esq
Director-General
Confederation of British Industry
Centre Point
103 New Oxford Street
London WC1A 1DU

23 May 1989

Dear John

Thank you for your letter of 3 May about the uniform business rate and the proposed transitional arrangements. I am glad you found our meeting useful, and that you were reassured on a number of points.

It was you, and not I, who made the point that the overall yield from business taxes has increased since 1986-87, in support of your argument that the taxpayers should fund a reduction in the yield from business rates. But you will also recall that I pointed out that the aggregate rates burden on business had actually fallen in real terms between 1986-87 and 1988-89 if the effect of buoyancy is removed from the figures. This is true whether one takes non-domestic rates as a whole (ie including rates paid by local authorities and Crown contributions) or rates paid by business and public utilities. I said that I could not accept your argument that the yield should be fixed at the level which obtained when the Green Paper 'Paying for Local Government' was issued and that the Exchequer should make up the difference. However I did say that, in deciding the total amount of external local authority support for 1990-91 (comprising grant and business rate yeild) in July, I would consider whether a measure of under-indexation of the rates contribution would be appropriate in view of the average level of increase in rates set by local authorities in 1989-90 (although I also made the point that this increase had not been as high as many business organisations had expected).

I must dispute your suggestion that there will be 'no winners at all' as a result of the introduction of the new business rate and the revaluation. Business as a whole can only benefit in the long run from the removal of the distortion of competition which an up-to-date revaluation and a uniform poundage will bring and from

100% RECYCLED PAPER

the certainty and stability that the RPI-limited increase in the poundage will guarantee. Where increases for individual businesses are inevitable as a result of the change, they will receive transitional protection at a level which, I sense from your letter, you do not entirely oppose.

As for individual 'winners' it is clearly important that, within a self-financing scheme, reductions should be realised as quickly as possible. That is why I am prepared to consider carefully the arguments of the ABCC and others that this objective could, and should, be achieved by the addition of a premium, on the poundage. I have yet to hear your views on this subject.

On the question of harmonisation of business rates in England and Wales and in Scotland, Malcolm Rifkind has now announced his proposals to alleviate the burden on firms north of the border and I hope this has allayed your concerns in this area.

I am copying this letter to Nigel Lawson, Malcolm Rifkind and Peter Walker.

Yours sincerely

Yours ever
Nicholas

NICHOLAS RIDLEY

Thanks. [illegible]

x - BH 25/5

FROM: A P HUDSON (LG1)
DATE: 25 MAY 1989
EXT.: 4945

1. MR POTTER (LG1)
2. CHANCELLOR
(copies attached for: Chief Secretary
Mr Anson)

cc Mr Phillips
Mr A J C Edwards
Mr Gilhooly
Mrs Chaplin

BUSINESS RATES: MR RIDLEY'S MEETING WITH THE CBI, 27 APRIL

1. You asked for a note on two points raised in John Banham's 3 May letter to Mr Ridley, following their 27 April meeting on the reform of business rates:

(a) Mr Banham's suggestion that Mr Ridley said that the overall level of business taxation would be taken into account in setting the new Uniform Business Rate:

(b) Mr Banham's accusation that there will be "no winners at all" from the new system.

2. As Mr Sparkes has already told you, we established straight away that, on the first point, Mr Ridley said nothing of the kind, and told DoE that the reply to Mr Banham should contain a firm rebuttal of both points.

3. Mr Ridley has now replied (copy attached). DoE sent the draft across at the last minute, and although I persuaded them that it should rebut the first point more explicitly, the letter had already issued. This is annoying, and I have protested. But that said, the letter overall is a pretty firm dismissal of Mr Banham's arguments.

Mr Ridley's opinion of Mr Banham seems to be about the same as yours.

APH
25.5.

4. There are two policy points referred to in Mr Ridley's letter which you and the Chief Secretary may like to note, and which, I gather, were touched on at this morning's meeting.

5. First, Mr Ridley acknowledges that he said he would consider whether the yield of business rates should be uprated by rather less than inflation, in view of the average level of rate increases in 1989-90, though he also points out, helpfully, that these were lower than many business organisations had expected. This is in line with a form of words he used when announcing the transitional arrangements in February. So far, it looks as though he will not pursue this, and final decisions cannot be taken until we get the September RPI, which is the starting point for the uprating decision.

6. Second, Mr Ridley says that he is looking at the possibility of revising the proposed transitional arrangements for the NNDR, to enable the gainers to get their gains more quickly. This issue will need to be settled within the next few weeks, because legislation is need in the Local Government and Housing Bill, and Mr Ridley is meeting his officials today. We have made clear that the transitional arrangements must remain self-financing, and that you would require a great deal of persuading that there should be any change from the present scheme. We will provide advice, if and when Mr Ridley makes any proposals.

APH

A P HUDSON

FROM: J M G TAYLOR
DATE: 31 May 1989

MR A P HUDSON (LG1)

cc PS/Chief Secretary
Mr Anson
Mr Phillips
Mr A J C Edwards
Mr Gilhooly
Mr Potter
Mrs Chaplin

BUSINESS RATES: MR RIDLEY'S MEETING WITH THE CBI, 27 APRIL

The Chancellor was grateful for your note of 25 May.

2. He has commented that, at a recent meeting, Mr Ridley expressed the view that the Uniform Business Rate should always be fully revalorised.

J M G TAYLOR

7/6/89

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SECRETARY OF STATE FOR THE ENVIRONMENT

CH/EXCHEQUER

REC.	07 JUN 1989
ACTION	CST
COPIES TO	

✓ 7/6

[BF with APH advice to CST today or tomorrow]

PRIME MINISTER

UNIFORM BUSINESS RATE AND REVALUATION: TRANSITIONAL ARRANGEMENTS

In February I announced with colleagues' agreement (my minute to you of 29 November, your private secretary's reply of 12 December, the Chancellor's letter to me of 7 December and my reply of 23 December) our proposals for phasing in the effect of the uniform business rate and of the revaluation of non-domestic property and invited views. Having considered the responses and discussed the issues with the main bodies representing business, I have concluded that we need to amend the proposals in some respects.

THE ORIGINAL PROPOSALS

We have undertaken to fix the uniform rate so as to raise in 1990/91 broadly the same amount from business and nationalised industries in real terms as in 1989/90. Although the uniform rate and the revaluation will not increase the aggregate rate burden on business therefore, they lead to a major redistribution of that burden. Broadly, retailers will face increases, along with all businesses in some low-rated inner London boroughs: manufacturers, especially in the North and Midlands, are likely to gain. There is likely to be a very wide distribution round the average.

Against this background we had proposed that no property should face an increase in rates of more than 20% in real terms in 1990/91 and of 15% where the rateable value of the property in the new list was less than £7,500 in London and £5,000 elsewhere. These limits on increases would apply in each year up to 1994/95 by which time most properties would have reached their full rate bills. We left open the possibility that protection would be continued after 1995 for properties whose full increases had still not been phased in. These arrangements would apply only to existing properties.

RIDLEY → PM 7/6

In order to finance this protection for losers and to ensure that the effect of the transition on the yield from business rates was neutral, we proposed also to phase in reductions in bills for existing properties. The maximum reduction was to be about 10% a year in real terms and 15% for small properties (defined as above), the actual figures to be fixed later, when better information about the effects of revaluation was available, so as to balance the pool.

RESPONSE TO CONSULTATION

We have had a heavy response to these proposals. Although generally welcoming the decision to phase in the effect of the new system, business predictably complained that the caps on rate increases were too high and would cause many firms, especially retailers, financial difficulties. A majority of those responding said that the threshold which we proposed to define small properties was too low. There was a strong reaction from potential gainers that it was inequitable that they should be made to pay for the protection for losers and they argued that this protection should be funded by the Exchequer or, failing that, through a premium on the poundage. Significantly the Association of British Chambers of Commerce, which is more representative of business as a whole than any other body, argued for a premium. There was some pressure to extend the transition to new as well as existing properties, in order to avoid market distortions. Local authorities were concerned about their ability to implement such complex proposals and the associations, together with the professional institutions, also pressed for a premium on the poundage.

REVISED PROPOSALS

Treatment of Losers

I do not see any scope for ameliorating the effects on loser within a self-financing transitional scheme. Rate increases of this magnitude could have a severe effect on retailer whose profitability is marginal, especially coming on top of the down-turn in retail sales. But for most retailers rents are a far more significant cost than rates and they have coped with rapidly rising rents for most of the 1980s. In view of the paramount need to ensure that gainers receive their gains at a reasonable rate, I propose that we retain the caps on losses of 20% and 15%.

However, the small business lobby has made a convincing case for raising the threshold used to define small properties. Our concern had been to avoid setting the threshold so high that multiple retailers, banks and building societies with many small outlets would benefit. But the evidence is that our proposed figures would exclude also many of the small shops in secondary locations and small industrial units which we would want to protect. So I propose that we should double the thresholds to £15,000 RV in London and £10,000 elsewhere in England. This is not as high as small business representatives wanted, but it should go some way to meeting their concerns. 78% of properties are estimated to fall below these thresholds, but these represent only 16% of aggregate rateable value in the new list and, under our existing proposals for phasing rate reductions, this more generous threshold would not affect the proposed limits on gains.

I am not convinced by arguments for extending transitional protection to new buildings. The purpose of this protection is to help existing occupiers facing increased bills. Occupiers of new buildings will know about their potential rate liabilities in advance. Indeed, I now propose that protection should lapse where there is a change of occupier of an existing building.

Treatment of Gainers

I am convinced, however, that we must enable businesses which can expect reduced rate bills to enjoy more of their gains earlier. Many manufacturers in the North who have long suffered from high rate poundages would see very substantial reductions in bills but for the transition - over 50% in many cases. Yet with inflation at present levels, in cash terms their bills are likely to fall by a mere 2% or so next April under our existing proposals. That is causing a lot of resentment and is alienating the very people who should support the policy, including the ABCC. And it means that the wider economic benefits of redistributing the rate burden will be very slow to come through.

I therefore propose that we do as many of the respondents to the consultation urged and pay for the protection for losers, in part at least, by a premium on the poundage. We considered and rejected this early last year, but at that stage it was not apparent that the reductions in bills in cash terms which gainers would receive under a self-financing scheme which phased both losses and gains would be so small. And, of course, we had not consulted publicly at that stage. The other benefit of a premium is that it makes the administrative task of local authorities simple, an important consideration given the many other burdens which our policies are placing on them at the moment.

In order to balance the pool in each year of the transition, a very high premium of about 9 pence in the pound - around 25% - would be needed in the first year, falling to 1 penny in year 5. The effect is exemplified in the figures prepared by the Inland Revenue at Annex A. Only 24% of properties gain in the first year on this approach, with 71% losing (compared with 40% and 53% respectively under our original proposals), though the number of gainers grows through the transitional period.

I do not believe that so large a premium in the early years is acceptable because it would mean increased bills for so many businesses which could otherwise expect to gain. Annex B therefore exemplifies the effect of a premium of 4p in year 1 falling to 1 penny in year 5. In order to eliminate the large deficit in the pool which would occur in the first year, a 20% limit in real terms on gains would be needed in that year only. Under this option 32% of

SECRETARY OF STATE FOR THE ENVIRONMENT

properties would gain in the first year and 61% would lose, but the proportion of gainers would grow over time. The effect is that big gainers, most of them in manufacturing, get much more of their gains in the early years. Businesses which could expect small reductions or increases but for the transition will pay more at first, but the biggest losers - those whose increases are limited by the caps on losses, pay no more until the year in which they reach their full liability and at that stage the premium may have declined.

This latter scheme as exemplified produces small imbalances in the pool in each year, but these could be minimised by fixing the premium when we have more precise information to one place of decimals. It takes account of my proposal above to raise the threshold defining small properties for the purposes of protecting losers.

I propose that we should adopt a scheme on the lines of that in annex B. I believe that a premium at this modest level produces an acceptable distribution of losers and gainers in the early years. If you and other colleagues disagree, I see little alternative but to accept that part of the cost of protecting losers should be met by the Exchequer, because I do not think that our original proposals for phasing in gains are sustainable.

NEXT STEPS

If you and other colleagues agree these proposals I would aim to announce them in July, probably to coincide with the tabling of amendments to the Local Government and Housing Bill necessary to give them effect. Meanwhile the Inland Revenue are preparing a updated survey of the effects of the revaluation, based partly on a sample of actual revaluations rather than estimates. I should want to consider whether these proposals need fine-tuning in the light of the survey results, in consultation with Nigel Lawson. I would hope that we could publish those results at the time of my announcement.

SECRETARY OF STATE FOR THE ENVIRONMENT

CONCLUSION

I should be grateful for your and colleagues' agreement:

i. to retain limits on rate bill increases of 20% a year in real terms on large properties and 15% on small ones;

ii. to increase the threshold for defining small properties to £15,000 RV in London and £10,000 elsewhere;

iii. to limit protection to existing occupiers;

iv. to finance this protection by a premium on the poundage, together with a 20% limit on rate reductions in real terms in 1990/91: the premium would be fixed in the light of the new survey being carried out by the Inland Revenue;

and for my announcing these conclusions in July when the necessary amendments to the Local Government and Housing Bill are ready.

I am sending copies to members of E(LF), to John Wakeham, David Waddington and to Sir Robin Butler.

PP NR

(Approved by the Secretary of State
and Signed in his Absence)

7 June 1989

ANNEX A

Scheme A - England

Premiums are 9p, 4p, 2.5p, 1.5p, 1p. RV threshold is £15000 in London, £10000 elsewhere.

1. First Year Change

Numbers of properties (000)

Gainers	Small Properties	Large Properties	All Properties
50% or more	40	5	45
25% to 49%	125	30	155
5% to 24%	130	45	175
Total	295 (24.0%)	80 (23.5%)	375 (24.0%)
Little change	60 (5.0%)	15 (4.5%)	75 (5.0%)
Losers			
5% to 10%	50	10	60
11% to 20%	810	230	1040
Total	860 (71.0%)	245 (72.0%)	1100 (71.0%)
Overall Total	1215	340	1555

2. Five Year Changes

Numbers: thousands: Rate bills: £m

	Gainers		Little Change		Losers		Shortfall(-)/ Windfall(+)
	Numbers	Rate Bill	Numbers	Rate Bill	Numbers	Rate Bill	£m
1990-91	375	2100	75	500	1100	5590	-20
1991-92	495	2610	100	590	960	4930	-30
1992-93	540	2750	105	680	905	4800	+40
1993-94	575	2830	120	760	865	4630	-20
1994-95	590	2890	115	750	850	4530	-10

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ANNEX B

Scheme B - England

Premiums are 4p, 4p, 3p, 1p and 1p. RV threshold is £15000 in London, £10000 elsewhere. Caps on gainers of 20% apply in 1990-91.

1. First Year Change

Numbers of properties (000)

Gainers	Small Properties	Large Properties	All Properties
50% or more	0	0	0
21% to 49%	0	0	0
5% to 20%	385	105	490
Total	385 (32.0%)	105 (31.0%)	490 (31.0%)
Little change	80 (7.0%)	25 (7.0%)	105 (7.0%)
Losers			
5% to 10%	55	15	70
11% to 20%	690	200	890
Total	745 (61.0%)	210 (62.0%)	960 (62.0%)
Overall Total	1215	340	1555

2. Five Year Changes

Numbers: thousands; Rate bills: £m

	Gainers		Little Change		Losers		Shortfall(-)/ Windfall(+)
	Numbers	Rate Bill	Numbers	Rate Bill	Numbers	Rate Bill	£m
1990-91	490	3130	105	590	960	4470	-10
1991-92	495	2610	105	590	960	4980	-30
1992-93	525	2670	105	700	925	4970	+130
1993-94	590	2890	115	750	850	4470	-90
1994-95	590	2890	115	750	850	4580	+10

chex.pj/jc/7.6.2

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FROM: MRS JUDITH CHAPLIN
7th June 1989
x4359

CHIEF SECRETARY

cc Chancellor
Mr Edwards
Mr Potter
Mr Hudson

NNDR TRANSITIONAL ARRANGEMENTS

below

I have seen Andrew Hudson's minute to you. I totally support his view that a premium on the NNDR poundage should be opposed. Even if there is no written commitment, the business organisations believe that the Secretary of State gave them the commitment that the rate poundage would not increase between this year and next more than is necessary to compensate for inflation. The premium suggested is substantial and there will certainly be pressure for the Exchequer to meet this additional cost.

2. It is optimistic anyway to believe that gainers are going to jump up and down with joy because they gain more quickly. The effect of the NNDR change will be difficult for most of them to disentangle from the revaluation changes on their individual rate bills. By definition they are surviving in business at the moment and, although they will be pleased to have lower rates, whether the gains are phased or more immediate will make little difference. The losers, on the other hand, and, as Andrew points out, the numbers of these will increase, will shout much louder.

CHAPLIN → CST 7/6

Concessions to Small Businesses

3. The level of rateable value of a business property was often a poor approximation for its turnover and profits, which are what matter in relation to an increase in the rate bill. There seems little evidence that making the phasing arrangements more generous will lessen the anomalies. The small business lobby want even more generous phasing - very small annual loss and instant gain - and

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increasing the numbers benefiting from preferential treatment will not satisfy them. Of more importance, if there is an increase in the number of businesses whose losses are less quick, but whose gains are quicker, where does the money come from?

JC

JUDITH CHAPLIN

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FROM: A P HUDSON
DATE: 9 June 1989
EXT: 4945

1. MR POTTER BHP 9/6
2. CHIEF SECRETARY

Copies attached for:
Chancellor
Sir P Middleton
Mr Anson

Ch
OK? Seems sensible to me.
AA

cc: Mr Phillips
Mr A J C Edwards
Mr Culpin
Mrs Lomax
Mr MacAuslan
Mr G C White
Mr Rutnam
Mrs Chaplin
Mr Call
Mr Morgan (VO)
Mr Heggs (IR)

HUDSON → CST 9/6

UNIFORM BUSINESS RATE AND REVALUATION: TRANSITIONAL ARRANGEMENTS

Mr Ridley's 7 June minute to the Prime Minister proposes some revisions to the transitional arrangements for the national non-domestic rate. This minute recommends that you write to the Prime Minister, putting forward a modified version of Mr Ridley's proposal for a substantial extension of the special treatment for small properties, but opposing his proposal to fund the transition through a premium on the NNDR poundage.

Background

2. As you will recall, Mr Ridley announced the proposed transitional arrangements for the NNDR in an oral statement on 15 February. A consultation paper was issued the same day, including the summary of the Inland Revenue survey of the effects of the move to the uniform business rate and the revaluation.

3. The basic approach to the transition, which had been discussed at some length between Ministers, was that losses and gains would both be phased in, so that the transition remained self-financing.

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- The increases for losers would be limited to 20 per cent of the previous year's rate bill, in real terms, in any one year.

- This would be paid for by limiting gains to around 10 per cent of the previous year's rate bill, in real terms, in any one year.

- More generous arrangements were made for small properties (as a proxy for small businesses), defined as those with a new rateable value below £5000, or £7,500 in London: for them, increases were limited to 15 per cent, and the cap on annual gains was raised to 15 per cent.

4. DOE have now received the responses to the consultation paper, and Mr Ridley has met some of the business organisations. In the light of this, he proposes changes in two key areas: the definition of small properties; and the method of financing protection for the losers.

Definition of small properties

5. The responses were almost unanimous that the proposed definition of small properties was too restrictive. Although it covers 60 per cent of properties (by number of hereditaments), the representative bodies argue that a high proportion of these are advertising hoardings, moorings, etc, and that genuine small businesses are excluded.

6. Mr Ridley's revised proposal is therefore to double the limits, to £10,000 generally, and £15,000 in London. This would cover nearly 80 per cent of properties. The Welsh Office will also be arguing for some increase in the limit in Wales (currently £5000), probably to £7,500, which would cover the same proportion of properties as the proposed limit in England.

7. Mr Ridley's argument for this proposal is simply that the present limits do not cover the genuine small businesses he wants to help.

8. However, as you will recall, you and the Chancellor argued last year to keep down the extent of special treatment for small properties, and many of those arguments against apply to this proposal too.

- The transitional arrangements provide a significant degree of protection already.

- Whatever the case on merits for special treatment for small businesses, the concession has to go to small properties, for practical reasons. But these are not the same thing, as Mr Ridley's original proposal has now demonstrated.

- The new proposal could include branches of chains such as Threshers off-licences, and conceivably a few small branches of Boots and the building societies. It is hard to see why they should get special protection, compared to, say, a manufacturer with a much smaller business, but only one site. Until the revaluation is further advanced, there will be no hard evidence of which businesses would in fact qualify. We have asked the Valuation Office for an informal assessment: they reckon that small branches of the business mentioned above, in local shopping streets, probably would qualify, but that larger branches, and city centre shops, would not, though this would vary considerably between different parts of the country.

- There is a small cost: the original proposals produced a windfall benefit to the NNDR pool of £120 million over five years, whereas these proposals carry a five-year cost of £30 million (in 1988-89 prices), which, within AEF, would mean higher RSG. However, these figures may change dependent on other decisions on the transition, and on later information on the effects of the revaluation, and it should be possible to offset this effect in setting the initial NNDR poundage.

9. The options here are:

(a) to argue for no change from the original proposals;

(b) to agree to Mr Ridley's proposal;

(c) to recognise the need for some extension of the concession, but to argue for a more limited one, eg to limits of £7,500 generally, and £10,000 in London, which would cover 70 per cent of businesses, and have a windfall benefit of £50 million over five years.

It would probably be unrealistic, particularly given the strength of the small business lobby in Parliament, to stick at (a). The case for going as far as (b) is not all that strong on merits, and there is something to be said for advancing (c) as a counter-proposal. On the other hand, this issue matters less to the Treasury than the financing of the transition (see below), and it may not be worth a quarrel with Mr Ridley, particularly given that we want to forge an alliance with him over the grant settlement.

10. It is a fine judgement as to whether to start by proposing (c), but be prepared to move to (b), or to agree to (b) straightaway. On balance, however, LG favour going for option (c).

Financing Protection for the Losers

11. Two strands to the response to the consultation here were predictable: business organisations argued that the ceiling on increases, at 20 per cent of the previous year's rate bill, was too high; and that the protection for losers, at whatever level, should be paid for by the Exchequer, rather than by phasing in gains.

12. Mr Ridley does not propose any changes on these points. But he is proposing a change to the method of financing the protection for the losers. Instead of phasing in gains at the rate necessary to achieve a self-financing transition (around 10 per cent of the previous year's rate bill), he now proposes to put a premium on the NNDR poundage. To fund the whole of the transition this way would require a premium of about 9 pence, on a poundage of around 35 pence, which Mr Ridley rules out. So he is proposing a half-way house: there would be a 20 per cent limit on gains for the first year only, with the balance of the cost met by a premium on the poundage. Current estimates, all in 1988-89 prices, suggest that the premium on this basis would be about 4 pence in the first year. In later years, there would be no cap on gains, and the transition would be financed simply by the premium. This would remain at 4 pence in year 2, reducing to 3 pence in year 3, and one penny in each of years 4 and 5.

13. 4 pence is still a very substantial premium - now over 10%. With an increase of, perhaps, 7% for the inflation uprating in the September RPI, the poundage in 1990-91 would be getting on for 20% higher than the 1989-90 equivalent - and would represent a <u>real</u> increase of over 10% in rates for many businesses.

14. Mr Ridley is not asking for any Exchequer funding for this proposal. Indeed, he says that if his proposed premium on the poundage were not accepted, part of the cost would have to be met by the Exchequer, because he does not think the original proposals are sustainable.

15. Nevertheless, our advice is that you should oppose his new proposal, for reasons which you and the Chancellor have advanced in the past.

16. Mr Ridley put forward the idea of a premium on the poundage in the spring of last year, when it was turned down twice by the Prime Minister, first in correspondence, when she supported your counter-proposal of phasing for the gainers, and later in E(LF), though that meeting did allow him to retain the flexibility, in the legislation, to put "a small premium on the poundage, if that proved necessary to avoid too tight a limit on reductions in bills." (I attach copies of the key papers, Ministers' copies only.)

17. Mr Ridley refers to these earlier discussions, but argues that two things have changed.

- First, the cash reductions for the gainers look much smaller than was envisaged last year, for two reasons. The limit on gains turns out to have to be around 10%, (though we and DOE officials knew it would be around this level). And inflation, now at 8%, is higher than previously envisaged. The small gap between these two means that the gainers would see very little cash reduction in their bills.

- Second, he has received the results of consultation.

18. Based on that, Mr Ridley gives two arguments for the premium on the poundage:

- the need to enable the gainers to enjoy more of their gains earlier, both to ensure their support for the policy, and to achieve the wider economic benefits of the reform; and

- to make the system easier for local authorities to run.

I understand the real concern of DOE Ministers is that, at present, they feel they are taking flak from the losers from this policy, but getting no thanks from the gainers. The reform is designed to help manufacturers in the Midlands and the North, including some of those areas with Conservative MPs, where there is also concern about the level of the community charge. This is no doubt why Mr Ridley has copied his minute to the business managers.

19. Mr Ridley's own arguments are not watertight. The response to the consultative document was not clear cut - although the ABCC said that they would prefer a premium on the poundage, the CBI sat on the fence. Mr Banham's latest letter of 2 June supports the idea of getting the gains through earlier, but is basically asking for Exchequer money. And from an administrative point of view, I suspect the composite approach would not save much work for the local authorities, since they would still have to calculate transitional bills for the gainers in the first year - there would only be a real administrative gain if there was no phasing for the gainers at all.

20. Moreover, there are strong arguments on merits against the premium.

21. The size of the premium is still substantial, and, as noted earlier, would mean a very significant increase in the poundage. As the Chancellor commented when this was last discussed, to set the NNDR poundage higher than it need be would be close to a breach of faith on the undertakings which have been given to the

business community. Mrs Chaplin confirms, from her experience at the IOD, that the business organisations have taken the commitment not to increase business rates in real terms to apply to the poundage, as well as the yield.

22. The price of allowing gains through more quickly is that other businesses have to pay substantially more. Over 100,000 businesses which stand to gain from the present proposals would instead see little change for at least the first two years, and in some cases for longer. And a further 100,000 which currently see little or no change would face a loss of over 5% of their current rate bill. Substantial losers would be unaffected, because increases are limited to 20% of the previous rate bill. And substantial gainers obviously benefit. But rate bills for those in between would be perhaps one-eighth higher than under existing proposals.

23. There is also a greater danger for the Treasury that this approach could intensify pressure for Exchequer funding for the transition. Compared to the present proposals, it would be far easier for the lobbies to focus their attacks on the premium as the measure of the burden which the Government felt should not fall on either the losers or the gainers. If so, rather than penalise businesses generally, they will argue that this would be a good use for the budget surplus. This pressure will be all the stronger if the September RPI, which is the basis for the general uprating of the poundage, turns out to be high. The sums involved are substantial: buying out the premium would cost £350-£400 million in the first year, and £700-£800 million in the second year, when the cap on gainers would be abolished.

24. We should also be wary of any compromise move by Mr Ridley towards a smaller premium, with a tighter cap on gains. Paradoxically, it might be easier to see off demands for the Exchequer to buy out a larger premium, on grounds of cost, than, say, a 2p premium, where the cost might seem more manageable.

25. A move to a premium on the poundage could also have direct implications for the public expenditure totals through the Crown's contribution in lieu of rates (CILOR). Other things being equal, the proposed premium would increase CILOR by about one-eighth. We are currently trying to obtain improved estimates from RGPD of the likely effect of the revaluation and the UBR on CILOR. But it already seems likely to be substantial: CILOR is currently around £600 million, and could increase by £100 million or possibly substantially more. So the premium could add perhaps a further £100 million. This would not mean extra finance for local authorities, because Mr Ridley agreed that any increase in CILOR should be offset in full in lower RSG, and this reduction would be secured anyway within the fixed AEF envelope. But it would mean an increase in both the New Planning Total and GGE, because payments of CILOR are scored twice there: once as part of departmental running costs, and once as part of the NNDR payment to local authorities.

26. We shall be putting up separate advice on CILOR, and how the transition to the new system might best be handled, as soon as the necessary information is available. But the public expenditure cost of Mr Ridley's proposal will almost certainly be higher than that of the original scheme, possibly by a substantial margin.

27. For all these reasons, but particularly the danger of increased pressure for Exchequer funding, we think you should oppose this change of plan.

Other Issues

28. There are two other issues in Mr Ridley's minute which you should be aware of.

29. First, the transitional arrangements currently apply to properties irrespective of changes of occupier. Mr Ridley is now proposing that transitional protection for the losers should cease on a change of occupier. This seems sensible - the new occupier

will be aware of the new rate bill when he takes on the property. This concession will not, however, apply to gainers, to avoid giving them an incentive to swap similar premises so as to get their gains immediately.

30. Second, Mr Ridley proposes to publish an updated version of the Inland Revenue survey of the effects of the revaluation. We need to see the figures, which are not yet available, before taking a firm decision on this. Subject to that, there is probably no harm in producing an updated version of the tables which were published in February. But we should need to look very carefully at the figures in question before agreeing to any more detailed analyses.

Next Steps

31. I attach a draft minute to the Prime Minister.

APH

A P HUDSON

DRAFT MINUTE TO THE PRIME MINISTER

UNIFORM BUSINESS RATE AND REVALUATION: TRANSITIONAL ARRANGEMENTS

Nicholas Ridley sent me a copy of his 7 June minute about the transition to the uniform business rate.

2. I agree with Nick that we should retain the present limits on increases in rate bills for the losers. But I wonder whether it is right to go quite as far as Nick suggests, And I also agree that some increase is justified in the threshold for defining small properties.

The problem is to set a limit which covers the genuine small businesses we want to help, without extending the special treatment to branches of very large businesses. I think Nick's proposals go too far, by including nearly 80 per cent of all properties. I propose instead an increase to £10,000 in London, and £7,500 elsewhere in England; this would cover 70 per cent of business properties.

3. Nor can I support Nick's proposal to finance part of the protection for losers by means of a premium on the UBR poundage. As you will recall, we considered this last year, and discussed it in E(LF), and the arguments which led us to reject it then are equally compelling now.

- Even with the cap on gainers in the first year, the premium would be substantial - an increase of perhaps 10-12 per cent on what the poundage would otherwise be and thus a real increase in the business rate poundage.

- This would be a substantial additional impost on a large number of businesses, and would mean many more losers, overall, in the first year. Compared to the existing proposals, over 100,000 properties which currently stand to gain would instead find their bills unchanged. And a further 100,000 who currently break even would actually become losers.

- For all these and more, the rate bill would be 10-12 per cent higher than it ought to be. The average businessman would find it very hard to square this with our repeated assurances that the new Uniform Business Rate would be set so as to produce broadly the same yield as in 1989-90 in real terms.

- Moreover, unlike the gainers whose gains are phased in under the present proposals, these businesses do not have substantial reductions in their rate bills to look forward to. They would be paying substantially more, so that the gainers could receive their gains earlier.

4. The principle we agreed upon on last year, that the phasing for the losers should be matched by phasing for the gainers, still seems to me the right approach. The new system represents a much better deal for business overall: after years in which rates have consistently risen faster than inflation, and sometimes by massive

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amounts, they have an assured commitment to a stable climate in which rates cannot rise faster than inflation. Moving to this new system, combined with the revaluation, is bound to involve significant shifts in rate bills, which it is reasonable to phase in. Starting with an additional rate for a broad band of businesses would get the new system off on the wrong foot. It would risk undermining the credibility of our pledges about future increases.

5. Obviously, the phasing will not be popular with the big gainers, whose views are reflected in the response to the consultation paper. But I am not sure that Nick is right to say that the Association of British Chambers of Commerce is more representative than other bodies - they have a substantial number of firms from the North and the Midlands. I understand that the CBI, for example, have not expressed a firm view on the idea of a premium on the poundage.

6. I propose therefore that we should stick to our existing proposal to phase in both gains and losses in parallel.

7. Nicholas also proposes to limit the transitional protection to existing occupiers. I agree this is sensible.

8. Finally, he suggests we might publish an updated survey of the effects of the revaluation. I suggest that Nick and I consider the figures, once they are available, with a view to deciding what it would be helpful to publish.

J M

pmp

✓ 12/6

PRIME MINISTER

9/6/89.

UNIFORM BUSINESS RATE AND REVALUATION: TRANSITIONAL ARRANGEMENTS

I have seen a copy of Nicholas Ridley's minute to you of 7 June with revised proposals for transitional arrangements for non-domestic ratepayers. I too have been considering this matter in the light of comments received on our consultation paper.

My original proposals mirrored those proposed for England, save that I envisaged being able to phase in reductions for gainers rather more quickly than was possible for England. Even so, the proposals to defer gains in order to pay for the protection of losers was the subject of severe criticism and, like Nicholas, I believe that we should do what we can to avoid alienating those who, being entitled to reductions, ought strongly to support our policy. I therefore also favour the adoption of a premium on the poundage as a method of enabling gainers to obtain their reductions more quickly.

Like Nicholas, I consider our original proposals for protecting losers - a 15% maximum increase in real terms, year-on-year for small businesses, and a 20% maximum increase for large businesses - struck the right balance, and I propose to retain it. But I have been persuaded that the threshold for small businesses should be raised, in Wales, to £10,000 rv on the new list. My proposals for a premium take this into account.

It would be possible for me to balance the Welsh NNDR Pool each year by imposing premia of 4p, 1½p, 1p, ½p and 0p in the five years 1990/91 to 1994/95, without the need for a cap on reductions. But the effect, in year 1, would be that more than 75% of non-domestic ratepayers would be losers. If, however, I combined a lower premium in year 1 with a cap on reductions at the same level as Nicholas proposes for England (20% real), I can reduce the number of losers to about 65%. The pattern of gainers and losers in Wales would then only marginally differ from that which will obtain in England. Accordingly, that is the arrangement I wish to adopt. The attached Table sets out these proposals, and their effects, in more detail.

/On other issues, I am...

On other issues, I am persuaded that we should limit protection to existing occupiers, and that we should not extend it to new buildings. I agree with Nicholas that we should wait for the Inland Revenue's further information on the effects of the revaluation before finally settling the figures, and that it would therefore be appropriate to wait until July before making any announcement. My officials will need to discuss with Nicholas' what arrangements should be made about announcing the Welsh aspects of these revised proposals, should you and colleagues agree them.

... I am sending copies to members of E(LF), to John Wakeham, David Waddington and to Sir Robin Butler.

9 June 1989

PW

REVISED TRANSITION SCHEME - WALES

Premiums are 2p, 1½p, 1p, ½p and 0p. RV threshold is £10,000. Cap on gainers of 20% in real terms in the first year.

1. **First Year Change**

Number of properties (000)

Gainers	Small Properties	Large Properties	All Properties
50% or more	0	0	0
21% to 49%	0	0	0
5% to 20%	20	5	25
Total	**20**	**5**	**25**
Little change	**5**	**0**	**5**
Losers			
5% to 10%	5	0	5
11% to 20%	50	10	60
Total	**55**	**10**	**65**
Overall Total	**80**	**15**	**95**

2. **Five Year Changes**

Numbers: thousands; Rate bill: £m

	Gainers		Little Change		Losers		Shortfall (-)/ Windfall (+)
	Numbers	Rate Bill	Numbers	Rate Bill	Numbers	Rate Bill	£m
1990/91	25	120	5	30	65	180	0
1991/92	25	100	5	50	60	180	0
1992/93	25	110	10	60	60	170	0
1993/94	25	110	10	60	60	170	0
1994/95	30	110	5	60	60	160	0

lg.sm/hudson/sm.4.12.6

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PV

FROM: A P HUDSON
DATE: 12 JUNE 1989
EXT: 4945

1. MR POTTER BHP 12/6
2. CHIEF SECRETARY

cc: Mr Phillips
Mr Culpin
Mrs Lomax
Mr MacAuslan
Mr G C White
Mr Rutnam
Mrs Chaplin
Mr Call
Mr Morgan (VC)
Mr Heggs (IR)

copies attached for:

Chancellor
Sir P Middleton
Mr Anson

UNIFORM BUSINESS RATE AND REVALUATION: TRANSITIONAL ARRANGEMENTS

My 9 June submission advised on Mr Ridley's 7 June minute to the Prime Minister, which proposed some revisions to the transitional arrangements for the national non-domestic rate.

2. Mr Walker has now written (his minute of 9 June), proposing the same revisions to the package for Wales. Specifically, he is proposing:

(a) that the threshold for defining small properties should be raised from a new rateable value of £5,000 to £10,000, in line with Mr Ridley's proposal for England outside London;

(b) that the protection for losers should be financed by a combination of a cap on reductions of 20%, in real terms, in the first year only, plus a premium on the poundage.

The premium would be 2p in the first year, half that in England, and would remain lower than the profile in England. This is because the scale of losses is relatively smaller.

3. These proposals are as expected, though Mr Walker has gone further in the definition of small properties than the Welsh Office originally envisaged. They were originally thinking of a limit of £7,500, which would cover the same proportion of properties (around 80%) as the proposed limit for England. Instead, Mr Walker has gone for the same cash figure as in England, which covers around 85% of properties in Wales. This is a very large proportion indeed. Mr Walker's argument may be that there is no reason why the definition of small business should vary between, for example, Chester and Wrexham, but that depends on the valuation practice being the same.

4. Mr Walker's minute does not change the advice in my earlier minute. I attach a new draft minute to the Prime Minister, revised simply to note Mr Walker's proposals.

APH

A P HUDSON

DRAFT MINUTE TO THE PRIME MINISTER

UNIFORM BUSINESS RATE AND REVALUATION: TRANSITIONAL ARRANGEMENTS

Nicholas Ridley sent me a copy of his 7 June minute about the transition to the uniform business rate. I have also seen Peter Walker's 9 June minute.

2. I agree with Nick that we should retain the present limits on increases in rate bills for the losers. And I also agree that some increase is justified in the threshold for defining small properties. But I wonder whether it is right to go quite as far as Nick suggests. The problem is to set a limit which covers the genuine small businesses we want to help, without extending the special treatment to branches of very large businesses. I think Nick's proposals go too far, by including nearly 80 per cent of all properties. Peter Walker's proposal would extend even further, to some 85 per cent of properties in Wales. I propose instead an increase to £10,000 in London, and £7,500 elsewhere in England; this would cover 70 per cent of business properties. A £7,500 limit in Wales would cover 80 per cent of properties.

3. Nor can I support the proposal to finance part of the protection for losers by means of a premium on the UBR poundage. As you will recall, we considered this last year, and discussed it in E(LF), and the arguments which led us to reject it then are equally compelling now.

- Even with the cap on gainers in the first year, the premium would be substantial - an increase of perhaps 10-12 per cent in England on what the poundage would otherwise be and thus a real increase in the business rate poundage.

- This would be a substantial additional impost on a large number of businesses, and would mean many more losers, overall, in the first year. Compared to the existing proposals, over 100,000 properties which currently stand to gain would instead find their bills unchanged. And a further 100,000 who currently break even would actually become losers.

- For all these and more, the rate bill would be 10-12 per cent higher than it ought to be. The average businessman would find it very hard to square this with our repeated assurances that the new Uniform Business Rate would be set so as to produce broadly the same yield as in 1989-90 in real terms.

- Moreover, unlike the gainers whose gains are phased in under the present proposals, these businesses do not have substantial reductions in their rate bills to look forward to. They would be paying substantially more, so that the gainers could receive their gains earlier.

4. The principle we agreed upon on last year, that the phasing for the losers should be matched by phasing for the gainers, still

seems to me the right approach. The new system represents a much better deal for business overall: after years in which rates have consistently risen faster than inflation, and sometimes by massive amounts, they have an assured commitment to a stable climate in which rates cannot rise faster than inflation. Moving to this new system, combined with the revaluation, is bound to involve significant shifts in rate bills, which it is reasonable to phase in. Starting with an additional rate for a broad band of businesses would get the new system off on the wrong foot. It would risk undermining the credibility of our pledges about future increases.

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6. I propose therefore that we should stick to our existing proposal to phase in both gains and losses in parallel.

7. Nicholas also proposes to limit the transitional protection to existing occupiers. I agree this is sensible.

8. Finally, he suggests we might publish an updated survey of the effects of the revaluation. I suggest that Nick, Peter, and I consider the figures, once they are available, with a view to deciding what it would be helpful to publish.

J M

cst.ps/13

cc:
Chancellor
Sir Peter Middleton
Mrs Anson
Mr Phillips
Mr Culpin
Mr Potter
Mrs Lomax
Mr MacAuslan
Mr G C White
Mr Rutnam
Mr Hudson
Mrs Chaplin
Mr Call
Mr Morgan
Mr Heggs

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PMP

FROM: CHIEF SECRETARY
DATE: 14 June 1989

PRIME MINISTER

UNIFORM BUSINESS RATE AND REVALUATION: TRANSITIONAL ARRANGEMENTS

Nicholas Ridley sent me a copy of his 7 June minute about the transition to the uniform business rate. I have also seen Peter Walker's 9 June minute.

2. I agree with Nick that we should retain the present limits on increases in rate bills for the losers. And I also agree that some increase is justified in the threshold for defining small properties. But I wonder whether it is right to go quite as far as Nick suggests. The problem is to set a limit which covers the genuine small businesses we want to help, without extending the special treatment to branches of very large businesses. I think Nick's proposals go too far, by including nearly 80 per cent of all properties. Peter Walker's proposal would extend even further, to some 85 per cent of properties in Wales. I propose instead an increase to £10,000 in London, and £7,500 elsewhere in England; this would cover 70 per cent of business properties. A £7,500 limit in Wales would cover 80 per cent of properties.

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- For all these and more, the rate bill would be 10-12 per cent higher than it ought to be. The average businessman would find it very hard to square this with our repeated assurances that the new Uniform Business Rate would be set so as to produce broadly the same yield as in 1989-90 in real terms.

- Moreover, unlike the gainers whose gains are phased in under the present proposals, these businesses do not have substantial reductions in their rate bills to look forward to. They would be paying substantially more, so that the gainers could receive their gains earlier.

4. The principle we agreed upon on last year, that the phasing for the losers should be matched by phasing for the gainers, still seems to me the right approach. The new system represents a much better deal for business overall: after years in which rates have consistently risen faster than inflation, and sometimes by massive amounts, they have an assured commitment to a stable climate in which rates cannot rise faster than inflation. Moving to this new system, combined with the revaluation, is bound to involve significant shifts in rate bills, which it is reasonable to phase in. Starting with an additional rate for a broad band of businesses would get the new system off on the wrong foot. It would risk undermining the credibility of our pledges about future increases.

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9. I am copying this minute to members of E(LF), to John Wakeham, David Waddington and to Sir Robin Butler.

John M.

JOHN MAJOR

dti

the department for Enterprise

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The Rt. Hon. Tony Newton OBE, MP
Chancellor of the Duchy of Lancaster and
Minister of Trade and Industry

PMP

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

Department of
Trade and Industry

1-19 Victoria Street
London SW1H 0ET

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Telex 8811074/5 DTHQ G
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CH/EXCHEQUER	
REC.	15 JUN 1989
ACTION	CST
COPIES TO	

✓15/6

Direct line 215 5147
Our ref
Your ref
Date 15 June 1989

NEWTON → RIDLEY 15/6

Dear Nick

UNIFORM BUSINESS RATE AND REVALUATION: TRANSITIONAL ARRANGEMENTS

Thank you for sending me a copy of your minute of 7 June to the Prime Minister.

I am broadly content with your revised proposals. In particular, I agree that you should respond to the wish of a majority of those consulted by recovering most of the cost of the transitional arrangements through a premium on the UBR poundage; but that there should also be a "cap" on gains in the first year.

The one point that concerns me rather is your new proposal to remove transitional relief from a property on a change of occupant. This could well distort substantially the normal turnover of commercial property for several years; and could even lead to hardship where the present occupant was unable to carry on, and found the value of his lease sharply reduced because of the rate bill a new occupant would face. Subject to colleagues' views, I would be inclined to drop this refinement.

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

Ever
Tony

TONY NEWTON

SB6ACC

Recycled Paper

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Alex to note.

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

19 June 1989

Dear Roger,

UNIFORM BUSINESS RATE AND REVALUATION: TRANSITIONAL ARRANGEMENTS

The Prime Minister was grateful for your Secretary of State's minute of 7 June. She has also seen the subsequent comments of the Secretary of State for Wales, the Chief Secretary and the Chancellor of the Duchy of Lancaster.

The Prime Minister has noted the differences of view between your Secretary of State and the Chief Secretary. The Prime Minister therefore proposes that the issue should be discussed at one of the forthcoming meetings of E(LF) in early July.

I am copying this letter to the Private Secretaries to the members of E(LF), the Lord President, Chief Secretary and to Trevor Woolley (Cabinet Office).

Yours
Paul

PAUL GRAY

Roger Bright, Esq.,
Department of the Environment.

CH/EXCHEQUER
REC. 19 JUN 1989
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✓22/6

21/6/89.

SECRETARY OF STATE FOR SCOTLAND

CONFIDENTIAL

Prime Minister

pmp

[To be discussed at E(LF)]

UNIFORM BUSINESS RATE AND REVALUATION: TRANSITIONAL ARRANGEMENTS

I have seen the minutes from Nicholas Ridley, on 7 June and Peter Walker, on 9 June, on their proposals for phasing in the effects of 1990 revaluation and the uniform business rate in England and Wales. I have also seen John Major's minute of 14 June and Tony Newton's letter of 15 June commenting on these proposals.

I do not wish to comment on the balance of advantage in England and Wales. The effects of the 1990 revaluation in Scotland in increasing individual ratepayers' liabilities will be much less in Scotland, where we last revalued in 1985, than in England and Wales but some will face significant increases and I have announced similar limits to those proposed for England and Wales. I am pleased that colleagues are agreeing that these limits should be retained.

I do not yet have sufficient information to decide how the protection of losers will be financed in Scotland. Because however the phasing in of losses in Scotland on the basis proposed should take much less time than elsewhere and because, as colleagues know, I intend intervening to bring rate poundages in Scotland down towards the UBR, I am not attracted by the idea of introducing a premium to help finance phasing in the revaluation in Scotland, whatever may be finally decided for England and Wales. But I would not be embarrassed by a premium in England if that were decided. I shall of course inform colleagues of my proposals for financing the limit on losers in Scotland once I have formulated these.

HMP172L7.041

I am copying this minute to members of E(LF), John Wakeham, David Waddington and to Sir Robin Walker.

MR

M R

21 June 1989

SECRET

CHIEF SECRETARY

FROM: B H POTTER (LG1)
X4790
Date: 27 June 1989

cc: Chancellor
Sir Peter Middleton
Mr Anson
Mr Monck
Mr Phillips
Mr Edwards (LG)
Mrs Lomax (GEP)
Mr MacAuslan (GEP)
Mr Hudson (LG1)
Mrs Chaplin

MEETING WITH MR RIDLEY, 27 JUNE: REVISED SAFETY NET

I understand that a meeting with the Environment Secretary has quickly been arranged for 8pm this evening.

2. I attach three notes: the first (note A) explains the ideas for a special element of the safety net to cover certain areas in the north and can be handed directly to Mr Ridley (copy attached). The second (note B), prepared by Mr Hudson, describes the relative merits of Mr Ridley's favoured approach to the safety net (option 6) and your own (option 5). The third (note C) simply sets out community charges in selected authorities, under these two options, with a brief commentary, plus the E(LF) "North" list of all options, amended for the "North".

Objective

3. Clearly the objective this evening will be to reach final agreement on the form of a safety net for 1990-91. Your bargaining counter is your willingness to offer an addition to AEF to meet the cost of the special provision for areas in the north, if Mr Ridley will drop his form of safety net (option 6) in preference for yours.

POTTER
To CST
27/6

4. On the <u>basic form of the safety net</u>, Mr Hudson's note at B sets out the arguments. So far as your own approach is concerned on <u>losses</u>, I suggest that you might stick to the figure of £25. On that basis, except for the areas covered by the proposed new element of the safety net for the north, then community charges for standard spending would be £25 higher than the uprated average rate bill per adult for 1989-90.

5. On the <u>gains</u>, I suggest you need not stick vigorously to the percentage approach adopted under option 5. There are three ways of allowing the gains through: by setting a maximum contribution at around £39; by allowing through some percentage of everyone's gains (as in option 5); or by allowing all gains up to a certain amount and none beyond that. Combinations of these are also possible. I suggest you might be reasonably flexible on this precise format, if that secures a deal with Mr Ridley.

6. On <u>the precise form of the new element</u> for the north, a choice will have to be made between the three options identified in the attached paper.

7. I suspect option (ii) would be the most difficult to defend (although if it were used as a secondary criterion for the qualification along with the other options, those difficulties might be overcome). Easier to present and defend are options (i) and option (iii).

8. Under option (i), the line would be that these authorities were being singled out for special assistance because a £25 contribution represented a proportionately greater burden for them than for others. There would of course be difficulties in defending the threshold: and the average rate bill per adult in 1989-90 reflects the budget decisions of local authorities but also of course random elements including use or otherwise of balances in that year. Nonetheless I suspect this is the approach which DOE officials will brief Mr Ridley to support - if he accepts the basic idea.

9. Option (iii) can be defended as giving local authorities time to adjust to a fundamental change in the grant system. These authorities have been assisted in the past by the way the grant system worked: a low rateable value base entitled an authority to more grant for any given spending assumption. Removing this quickly would have an adverse impact on local taxes.

10. You will wish to take into account other distributional factors in selecting between the options.

11. We have told DOE officials broadly what the options are: indeed the attached table is theirs not ours. We are unsure of their briefing line to Mr Ridley: DOE officials favour option (i) of the proposals for dealing with the north, if the idea is to be pursued at all. But they may also be advising Mr Ridley not to move on his overall option on the safety net (ie option 6).

Barry H. Potter

BARRY H POTTER

SECRET

NOTE A

A REVISED SAFETY NET

1. Under the self-financing safety net, if "gaining" areas are to receive some gains (in terms of safety-netted community charge for standard spending relative to the uprated average rate bill per adult in 1989-90) then some losses must also feed through to "losing" areas.

2. Both the safety net proposed in E(LF)(89)3 (option 3) and the revised option put forward by the Environment Secretary (option 6) allow the first £25 per adult of grant losses in each "losing" LA area to feed through to community charges (CCs). CCs are thus higher than the uprated average rate bill per adult by £25/£26 for standard spending in 1990-91. (The losses will be higher if LAs spend above the standard spending assumption.)

3. The problem is that for many areas in the north (and a few LAs elsewhere) the proposed standard loss of £25/£26) represents a proportionately greater burden. At present, local domestic taxes in certain such areas are relatively low in terms of average rate bill per adult (RBPA). In part this is because of the budget decisions of the LAs concerned; but it also reflects the low domestic and total rateable value base in these areas. Under the existing rate support grant system , a low local tax base leads to higher grant for a standard spending assumption. That advantage is removed under the new system.

4. Community chargepayers in these areas of low rateable value and low RBPA could be helped to adjust to the new system and greater financial burden, if a mechanism could be found to prevent the first £25/£26 per adult loss feeding through. In principle there are at least three solutions through a revised safety net: in each case, authorities in qualifying areas below a threshold set by central government would receive "payments" from the safety net set at £25/26 per adult. The threshold could be defined in relation to:

(i) average rate bill per adult;

(ii) domestic rateable value per hereditament; or

(iii) total rateable value per adult.

Attached are lists of the authorities concerned and a suggested threshold below which this assistance would apply.

5. The cost of this proposed addition to the safety net would be as follows:

(i) average rate bill per adult: at a threshold of £200, the cost would be £30 million

(ii) low average domestic rateable value: at a threshold of £135, the cost would be £70 million

(iii) total rateable value per adult: at a threshold of £130 the cost would be £80 million.

There are also combined options: if local authorities could qualify for this assistance under either options i) or ii), the cost would be about £85 million. (All costings approximate.)

6. This specific proposal for assistance to these areas could be combined with any of the basic safety nets already presented to E(LF).

7. The <u>impact on community charges</u> of this new element of the safety net for standard spending would depend on the option and its cost. If the proposed costs were met from within AEF, then option (i) would add about £1 to the CCs for all authorities outside those protected by the new arrangement; options (ii) or (iii) would add about £3 on the same basis.

Option (i)

	eve rate bill per adult +4%
Pendle	£ 168.7
Torridge	£ 169.4
Hyndburn	£ 175.9
Leominster	£ 176.2
B[illegible]y	£ 176.2
Teesdale	£ 182.9
Blackburn	£ 183.1
Hereford	£ 184.7
North Devon	£ 185.4
York	£ 186.8
Richmondshire	£ 186.9
South Herefordshire	£ 189.3
Copeland	£ 190.7
Mid Devon	£ 193.5
Kerrier	£ 193.6
Allerdale	£ 197.1
Craven	£ 197.2
Barrow in Furness	£ 197.6
Dover	£ 198.2
Swale	£ 198.5
Rossendale	£ 198.6
Lincoln	£ 199.4
West Lindsey	£ 200.3 Threshold
North Shropshire	£ 200.3 = £200
Easington	£ 200.4
Forest of Dean	£ 201.5
Oswestry	£ 202.0
Wandsworth	£ 202.3
Weymouth and Portland	£ 202.9
King's Lynn and West	£ 202.9
[illegible]th Holland	£ 204.1
[illegible]rborough	£ 204.1
East Lindsey	£ 204.4
Wear Valley	£ 204.6
West Devon	£ 204.7
Penwith	£ 204.8
Restormel	£ 205.2
Portsmouth	£ 205.2
Rochester upon Medway	£ 205.3
North Kesteven	£ 205.4
Selby	£ 205.4
Ashfield	£ 205.9
Boston	£ 207.7
South Shropshire	£ 207.9
Eden	£ 208.1
Derwentside	£ 208.6
Stoke-on-Trent	£ 210.2
Ryedale	£ 210.6
Gillingham	£ 210.8
Lancaster	£ 210.9
Isles of Scilly	£ 214.6
Ribble Valley	£ 215.4

Option (ii)

	Dom RV per head
Burnley	£ 102.4
Pendle	£ 103.7
Wear Valley	£ 112.3
Hyndburn	£ 112.4
Barrow in Furness	£ 114.4
Calderdale	£ 115.0
Teesdale	£ 115.2
Easington	£ 116.3
Kirklees	£ 117.8
Barnsley	£ 119.7
Copeland	£ 120.3
Blackburn	£ 121.0
Rossendale	£ 121.6
Derwentside	£ 124.3
Kingston upon Hull	£ 126.2
Bradford	£ 127.4
Torridge	£ 127.6
Sedgefield	£ 127.8
Allerdale	£ 128.6
Eden	£ 129.5
Bolsover	£ 131.2
Wansbeck	£ 132.0
Wakefield	£ 134.2
York	£ 134.6
Boothferry	£ 134.7
Rotherham	£ 134.8
Berwick-upon-Tweed	£ 135.6 Threshold
Gateshead	£ 135.9 £135
Sunderland	£ 136.6
Ashfield	£ 137.3
Sheffield	£ 137.8
Carlisle	£ 139.2
Doncaster	£ 139.2
East Yorkshire	£ 140.6
Craven	£ 140.7
Rochdale	£ 141.5
South Tyneside	£ 142.2
Hartlepool	£ 143.0
Scarborough	£ 143.4
North Devon	£ 145.9
Oldham	£ 146.5
Tameside	£ 146.5
Penwith	£ 146.8
Leeds	£ 146.9
Kerrier	£ 147.3
Lincoln	£ 148.3
Mansfield	£ 148.3
High Peak	£ 149.6
Chester-le-Street	£ 149.7
Preston	£ 149.7
Bassetlaw	£ 149.8
Durham	£ 150.3

Option (iii)

	Total RV per adult
Pendle	£ 102.3
Torridge	£ 108.2
Easington	£ 108.7
Hyndburn	£ 110.6
Rossendale	£ 113.0
Derwentside	£ 114.4
Bolsover	£ 115.3
Chester-le-Street	£ 117.0
Barnsley	£ 117.4
Calderdale	£ 117.9
Boothferry	£ 118.2
Teesdale	£ 119.2
Barrow in Furness	£ 120.0
Kirklees	£ 120.1
East Yorkshire	£ 120.7
Wear Valley	£ 121.2
Ryedale	£ 122.4
Richmondshire	£ 124.0
Forest of Dean	£ 124.5
South Tyneside	£ 124.9
North East Derbyshire	£ 125.2
Mid Devon	£ 125.2
West Devon	£ 125.7
Allerdale	£ 126.7
North Shropshire	£ 127.8
Rotherham	£ 128.4
Sunderland	£ 128.7
Leominster	£ 128.9
Blyth Valley	£ 130.7 Threshold
Ashfield	£ 131.1 £130
South Shropshire	£ 131.4
Caradon	£ 131.5
Burnley	£ 132.3
Chorley	£ 132.5
Kerrier	£ 132.6
Gateshead	£ 133.8
Tameside	£ 133.9
Oswestry	£ 134.3
Kingswood	£ 134.4
Bradford	£ 134.6
North Kesteven	£ 135.2
North Devon	£ 135.5
North Wiltshire	£ 137.4
Mansfield	£ 137.5
Penwith	£ 138.0
Blackburn	£ 138.3
Craven	£ 138.3
Doncaster	£ 138.5
Staffordshire Moorlan	£ 138.6
Wigan	£ 138.9
Ribble Valley	£ 139.3
South Herefordshire	£ 139.4

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NOTE B

SAFETY NET OPTIONS: BRIEFING

<u>OPTION 5</u> (column 7): £25 losses; financed by taking 43 per cent of all gains.

<u>Losses suffered</u>: up to first £25.

<u>Gains</u>: 43 per cent of gains feed through; 57 per cent given up as safety net contribution.

<u>HMT arguments for</u>:

- cost of protection for losers falls on gainers only;
- and spread among gainers according to size of gains - so those with bigger gains make bigger initial contribution;
- simple to explain how safety net financed;
- simple to phase out.

<u>Likely DoE arguments against</u>:

- some contributions still well above £75;
- cross-subsidy between gainers.

OPTION 6 (column 8): £26 losses; financed by taking £26 flat rate levy from everybody else.

Losses suffered: £26 by all losers, including those whose long-term loss is below £26.

Gains: all gainers contribute £26, even where this more than cancels out gain.

HMT arguments against:

- turns small losers into £26 losers;

- turns small gainers into small losers;

- equal £26 contribution an illusion - for losers, £26 above old bill, for gainers £26 above new bill;

- in any case, equal contribution overridden by ILEA specific grant and proposed protection for the "North";

- and simplicity lost after first year, when loss for losers and levy on gainers will no longer be equal;

- strong risk that perception will be that everybody's CC is higher than it need be;

- and risk of pressure for extra grant to reduce levy, particularly in later years.

Likely DoE arguments for:

- "simple to understand and present";

- "no problem with very high contributions", ie best deal for big gainers;

- equal contribution from all.

NOTE C

SECRET

NOTE ON SELECTED ILLUSTRATIVE CHARGES

1. The attached table shows, for a selection of authorities,

- the 1989-90 rate bill per adult, uprated by 4%;

- the first year community charge under the two main safety net options (percentage of gain, and the £226 levy) at total standard spending;

- and the long run charge at total standard spending.

2. The main features are as follows.

3. The big loser in ILEA do very well from the specific grant. On both options, the first year community charge is well below the RBPA, at this level of spending. So even with a substantial overspend, there may not be much cash increase.

4. Pendle is also protected by the special arrangements for the "North".

5. South Tyneside is a more typical big loser.

6. Both modest losers are substantial losers on Option 6, with the first year charge well above both the RBPA and the long run charge. The same goes for Bury, which is due to breakeven.

7. The two modest gainers realise some of their gain under Option 5, but become losers under Option 6 - the first year charge would be higher, again, than either the RBPA or the long run charge.

8. Most of the big gainers do better under Option 6 than Option 5 - dramatically so for Westminster and South Bucks. But for those with large but not massive gains, there is not much in it: Huntingdonshire (long run gain of £32) is a few pounds better off under Option 5, whereas Tewkesbury (long run gain £55) is a few pounds better under Option 6.

SECRET

ILLUSTRATIVE 1990-91 COMMUNITY CHARGES WITH SPENDING AT £32.8bn

1. AEF £23bn 2. Total Standard Spending £32.8bn 3. £100m ILEA specific grant
4. CCs reduced to RBPA +4% where this is below £200, or domestic RV per hereditament is below £135.

AUTHORITY	RBPA +4%	OPTION 5	OPTION 6	LONG RUN CHARGE
Big losers				
Greenwich	285	246	247	579
Wandsworth	202	175	176	350
South Tyneside	236	261	262	300
Pendle	169	169	169	270
Modest losers				
Kingston-upon-Thames	324	328	351	328
Bolton	242	243	269	243
Break-even				
Bury	308	308	334	308
Modest gainers				
Peterborough	274	265	282	256
Beverley	317	310	329	302
Big gainers				
Westminster	587	448	367	340
Birmingham	281	239	219	193
South Bucks	458	342	239	213
Huntingdonshire	250	230	234	218
Tewkesbury	270	244	241	215

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DATE: 20-JUN-89

TABLE 4

ILLUSTRATIVE 1990/91 COMMUNITY CHARGES WITH SPENDING AT £32.8BN

AEF £23bn. Total Standard Spending £32.8bn
DOE E(LF) Standard Spending Assessment Package
Inner London charges reduced by £100m ILEA specific grant

	COL 1 1989/90 Av rate bill per adult + 4%	COL 2 Long run charge	COL 3 Old net £74 limit No losses	COL 4 Old net £39 limit £25 losses	COL 5 E(LF)(89)3 Proposed safety net	COL 6 No losses 19% of gains allowed	COL 7 £25 loss 43% of gains allowed	COL 8 All adults pay £26 to net	COL 9 Change with 1% rise in spending
WEST SUSSEX									
Adur	281	238	281	277	255	272	261	264	6
Arun	270	209	270	247	240	258	241	235	6
Chichester	262	191	262	230	230	248	229	218	6
Crawley	269	269	269	269	269	269	269	296	7
Horsham	261	179	253	217	226	245	222	205	6
Mid Sussex	287	209	283	248	253	272	250	235	6
Worthing	248	217	248	248	225	242	233	243	6
WILTSHIRE									
Kennet	241	227	241	241	227	238	234	253	7
North Wiltshire	226	256	226	251	251	226	251	252	7
Salisbury	262	224	262	262	237	254	244	251	7
Thamesdown	253	302	253	278	278	253	278	279	7
West Wiltshire	232	260	232	257	257	232	257	259	7
ALL PURPOSE AUTHORITY									
Isles of Scilly	214	505	214	239	239	214	239	241	11

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lgl.va/hudson/minutes/nndrCONFIDENTIAL

FROM: A P HUDSON
DATE: 28 JUNE 1989
EXT.: 4945

HUDSON → CST 28/6

CHIEF SECRETARY

cc Chancellor
Sir P Middleton
Mr Anson
Mr Phillips
Mr A J C Edwards
Mr Culpin
Mrs Lomax
Mr Potter
Mr MacAuslan
Mr G C White
Mr Rutnam
Mrs Chaplin
Mr Morgan (VO)
Mr Heggs (IR)

PMP

UNIFORM BUSINESS RATE AND REVALUATION: TRANSITIONAL ARRANGEMENTS: HANDLING OF E(LF)

1. This minute is simply to ask if you are content with the proposed arrangements for setting up the discussion of the NNDR transitional arrangements at the E(LF) meeting on 6 July, (which will also, of course, be settling the safety net). We shall, of course, provide full briefing for the meeting itself.

2. As you will recall, Mr Ridley wrote to the Prime Minister on 7 June, proposing some changes to the transitional arrangements for the NNDR. The two main changes were to increase the threshold for special treatment for small properties, and financing protection for losers principally by a premium on the poundage, rather than by phasing in the gains. Mr Walker proposed the same changes for Wales (minute of 9 June).

3. You wrote on 14 June, proposing a smaller increase in the threshold for small properties, and opposing the premium on the poundage. The Prime Minister said that the issue should be discussed at E(LF) (Paul Gray's 19 June letter to Roger Bright).

4. DoE have now prepared the attached draft paper, to summarise the issues for decision, and circulate the correspondence again to E(LF). I have marked some suggested amendments, mostly to take out attempts to influence colleagues before they have read the correspondence in full. But the minute is satisfactory on the whole, and I suggest you agree to this proposed way of handling the meeting, and to the paper, subject to these amendments and any others you may have.

5. Are you content, please? DoE officials would like to put the draft paper to Mr Ridley tomorrow, for issue on Friday (30 June).

APH

A P HUDSON

DRAFT PAPER BY THE SECRETARIES OF STATE FOR THE ENVIRONMENT AND FOR WALES

THE BUSINESS RATE: TRANSITIONAL ARRANGEMENTS

1. We announced in February our proposals for phasing in the effect of the uniform business rate in England and Wales and of the non-domestic revaluation and asked for comments. This paper invites the committee to agree that we should modify the proposals in the light of responses to the consultation.

The Original Proposals

2. The proposals on which we consulted were:

(a) The maximum increase in rate bills for 1990/91 and for each subsequent year of the transition would be 20% in real terms for large properties and 15% for small ones.

(b) To pay for that protection for losers, reductions in rate bills would also be phased in at the rate necessary to balance the national non-domestic rate pools in England and Wales, with maximum annual gains likely to be about 10% in real terms for large properties and 15 % for small ones.

(c) Small properties would be defined as those with rateable values in the 1990 list below £7,500 in London and £5,000 elsewhere.

(d) These arrangements were to apply to existing properties only, but would continue to apply even where there was a change of occupier.

Revised Proposals

3. For the reasons explained in our minutes to the Prime Minister of 7 June as regards England (at A) and 9 June as regards Wales (at B), we believe that these proposals need to be amended in some respects. Our revised proposals, which are described more fully in the attached minutes are:

(i) that the 20% and 15% limits on rate increases should stand, but in the light of the almost unanimous reaction of respondents to the consultation that the threshold defining small properties was [set much] too low, we propose to double the figures to £15,000 RV in London and £10,000 elsewhere.

X Suggest omit.

(ii) that rather than relying wholly on phasing in rate reductions to finance the protection for losers, [which was widely criticised as being unfair to gainers,] we should pay for this protection in part by placing a premium on the poundage, combined with a 20% limit in real terms on gains in the first year only to balance the NNDR pools. The premium would be slightly lower in Wales than in England.

x Suggest omit.

(iii) that phasing of rate increases should apply to existing occupiers only, not to future occupiers of existing buildings [or to new buildings.]

X Suggest omit - never suggested that it should apply to new buildings.

Reaction of Colleagues

4. The Chief Secretary, in his minute of 14th June to the Prime Minister (at C), has agreed that the threshold for defining small properties should be raised, but suggests figures of £10,000 RV in London and £7,500 elsewhere -lower than we now propose. Also he opposes the proposition that the protection for losers should be financed in part by a premium on the poundage.

5. The Chancellor of the Duchy of Lancaster, in his letter of 15th June (at D), has expressed doubts about confining transitional protection to existing occupiers.

6. The Secretary of State for Scotland, in his minute of 21st June to the Prime Minister (at E), raises no objection to a premium on the poundage in England and Wales, but does not propose to introduce such a premium in Scotland.

Conclusion

7. The Committee is invited to consider the revised proposal in paragraph 3 in the light of the reservations expressed by the Chief Secretary and the Chancellor of the Duchy of Lancaster. A decision is needed urgently to enable the necessary amendments to be tabled at Lords Committee stage of the Local Government and Housing Bill towards the end of July.

lg1.va/white/minutes/itlg

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FROM: G C WHITE (LG1)
DATE: 30 JUNE 1989
x5731

1. MR POTTER

2. CHIEF SECRETARY

cc Chancellor
Sir P Middleton
Mr Anson
Mr Monck
Mr Phillips
Mrs Case
Mr Edwards
Mrs Lomax
Mr MacAuslan
Mr Farthing
Mr Hudson
Mr Loweth
Mrs Chaplin

Para 2(d) is important: even though the grant is within AEF, as it compresses the room for RSG, it would lead to pressure for more RSG/AEF. That argues for containing the total amount at £250m: but the phasing can be linked into the safety-net – when that is settled.
RHP 30/6

INNER LONDON TRANSITION GRANT

Following the E(LF) meeting last week, DES have prepared the attached draft minute for Mr Baker to circulate to E(LF) colleagues. The draft minute expands on Mr Ridley's proposal in his E(LF) paper and provides a slightly more detailed explanation of the form of specific grant that might be introduced.

2. The proposals in the paper follow discussions at official level. The main points are as follows:

(a) The grant is outside the safety net.

(b) The first year cost in 1990/91, to be announced in July, would be £100 million.

(c) The grant would be phased out over 5 years ie to zero in year 6, 1995-96.

(d) The implied cost of the package is £250 million over the 5 year period.

(e) The profile would be of the following form:

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WHITE TO CST 30/6

£ million

1990/91	1991/92	1992/93	1993/94	1994/95
100	70	50	20	10

(f) The distribution between boroughs would be made on a stable formulaic basis.

Details of items (e) and (f) would be considered further over the next few months and announced in the Autumn.

3. Item (c) is covered in paragraph 5 of the paper. Mr Baker favours a longer transitional period of 7 or 8 years whereas Mr Ridley is known to favour a shorter period. There is certainly an argument that the longer the period of grant the less incentive there is for an authority to find the necessary savings and that a relatively short period would introduce pressure for efficiency savings to be found more quickly. On the other hand there is a limit to what can be achieved within a short time scale. The closure and rationalisation of schools will take time and we believe that a grant for a period of 5 years is a sensible compromise.

4. The attached draft paper is also being put to Mr Ridley and Mr Baker over the weekend. If you, Mr Ridley and Mr Baker are all content with the proposals, DES intend circulating the paper on Monday for possible consideration at E(LF) on Thursday.

5. We do not envisage any real discussion of the paper at E(LF). The main proposal has already been agreed and there is no need for E(LF) to discuss the detailed arrangements. It would be better for you, Mr Ridley and Mr Baker to sort out the details on issues such as the exact profile and the method of distribution outside the E(LF) meeting. The paper therefore leaves these issues open for discussion at a later date and we recommend that you support this approach.

Conclusion

6. We would welcome confirmation that you are content with the proposals in the paper and, in particular, that you are content for Mr Baker to circulate it on Monday.

G C WHITE

PRIME MINISTER

INNER LONDON TRANSITION GRANT

1. In E(LF)(89)3 Nick Ridley proposed a specific grant for transitional education costs in inner London which would give the boroughs an opportunity to reduce inherited overspend from ILEA before it falls on their chargepayers. The Committee broadly endorsed the proposal but asked for the details to be considered further.

2. I have consulted Nick and John Major and set out below the conclusions we have reached.

3. ILEA is budgeting to spend about £1000m in 1989-90. The Authority would undoubtedly be spending a great deal more without successive years of precept limitation. Nevertheless, their spending is significantly above the figure of between £750m and £800m for education in inner London which is emerging from the current work on assessments for standard spending. That gap will place a heavy burden on chargepayers until the boroughs can begin to get to grips with the root causes of the overspend.

4. E(LF)(89)3 indicated that on the basis of an analysis of the potential for longer term savings the grant might be set at the level of £100m in the first year. This would not of course represent the total implied gap of £200m-£250m between assessment for standard spending and likely actual spending when both the safety net and transitional grant are phased out.

However I accept that £100m is a reasonable figure for the purpose of affording some protection to chargepayers, and the community charge exemplifications in papers E(LF)(89)3 and 4 are calculated on this basis. Those exemplifications also assume that the transitional grant is outside rather than inside the safety net. This will allow it to have maximum impact on community charges in the first year. It also prevents the grant's distribution from interacting with that of whatever safety net arrangements we agree upon. The grant will be within AEF but not deducted from standard spending.

5. We have considered the appropriate length of time for the transition grant to last. [While I think a grant lasting seven to eight years would be justified, Nick and John think this is longer than necessary and I am reluctantly prepared to accept their view that there should be a taper that would reduce it to zero in year 6.]

6. We need only indicate the first year quantum and the length of grant in our July announcement. In the Autumn we would announce the detailed profile of the grant and the method of distribution between boroughs. The sort of profile we have in mind would be:

	1990-91	1991-92	1992-93	1993-94	1994-95
£m	100	70	50	20	10

The distribution between boroughs would be made on a stable formulaic basis. Current under 18 population would be one option, but I wish to consider the various other possibilities for distribution and the precise profile further with Nick and John. As this grant is to assist transition and allow the boroughs time to achieve savings rather than to support spending of any particular nature it would not be paid as a percentage of any part of actual spending on education.

7. As E(LF)(89)3 indicated, we would need to take a power in the Local Government and Housing Bill to pay the grant. We envisage that this would be done at either Lords Committee or Report Stage through a relatively minor amendment to an existing power in the Education Reform Act.

8. I hope E(LF) will be prepared to endorse the proposal for an inner London transitional grant on this basis. Copies of this minute go to all members of E(LF).

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SECRETARY OF STATE FOR EDUCATION AND SCIENCE

CH/EXCHEQUER
REC. 03 JUL 1989
ACTION CST
COPIES TO

1

✓3/7

PRIME MINISTER

3/7/89.

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Baker -PM 3/7

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K.B.

KB

3 July 1989

BRIEF

lg1.va/potter/minutes/sn.pm

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CHIEF SECRETARY

FROM: B H POTTER (LG1)
X4790
Date: 4 July 1989

cc: Chancellor
Sir Peter Middleton
Mr Anson
Mr Phillips
Mrs Lomax (GEP)
Mr Edwards (LG)
Mr Hudson (LG1)

THE SAFETY NET: MEETING WITH THE PRIME MINISTER

You are meeting the Prime Minister and the Environment Secretary shortly for a further discussion on the safety net. That should pave the way a final agreement at E(LF) on Thursday 6 July.

2. This brief is designed to explore and explain the interwoven issues concerned; (it reflects the presentation in the Cabinet Office brief to the Prime Minister). Also attached are a line to take; notes on the key concepts; and an annex on particular safety-net options.

The basic concept

3. If the new LA financial regime were introduced directly (ie without any safety-net) for any given level of spending it would lead to gains and losses in total central government resources for individual local authorities (LAs). This is because the new regime changes the distribution of Revenue Support Grant (RSG) (a reflection of the new needs assessment) and changes the distribution of NNDR money amongst LAs.

POTTER TO CST 4/7

4. The original formulation of the safety net would have redistributed RSG and NNDR so that no losses in central government resources were incurred in any LA. For standard spending, each LA would be able to set a community charge (CC) at the uprated 1989-90 average rate bill per adult.

Safety-net Issues

5. There are two main issues to be considered at the meeting with the Prime Minister.

A) Should there continue to be full protection for all losers as originally proposed? Or should some losses be allowed to come through in the first year? And, if so, should the losses feed through in all areas or should some continue to be fully protected?

B) How should the cost of safety-netted losses be paid for - by the gainers as originally proposed or from the Exchequer/all community chargepayers?

A. The losses

6. Three options are on the table:

i) no losses (the original formulation)

(ii) losses of around £25 per adult for all losing areas, except inner London (Mr Ridley)

(iii) losses of around £25 except in the north and inner London (Chief Secretary).

7. The Prime Minister has indicated some support for the original formulation - no losses in any local authorities. It meets the original commitment. But:

- it would not allow many winners in terms of LA areas to emerge in the first year; gains would have to be restricted to 19% of the potential amounts;

- it would mean very high CCs in some areas - notably Westminster (even after the ILEA specific grant).

E(LF) indicated support at its earlier meeting for allowing some gains through.

8. <u>Option (ii)</u> is Mr Ridley's favoured approach. There are a number of different formulations; but they all involve losses of between £25 and £28 per adult. In other words, in losing areas (except inner London), for standard spending, CCs in 1990-91 would be £25-£28 above the uprated 1989-90 average rate bill per adult.

9. This option creates room for more of the gains to come through and thus allows bigger winners to emerge. It helps Westminster. But it also:

- breaks the original commitment to full protection; only inner London authorities (which ironically include some of the biggest overspenders) would have full protection, as a result of the ILEA specific grant;

- it imposes a substantial proportionate increase in the local tax burden on areas in the north where local taxes are low: these areas had been expecting full protection.

10. <u>Option (iii)</u> is your position (and is also exemplified in some of Mr Ridley's tables). Within the general concept of allowing losses up to £25 per adult, assistance could be channelled to the north either through the safety net itself or by means of a transitional specific grant to prevent the losses in such areas. The necessary £25 per adult payments could be linked to one of three criteria (or some combination of the three):

a) average domestic rateable values

b) average rate bill per adult

c) total rateable value per adult.

11. Two particular ways of delivering option (iii) for the north have now been put forward by Mr Ridley.

12. Approach B (column 4 in the tables attached to PS/Mr Ridley's letter of 30 June) involves a specific grant for areas with low rateable values ie criterion (a) above. For areas with average domestic rateable value per hereditament below £130, a £26 per adult specific grant would be paid; this grant would be tapered down to zero as average domestic rateable values rose from £130 to a ceiling of £150. The cost of this would be £100 million in extra grant. Mr Ridley assumes this would be met from an addition to AEF, rather than within AEF. It would require legislation (but only because Mr Ridley proposes to make payments to the north by a specific grant, rather than using the safety net).

13. Approach C (column 5 in the tables) is Mr Ridley's other idea for assisting the north. This option acts through the safety net and on criterion (b) above, that is average rate bill per adult. For average rate bills per adult below £200 there would be no contribution to the safety net; for rate bills between £200 and £225 the contribution would be set at 6% of the average rate bill per adult; and for rate bills of £225 or above it would be set at 12% up to a maximum contribution of £28. The cost is again £100m (because Mr Ridley assumes you will be prepared to add that to AEF).

14. Our assessment is that you could accept Mr Ridley's approach B: it is very close to your own preferred approach and within the additional cost envelope you have set yourself. The only difference is that your own approach gave assistance to the north through the safety net (and therefore does not require legislation). The cost of your own approach is a little lower: but you may well judge that it would be desirable to go further and meet Mr Ridley's proposal. (It does avoid a cliff-edge threshold, which might otherwise be a source of difficulty.) Whether this approach B is best delivered by a specific grant or by revision to the safety net is a technical question which DOE are best placed to judge.

15. But it is better than Mr Ridley's approach C which gives less help to certain areas (like Calderdale); spreads assistance more widely ie is less well-targetted; and has no clear presentational advantages.

B. How is the cost of safety-netting losses to be paid for?

16. Basically there are two broad approaches:

X: the cost of the safety-net is met by postponing part of the gains for gainers;

Y: the cost is met by the Exchequer: this can be translated, for a given AEF, into a consequent extra burden on each chargepayer ie the CCSS.

17. You (and perhaps the Prime Minister) support X; Mr Ridley supports one of two forms of Y.

18. The first DOE approach to Y involves a £26 per adult levy on all chargepayers (cols 3 and 4 of the tables attached to the DOE letter of 30 June). The cost of the levy is £950m (£26 x 36 million chargepayers). Specific grant payments would be made to losing authorities to limit losses to £26 per adult. The gainers would get all their gains except £26 per adult.

19. The problems are:

a) it turns small losers into big losers;

b) it turns some gainers into losers;

c) it provides for a common £26 per adult contribution to the safety net: that would be wrongly interpreted as an addition to everyone's community charge. Moreover we would be concerned that this £26 would later become the focus for a bid for extra Exchequer support. If it were proposed that the full cost should be met from the Exchequer, that costs an impossible £950 million;

d) it would need controversial primary legislation;

e) it would add significantly to the published community charge for standard spending (CCSS), taking it above £300; and

f) (as acknowledged in PS/Environment Secretary's letter), it would add to public expenditure by tempting LAs to raise their spending to a level consistent with a higher CCSS.

20. The second approach to Y involves top-slicing RSG. Mr Ridley has (unhelpfully) exemplified this option on the basis of full protection for losers ie no losses feed through. The cost is huge - £2.3b. (Privately DOE officials believe this is not an attractive approach.) It has the disadvantages of (d)-(f) in paragraph 19 above. But the CCSS would be even higher - £336 - with all the attendant problems of a higher CCSS. (This addition of £63 is necessary so that no contributions to the safety net appear on the demand note.) Frankly, a number like £336 compared with the £240 published for 1989-90 is not tenable.

21. It is important not to be misled by either the flat rate levy or top-slicing approach. The local authority associations will certainly not be deceived. They will perceive what the £26 (specific grant) and £63 (full top-slicing) are. They can be expected to make the maximum difficulty for the Government over this way of paying for the safety net.

22. Nor should the advantages of getting the contribution to the safety-net off the demand note be exaggerated. Local councils will publicise the £26/£63 figures even if they are not on the demand note. And even if the contributions are shown on the demand note, the willingness and ability of the average chargepayer to understand the arithmetic may initially not be up to the levels necessary to achieve accountability. The real comparison drawn will be between this year's household CC bill and last year's rate bills. The safety-net on losses is therefore crucial; paying for it by fancy accounting devices within a given AEF total is relatively unimportant.

23. It is much better to stick to the original conception of the safety net as already announced: it is the gainers who pay for the cost of the safety net, not CC payers in general.

24. Your own approach returns to this original form of the safety-net. You can be flexible on the precise format:

- a flat rate percentage: this has some attractions in terms of equity;
- a maximum contribution allows through the big gainers;
- a cap on all gains up to £Y.

You may feel the first, allowing through the first 40% of gains is the most attractive.

Conclusion

25. Finally there is one new point in the PS/Environment Secretary's letter - concern about the CCs in prospect in outer London. It is not immediately clear what is in mind. But I suspect this may be references to Haringey and Brent which - largely because of their own actions in the past - have very high average rate bills per adult in 1989-90. These are then reflected in the putative community charges for 1990-91. There is simply no case for channelling extra assistance to these LAs.

26. Whether the precise form of safety net can be agreed at the meeting is uncertain: it seems unlikely. But if just two principles on paragraph 5 A) and B) above can be agreed, that would enable the details to be worked out by DOE and Treasury afterwards:

- on A), that the first £25 per adult or so of losses should be allowed to come through <u>except</u> in the north and inner London; and

- on B) that the gainers should compensate the losers (in parallel with the proposed NNDR arrangement), within an AEF of £23.1b and with a CCSS of around £270.

AH

for **BARRY H POTTER**

LINE TO TAKE

Basic approach

Suggest approach to safety net should be to decide what protection is needed for losers - basic purpose of safety net - then to decide how that's to be paid for.

Losses

On losses, got to start from what's already been said in public: safety net to mean no losses (or only around £3), financed by gainers up to maximum contribution of £75. Nick Ridley now proposing as much as £25-28 losses. Might be tolerable in some places. But do not think it is politically possible without special help for the North.

Case for the North

(i) Local taxpayers have very low average rate bills per adult in these areas; a flat rate contribution from them is an proportionately greater burden than elsewhere.

(ii) These areas benefit from the present grant system: for standard spending, they get relatively more grant than other areas because of their low domestic rateable values. Under new system, they lose this advantage. These areas need time to adjust to lower grant entitlement in the future: burden should not fall on local taxpayers.

(iii) There would be very awkward comparisons drawn if no assistance were given to these areas, when we are channelling £100m to inner London authorities (including some of the biggest overspenders in England) through the ILEA specific grant.

Form of assistance to the north

Prepared to be flexible. Happy with Mr Ridley's option B - though might have preferred to pay for this directly through the safety net. Option C does not seem to have any great advantages over B: it spreads the benefits more widely yet misses some of the target areas eg Calderdale. But happy to be guided by Mr Ridley on the precise form of assistance to the north.

Paying for this protection

Not attracted to flat rate contribution:

- it turns small losers into big losers;

- it turns some small gainers into losers;

- the £26 contribution will be widely seen as an addition to everyone's bill;

- CCSS goes up to £301 - 25 per cent increase on published 1989-90 figure, and £26 higher than it arithmetically should be;

- this blurs accountability;

- and as Nick Ridley admits, likely to generate extra expenditure as authorities charge up to higher CCSS and spend the proceeds.

See same problems with top-slicing, indeed worse:

- it would require primary legislation;

- it would add further to the CCSS, taking it up to £336, nearly £100 up on 1989-90 figures;

- it would be even more likely to generate extra expenditure, as authorities set budgets consistent with the higher CCSS.

So believe we should stick to the basic principle ie that gainers should give up some of their gains in order to prevent excessive losses feeding through.

Again prepared to be flexible on precise form of basic safety net. Suggest simplest is best, ie that all gainers should get around 40% of their gains in the first year. But happy to look at different options: for example, a guaranteed flat rate amount and then a percentage beyond that; or original proposal for maximum contribution. Basically, happy to be guided by Nick on the best way to finance this from the gainers.

SAFETY NET OPTIONS: KEY CONCEPTS

Top-slicing

- Safety net paid for by top-slicing a certain amount of RSG, within AEF total.

- Means taking grant away from everybody, so CCSS rises.

- Then pay back to all except big gainers, to give desired level of protection for losers.

For - Means no contribution on demand note.

Against BUT to have no losers, with AEF of £23.1bn, have to top-slice £2.3bn;

- means CCSS of £336 (almost £100 up on 1989-90), instead of £272 - ruins basis of accountability;

- would generate extra spending: authorities which should be charging well below £336 would charge up and spend up, saying that this was the Government's figure;

- requires controversial legislation.

Levy

	-	Flat-rate contribution from everybody of £26;
For	-	No contribution on demand note;
Against	-	BUT turns gainers into losers;
	-	equal contribution illusory: for losers, £26 on old bill; for gainers, £26 on new bill;
	-	CCSS up to £301 instead of £272 - ruins basis of accountability, and would generate extra spending, as with top-slicing.

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"The North"

The case for help

- These areas currently expecting no losses in first year.
- Typically have low rate bills, so flat-rate loss of £25-28 would be higher proportionate loss than elsewhere.
- And they have low RVs, so lose from <u>structure</u> of new system.
- At the moment, only London stands to get protection - arguably ~~...~~ relatively undeserving.

Methods of protection

Could choose:

- average domestic RV per hereditament;
- total RVs per head;
- average rate bill per adult,

or some combination.

- No strong interest in which is chosen. Rate bill approach tends to help the west as well as the north.
- Mr Ridley proposes tapering protection to avoid cliff edge. Seems sensible.

Cost

- Can adjust coverage and degree of protection to fit within a given cost limit.

Demand note

- Case <u>for</u> keeping safety net contribution off demand note:

  - will annoy chargepayers in low spending authorities who see they are paying more to protect overspenders;

  - which might lead to pressure for more grant.

- Case <u>against</u>:

  - without safety net contribution, sums don't add up;

  - so have to distort CCSS (as in top-slicing and levy), which damages accountability;

  - people may find out anyway, and think the Government has something to hide.

- <u>And</u> should not exaggerate problems of having contribution on demand note:

  - councils will publicise the levy/contribution anyway;

  - and in the end, chargepayers will concentrate most on the year-on-year change in the bill, not on how it is made up.

Legislation

Options requiring legislation:

- top slicing;
- levy (possibly);
- ILEA specific grant;
- specific grant for "the North".

Options not requiring legislation:

- original safety net;
- other ways of deferring gains apart from levy and top slicing;
- help for "the North" through the safety net, rather than through specific grant - difference otherwise is purely presentational.

Gainers

- Choices for dealing with gainers:

  - defer gains up to maximum contribution (original safety net);
  - defer percentage of all gains;
  - defer all gains above a certain amount (ie allow through small gains but not the whole of big gains);
  - allow through a certain flat-rate amount, plus a percentage of gains above that (the original agreed E(LF) proposal of £20 plus 25% of the remainder).

- Can agree to any of these.

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GRANT SETTLEMENT 1990-91: REVISED SAFETY NETS: PROS AND CONS

Column 3: £950 million specific grant

Approach: £26 levy, but achieved by taking £950 million from AEF, pushing up CCSS, so no safety net adjustment shown except for beneficiaries.

AEF: £23.0 bn

CCSS: £301

Losses: £26 for all losers, including those whose long-term loss is below £26.

Gains: All gainers contribute £26, even where this more than cancels out gains.

Pros:

- "simpler to explain, and patently more equitable" (DoE);
- takes safety net contribution off charge bill;
- better deal for big gainers than other safety net options;
- equal contribution from all;

Cons:

- turns small gainers into small losers, and small losers into £26 losers;
- equal £26 contribution an illusion - for losers, £26 above old bill, for gainers £26 above new bill;
- published CCSS up to £301 - 25 per cent increase on published 1989-90 figure, above £300 benchmark, and £26 higher than it arithmetically should be: as Nick Ridley admits, strong risk of levering up spending, and fatally undermining central role of CCSS before new system starts;

- public perception will be that everybody's CC is £26 higher than it need be;

- may require legislation;

- £26 losses in sensitive areas where MPs are expecting no losses;

- risk of pressure for extra grant to reduce levy, especially in later years, when simplicity of equal contributions lost.

COLUMN 4: £950 million Specific Grant, plus extra for low RV areas.

Approach: As in column 3, plus £100m extra specific grant for "the North" so that:

- areas with domestic RV per hereditament below £130 see no loss;

- areas with domestic RV between £130 and £150 see loss rising from nil to £26;

AEF: £23.1bn

CCSS: £301

Losses: Domestic RV below £130: 0
Domestic RV £130-150: tapering 0-£26
Domestic RV above £150: £26 per head even where long-term loss is below £26.

Gains: Contribution from gainers follows some profile as losses, even where this more than cancels out gain.

Pros: - As for column 3 plus

- Helps "the North": Mr Ridley's favoured way to do so, and acceptable to us.

Cons: As for column 3 (except this does help "the North".)

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COLUMN 5: Variable contributions

Approach: Basic levy approach, with same contribution from gainers and losers, but related to old rate bill, so that

- where 1989-90 uprated rate bill per adult (RBPA) is below £200, no loss/no levy;

- RBPA £200-225, loss/levy is 6 per cent of bill;

- RBPA £225-250, loss/levy is 12 per cent of bill;

- RBPA over £250, loss/levy is £28.

AEF: £23.1 bn

CCSS: £272

Losses: As above, even where this is larger than long-term loss.

Gains: Contribution from gainers follows same profile as above, even where this more than cancels out gain.

Pros:

- has proper CCSS;

- helps "the North";

- (arguably) easiest approach to defend for protecting "the North", because protects against high proportionate increase in rate bill;

Cons:

- turns small gainers into small losers, and some small losers into £28 losers;

- highest losses generally (though only £2-3 higher than on most options);

- safety net adjustments on demand note.

COLUMN 6: Topslicing

Approach: No losses, but paid for by top-slicing £2.3bn from AEF of £23.1bn, pushing CCSS up to £336

AEF: £23.1bn

CCSS: £336

Losses: No losses

Gains: First slice of gain surrendered, up to maximum contribution of £63 per head.

Pros:

- Keeps safety net contribution off demand note;
- no losses;

Cons:

- CCSS of £336, nearly £100 up on 1989-90, and £63 above what it should be - would fatally undermine role of CCSS, and lever up spending;
- needs legislation;
- very hard to understand and present.

COLUMN 7: Original Safety Net

Approach: No losses, paid for by a maximum contribution of £63, ie deferring the first £63 of all gains.

AEF: £23.1bn

CCSS: £272

Losses: No losses

Gains: Deferred, up to maximum contribution of £63.

Pros:
- no losses;
- consistent with present expectations;
- simple;

Cons:
- only big gainers see any gains;
- even then, worse deal than other options for all gainers gaining more than £26.

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FROM: G C WHITE (LG1)
DATE: 4 July 1989
x5731

1. MR POTTER BHP 4/7
2. CHIEF SECRETARY

cc Chancellor
Sir P Middleton
Mr Anson
Mr Monck
Mr Phillips
Mr A J C Edwards
Mrs Lomax
Mr Farthing
Mr Hudson
Mr Loweth

WHITE → CST 4/7

INNER LONDON TRANSITION GRANT

Mr Baker wrote to the Prime Minister on 3 July outlining proposals for a specific grant for transitional education costs in inner London. The letter asks E(LF) to endorse the proposals.

2. You and Mr Ridley had already agreed the letter in draft with Mr Baker. It does not raise any new issues and it is therefore unlikely that there will be any substantial discussion at Thursday's E(LF) meeting. However just in case the issue is raised a short briefing note is attached.

G C WHITE

UNCLASSIFIED

ILEA specific grant

1. ILEA currently spends about £1 billion on education compared to a needs assessment of about £600 million. Under the new needs assessment this is likely to increase to about £750 million.

2. To help finance the additional burden that is to be placed on the inner London boroughs it has been agreed that a specific grant will be introduced.

3. The specific grant would be phased out over a number of years. There would be a taper that woud reduce it to zero in year 6. It would recognise that savings cannot be achieved immediately and would be designed to allow boroughs to achieve savings over this period. The level of grant would start at £100 million in 1990-91.

4. The sort of profile would be as follows:

£ million

1990-91	1991-92	1992-93	1993-94	1994-95
100	70	50	20	10

The total cost of the package is £250 million over the 5 year period.

5. The longer the period of grant the less incentive there is for an authority to find the necessary savings. To maintain the pressure for efficiency gains the grant should be phased out over a relatively short period. However there is a limit to what can be achieved quickly and a grant for a period of 5 years is a sensible compromise.

6. A decision on the exact profile does not need to be taken at E(LF). You, Mr Ridley and Mr Baker can sort out the details later.

7. The specific grant can be introduced in two ways:

(a) distribute the specific grant and then apply the safety net;

(b) apply the safety net and then distribute the grant.

The effects of the two are very different.

8. Under (a) the safety net dominates and, in the first year, the main authorities which benefit are contributors to the safety net (City of London, Kensington and Chelsea, and Westminster). The high spending London boroughs are protected by the safety net and this overrides the effect of the specific grant. The grant therefore provides little help to the 'losers' in the system, ie those who benefit from the safety net.

9. Under (b) all inner London boroughs gain. It has the effect of reducing CCs in high spending boroughs to relatively low levels. First they benefit from the safety net and then they benefit from the specific grant. Under (b) the grant reduces CCs by a further £50-60. It will mean low CCs in the first year but, as both grant and the safety net are phased out, there will be large increases in CCs.

10. It has been agreed that all inner London boroughs need extra support and option (b) has been proposed. This allows the grant to have maximum impact on community charges in 1990-91.

11. The grant can be distributed to each authority in a number of ways. It can be based on:

(i) number of charge payers;

(ii) number of children;

(iii) education service assessment;

(iv) actual spending on education.

12. Actual spending makes more sense because the inherited overspend will be greatest in those authorities spending most. DOE recognise this but have not yet been able to calculate the figures. Option (iv) would benefit those authorities with more schools (ie Westminster would probably lose out) but it is unlikely to change community charges by more than £5-6. The exact details of the method of paying grant needs further exploration and need not be considered in detail in the E(LF) meeting.

lg.pn/AE/261

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Hudson → CST 5/7

1. MR POTTER RHP 5/7   FROM : A P HUDSON (LG1)
     5 July 1989
2. CHIEF SECRETARY   Ext 4945

Copies attached for:

Chancellor
Sir P Middleton
Mr Anson

cc Mr Phillips
Mr A J C Edwards
Mr Culpin
Mrs Lomax
Mr MacAuslan
Mr G C White
Mr Rutnam
Mrs Chaplin
Mr Morgan (VO)
Mr Heggs (IR)

Ch
CST is worried that Ridley will make a big fuss on this so that PM may wobble, having ruled in favour of CST on safety net. So he'd be v grateful for strong support from you on this item. AA

E(F), 6 JULY: UNIFORM BUSINESS RATE AND REVALUATION : TRANSITIONAL ARRANGEMENTS

I attach briefing for the E(LF) discussion of the transitional arrangements for the NNDR on 6 July. We are putting up briefing separately on the other issues under discussion at the meeting.

2. As you know, the Prime Minister suggested a possible compromise, agreeing with Mr Ridley's proposed definition of small properties, but agreeing with you in rejecting his proposal to pay for the transition by a premium on the NNDR poundage. You indicated to No 10 that you could reluctantly accept this. However, Mr Ridley has not accepted it, so the subject will be discussed at E(LF).

3. The briefs are as follows:

A - Summary speaking note (more detailed speaking notes in individual briefs)
B - Definition of small properties
C - Financing protection for losers
D - Effect of proposals on Government contribution in lieu of rates (CILOR)
E - Transitional protection on change of occupation
F - Announcement and publication of figures.

The briefing on CILOR is by Mr Rutnam.

Objectives

4. The new paper by Mr Ridley and Mr Walker (E(LF)(89)5) summarises the issues, and attaches the earlier correspondence. There are two main issues for the meeting :

a. definition of small properties - Mr Ridley wants to double the previous proposed limit, you suggested a smaller increase;

b. financing protection for losers - Mr Ridley wants a premium on the poundage, you suggested sticking to the existing proposal to phase in the gains.

5. Your objective is therefore to secure the Committee's agreement on these two points.

6. Of these, the second is more important. There is little or no cost at stake in the definition of small properties. But there is considerable pressure from the business organisations for the Exchequer to finance some or all of the cost of protecting the losers on the move to the NNDR. Support for the premium comes mainly from the gaining areas - the North and the Midlands. This pressure is likely to be reflected in Parliament (in the Lords in July, and the Commons in October), because, whatever the decision, amendments are needed to the Local Government Finance Act. The problem arises from the decision not to take account of appeals lodged after 15 February in calculating the transition. The present powers are not sufficient to prescribe transitional arrangements incorporating this point.

7. It has been agreed all along that the transitional arrangements would be self-financing. And Mr Ridley is not bidding for any Exchequer money. Indeed, he implies in his 7 June minute to the Prime Minister that his revised proposal, for a premium on the poundage, is designed to head off pressure for Exchequer funding - he says that the original proposals for phasing in gains are not sustainable and sees little alternative to the Exchequer funding part of the cost, if colleagues do not agree to the premium on the poundage.

8. The arguments against the premiums are set out fully in Note C. The key points are:

a. it would turn small gainers into losers, and small losers into bigger losers;

b. a premium of 4 pence would be substantial - the poundage would be around one-eighth higher than it need be;

c. this would be seen as a breach of faith with the business community;

d. public expenditure would be higher by £180-200 million over five years, because of the effect on the Crown contribution in lieu of rates (CILOR);

e. the premium would become a target for the representative bodies to aim at, seeking Exchequer funding to buy it out. This would cost £350-400 million in the first year, and £700-800 million ion the second year, when the cap on gains is removed.

9. It is worth making clear what Exchequer funding for the transition would mean.

- Losers would be protected, but gains would come through in part or in full. So there would be a shortfall in NNDR revenue.

- Within the AEF envelope, this would have to be made up with extra grant, probably a specific "NNDR transitional grant".

- The New Planning Total would be unchanged: NNDR, which is within the NPT, would be lower, and grant higher.

- But more would come from the taxpayer and less from the business ratepayer.

- Over succeeding years, the losers would move up to their full rate bills, and the NNDR transitional grant would be phased out.

Potentially more damaging would be pressure to uprate the yield of the NNDR by less than the rate of inflation as measured by the September RPI. Again, any shortfall within AEF would have to be made up by extra grant. But since this would not be part of the transition, and there is no power to uprate the poundage by more than the RPI in future years, that potential business rate revenue would be lost for ever.

10. For all these reasons, we think it is important to oppose the premium on the poundage. If E(LF) does decide in favour of this approach, we suggest you ensure that the minutes record that, come what may, the transition must remain self-financing, as agreed.

Tactics

11. The Prime Minister's proposed compromise is a good deal from our point of view. Assuming it is still available - and Mr Ridley will presumably have to argue pretty hard to persuade the Prime Minister otherwise - we still think it is worth taking.

12. Tactically, however, you will not want to give way on the definition of small businesses until the decision on the premium is safely in the bag.

13. If it looks as though the meeting is going to decide in favour of a premium, you may like to consider whether to offer a compromise of a 2 pence premium, for the first year only, with the rest of the transition paid for by phasing gains. The pros of this are:

a. compared to the original proposals, Mr Ridley would be able to say that he had responded to the consultation, and allowed big gainers to get more of their gains early;

b. but compared to Mr Ridley's proposed premium,

- fewer gainers would become losers;

- if for one year only, the premium would not become a running sore;

- there would thus be less risk of having to put in Exchequer money to finance it;

- in particular, with a lower overall poundage, there would be less pressure to uprate by less than the September RPI;

- the cost of buying out the premium would be lower, if this arose;

- the public expenditure cost for CILOR would be lower.

The cons of a compromise are:

a. the cost of buying out a 4 pence premium (£350-400 million in the first year, £700-800 million in the second) is almost a knock-down argument against pressure to buy it out, whereas the cost of a smaller premium would be lower;

b. Mr Ridley may be less likely to ask for Exchequer funding in the autumn if his proposal is accepted, in full, that will put the onus on him to get it through successfully.

This is a fine judgment. On balance, we think it would be worth going for a compromise, particularly to confine the premium to the first year only. But any compromise should clearly be very much a last resort.

Contribution in lieu of rates

14. Note D sets out the details of the further argument against the premium: that it would increase measured public expenditure. This was not in your minute to the Prime Minister, because, as you know, we were still working out the figures at that stage. We have explained the point to the Cabinet Office and the No 10 Policy Unit. DOE officials are also aware of the figures.

APH

A P HUDSON

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A

NOTE A

SUMMARY SPEAKING NOTE

Small Properties

- Nick's proposed increase too big;
- risks letting in branches of chain stores;
- suggest £10,000 in London, £7,500 elsewhere, covering 70 per cent of properties.

Financing protection

- Premium not sensible.
- Turns 140,000 gainers into losers, and means close to two properties out of three are first-year losers.
- For many, bills one-eighth higher than they should be.
- Hard to present; damages credibility on pledges on no real increases.
- Adds £180-200 million to public expenditure costs over five years.

Other issues

- Agree with Nick Ridley on confining transitional protection to existing occupiers.
- And happy to discuss publication of figures etc.

B

NOTE B

DEFINITION OF SMALL PROPERTIES

Original Proposal

More generous transitional arrangements were proposed for small properties (as a proxy for small businesses):

- increases were limited to 15 per cent of the previous year's rate bill, in real terms, in any one year (compared to 20 per cent for larger properties); and the cap on gains was raised to 15 per cent, (compared to 10 per cent);

- the definition of small properties was those with a new rateable value below £7,500 in London, and £5,000 in the rest of England and in Wales. This covered some 60 per cent of properties, but only 8 per cent of rateable value (72 per cent and 12 per cent in Wales).

Revised proposals

- Following consultation, Mr Ridley has now proposed doubling these limits, to £15,000 in London, and £10,000 elsewhere. This would cover nearly 80 per cent of all properties (but still only 16 per cent of RV). Mr Walker has proposed a £10,000 limit in Wales, covering some 85 per cent of properties (and 20 per cent of RV).

Mr Newton has said that he is broadly content with the revised proposals.

Your counter-proposal

Your minute to the Prime Minister proposed limits of £10,000 in London, and £7,500 elsewhere in England, (covering 70 per cent of properties and 12 per cent of RV), and £7,500 in Wales (80 per cent and 17 per cent).

Likely DOE arguments

- Strong pressure for a concession here. Even doubling the threshold does not go as far as small business representatives wanted;
- strong pressure in Parliament for small business concessions last year;
- even doubling threshold does not affect limits of gains.

Counter-arguments

Need to strike a balance between giving special help to genuine small businesses, and not letting in branches of much larger businesses, which have no case for special treatment, eg building societies, off-licences, Boots etc. BUT NB Valuation Office estimate that in practice only small branches in local shopping streets would qualify, and not larger branches or city centre shops.

Speaking note

- Clearly a case for some increase in threshold;
- but Nick's proposals go too far, by including nearly 80 per cent of properties, and 85 per cent in Wales;
- at this level, must be a substantial risk of giving special treatment to branches of chain stores, and even smaller branches of building societies. Could not defend this against, say, manufacturers with much smaller businesses, but only one site;
- so propose smaller, though still substantial, increase, to £10,000 in London and £7,500 elsewhere. This would cover 70 per cent of properties in England and 80 per cent in Wales.

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NOTE C

FINANCING PROTECTION FOR THE LOSERS

Original proposal

- basic approach, both losses and gains to be phased in;

- increases for losers limited to 20% of previous year's rate bill, in real terms, in any one year (15% for small properties)

- paid for by limiting gains to around 10% of previous year's rate bill, in any one year (around 15% for small properties). Limits on gains to be finalised later, to balance pool;

- in Wales, same limits on losses; limits on gains could probably be higher;

Revised proposal

- no change for losers;

- limit on gains to be 20% of previous year's bill in the first year only;

- rest of cost met by a premium on the NNDR poundage: in 1988-89 prices, with poundage of 30-35p, premium would need to be 4p in year 1 and year 2, 3p in year 3, and 1p in years 4 and 5;

- in Wales, cap on gains of 20% in first year; premiums of 2p, 1½p, 1p, and ½p with no premium needed in year 5.

Your counter proposal

Stick to agreed approach of phasing for gainers.

Likely DOE/Welsh Office arguments, with comments

1. Response to consultation

Support for premium from:

- gainers especially the Association of British Chambers of Commerce, whom Mr Ridley says are more representative than other bodies

  (Comment: big gainers bound to support this, because they get their gains sooner; ABCC not necessarily more representative, but certainly includes a lot of potential gainers among manufacturers in North and Midlands; most representations wanted Exchequer to pay for transition, and expressed no preference between phasing of gains and premium);

- local authorities (see 5 below);

- valuation professionals who argue that any transition distorts the property market, and this will get more properties to their long-term bill sooner

  (Comment: any transition bound to distort market, though premium may be less of a distortion, because applies across the board), and to old and new properties; but arguably there could be more distortion caused by introducing largest changes very quickly - big reductions in rate bills for some types of property in North and Midlands);

2. Economic case

With phasing of gains, wider economic benefits of redistributing rate burden will be very slow to come through.

(Comment: but long-term gainers know what their gains will be, and can plan on that basis. Premium would help them sooner, at the expense of damaging higher rate bills for a broad band of businesses in the middle.)

3. Politically, need to let big gains come through early, to gain support for policy, and to be seen to deliver promise of relief from high rates to manufactures in North and Midlands. At present run risk of taking flak from both losers and gainers.

(Comment: premium would be popular with big gainers, but would alienate those in the middle who have no big gains to look forward to, and could be seen as an obscure imposition on everybody. BUT

NB areas of concern here include marginal constituencies in North, which are of concern in grant settlement, and marginals in West Midlands.)

4. Size of cash gain looking very small: if limit is 10% real gain, and RPI in September say 8%, cash gain will be very small indeed.

(Comment: a real gain is a real gain. These businesses have typically seen substantial real increases in their bills in recent years.)

5. Premium is easier to administer, because fewer businesses need special treatment - important, given other burdens currently falling on local authorities.

(Comment: premium by itself would be simpler. But Mr Ridley now proposes combining it with phasing of gains in first year. So LAs still have to set up arrangements for phasing gains for all those properties. So big advantage of premium disappears.)

Points to make (Speaking note below)

1. Distributional

Mr Ridley's proposal turns small losers into bigger losers, and small gainers into small losers. Big losers protected by 20% cap on losses. Big gainers benefit from rise in limit on gains from 10% to 20%. Mr Ridley's proposal also means close to 100,000 medium gainers (gains between 10 and 20 per cent) gain less than under his old proposal.

Table below shows gainers and losers in first year under the two options.

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Numbers of gainers and losers under the two options

	1990-91, thousands, England	
	Existing proposal	Premium on poundage
Gainers	630 (40%)	490 (31%)
Little change (+/- 5%)	110 (7%)	105 (7%)
Losers	820 (54%)	960 (62%)
TOTAL	1560	1555

In short 140,000 more losers. And a further 140,000 will see bigger losses.

(Mr Ridley might counter with 2 points:

a. The new losers will not know what their "proper" rate bill should be - the answer to that is that they may well do so, thanks to the business organisations, or may get the idea that the NNDR for everybody is higher than it ought to be; at the very least, they will know that the new bill is higher than the old one, whereas they ought to be seeing a reduction;

b. for some 400,000 gainers, the rate bill will be lower - the answer here is that, with a self-financing scheme, the total amount of extra gain for the big gainers must be offset by the losses taken by small gainers and small losers.)

2. Size of premium

Premium would need to be substantial: an extra 12½ per cent on rate bills for those affected.

3. Breach of faith

Extra impost on businesses would get new system off on the wrong foot. Key part of proposal is assurance that new Uniform Business Rate will not show real increase over previous year's rate. Would undermine credibility if starting poundage were 4p higher than it ought to be. Businesses would find this hard to understand, hard to square with pledges, and it would cast doubt on our future intentions.

4. <u>Public expenditure</u>

Premium would also have implications for public expenditure of up to £180-200 million over the five years to 1995. Note D sets out the arguments here.

5. <u>Existing proposal better</u>

Parallel phasing a reasonable approach. New system a good deal for business. But combination of revaluation and UBR bound to involve significant shift in rate bills. Right to phase in impact on losers. And fairest way to do this is to ask those looking forward to substantial gains to see these phased in as well.

<u>Speaking Note</u>

See Nick's argument for getting big gains in sooner. But think his approach would bring still worse problems. Means getting on for two properties out of three would be losers in first year, with 140,000 turned from gainers into losers.

Premium would be substantial. Rate bill for all but biggest losers and biggest gainers would be one-eighth higher than it should be.

Also hard to present. Many will simply see a significant real increase in the NNDR poundage, which they expect to be similar to 1989-90, in real terms, after adjusting for the revaluation. Risks damaging credibility of pledges for the future.

Furthermore, some impact on public expenditure: Government's payments of rates up to £180-200 million higher over five years to 1995. Impossible to guarantee provision increased to compensate: if increases fed through in full would affect our ability to meet targets for GGE. Departments will therefore have to bid for new provision: may particularly affect eg NHS, DSS and DE accommodation costs. Within any given level for NPT and GGE, means less room for programme spending.

D

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NOTE D

CONTRIBUTIONS IN LIEU OF RATES

Background

The Crown is not legally liable for rates. However, since the 19th century, it has made ex-gratia payments to local authorities called contributions in lieu of rates (CILOR) in respect of each property that it occupies. These payments are broadly consistent with the rates that would be payable by the private sector.

2. The amount payable in CILOR is currently being recalculated as part of the general revaluation. The revaluation and move to a Uniform Business Rate are likely to increase the total amount payable in CILOR substantially, by up to c. £70-100m. This reflects in large part the rise in the value of Government property relative to other property, since 1973.

3. CILOR is significant for public expenditure on two counts:

- First, it is a payment from Central Government to local authorities, and helps to finance LA expenditure. So it scores as part of the NNDR payment.

- Second, it represents departmental expenditure on the occupation of property, and, as such, like rent and other costs, is included within departmental PES.

Because it has these two roles, CILOR is counted twice in the public expenditure totals: in GGE, once when departments pay it, when they occupy property, and once when local authorities spend the money they receive on goods and services.

4. You agreed with Mr Ridley earlier this year that any change in the amount of CILOR after 1990 should be offset in full in the amount of RSG, so as to avoid any windfall benefit flowing to local authorities after the revaluation. But because CILOR is

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also counted as departmental expenditure, the increase of £70-100m will still be all additional to NPT and GGE, when it comes into effect.

5. This note explains the implications of Mr Ridley's premium on the poundage of CILOR, and then suggests a line to take for the meeting.

Mr Ridley's new proposals: significance for CILOR

6. Mr Ridley's new proposals for the transition, if applied to CILOR, would mean a big rise in the amount that we pay, compared to the amount that we would have paid under his previous proposals. We estimate the total increase over the five years 1990-95 as c. £180-200m. This would be broken down each year roughly as follows:

1990-91	+£58m		
1991-92	+£58m	1993-94	+£15m
1992-93	+£44m	1994-95	+£14m

7. This rise would occur because Mr Ridley's proposed premium on the poundage would affect the Crown particularly badly. This is because of the likely effect of the revaluation: we have few properties that will see big falls in their rates bills, with the UBR/revaluation, but many that will see little or no change. If there is a premium on the poundage, the bills for these properties will rise by c. 12½%.

8. This rise would not affect the amount of support that we give to local authorities. Because of your agreement with Mr Ridley, RSG would simply be cut to the same extent. However, it would mean that:

- departmental expenditure on occupation of property would rise by £50-60m (though see para 9);

- other things being equal, GGE and the New Planning Total would also rise to the same extent.

The extra expenditure would not add to the PSBR, because the higher payment of CILOR will also count as higher Government revenue. So there is no additional burden on the taxpayer. But it would obviously make it that much more difficult to meet our targets for GGE as a proportion of GDP.

Other points

9. There are two other points of which you should be aware:

- first, there will be a delay until 1991-92 before departments actually need to pay these higher rates

- second, we may be able cut marginally the public expenditure impact of Mr Ridley's proposals

10. First, the timing. These increases will not in practice affect departmental expenditure in 1990-91, though they will affect later years. This is because departmental expenditure on rates in 1990-91 will be fixed at the same level as in 1989-90 adjusted for inflation, ie it will not be adjusted to reflect the UBR/revaluation. This arrangement is necessary because we shall not know the detailed effect of the revaluation/introduction of the UBR until this Autumn - too late to take proper account of the changes in this Survey. The Treasury collects departmental payments of CILOR before they are passed to local authorities. We can thus fix the amount that departments should pay us independently of the amount that we pay local authorities.

11. The effect of changes in rates bills on departmental expenditure will therefore be a matter for the 1990 Survey, not this year's. However the effects of different options for the transition on public expenditure remain considerable: up to £140m on departmental PES in the four years 1991-92 to 1994-95, and up to £200m on GGE/NPT over the full five years.

12. We suggest that you impress this basic public expenditure point on colleagues at E(LF).

13. The second point is this: if Mr Ridley's new proposals for the transition are accepted for the private sector, it may be that we could cut the increase in CILOR marginally by not applying <u>any</u> transitional arrangements (including the premium) to Crown properties. Though this would cost us extra for those properties which are going to see big rises in rates bills, it would cost us less for those properties which - unless the premium is applied - will see little or no change. The net saving might be c. £40m out of the total of c. £180-200m.

14. Mr Ridley may oppose the suggestion that we should not apply the transition or (more particularly) the premium to the Crown. But this does not need to be decided now: you simply need to keep options open on whether or not the transition is applied, so that we also keep open the possibility of making <u>some</u> saving compared to the cost of Mr Ridley's new proposals.

<u>**Line to take**</u>

- Concerned about implications of Nick's proposals for public expenditure, particularly amount of rates payable by Government departments and NHS.

- Proposed premium on poundage would cost (estimated) extra <u>£50-60m</u> in rates costs for Government property in first two years of new system; up to <u>£180-200m</u> over 5 years; within any given level of GGE and New Planning Total, means less room for other expenditure.

- Nick's proposals would make it perceptibly more difficult to achieve our targets for GGE: GDP. Anticipate round of bids from departments when they come to have to pay higher rates, (eg. NHS). Impossible to guarantee extra provision. If colleagues agree with Nick's proposals assume they will be prepared to absorb extra costs.

(**If pressed:** not yet decided whether it will be sensible to apply transitional arrangements to Crown properties: transition a self-financing mechanism designed for private sector, may not be sensible administratively or financially for Crown. Not applying transition would be more expensive than applying transition under Nick's original proposals, but similar cost to new proposals.)

Defensive

Addition to public expenditure 'optical effect': PSBR neutral Of course PSBR neutral: Government payment of a tax, so must add to revenue. But not 'optical effect': represents real increase in Government's measured consumption of goods, services etc; makes achievement of our public expenditure targets more difficult, and departments occupying property (NHS) will need extra resources for rates. Impossible to guarantee provision will be found centrally.

NOTE E

TRANSITIONAL PROTECTION ON CHANGE OF OCCUPIER

Original proposal

Transitional arrangements to apply to existing buildings, even if occupier changes during transitional period, but not to new buildings.

Revised proposal

Transitional protection for losers to lapse where there is a change of occupier. (DOE officials confirm that this change is indeed intended to apply to losers only. The limit on gains will still apply, irrespective of changes of occupier, to avoid giving gainers an incentive to swap properties to escape the limit on gains.)

Mr Newton's proposal

Mr Newton's 15 June letter argues against moving from the original proposal. He suggest it could distort the market, and could lead to hardship where existing occupiers were unable to carry on but found the value of their lease reduced because of the higher rate bill.

Assessment

- no strong Treasury interest

- any transition inevitably distorts market;

- Mr Newton's concern is that loss of transitional protection will make businesses in losing areas less likely to move, because they would go from protected bill to an unprotected one;

- but the original proposal distorted the market, in that protection only applied to existing property, so strong disincentive for losers to move to new properties;

- fine balance, but probably better to get properties out of transition sooner rather than later, as Mr Ridley's proposal does.

Suggested line to take

Agree with Nick Ridley. Balance of advantage lies in ending transitional protection in these cases, so as to remove discrimination against new buildings.

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NOTE F

ANNOUNCEMENT AND PUBLICATION OF FIGURES

Mr Ridley's proposal

- announce proposals in July;

- legislation to be introduced in the Local Government and Housing Bill, at Lords Committee Stage, in late July;

- publish updated version of Inland Revenue survey of effects, alongside announcement.

Assessment

Only point for us is to keep close eye on proposed publication of survey of effects of revaluation and UBR. Probably no harm in producing updated version of the tables published in February (copy attached, Ministers' copies only). Need to look very carefully at figures before going into more detail about, eg effects on types of property within regions.

Speaking note

Agree with Nick's proposals on announcement. Suggest that he, Peter Walker and I look at figures, with a view to deciding what it would be helpful to publish.

APPENDIX

APPENDIX

THE 1990 RATING REVALUATION AND THE MOVE TO A UNIFORM BUSINESS RATE

RESULTS OF INLAND REVENUE SURVEY

Introduction

The Inland Revenue has carried out a preliminary sample survey of the likely combined effects of the new (1990) revaluation of non-domestic properties and the introduction of a Uniform Business Rate (UBR) in England and Wales. This note sets out the results.

2. All the results need to be interpreted with caution. The new valuations supplied for the sample of properties were best estimates based on information then available to valuers. These estimates are not the actual valuations that will be used in the new system, but were made before any actual revaluations had taken place. So the results should be taken as providing only the broadest indication of possible changes in rate bills for particular categories of property and particular regions.

3. Self-financing transitional arrangements will ensure that no property will see its rate bill increase by more than 20 per cent a year, in real terms, for the first five years of the new system at least.

4. Estimates of rate bills are given throughout in 1988-89 prices and assume no changes in the population of business properties. No allowance is made for cases in which full rates will not be paid, for example because properties are vacant, or occupied by charities.

The Yield of Non-Domestic rates under the new system

5. The Government has decided that the broad aim should be that the total amount of rates paid in 1990-91 by private sector businesses and nationalised industries - those properties covered by this note - should be the same as for 1989-90, with adjustments for inflation and "buoyancy" (the net change in yield that arises as the number, size, and quality of business properties increase or diminish).

6. Within that overall picture, there are likely to be significant changes in the rate bills for different properties, and the transitional arrangements will ensure that larger changes are phased in over a period of years. Whether an individual property sees a reduction or an increase in its rate bill will depend on two things:

- first, whether the relative increase in its <u>rateable value</u>, as a result of the revaluation, is more or less than the average increase for non-domestic properties as a whole;

- second, whether its local authority currently charges a high or low <u>rate poundage</u>, relative to the national average.

The results reported in this note seek to take account of both these changes.

Aggregate changes in rateable values and poundages

7. Rateable values at present reflect the rental value of property at the last general revaluation, which was based on April 1973 values. Rental values have, of course, increased considerably since that time, and the survey suggests that, on average, new rateable values will be about 7½ times their present levels in England and about 8 times their present levels in Wales.

8. Since the aim is to keep the yield broadly constant in real terms, with an adjustment for buoyancy, the increase in average rateable values will be matched by a corresponding reduction in the rate poundage. Thus, on the basis of the rateable values suggested by the survey, the uniform business rate poundage would be between one-seventh and one-eighth of the average current poundage in England, and about one-eighth of the average poundage in Wales. On this basis, the UBR would be in the range 30-35 pence in the pound, in both countries, if it were introduced in 1988-89, compared to an average rate poundage of around 240 pence in the pound in England and around 260 pence in Wales.

Overall distribution of gainers and losers

9. Table 1 shows estimated numbers of properties facing reduced rate bills ("gainers") and increased rate bills ("losers"), and the total amounts of the reductions and increases, <u>before</u> taking account of the transitional arrangements.

Table 1: Numbers and amounts of reductions and increases

	Number of properties 000s	Aggregate rate bill £m	Aggregate reduction(-) /increase (+) £m	Overall reduction (-) /increase (+) %
England				
Gainers	630	4,600	-1550	-34
Little change (less than +/- 5%)	110	660	-4	-
Losers	820 53%	2,950	+1550	+53
Wales				
Gainers	30	150	-40	-28
Little change (less than +/- 5%)	10	60	-	-
Losers	60 60 per cent	120	+40	+36

NOTE: Columns may not sum due to rounding. This may also lead to small differences between numbers derived from different tables, and between cash changes and percentage changes within tables.

As the Table shows, very few businesses are expected to find their rate bills unchanged. More are projected to face increases than reductions. But since (as explained above) the total yield of business rates is to remain broadly constant, the total of increases in rate bills will be matched by the total of reductions. Compared to present rate bills, the percentage increase for the losers is greater than the percentage reduction for the gainers, because the losers as a group have a substantially lower rate bill at present.

10. Table 2 shows the distribution of reductions and increases in more detail, again <u>before</u> taking account of the transitional arrangements.

Table 2: Distribution of changes in rate bills

	Number of properties (000s)	Present rate bill £m	Change in rate bill: reduction(-)/increase(+) £m		per cent
ENGLAND					
Reductions					
50% or more	120	950	-570		-61
5% to 50%	500	3650	-980	-800 -165	-27
Little change (less than +/- 5%)	110	660	-4		negligible
Increases					
5% to 50%	420	1980	+460	+~~200~~ 260 +200	+23
50% to 100%	190	630	+450	+400 +50	+71
100% or more	210	340	+650	+500 +160	+193
WALES					
Reductions					
50% or more	2	20	-12		-58
5% to 50%	26	130	-30		-23
Little Change (less than +/- 5%)	10	60	-		-
Increases					
5% to 50%	31	90	+18		+20
50% to 100%	17	25	+16		+70
100% or more	10	5	+8		+150

The transition to the new system

11. As explained, the estimates above make no allowance for the transitional arrangements. These arrangements will give ratepayers time to adjust to the changes.

12. No property will see its rate bill increase by more than 20 per cent a year, in real terms. For smaller properties, the Government has decided that increases in rate bills should be phased in at a slower rate. Thus for properties whose new rateable value is below £5000, or in London below £7500, increases will be limited to 15 per cent a year, in real terms. The survey suggests that this may cover 60 per cent of properties in England and 70 per cent in Wales.

13. To keep the total yield broadly constant, these ceilings on increases in rate bills will be matched by limits on the reductions in the rate bills of gainers. Preliminary indications from the survey suggests that the annual limit on gains in England could be around 10 per cent for larger properties.

14. The Government has decided that the gains of smaller properties should be phased in more quickly, with the annual limit set at 5 percentage points above that for larger properties. Hence the annual limit on gains would be likely to be around 15 per cent for smaller properties.

15. The arrangements within Wales will also be self-financing, and the survey suggests that slightly greater annual reductions might be possible.

16. The ceilings mean that increases in rate bills totalling about £500 million are likely to come through in the first year, with larger amounts in later years. The limits on reductions have been set so that cash reductions come through at broadly the same rate. Expressed as a percentage of existing rate bills, the limits for increases and reductions are bound to differ, since, at present, the gainers have an aggregate rate bill which is much larger than the aggregate bill for the losers - see Table 1.

17. Table 3 shows very broadly how the transition is projected to work, based on the preliminary indications from the survey.

Table 3: Effects of the transitional arrangements

Year	Actual shift in rate bills† £m	Shift deferred by transitional arrangements £m	Properties affected (000s) with full increases deferred	with full reductions deferred
ENGLAND				
1990-91	500	1050	680	520
1991-92	850	700	490	380
1992-93	1100	450	350	270
1993-94	1250	300	240	190
1994-95	1350	200	160	120
WALES				
1990-91	15	25	50	20
1991-92	27	13	35	10
1992-93	34	6	25	4
1993-94	37	3	15	2
1994-95	38	2	10	1

†This represents the total of all reductions coming through in the year, or equivalently the total of all increases.

18. Thus, in England, only about one-third of the total shift in rate bills is likely to come through in the first year. Nearly 700,000 properties benefit from having their increases spread beyond the first year, at the cost of deferring reductions for some 500,000 properties.

19. In each year after 1990-91, more business properties facing increases will reach the full level of their new rate bills. Correspondingly, more properties will also realise their full gains in terms of lower rate bills.

Distribution of Changes by Property Type and Region

20. Within the broadly constant overall yield, the survey suggests that there are likely to be significant shifts in rate bills, between different types of property and different parts of the country.

21. Table 4 gives estimates of the projected change in the overall rate bill for broad types of property, once the transition is complete. As can be seen, the estimates indicate significant reductions, after the transitional period, in the rate bills of factories and warehouses, balanced by increases in the bills of the other types of business property.

Table 4: Possible Changes in rate bills by property type, England and Wales

Property Type	Overall reduction (-)/increase (+) in rate bill per cent	
	England	Wales
Factories	-25	-16
Warehouses	-12	-9
Shops	+14	+18
Offices	+14	+5
Other properties	+7	+6

But it must be stressed that the outcome for each category will be made up of a very wide range of results for individual business properties. Some factories are likely to see a reduction of more than 25 per cent; others may see a smaller reduction, or even an increase. Similarly, although shops and offices as a whole are projected to pay more, some individual shops and offices are likely to pay less.

22. Table 5 gives projections of how rate bills might shift between the different regions in England, both in the first year and once the transition to the new system is complete. The North West, the West Midlands, the East Midlands, Yorkshire and Humberside, and the Northern region are projected to see reductions; rate bills are likely to be higher in East Anglia and the South of England.

Table 5: Projected changes in rate bills by region, England

Region	Pre-reform rate bill	Overall reduction (-)/increase (+) in Full Change		First Year	
	£m	£m	%	£m	%
North West	1000	-310	-31	-67	-7
West Midlands	790	-200	-25	-42	-5
East Midlands	600	-130	-21	-28	-5
Yorkshire and Humberside	730	-150	-20	-40	-5
Northern	480	-50	-11	-15	-3
East Anglia	260	+40	+16	+13	+5
South West	550	+130	+24	+42	+8
Inner London	1460	+390	+27	+76	+5
Outer London	730	+50	+6	+11	+2
Rest of the South East	1600	+230	+15	+88	+6

Again, each broad category is likely to mask a wide range of changes in the rate bills on individual properties.

23. For statistical reasons, it is not possible to estimate likely changes in the rate bills of individual business properties or types of property in particular regions by marrying together the estimates in tables 4 and 5.

SECRETARY OF STATE FOR THE ENVIRONMENT

PRIME MINISTER

1989 GRANT SETTLEMENT

At our meeting of E(LF) on 22 June it was agreed that I should look for an alternative to the term 'needs grant', in the same way as I had done for the other key terms in the grant settlement. I am writing now to let you know my preferred alternative.

The statutory name will remain Revenue Support Grant. That name will, therefore, appear on the annual report and on any other statutory document. What we are looking for is a more colloquial alternative that I can use in speeches etc, that is easily remembered and will convey something to the man in the street. I have concluded that the best term is 'Standard Spending Grant'.

This will fit in with the other terms we have agreed. We will have Total Standard Spending for authorities in aggregate, Standard Spending Assessments for each individual authority, the Community Charge for Standard Spending (CCSN) and Standard Spending Grant. Moreover it is an accurate description of what the grant does: it supports spending at the standard level but spending above that level is not supported by grant at all. It makes it very clear that grant is linked only to our assessment, not to authorities own budget decisions.

I am copying this to other members of E(LF). I should be glad of a quick response on this point, as I shall need to include these new terms in my July announcement about the Settlement.

pp NR

5 July 1989

(Approved by the Secretary of State and signed in his absence)

5/7/89

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DRAFT MINUTE TO PRIME MINISTER

REVENUE SUPPORT GRANT SETTLEMENT 1990/91 : THE SAFETY NET

1. Following our discussions at E(LF) on 22 June, I have given further thought to the form of the safety net. No other colleague has made any comment but I have discussed the matter with John Major. I am writing to let you know what he and I now think would be our best option.

2. I continue to think that it is reasonable for some of the losses which will be experienced on moving to the new system to come through in the first year. As I said before, £25 seems to me to be the sort of amount everyone could be asked to bear. In the same way I think that the smaller and medium size gains ought to come through to a greater extent than under our original proposals.

3. The proposal which best meets these broad objectives is the safety net shown in column 7 of the table attached to my paper E(LF)(89)4. This allows through up to £25 of losses, but gives full protection for all losses above that. This protection is paid for by gainers contributing 53% of their gains, so the big gainers contribute more than the small gainers. Every gainer retains some of their gain. (The heading to column 7 of the table erroneously showed gainers contributing 57% of gains. Using new data may change this figure again slightly.)

4. I have illustrated this option in column 3 of the attached table, but with a further refinement to address a particular problem John and I have identified. This is that most of the losses will be borne in the North, while most of the gains come through in the South of England. In many areas of the North, average rate bills are low because rateable values are low. A £25 loss would be a greater proportionate burden for those areas than elsewhere - and one which they are not expecting to bear.

5. A simple way to help would be to prevent any loss feeding through in the worst hit areas. I have illustrated how charges would look if we offered full protection to areas where the average rateable value per domestic hereditament was very low, below £135, tapering to no extra protection in areas with an average RV of £150 or more. About 50 authorities would benefit from this refinement - a list is at annex B.

6. In the exemplifications, I have assumed we would offer this extra help by way of a specific grant costing £100 million. John Major has reluctantly agreed to a corresponding increase in AEF

to £23.1 billion. This would complement the £100 million we are proposing to give to Inner London. It would be extra money to deal with a particular problem; it would mean we could phase it out in whatever way we thought best. But it does have the disadvantage that we need to take new powers, by amendment while the Local Government and Housing Bill is in the Lords; there may be procedural difficulties in dealing with a financial measure of this kind in the Lords.

7. I would propose to include in my July announcement an outline of the proposed new form of the net. The £25 maximum loss figure would be firm but the exact percentage of gains needed to pay for it can only be worked out in the Autumn. I would also propose to mention the extra protection for low RV areas.

8. I am sending copies to members of E(LF) and Sir Robin Butler and I invite colleagues to endorse my proposals.

NR

Department of the Environment
5 July 1989

lg.ph/AE/268

CONFIDENTIAL

CHIEF SECRETARY

FROM : B H POTTER
5 July 1989
Ext 4790

Fw f 5.7.

cc Mr Anson
Mr Phillips
Mrs Lomax
Mr Edwards
Mr Hudson

POTTER TO CST 5/7

REVENUE SUPPORT GRANT SETTLEMENT 1990-91 : THE SAFETY NET

I attach a draft of the minute from the Environment Secretary to the Prime Minister. Subject to comments from Mr Ridley, it will be circulated to E(LF) this evening.

2. The draft reflects discussions between DOE and Treasury officials. I have asked DOE to include a number of the points which you mentioned when we discussed very briefly at lunchtime the outcome of this morning's meeting with the Prime Minister.

3. There is only one point of substance which is a possible cause for concern. You will note that at the end of paragraph 6, Mr Ridley has pointed out that providing assistance to areas of low rateable value by means of a specific grant would require legislation; and that the legislation, being a financial measure, might cause procedural difficulties if introduced in the Lords.

4. However, although not stated in this minute, DOE officials say that Mr Ridley would still proceed with the proposal for the North, even if the legal advice were that it could not be done by means of a specific grant. In that instance, the proposed payments would be included as part of the safety net arrangement. The only practical implication would be that the arrangement for the North would have to be phased out over the same period of the safety net as a whole ie a maximum of four years, rather than being phased out over five years as you had earlier envisaged.

5. You already had extensive briefing for the meeting with the Prime Minister this morning; and there is little further that LG can usefully provide. However it may just be helpful to have on a single page the main arguments for the proposals on the safety net which Mr Ridley and you are putting forward. This is contained in the attached annex.

BHP

BARRY H POTTER

BRIEF

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ANNEX

THE SAFETY NET OPTION

Description

- £25 per adult losses relative to uprated 1989-90 average rate bill per adult for all losing LAs (for standard spending) except:

  - inner London : specific grant on education will give the LAs more than full protection;

  - certain areas in the north and west : specific grant will provide full protection to areas with average domestic rateable value below £130 and partial protection up to £150.

- gainers give up 53 per cent (ie very roughly half) their gains in the first year to pay for safety-netting the losers.

Pros

- allows gainers to get about half their gains on introduction of community charge;

- protects losers in sensitive areas of high absolute community charges (inner London) or high increases in local domestic taxes (north and west);

- leaves the CCSS at £272 ie around this years average rate bill per adult

- no need for legislation on the safety net itself.

Cons

- breaks commitment to full protection of losers (but most sensitive areas protected);

- safety net contribution shown on demand note (but importance of this should not be exaggerated: comparisons with last year's rate bills likely to be main influence on accountability);

- needs legislation for the specific grant (but if procedural difficulties arise can be executed by safety net instead, which requires no legislation).

OK also PAH (legislation) follows:
This reflects agreement reached by PM, CST & Ridley today. (see brief behind) a generally satisfactory outcome.
DIS

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SECRETARY OF STATE FOR THE ENVIRONMENT

Prime Minister

(Indeed: PM ruled for favour of CST & cost held to £100m, less than the £150m CST was prepared to concede) AA

REVENUE SUPPORT GRANT SETTLEMENT 1990/91: THE SAFETY NET

5/7/89.

Following our discussions at E(LF) on 22 June, I have given further thought to the form of the safety net. No other colleague has made any comment but I have discussed the matter with John Major. I am writing to let you know what he and I now think would be our best option.

I continue to think that it is reasonable for some of the losses which will be experienced on moving to the new system to come through in the first year. As I said before, £25 seems to me to be the sort of amount everyone could be asked to bear. In the same way I think that the smaller and medium size gains ought to come through to a greater extent than under our original proposals.

RIDLEY → CX 5/7

The proposal which best meets these broad objectives is the safety net for the first year shown in column 7 of the table attached to my paper E(LF)(89)4. This allows through up to £25 of losses, but gives full protection for all losses above that. This protection is paid for by gainers contributing 53% of their gains, so the big gainers contribute more than the small gainers. Every gainer retains some of their gain. (The heading to column 7 of the table erroneously showed gainers contributing 57% of gains.) Using new data may change this figure again slightly.

I have illustrated this option in column 3 of the attached table, but with a further refinement to address a particular problem John and I have identified. This is that most of the losses will be born in the North, while most of the gains come through in the South of England. In many areas of the North, average rate bills are low because rateable values are low. A £25 loss would be a greater proportionate burden for those areas than elsewhere - and one which they are not expecting to bear.

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SECRETARY OF STATE FOR THE ENVIRONMENT

A simple way to help would be to prevent any loss feeding through in the worst hit areas. I have illustrated how charges would look if we offered full protection to areas where the average rateable value per domestic hereditament was very low, below £135, tapering to no extra protection in areas with an average RV of £150 or more. About 50 authorities would benefit from this refinement - a list is at annex B.

In the exemplifications, I have assumed we would offer this extra help by way of a specific grant costing £100 million. John Major has reluctantly agreed to a corresponding increase in AEF to £23.1 billion. This would complement the £100 million we are proposing to give to Inner London. It would be extra money to deal with a particular problem; it would mean we could phase it out in whatever way we thought best. I shall want to consider the most appropriate way of phasing it out over the five years which I think is the right period. But I think it would be better not to announce details of the phasing out yet, so as not to tie our hands. But it does have the disadvantage that we need to take new powers, by amendment while the Local Government and Housing Bill is in the Lords; there may be procedural difficulties in dealing with a financial measure of this kind in the Lords.

I would propose to include in my July announcement an outline of the proposed new form of the net. The £25 maximum loss figure would be firm but the exact percentage of gains needed to pay for it can only be worked out in the Autumn. I would also propose to mention the extra protection for low RV areas.

I am sending copies to members of E(LF) and Sir Robin Butler and I invite colleagues to endorse my proposals.

RBirkgill

pp. N R

5 July 1989

(approved by the Secretary of State and signed in his absence)

DATE: 5-JUL-89

ILLUSTRATIVE 1990/91 COMMUNITY CHARGES WITH SPENDING AT £32.8bn

AEF £23.1bn, of which £200m for specific grants. Gross Total Standard Spending £32.8bn
DOE E(LF) Standard Spending Assessment Package
Inner London charges reduced by £100m ILEA specific grant
1990/91 charges reduced by £100m specific grant in losing areas with low domestic RV per hereditament

	COL 1 1989/90 Av rate bill per adult + 4%	COL 2 Long run charge	COL 3 Up to £25 loss, 47% of gains allowed	COL 4 Effect on charge of 1% rise in spending
Total England	280	273	271	8
Total Inner London	343	397	294	13
Total Outer London	324	310	318	9
Total Metropolitan Areas	273	287	268	9
Total Shire Areas	271	249	259	7

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	COL 1 1989/90 Av rate bill per adult + 4%	COL 2 Long run charge	COL 3 Up to £25 loss, 47% of gains allowed	COL 4 Effect on charge of 1% rise in spending
GREATER LONDON				
City of London	541	325	421	2
Camden	446	442	425	12
Greenwich	285	579	246	13
Hackney	351	239	263	15
Hammersmith and Fulham	373	563	348	14
Islington	446	425	416	14
Kensington and Chelsea	393	205	282	9
Lambeth	309	334	277	14
Lewisham	275	423	241	12
Southwark	281	439	247	15
Tower Hamlets	282	397	240	16
Wandsworth	202	350	175	11
Westminster	587	341	449	13
Barking and Dagenham	244	365	269	9
Barnet	361	246	307	7
Bexley	247	294	272	7
Brent	491	461	477	13
Bromley	255	260	260	6
Croydon	267	164	219	7
Ealing	321	312	317	10
Enfield	316	274	296	8
Haringey	532	566	557	14
Harrow	327	264	298	8
Havering	257	298	282	7
Hillingdon	328	402	353	9
Hounslow	373	351	362	10
Kingston-upon-Thames	324	328	328	8
Merton	285	304	304	8
Newham	356	319	339	14
Redbridge	231	242	242	7
Richmond-upon-Thames	357	305	332	6
Sutton	309	307	308	7
Waltham Forest	325	275	302	10

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GREATER MANCHESTER				
Bolton	242	243	243	9
Bury	308	308	308	8
Manchester	322	288	306	11
Oldham	237	259	255	10
Rochdale	262	343	277	10
Salford	286	283	285	9
Stockport	313	269	292	8
Tameside	253	304	274	9
Trafford	287	235	263	8
Wigan	269	343	294	9
MERSEYSIDE				
Knowsley	300	247	275	11
Liverpool	302	276	290	11
St Helens	262	313	287	9
Sefton	288	270	279	8
Wirral	381	350	366	10
SOUTH YORKSHIRE				
Barnsley	221	367	221	8
Doncaster	258	372	270	9
Rotherham	249	349	255	9
Sheffield	278	384	287	9
TYNE AND WEAR				
Gateshead	248	324	255	9
Newcastle upon Tyne	279	335	304	10
North Tyneside	313	345	338	9
South Tyneside	236	301	251	9
Sunderland	217	275	225	9
WEST MIDLANDS				
Birmingham	281	193	240	10
Coventry	311	281	297	10
Dudley	302	250	277	8
Sandwell	279	211	247	9
Solihull	318	208	267	7
Walsall	305	255	282	9
Wolverhampton	306	196	255	10
WEST YORKSHIRE				
Bradford	218	277	218	10
Calderdale	236	379	236	10
Kirklees	217	327	217	9
Leeds	223	254	244	8
Wakefield	237	345	242	8

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AVON				
Bath	255	298	280	7
Bristol	298	345	323	8
Kingswood	263	264	264	7
Northavon	299	276	288	7
Wansdyke	278	288	288	7
Woodspring	305	285	296	7
BEDFORDSHIRE				
North Bedfordshire	310	238	276	8
Luton	361	233	301	8
Mid Bedfordshire	316	245	282	8
South Bedfordshire	364	273	322	8
BERKSHIRE				
Bracknell	305	239	274	7
Newbury	299	178	242	7
Reading	274	225	251	8
Slough	265	150	211	7
Windsor and Maidenhead	349	241	298	7
Wokingham	340	202	276	7
BUCKINGHAMSHIRE				
Aylesbury Vale	288	186	240	7
South Bucks	458	213	344	7
Chiltern	463	231	354	7
Milton Keynes	331	217	278	8
Wycombe	386	223	310	7
CAMBRIDGESHIRE				
Cambridge	323	249	288	7
East Cambridgeshire	235	212	224	7
Fenland	223	230	230	7
Huntingdonshire	250	208	230	7
Peterborough	274	256	265	7
South Cambridgeshire	297	192	248	6
CHESHIRE				
Chester	303	258	282	7
Congleton	280	256	269	7
Crewe and Nantwich	308	276	293	8
Ellesmere Port and Neston	292	267	281	8
Halton	259	267	267	8
Macclesfield	357	252	308	7
Vale Royal	267	253	260	7
Warrington	266	270	270	8

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CLEVELAND				
Hartlepool	247	301	263	10
Langbaurgh-on-Tees	308	337	333	10
Middlesbrough	275	330	300	10
Stockton-on-Tees	298	302	302	10
CORNWALL				
Caradon	220	218	219	7
Carrick	229	228	229	7
Kerrier	194	219	215	7
North Cornwall	220	215	218	7
Penwith	205	219	217	7
Restormel	205	217	217	7
CUMBRIA				
Allerdale	197	282	197	8
Barrow in Furness	198	321	198	8
Carlisle	227	282	238	8
Copeland	191	293	191	8
Eden	208	256	208	7
South Lakeland	249	280	274	8
DERBYSHIRE				
Amber Valley	249	316	274	8
Bolsover	225	342	226	8
Chesterfield	257	342	282	8
Derby	311	311	311	8
Erewash	265	325	290	8
High Peak	254	328	279	8
North East Derbyshire	277	347	302	8
South Derbyshire	281	309	306	8
Derbyshire Dales	297	315	315	8
DEVON				
East Devon	241	224	233	7
Exeter	216	238	238	7
North Devon	185	220	205	7
Plymouth	217	223	223	7
South Hams	257	229	244	7
Teignbridge	225	229	229	7
Mid Devon	193	220	218	7
Torbay	258	293	283	7
Torridge	169	216	169	7
West Devon	205	212	212	7

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DORSET				
Bournemouth	254	251	253	7
Christchurch	305	248	278	6
North Dorset	216	193	205	6
Poole	292	235	265	6
Purbeck	227	197	213	6
West Dorset	222	203	214	6
Weymouth and Portland	203	233	228	6
East Dorset	317	235	279	6
DURHAM				
Chester-le-Street	237	281	261	8
Darlington	248	285	273	8
Derwentside	209	301	209	8
Durham	227	280	252	8
Easington	200	288	200	8
Sedgefield	225	325	225	8
Teesdale	183	224	183	7
Wear Valley	205	313	205	8
EAST SUSSEX				
Brighton	335	348	348	8
Eastbourne	343	269	308	7
Hastings	269	238	255	7
Hove	290	223	259	7
Lewes	309	228	271	6
Rother	325	221	276	6
Wealden	289	224	259	6
ESSEX				
Basildon	434	353	396	8
Braintree	302	229	268	7
Brentwood	408	386	397	8
Castle Point	339	234	290	7
Chelmsford	371	229	304	7
Colchester	291	230	263	7
Epping Forest	414	267	346	7
Harlow	425	417	422	9
Maldon	327	224	279	7
Rochford	363	242	307	7
Southend-on-Sea	357	254	309	7
Tendring	310	246	280	7
Thurrock	365	313	341	8
Uttlesford	363	226	299	7

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GLOUCESTERSHIRE				
Cheltenham	280	255	268	7
Cotswold	282	223	254	7
Forest of Dean	201	228	226	7
Gloucester	231	232	232	7
Stroud	251	241	246	7
Tewkesbury	270	215	244	6
HAMPSHIRE				
Basingstoke and Deane	249	162	208	6
East Hampshire	287	173	234	6
Eastleigh	282	187	238	6
Fareham	287	182	238	6
Gosport	245	189	219	7
Hart	314	191	256	6
Havant	280	175	231	7
New Forest	264	190	229	6
Portsmouth	205	219	219	7
Rushmoor	231	174	205	7
Southampton	221	190	206	7
Test Valley	262	164	216	6
Winchester	293	176	239	6
HEREFORD AND WORCESTER				
Bromsgrove	264	175	222	6
Hereford	185	173	179	6
Leominster	176	147	163	6
Malvern Hills	258	185	224	6
Redditch	270	214	244	7
South Herefordshire	189	148	170	6
Worcester	259	216	239	7
Wychavon	280	191	238	6
Wyre Forest	242	215	229	7
HERTFORDSHIRE				
Broxbourne	326	264	297	7
Dacorum	375	253	318	7
East Hertfordshire	336	274	307	7
Hertsmere	405	298	355	7
North Hertfordshire	374	265	323	7
St Albans	389	259	328	7
Stevenage	386	332	361	8
Three Rivers	406	277	345	7
Watford	340	283	313	8
Welwyn Hatfield	417	337	380	8

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HUMBERSIDE				
Beverley	317	302	310	8
Boothferry	220	309	226	9
Cleethorpes	264	332	289	9
Glanford	259	286	284	8
Great Grimsby	251	322	276	9
Holderness	262	288	287	8
Kingston upon Hull	233	330	233	9
East Yorkshire	242	318	255	9
Scunthorpe	284	372	309	9
ISLE OF WIGHT				
Medina	245	250	250	7
South Wight	269	265	267	7
KENT				
Ashford	239	198	220	7
Canterbury	224	199	212	7
Dartford	218	235	235	7
Dover	198	188	193	7
Gillingham	211	187	199	7
Gravesham	232	193	214	7
Maidstone	231	180	207	7
Rochester upon Medway	205	163	186	7
Sevenoaks	257	192	227	7
Shepway	278	229	255	7
Swale	198	203	203	7
Thanet	234	209	222	7
Tonbridge and Malling	229	224	227	7
Tunbridge Wells	245	190	219	7
LANCASHIRE				
Blackburn	183	235	183	8
Blackpool	239	290	264	8
Burnley	176	260	176	8
Chorley	228	239	239	8
Fylde	272	250	262	8
Hyndburn	176	257	176	8
Lancaster	211	254	236	8
Pendle	169	270	169	8
Preston	233	221	227	8
Ribble Valley	215	246	240	8
Rossendale	199	277	199	8
South Ribble	228	249	249	8
West Lancashire	275	239	258	8
Wyre	239	249	249	8

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LEICESTERSHIRE				
Blaby	266	226	247	7
Charnwood	265	213	241	7
Harborough	307	244	278	7
Hinckley and Bosworth	257	233	245	7
Leicester	232	289	257	9
Melton	258	231	246	7
North West Leicestershire	258	249	254	8
Oadby and Wigston	281	244	263	7
Rutland	243	212	229	7
LINCOLNSHIRE				
Boston	208	225	225	7
East Lindsey	204	207	207	7
Lincoln	199	225	222	7
North Kesteven	205	203	204	7
South Holland	204	224	224	7
South Kesteven	222	211	217	7
West Lindsey	200	203	203	7
NORFOLK				
Breckland	223	214	219	7
Broadland	253	218	237	6
Great Yarmouth	222	243	243	7
North Norfolk	228	215	222	7
Norwich	256	261	261	7
South Norfolk	251	233	243	7
King's Lynn and West Norfolk	203	220	220	7
NORTHAMPTONSHIRE				
Corby	274	248	262	8
Daventry	303	248	277	8
East Northamptonshire	233	215	224	7
Kettering	246	244	245	8
Northampton	296	282	290	8
South Northamptonshire	293	209	254	7
Wellingborough	242	231	237	8
NORTHUMBERLAND				
Alnwick	242	296	267	8
Berwick-upon-Tweed	231	295	238	8
Blyth Valley	271	345	296	8
Castle Morpeth	303	288	296	8
Tynedale	257	288	282	8
Wansbeck	238	348	240	8

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Inner London charges reduced by £100m ILEA specific grant
1990/91 charges reduced by £100m specific grant in losing areas with low domestic RV per hereditament

	COL 1 1989/90 Av rate bill per adult + 4%	COL 2 Long run charge	COL 3 Up to £25 loss, 47% of gains allowed	COL 4 Effect on charge of 1% rise in spending
NORTH YORKSHIRE				
Craven	197	239	211	7
Hambleton	226	236	236	7
Harrogate	260	273	273	7
Richmondshire	187	231	212	7
Ryedale	211	248	236	7
Scarborough	204	269	221	7
Selby	205	263	230	7
York	187	248	193	7
NOTTINGHAMSHIRE				
Ashfield	206	257	215	7
Bassetlaw	228	260	253	8
Broxtowe	258	260	260	7
Gedling	274	254	265	7
Mansfield	225	279	248	8
Newark and Sherwood	249	250	250	7
Nottingham	234	250	250	8
Rushcliffe	289	249	270	7
OXFORDSHIRE				
Cherwell	269	232	252	6
Oxford	294	220	259	6
South Oxfordshire	321	230	278	6
Vale of White Horse	302	220	264	6
West Oxfordshire	272	220	248	6
SHROPSHIRE				
Bridgnorth	228	187	209	7
North Shropshire	200	201	201	7
Oswestry	202	222	222	7
Shrewsbury and Atcham	251	223	238	7
South Shropshire	208	188	199	7
Wrekin	267	256	262	8
SOMERSET				
Mendip	250	249	250	7
Sedgemoor	259	268	268	7
Taunton Deane	255	264	264	7
West Somerset	271	264	268	7
South Somerset	259	264	264	7

DATE: 5-JUL-89

ILLUSTRATIVE 1990/91 COMMUNITY CHARGES WITH SPENDING AT £32.8bn

AEF £23.1bn, of which £200m for specific grants. Gross Total Standard Spending £32.8bn
DOE E(LF) Standard Spending Assessment Package
Inner London charges reduced by £100m ILEA specific grant
1990/91 charges reduced by £100m specific grant in losing areas with low domestic RV per hereditament

	COL 1 1989/90 Av rate bill per adult + 4%	COL 2 Long run charge	COL 3 Up to £25 loss, 47% of gains allowed	COL 4 Effect on charge of 1% rise in spending
STAFFORDSHIRE				
Cannock Chase	244	255	255	7
East Staffordshire	230	229	229	7
Lichfield	294	230	264	7
Newcastle-under-Lyme	238	254	254	7
South Staffordshire	291	224	260	7
Stafford	252	226	240	7
Staffordshire Moorlands	233	242	242	7
Stoke-on-Trent	210	255	235	7
Tamworth	264	244	255	7
SUFFOLK				
Babergh	253	249	251	7
Forest Heath	226	229	229	6
Ipswich	283	287	287	7
Mid Suffolk	241	228	235	7
St Edmundsbury	230	214	222	6
Suffolk Coastal	287	238	264	7
Waveney	231	244	244	7
SURREY				
Elmbridge	445	304	379	7
Epsom and Ewell	398	323	363	7
Guildford	334	224	282	6
Mole Valley	336	262	301	7
Reigate and Banstead	358	276	319	6
Runnymede	294	247	272	6
Spelthorne	293	234	266	6
Surrey Heath	352	241	300	6
Tandridge	302	280	292	7
Waverley	362	240	305	6
Woking	368	288	331	7
WARWICKSHIRE				
North Warwickshire	307	306	307	7
Nuneaton and Bedworth	308	317	317	8
Rugby	313	281	298	7
Stratford on Avon	369	268	322	7
Warwick	361	283	325	7

DATE: 5-JUL-89

ILLUSTRATIVE 1990/91 COMMUNITY CHARGES WITH SPENDING AT £32.8bn

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	COL 1 1989/90 Av rate bill per adult + 4%	COL 2 Long run charge	COL 3 Up to £25 loss, 47% of gains allowed	COL 4 Effect on charge of 1% rise in spending
WEST SUSSEX				
Adur	281	238	261	6
Arun	270	209	241	6
Chichester	262	192	229	6
Crawley	269	270	270	7
Horsham	261	179	223	6
Mid Sussex	287	209	251	6
Worthing	248	217	234	6
WILTSHIRE				
Kennet	241	227	235	7
North Wiltshire	226	256	251	7
Salisbury	262	224	244	7
Thamesdown	253	302	278	7
West Wiltshire	232	260	257	7
ALL PURPOSE AUTHORITY				
Isles of Scilly	214	505	239	11

DATE: 5-JUL-89

ANNEX B

AREAS BENEFITTING FROM SPECIFIC GRANT

Burnley
Pendle
Wear Valley
Hyndburn
Barrow in Furness
Calderdale
Teesdale
Easington
Kirklees
Barnsley
Copeland
Blackburn
Rossendale
Derwentside
Kingston upon Hull
Bradford
Torridge
Sedgefield
Allerdale
Eden
Bolsover
Wansbeck
Wakefield
York
Boothferry
Rotherham
Berwick-upon-Tweed
Gateshead
Sunderland
Ashfield
Sheffield
Carlisle
Doncaster
East Yorkshire
Craven
Rochdale
South Tyneside
Hartlepool
Scarborough
North Devon
Oldham
Tameside
Penwith
Leeds
Kerrier
Lincoln
Mansfield
High Peak
Chester-le-Street
Bassetlaw

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1. MR POTTER (LG1) BHP 25/7

2. CHANCELLOR

FROM : A P HUDSON (LG1)
Ext 4945
25 July 1989

cc Chief Secretary
Financial Secretary
Sir P Middleton
Mr Anson
Mr Phillips
Mr A J C Edwards
Mr Culpin
Mrs Lomax
Mr Gilhooly
Mr Rutnam
Mr Morgan (VO)
Mr Heggs (IR)
PS/IR

Ch
(1) If DOE do put out PQ this week (& Patten has presumably hardly had time to consider this yet) I'd be inclined to put out IR n. survey then as well
(2) Walker is bound to bid for money to keep Welsh poundages down to English levels.
(3) NB Inner London average increase now 40%
AA

Thanks. OK. Put both out this week, before the House rises.

NATIONAL NON-DOMESTIC RATE : ANNOUNCEMENT ON THE TRANSITION AND SECOND INLAND REVENUE SURVEY OF EFFECTS OF REVALUATION AND UNIFORM RATE

This submission asks for your and the Chief Secretary's views on the timing of the announcement of the Government's decisions on the transition to the new system of business rates, and on the publication of an updated version of the Inland Revenue's survey of the effects of the introduction of the NNDR. I am afraid we need comments tomorrow (Wednesday 26 July), at least on the draft PQ on the transition, if we are to keep open the possibility of an announcement before the House rises. I apologise for the shortage of time, but the figures only became available on Friday evening.

Background

2. As you will recall, DOE issued a consultation document on 15 February, proposing self-financing transitional arrangements for business rates:

- losses would be phased in at 20 per cent of the previous year's rate bill, in real terms, for larger businesses, and 15 per cent for smaller businesses;

- gains would also be phased in, at 10 per cent of the previous year's rate bill for larger businesses, and 15 per cent for smaller businesses.

3. A survey of the effects of the move to the NNDR was published at the same time, followed by some more information in response to a PQ from Dr John Cunningham MP (copies of both attached, not for all). We were opposed to publishing anything, but Mr Ridley had already committed himself to doing so.

4. Surprisingly, the figures in the survey - and particularly the numbers and scale of losers - have not attracted as much attention as we had feared. The business organisations instead concentrated their fire on the fact that the gainers will not get their gains immediately. Most pressed for the Exchequer to fund the transition - in other words, the losers would be protected, the gainers would get their gains in full, and the Exchequer would make up the shortfall in business rate revenue by paying extra grant to local authorities. Others argued for a premium on the NNDR poundage, so that the cost of protecting losers would appear to fall on all business ratepayers (though in practice on those who were neither big losers nor big gainers).

5. As you know, E(LF) decided on 6 July that the previous proposals should stand, rejecting, in particular, DOE Ministers' support for a premium on the poundage. But some changes were agreed, mainly the doubling of the threshold for special help for small businesses.

6. DOE now have to legislate for these proposals - their existing powers are defective, as a result of the decision not to take account of appeals received after mid-February in the transition, to ease the VO's workload. The necessary provisions will be added to the Local Government and Housing Bill, for discussion at Lords Committee stage in the overspill.

7. In the meantime, DOE want to put out:

a. an announcement this week, by arranged PQ, of the Government's decisions on the transitional arrangements; and

b. an updated version of the Inland Revenue survey of the results of the move to the new system.

8. Our advice, in brief, is that there should be an announcement on the transition this week. However, some of the figures in the survey have changed significantly since the previous version - in particular, there are more losers, and there is now a significant gap between the English and Welsh poundages. In an ideal world, we would like more time to make sure we could explain these changes, and consider any potential problems, and we have suggested to DoE that, for this reason, the survey should be delayed for a few days. But if DoE Ministers are very keen to put the two pieces out together, and you have had time to consider the survey, we do not think the uncertainties are sufficient to warrant insisting on a delay.

Announcement of decisions on the transition

9. I attach DOE's draft arranged PQ on the transition. This incorporates our comments.

10. There is an argument against announcing these decisions this week, in that it will give the business organisations another opportunity to lobby for Exchequer funding and/or a premium on the poundage.

11. On the other hand, DOE came under pressure last week, at the time of the grant announcement, for more information on business rates, from Tory backbenchers and the Opposition. There would be a lot of criticism if no announcement were made until October, when the consultation paper was issued in February and comments requested by mid-April. And new Ministers may feel more committed to the proposals if they have announced them themselves.

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12. On balance, we think there should be an announcement this week. Are you content with this, and with the draft answer?

Publication of Inland Revenue survey

13. We think it would be difficult to resist publishing updated information at some stage, to take account of 1989-90 poundages, and better information on the likely effect of the revaluation, given that Ministers have to explain and defend the proposals in Parliament. Mr Ridley said last week that the information would be available as soon as possible. And the changes to the figures (see below) do not suggest any dramatic changes to the overall picture. So we see no difficulty in publishing at some point. Are you content?

14. However, we would prefer to delay publishing for a few days, to give ourselves a chance to look more closely at the figures, which have only arrived very recently. DOE's announcement would therefore say that a copy would be placed in the Library as soon as possible.

15. I attach a draft note on the survey. As before, this is our work, rather than DOE's.

16. The new survey differs from that published in February in that figures for over half the properties in the sample are actual revaluations. In February, all the underlying data were estimates. However, figures for most of the larger properties, accounting for most of the aggregate rateable value in the sample, are still estimates.

17. The main changes from the previous survey are as follows:

a. The increase in rateable values in England is likely to be slightly higher - up by a factor of 7.7 rather than 7.5.

I think this is v diff: it would look like deliberately waiting until into August & MPs have disappeared.

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b. Partly as a result, the likely UBR poundage is only slightly up, even though the figures are now in 1989-90 money. The accurate estimate is 33.4 pence in the pound, compared to 32.5 estimated for 1988-89. We propose to say that the poundage is likely to be in the range 32-35 pence, compared to 30-35 pence in the last survey.

c. However, the Welsh poundage is now likely to be 36.4 pence - previously, this was also estimated to be 30-35 pence. We propose to say "within the range 34-38 pence".

d. There are now 75,000 more losers, and hence fewer gainers, than before. This represents about 5 per cent of properties. The main reasons for this are that the revaluation is pushing up the rateable values of shops further than previously expected, creating more small losers, and the UBR effect in Inner London is stronger (see (f) below).

e. The percentage gains in the North and the Midlands are greater, and more comes through in the first year.

NB

f. But the percentage increase in the overall rate bill for Inner London has gone up from 27 per cent to 40 per cent. This is probably mainly because rate capping has held down 1989-90 poundages, so that taken together they are further below the national average.

g. The cap on gains in the transition remains at 10 per cent of the previous year's rate bill.

18. We have included in the body of this note the information about the separate effects of the revaluation and the move to the UBR, which we published separately in February, in answer to a PQ from Dr Cunningham. Rather than draw attention to this in separate tables, we have incorporated it into the main tables. We

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could leave this out, but Dr Cunningham will only ask again, and we think we might as well put it out now. It is actually not unhelpful in that it shows that most of the gains and losses are mainly due to the revaluation, which it is hard to criticise.

19. The drafting follows very closely the previous text. We have tried to play up the helpful changes from the previous survey, and not draw attention to the unhelpful ones. Whenever it is published, the best approach seems to be to present it in a low-key way, as an update of information already available, rather than as a major piece of news.

20. I should be grateful for any comments on the attached draft. If there are any major changes to the text or figures, as a result of further examination, we shall clear them with you, (or the duty Minister, dependent on timing). Subject to that, are you content for this to be made public next week, or alongside the PQ this week if DoE Ministers press this?

Better

APH

A P HUDSON

DoE DRAFT PQ

Q. To ask the Secretary of State for the Environment if he and his rt hon Friend the Secretary of State for Wales have completed their consideration of the representations they received in response to the consultation paper issued on 15 February on the Government's proposed transitional arrangements for the new uniform business rate; [whether he has any further information about the likely effects of the 1990 revaluation of business properties;] and if he will make a statement.

A. My rt hon Friend and I received 150 initial responses to the consultation paper and further representations from all the major business organisations. We have considered them carefully, and have decided to make a number of modifications to the proposed transitional arrangements.

We believe that our proposals achieve a satisfactory balance between gainers and losers in the transitional period, with long-overdue reductions in rates being realised as quickly as is consistent with the need to provide adequate protection for businesses which must bear increases. We intend therefore to proceed with our proposals to limit the year-on-year changes resulting from the introduction of the uniform business rate and the non-domestic revaluation. For businesses which in 1990/91 will have larger bills in real terms than in 1989/90 ("losers"), the ceiling will be 20% in real terms for larger businesses and 15% for smaller ones as we proposed. But, in the light of representations received, we have concluded that the threshold of rateable value below which this lower ceiling will apply should be doubled to £15,000 in London and £10,000 elsewhere. For businesses which in 1990/91 will have smaller bills in real terms than in 1989/90 ("gainers"), we estimate that the annual limits on reductions will be about 15% for businesses with rateable values below the revised threshold and about 10% for those with rateable values above the revised threshold. The precise figures for gainers will be calculated, once we have fuller information about the revaluation being undertaken by the Inland Revenue Valuation Office, so as to allow the limits to be set as high as possible consistent with the requirement that gains must balance the cost of protection for losers, so that the total yield of rates from the private sector and the nationalised industries remains broadly the same in real terms. Over 75% of all businesses will benefit from the more generous rateable value threshold. At the same time, we propose to raise the 'de minimis' threshold, below which transitional arrangements will not apply, from a new rateable value of £200 to £500 for all properties, except for advertising hereditaments which will not be subject to any limit.

As proposed, properties first occupied after 1 April 1990 will not benefit from the transitional arrangements. Furthermore, for consistency with these proposals generally, we have decided that transitional protection for losers should only apply to those who occupy property as at 31 March 1990 and continue to do so after that date. If a property changes hands on or after 1 April 1990, the new occupier will pay any increase due in full.
Reductions in rate bills will continue to be subject to annual limits, however, whether or not there is a change of occupier.

We propose to make a number of other minor changes to the scheme, by way of legislative amendments which will be introduced into the Local Government and Housing Bill after the recess. I shall write to my hon Friend to explain these minor modifications as soon as the necessary amendments are ready to be tabled; and shall place a copy of my letter in the Library.

I shall also place in the Library [~~as soon as possible~~] a copy of the latest sample survey by the Inland Revenue of the combined effects of the 1990 Revaluation and the introduction of a uniform business rate.

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THE 1990 RATING REVALUATION AND THE MOVE TO A UNIFORM BUSINESS RATE

RESULTS OF SECOND INLAND REVENUE SURVEY : SECOND DRAFT

Introduction

This note updates the preliminary sample survey of the likely combined effects of the new (1990) revaluation of non-domestic properties and the introduction of a Uniform Business Rate (UBR) in England and Wales. The preliminary survey was published on 15 February 1989, as an attachment to the Department of the Environment's consultation paper on the transitional arrangements for the UBR.

2. The main factors taken into account in the updating of the survey are:

a. 1989-90 poundages are now available;

b. data on some actual revaluations are now available. The previous survey was based entirely on estimates. This one ~~was~~ uses actual revaluations for over half the properties in the sample. But values for larger properties, accounting for the majority of aggregate rateable value in the sample, are still estimated. No actual revaluations will be published, however, until the complete list is deposited with local authorities at the end of the year;

c. the Secretary of State for the Environment announced revised proposals for the transitional arrangements, on [27 July].

3. Although this survey does incorporate some actual revaluations, the figures still need to be treated with considerable caution. A good deal of revaluation work remains to be done. And the aggregate figures for regions and property types mask considerable variations for different properties within those categories. So the survey should be taken as providing only a broad indication of the changes that are likely to take place.

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4. Estimates of rate bills are given throughout in 1989-90 prices, and assume no change in the population of business properties. No allowance is made for cases in which full rates will not be paid, for example because properties are vacant, or occupied by charities.

The yield of non-domestic rates under the new system

5. The Government has decided that the broad aim should be that the total amount of rates paid in 1990-91 by private sector businesses and nationalised industries - those properties covered by this note - should be the same as for 1989-90, with adjustments for inflation and 'buoyancy' (the net change in yield that arises as the number, size and quality of business properties increase or diminish).

6. Within that overall picture, there are likely to be significant changes in rate bills for different properties, depending on two things:

- first, whether a property's rateable value goes up by more or less than the average increase for properties as a whole; and

- second, whether its local authority currently charges a high or low rate poundage, relative to the national average.

The transitional arrangements (see paragraph 11 below) will ensure that more substantial changes in rate bills will be phased in over a period of years.

Aggregate changes in rateable values and poundages

7. The survey suggests that, on average, new rateable values in England will be about 7.7 times their present levels, which are based on the 1973 revaluation, and that those in Wales will be about 7.8 times their present levels. Compared with the previous survey, this suggests a slightly higher revaluation factor in England and a slightly lower one in Wales.

8. Given the objective of keeping the yield broadly constant in real terms, with an adjustment for buoyancy, the increase in average rateable values will be matched by a corresponding

reduction in the rate poundage. On the basis of this survey, the UBR in 1989-90 would be in the range 32-35 pence in the pound in England, as suggested by the previous survey, compared to an average poundage of some 258 pence in the pound in 1989-90. Wales has a higher average poundage, of some 283 pence in the pound in 1989-90, and the revaluation factor is lower than suggested in the previous survey. On this basis, the UBR in Wales would be slightly higher, in the range 34-38 pence in the pound.

Overall distribution of gainers and losers

9. Table 1 shows estimated numbers of properties facing reduced rate bills ('gainers') and increased rate bills ('losers'), and the total amounts of the reductions and increases, before taking account of the transitional arrangements.

As before, very few businesses are expected to find their rate bills unchanged, and more are projected to face increases than reductions. Compared to present rate bills, the percentage increase for the losers is greater than the percentage reduction for the gainers, because the losers as a group have a substantially lower rate bill at present.

10. Table 2 shows the distribution of reductions and increases in more detail, again before taking account of the transitional arrangements.

[~~Table 2, incorporating 2a~~]

The transition to the new system

11. Self-financing transitional arrangements will give ratepayers time to adjust to the changes in their rate bills. The revised arrangements announced by the Environment Secretary on [27 July] mean that, for around three properties out of four (those with a new rateable value of below £15,000 in London and £10,000 elsewhere in England and in Wales), any increase in rate bill as a result of the new system will be limited to 15 per cent of the previous year's rate bill, in real terms, in any one year. For larger properties, increases will be limited to 20 per cent of the previous year's bill, in real terms.

12. To keep the total yield broadly constant, these ceilings on increases will be matched by limits on reductions in the rate

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Table 1 : Numbers and amounts of reductions and increases

	Number of properties	Aggregate rate bill	Aggregate reduction(-)/ increase(+)	Net change on UBR	Net change on revaluation	Overall reduction(-)/ increase(+)
	000s	£m	£m	£m	£m	%
England						
Gainers	560	5,220	-1,700	-500	-1,200	-32
Little change (less than +/- 5%)	100	710	-	+20	-20	-
Losers	900	3,140	+1,700	+470	+1,220	+54
Wales						
Gainers	30	180	-50	-	-50	-29
Little change (less than +/- 5%)	10	90	-	-	-	-
Losers	70	120	+50	-	+50	+45

NOTE : Columns and rows may not sum due to rounding. This may also lead to small differences between numbers derived from different tables, and between cash changes and percentage changes within tables.

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Table 2 : Distribution of changes in rate bills

	Number of properties	Present rate bill	Change in rate bill: reduction(-)/increase(+) Overall change	Net change on UBR	Net change on revaluation	Percentage change
	000s	£m	£m	£m	£m	%
England						
Reductions:						
50% or more	100	1,210	-760	-190	-570	-63
5% to 50%	460	4,020	-930	-310	-670	-23
Little change (less than +/-5%)	100	710	-	+20	-20	-
Increases:						
5% to 50%	410	2,000	+460	+250	+210	+23
50% to 100%	230	730	+500	+110	+400	+69
100% or more	260	410	+730	+110	+620	+178
Wales						
Reductions:						
50% or more	2	20	-10	-	-10	-65
5% to 50%	26	160	-40	-	-40	-25
Little change (less than +/-5%)	7	90	-	-	-	-
Increases:						
5% to 50%	33	80	+20	-	+20	+22
50% to 100%	19	30	+20	-	+20	+70
100% or more	15	10	+20	-	+20	+162

5

bills of gainers. Again, there will be an advantage of 5 percentage points for most properties over the larger properties. The size of the limits on reductions will be set later in the year, at the level necessary to keep the yield constant. Preliminary indications from this survey suggest a limit of around 15 per cent of the previous year's rate bill, in real terms, for most properties, and around 10 per cent for larger properties.

13. The limits and ceilings have been set so that overall cash changes in rate bills come through at the same pace for gainers and losers. Expressed as a percentage of existing rate bills, the limits for increases and reductions are bound to differ since, at present, the gainers have an aggregate rate bill which is much larger than the aggregate bill for the losers, as Table 1 makes clear.

14. Table 3 shows how the transition is projected to work, based on the preliminary indications from the survey.

Table 3 : Effects of the transitional arrangements

Year £m	Actual shift in rate bills £m ~~deferred~~	Shift deferred by transitional arrangements ~~deferred~~	Properties affected (000s) with full increases deferred	with full reductions deferred
England				
1990-91	600	1100	680	380
1991-92	900	800	520	270
1992-93	1150	550	380	180
1993-94	1350	350	280	110
1994-95	1450	250	190	70
Wales				
1990-91	20	32	50	15
1991-92	32	20	35	10
1992-93	40	12	25	4
1993-94	46	7	15	2
1994-95	49	4	10	1

Nearly 700,000 properties in England benefit from having their increases spread beyond the first year, at the cost of deferring reductions for less than 400,000 properties.

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Distribution of changes by property type and region

15. Table 4 gives estimates of the projected change in the aggregate rate bill for broad types of property, once the transition is complete. As before, the estimates indicate significant reductions for factories and warehouses, balanced by increases for other types of business property. But the outcome for each category will be made up of a very wide range of percentage changes for individual properties.

[~~Table~~ 4]

16. Table 5 gives projections of how rate bills might shift between the different regions in England, both in the first year and once the transition to the new system is complete. Gains for the North and the Midlands are balanced by increases for East Anglia and the South. The total estimated gain for the North and the Midlands is now projected at over £900 million, and the proportion expected to come through in the first year is higher than previously estimated.

[~~Table~~ 5]

Again, each broad category is likely to mask a wide range of changes in the rate bills of individual properties.

17. For statistical reasons, it is not possible to estimate likely changes in the rate bill of individual business properties or types of property in particular regions by marrying together the estimates in tables 4 and 5.

TABLE 4 : POSSIBLE CHANGES IN RATE BILLS BY PROPERTY TYPE, ENGLAND AND WALES

Reduction(-)/increase(+) in rate bill, per cent

	ENGLAND			WALES		
Property type	Overall change	Net change on UBR	Net change on revaluation	Overall change	Net change on UBR	Net change on revaluation
Factories	-31	-9	-24	-24	-2	-22
Warehouses	-14	-5	-9	-8	+2	-9
Shops	+18	-3	+21	+27	-	+27
Offices	+16	+21	-5	+6	+6	-
Other properties	+8	-4	+12	+7	+1	+7

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TABLE 5 : PROJECTED CHANGES IN RATE BILLS BY REGION, ENGLAND

Region	Pre-reform rate bill	Reduction (-)/increase(+) Full change				First year	
		Overall change	Overall	Net change on UBR	Net change on revaluation		
	£m	%	£m	£m	£m	%	£m
West Midlands	880	-27	-240	-50	-190	-7	-60
North West	1130	-26	-300	-2200	-90	-6	-70
Northern	530	-27	-140	-120	-20	-7	-40
Yorkshire & Humberside	830	-25	-210	-180	-30	-10	-80
East Midlands	640	-17	-110	-60	-50	-5	-30
East Anglia	300	+11	+30	-	+30	+3	+10
South West	630	+11	+70	-40	+110	+~~3~~2	+10
Inner London	1510	+39	+600	+590	-	+9	+~~400~~ 140
Outer London	850	+7	+60	+50	-	+2	+20
Rest of South East	1780	+13	+240	-	+240	+5	+80

APPENDIX

THE 1990 RATING REVALUATION AND THE MOVE TO A UNIFORM BUSINESS RATE

RESULTS OF INLAND REVENUE SURVEY

Introduction

The Inland Revenue has carried out a preliminary sample survey of the likely combined effects of the new (1990) revaluation of non-domestic properties and the introduction of a Uniform Business Rate (UBR) in England and Wales. This note sets out the results.

2. All the results need to be interpreted with caution. The new valuations supplied for the sample of properties were best estimates based on information then available to valuers. These estimates are not the actual valuations that will be used in the new system, but were made before any actual revaluations had taken place. So the results should be taken as providing only the broadest indication of possible changes in rate bills for particular categories of property and particular regions.

3. Self-financing transitional arrangements will ensure that no property will see its rate bill increase by more than 20 per cent a year, in real terms, for the first five years of the new system at least.

4. Estimates of rate bills are given throughout in 1988-89 prices and assume no changes in the population of business properties. No allowance is made for cases in which full rates will not be paid, for example because properties are vacant, or occupied by charities.

5. The Government has decided that the broad aim should be that the total amount of rates paid in 1990-91 by private sector businesses and nationalised industries - those properties covered by this note - should be the same as for 1989-90, with adjustments for inflation and "buoyancy" (the net change in yield that arises as the number, size, and quality of business properties increase or diminish).

6. Within that overall picture, there are likely to be significant changes in the rate bills for different properties, and the transitional arrangements will ensure that larger changes are phased in over a period of years. Whether an individual property sees a reduction or an increase in its rate bill will depend on two things:

- first, whether the relative increase in its rateable value, as a result of the revaluation, is more or less than the average increase for non-domestic properties as a whole;

- second, whether its local authority currently charges a high or low rate poundage, relative to the national average.

The results reported in this note seek to take account of both these changes.

Aggregate changes in rateable values and poundages

7. Rateable values at present reflect the rental value of property at the last general revaluation, which was based on April 1973 values. Rental values have, of course, increased considerably since that time, and the survey suggests that, on average, new rateable values will be about 7½ times their present levels in England and about 8 times their present levels in Wales.

8. Since the aim is to keep the yield broadly constant in real terms, with an adjustment for buoyancy, the increase in average rateable values will be matched by a corresponding reduction in the rate poundage. Thus, on the basis of the rateable values suggested by the survey, the uniform business rate poundage would be between one-seventh and one-eighth of the average current poundage in England, and about one-eighth of the average poundage in Wales. On this basis, the UBR would be in the range 30-35 pence in the pound, in both countries, if it were introduced in 1988-89, compared to an average rate poundage of around 240 pence in the pound in England and around 260 pence in Wales.

Overall distribution of gainers and losers

9. Table 1 shows estimated numbers of properties facing reduced rate bills ("gainers") and increased rate bills ("losers"), and the total amounts of the reductions and increases, before taking account of the transitional arrangements.

Table 1: Numbers and amounts of reductions and increases

	Number of properties 000s	Aggregate rate bill £m	Aggregate reduction(-) /increase (+) £m	Overall reduction (-) /increase (+) %
England				
Gainers	630	4,600	-1550	-34
Little change (less than +/- 5%)	110	660	-4	-
Losers	820	2,950	+1550	+53
Wales				
Gainers	30	150	-40	-28
Little change (less than +/- 5%)	10	60	-	-
Losers	60	120	+40	+36

NOTE: Columns may not sum due to rounding. This may also lead to small differences between numbers derived from different tables, and between cash changes and percentage changes within tables.

As the Table shows, very few businesses are expected to find their rate bills unchanged. More are projected to face increases than reductions. But since (as explained above) the total yield of business rates is to remain broadly constant, the total of increases in rate bills will be matched by the total of reductions. Compared to present rate bills, the percentage increase for the losers is greater than the percentage reduction for the gainers, because the losers as a group have a substantially lower rate bill at present.

10. Table 2 shows the distribution of reductions and increases in more detail, again <u>before</u> taking account of the transitional arrangements.

Table 2: Distribution of changes in rate bills

	Number of properties (000s)		Present rate bill £m		Change in rate bill: reduction(-)/increase(+) £m		per cent	
ENGLAND								
Reductions								
50% or more	120	160	950	1210	-570	-760	-61	-63
5% to 50%	500	460	3650	4[illegible]0	-980	-920 -800 165	-27	-23
Little change (less than +/- 5%)	110	100	660	710	-4	0	negligible	0
Increases								
5% to 50%	420	410	1980	2000	+460	+460 260 ~~+20~~ +200	+23	+23
50% to 100%	190	230	630	730	+450	+500 +600 +50	+71	+69
100% or more	210	260	340	610	+650	+720 -500 +160	+193	+178
WALES								
Reductions								
50% or more	2	2	20	20	-12	-10	-58	-65
5% to 50%	26	26	130	160	-30	-40	-23	-25
Little Change (less than +/- 5%)	10	7	60	90	-	0	-	
Increases								
5% to 50%	31	33	90	80	+18	+20	+20	+22
50% to 100%	17	19	25	30	+16	+20	+70	+70
100% or more	10	15	5	10	+8	+20	+150	+162

The transition to the new system

11. As explained, the estimates above make no allowance for the transitional arrangements. These arrangements will give ratepayers time to adjust to the changes.

12. No property will see its rate bill increase by more than 20 per cent a year, in real terms. For smaller properties, the Government has decided that increases in rate bills should be phased in at a slower rate. Thus for properties whose new rateable value is below £5000, or in London below £7500, increases will be limited to 15 per cent a year, in real terms. The survey suggests that this may cover 60 per cent of properties in England and 70 per cent in Wales.

13. To keep the total yield broadly constant, these ceilings on increases in rate bills will be matched by limits on the reductions in the rate bills of gainers. Preliminary indications from the survey suggests that the annual limit on gains in England could be around 10 per cent for larger properties.

14. The Government has decided that the gains of smaller properties should be phased in more quickly, with the annual limit set at 5 percentage points above that for larger properties. Hence the annual limit on gains would be likely to be around 15 per cent for smaller properties.

15. The arrangements within Wales will also be self-financing, and the survey suggests that slightly greater annual reductions might be possible.

16. The ceilings mean that increases in rate bills totalling about £500 million are likely to come through in the first year, with larger amounts in later years. The limits on reductions have been set so that cash reductions come through at broadly the same rate. Expressed as a percentage of existing rate bills, the limits for increases and reductions are bound to differ, since, at present, the gainers have an aggregate rate bill which is much larger than the aggregate bill for the losers - see Table 1.

17. Table 3 shows very broadly how the transition is projected to work, based on the preliminary indications from the survey.

Table 3: Effects of the transitional arrangements

Year	Actual shift in rate bills† £m		Shift deferred by transitional arrangements £m		Properties affected (000s) with full increases deferred	with full reductions deferred
ENGLAND						
1990-91	500	500	1050	1150	680	520
1991-92	850	550	700	750	490	380
1992-93	1100	1100	450	500	350	270
1993-94	1250	1300	300	300	240	190
1994-95	1350	1600	200	200	160	120
WALES						
1990-91	15		25		50	20
1991-92	27		13		35	10
1992-93	34		6		25	4
1993-94	37		3		15	2
1994-95	38		2		10	1

†This represents the total of all reductions coming through in the year, or equivalently the total of all increases.

18. Thus, in England, only about one-third of the total shift in rate bills is likely to come through in the first year. Nearly 700,000 properties benefit from having their increases spread beyond the first year, at the cost of deferring reductions for some 500,000 properties.

19. In each year after 1990-91, more business properties facing increases will reach the full level of their new rate bills. Correspondingly, more properties will also realise their full gains in terms of lower rate bills.

Distribution of Changes by Property Type and Region

20. Within the broadly constant overall yield, the survey suggests that there are likely to be significant shifts in rate bills, between different types of property and different parts of the country.

21. Table 4 gives estimates of the projected change in the overall rate bill for broad types of property, once the transition is complete. As can be seen, the estimates indicate significant reductions, after the transitional period, in the rate bills of factories and warehouses, balanced by increases in the bills of the other types of business property.

Table 4: Possible Changes in rate bills by property type, England and Wales

Property Type	Overall reduction (-)/increase (+) in rate bill per cent England	Wales
Factories	-25	-16
Warehouses	-12	-9
Shops	+14	+18
Offices	+14	+5
Other properties	+7	+6

But it must be stressed that the outcome for each category will be made up of a very wide range of results for individual business properties. Some factories are likely to see a reduction of more than 25 per cent; others may see a smaller reduction, or even an increase. Similarly, although shops and offices as a whole are projected to pay more, some individual shops and offices are likely to pay less.

22. Table 5 gives projections of how rate bills might shift between the different regions in England, both in the first year and once the transition to the new system is complete. The North West, the West Midlands, the East Midlands, Yorkshire and Humberside, and the Northern region are projected to see reductions; rate bills are likely to be higher in East Anglia and the South of England.

Table 5: Projected changes in rate bills by region, England

Region	Pre-reform rate bill	Overall reduction (-)/increase (+) in			
		Full Change		First Year	
	£m	£m	%	£m	%
North West	1000	-310	-31	-67	-7
West Midlands	790	-200	-25	-42	-5
East Midlands	600	-130	-21	-28	-5
Yorkshire and Humberside	730	-150	-20	-40	-5
Northern	480	-50	-11	-15	-3
East Anglia	260	+40	+16	+13	+5
South West	550	+130	+24	+42	+8
Inner London	1460	+390	+27	+76	+5
Outer London	730	+50	+6	+11	+2
Rest of the South East	1600	+230	+15	+88	+6
Central	920	-60	-6	-60	-6

Again, each broad category is likely to mask a wide range of changes in the rate bills on individual properties.

23. For statistical reasons, it is not possible to estimate likely changes in the rate bills of individual business properties or types of property in particular regions by marrying together the estimates in tables 4 and 5.

Business Rate

Dr. Cunningham: To ask the Secretary of State for the Environment if he will publish in the *Official Report* figures, based on tables 1 to 5 of the Non-Domestic Rating: Transition "consultation paper published on 15 February, showing separately the effects of *(a)* the revaluation and *(b)* the introduction of a unified business rate.

Mr. Ridley *[holding answer 21 February 1989]*: The information is set out in the tables. It must be emphasised that it is based on a preliminary sample survey of the effects of the revaluation of non-domestic properties and the introduction of a uniform business rate (UBR). The new valuations supplied for the sample of properties were best estimates, and not actual revaluations. The results therefore need to be interpreted with caution.

As in the consultation paper the tables are all in 1988-89 prices. They break down the aggregate figures, to show first the effect of introducing a uniform business rate with no revaluation and second the effect of the revaluation with the UBR in place. The tables given here exclude the effects of the transitional arrangements for the new system. Table 3, and part of table 5, of the consultation paper show the effects of the transitional arrangements, which will apply to the total changes in rate bills, and are not defined in a way which enables their effect to be disaggregated between the introduction of the uniform business rate and the revaluation.

Columns and rows may not sum due to rounding in these and the original tables.

Table 1A
Amounts of overall increases and reductions in rate bills (excluding effect of transitional arrangements)

	Aggregate reduction (−) increase (+) £ million	*Net change on UBR £ million*	*Net change on revaluation £ million*
England			
Gainers	−1,550	−360	−1,190
Little change (less than ± 5 per cent.)	−4	+41	−45
Losers	+1,550	+315	+1,235
Wales			
Gainers	−40	−3	−39
Little change (less than ± 5 per cent.)	—	—	—
Losers	+40	+3	+40

Table 2A
Distribution of overall change in rate bills (excluding effect of transitional arrangements)

	Change in rate bill: reduction (−) increase (+) £ million	*Net change on UBR £ million*	*Net change on revaluation £ million*
England			
Reductions			
50 per cent. or more	−570	−150	−420
5 per cent. to 50 per cent.	−980	−210	−760
Little change (less than ± 5 per cent.)	−4	+41	−45
Increases			
5 per cent. to 50 per cent.	+460	+200	+260
50 per cent. to 100 per cent.	+450	+50	+400
100 per cent. or more	+650	+70	+580
Wales			
Reductions			
50 per cent. or more	−12	—	−11
5 per cent. to 50 per cent.	−30	−3	−27
Little change (less than ± 5 per cent.)	—	—	—
Increases			
5 per cent. to 50 per cent.	+18	+2	+16
50 per cent. to 100 per cent.	+16	—	+15
100 per cent. or more	+8	—	+8

Table 4A: *Possible change in rate bills by property type, England and Wales* (excluding effect of transitional arrangements)

Property Type	*Overall reduction (−) increase (+) in rate bill per cent*	*Net change on UBR per cent*	*Net change on revaluation per cent.*
England			
Factories	−25	−8	−18
Warehouses	−12	−4	−8
Shops	+14	−3	+17
Offices	+14	+20	−5
Other properties	+7	−3	+10
Wales			
Factories	−16	−3	−14
Warehouses	−9	+2	−10
Shops	+18	0	+18
Offices	+5	+4	+1
Other properties	+6	+1	+5

Table 5A:*Projected changes in rate bills by region, England* (excluding effects of transitional arrangements.)

Region	*Overall reduction (−) increase (+) £ million*	*Net change on UBR £ million*	*Net change on revaluation £ million*
North West	−310	−160	−150
West Midlands	−200	−20	−180
East Midlands	−130	−70	−60
Yorkshire and Humberside	−150	−150	0
Northern	−50	−100	+50
East Anglia	+40	+10	+30
South West	+130	−20	+150
Inner London	+390	+460	−70
Outer London	+50	+80	−30
Rest of the South East	+230	−10	+250

Rating Reform

Mr. Barry Porter: To ask the Secretary of State for the Environment if he will list in the *Official Report* the estimate of the community charge his Department expects for the district councils in *(a)* Merseyside, *(b)* Greater Manchester, *(c)* Lancashire and *(d)* Greater London.

Mr. Gummer: The Government have made no estimates of future community charges. Illustrative figures were published on 23 June showing what the community charge would have been in each area had the new system been in

FROM: A C S ALLAN
DATE: 26 July 1989

1. Duncan
2. Prp.

MR A P HUDSON

cc PS/Chief Secretary
PS/Economic Secretary
Sir P Middleton
Mr Anson
Mr Phillips
Mr A J C Edwards
Mr Culpin
Mrs Lomax
Mr Gilhooly
Mr Rutnam
Mr Morgan (VO)
Mr Heggs (IR)

NATIONAL NON-DOMESTIC RATE: ANNOUNCEMENT ON THE TRANSITION AND SECOND INLAND REVENUE SURVEY OF EFFECTS OF REVALUATION AND UNIFORM RATE

The Chancellor was grateful for your minute of 25 July. He is content for there to be an announcement on the transition this week, but feels that we should publish the updated version of the Inland Revenue's survey at the same time, before the House rises.

ACSA

A C S ALLAN