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Part A.

SECRET
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MANAGEMENT - IN - CONFIDENCE.

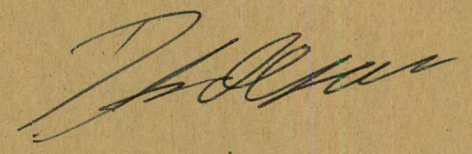
Begins : 29/2/88.
Ends : 19/1/89.

THIS FOLDER HAS BEEN
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PO CH / NL / 0435
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Chancellor's (Lawson) Papers :
Transitional Arrangements for a
Uniform Business Rate.

DD's : 25 Year



31/1/96.

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Treasury Chambers, Parliament Street, SW1P 3AG

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

29 February 1988

Dear Secretary of State,

NON-DOMESTIC RATE TRANSITION

Thank you for copying to me your minute of 24 February to the Prime Minister. I am also responding to your letter of 27 January to Nigel Lawson, and John Cope's letter of 18 February to Michael Howard which he copied to Nigel, about the availability of information on the likely effect of the revaluation and move to a uniform business rate.

I agree with you that it would be prudent to take powers to apply a transitional scheme to the 1995 and subsequent valuations (which might be broadly drafted to allow us maximum flexibility at the time); that we cannot afford to add automatically to the substantial benefit that business can expect from the indexation of business rates to the RPI; and (as I suggested earlier) that we should retain the duty on local authorities to consult with business, to avoid giving the wrong signals.

I am, however, worried about the position we now seem to have reached in your latest proposals for managing the transition after 1990. We agreed in E(LF) in April 1987 that major losses and gains, from the change to a National Non-Domestic Rate and from the revaluation, would be phased in over 5 years. Although no figure was settled, we then envisaged a maximum increase in rates bills (in real terms, i.e. before allowing for annual

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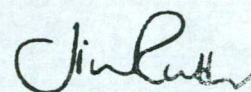
indexation to the RPI) of 20 per cent or 25 per cent, with corresponding phasing for gainers so the transition would be financially neutral. As I understand it, your latest proposal involves phasing for losers (but not gainers), offset financially by a supplement to the NNDR in 1990-91 of around 10 per cent for everyone apart from significant losers. This is far from the option touched on in your minute of 25 June to the Prime Minister of a "small" supplement. I doubt if it would be attractive to business. We should therefore consider amending the Bill to revert to the E(LF) decision. If we do, and if there is no choice but to announce a figure shortly, I would favour as high an annual limit as possible, closer to 25 per cent than 15 per cent, to phase in the long over-due effects of revaluation as fully as we can before 1995.

I see very great difficulties in reaching a decision on this in the timescale you suggest, nor am I clear that we have yet to take a final decision. Although you and John Cope have suggested collecting one form of information about the likely effects of revaluation, I understand that a very different form of survey would be needed to assess the likely distribution of gainers and losers, so we can consider a final decision on transition on the basis of some firm information about the likely range of effects on business. That survey would be best done in the initial stages of the revaluation itself, which will begin in July. To make a decision prematurely runs the risk of getting the transition wrong.

I therefore see merit in announcing that we will amend the Bill to take broad regulation making powers to determine the transition in the light of evidence actually gathered in the course of the revaluation. We would hope to make an announcement in the Autumn after studying the results of the Survey. This could be presented as a response to the concerns of industry - the Institute of Directors have, for example, written to Norman Lamont to suggest discussions of phasing for which, they say, the crucial point to know is the distribution of increases. We would, of course, assure business that their representation will be taken into account, and assure Parliament that they will have an opportunity to consider our conclusions when they come to the regulations.

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

Yours sincerely,



PP JOHN MAJOR

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



10 DOWNING STREET
LONDON SW1A 2AA

Mr Potter
Cx, Mr Anson
FST, Mr Phillips
Mr Hamilton Mr Turnbull
Mr Fiddell Mr Call

29 February 1988

From the Private Secretary

PS/IR
Mr Olney/IR

Dear Roger,

NON-DOMESTIC RATE TRANSITION

The Prime Minister has seen your Secretary of State's minute of 24 February and the Chief Secretary's response of 29 February.

The Prime Minister shares the Chief Secretary's view that your Secretary of State's latest proposals for managing the transition are a long way from the approach endorsed by E(LF) last year. She believes that the right approach would be to have a transition in which the phasing for losers and gainers was broadly balanced, rather than to have phasing for losers, but not gainers, offset by a substantial supplement to the NNDR.

The Prime Minister would therefore be content for your Secretary of State, in Committee this week, to set out the position as described by the Chief Secretary. If this cannot be agreed in correspondence she would, however, be prepared to discuss the position with your Secretary of State and others following her return from the NATO Summit.

I am sending a copy of this letter to the Private Secretaries to members of E(LF) and Trevor Woolley (Cabinet Office).

Yours,
Paul.

PAUL GRAY

Roger Bright, Esq.,
Department of the Environment

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MANAGEMENT IN CONFIDENCE

*1 V. much agreed
initially X.*

Ch

*I ran this v strongly in
my LG days but failed
principally because*

CHANCELLOR

*(a) at that time local
authorities were due to
keep 5% of ^{local} NDR revenue
& now dropped
(b) the difficulty of continuing to
extract payments from US firms
based here - a potential revenue
loss, & still an issue*

From: SIR PETER MIDDLETON

Date: 23 May 1988

- cc Chief Secretary
- Financial Secretary
- Paymaster General
- Mr Anson
- Mr Phillips
- Mr A Edwards
- Mr C D Butler
- Mr Olney - RGPD
- Mr Stannard
- Mr Potter

RATING OF GOVERNMENT PROPERTY DEPARTMENT

*v good that PERM is now
taking this up again
AA*

The proposed changes to the rating system raise questions about the future of the central Government's payments to local authorities for the properties they occupy.

2. The Crown is exempt from rating, but at present central Government makes contributions in lieu of rates on the basis of rateable values fixed by the Rating of Government Property Department (RGPD). RGPD also makes the payments, with the exception of NHS and other non-Exchequer bodies. These contributions are made on individual properties to each local authority at the local rate poundage, as if they were private premises. The whole procedure involves considerable detailed work for RGPD.

3. Under the Government's proposals for rate reform no local authority will have a close interest in the valuation of individual properties. As you know, for private sector non-domestic premises the rate poundage will be set uniformly throughout England and, separately, Wales; the proceeds will be due to central Government and redistributed to local authorities as a fixed sum per capita, much like grant. The only interest individual authorities will have will be in the total size of the National Non-Domestic Rate

MANAGEMENT IN CONFIDENCE

revenue available to be pooled. Part of this pool will be the aggregate sum in lieu of rates on its properties that central Government makes available. The situation will be different in Scotland (where business rates will continue to reflect the existing pattern for an interim period) but with exactly the same result.

4. The link between valuation of individual properties and the amount received by an authority will thus be broken. For example Westminster City Council will have no interest in the rateable value of Whitehall offices, or whether they are Government or private sector offices, or whether there is more Government property in its area than, say, in Lambeth. The amount it receives will be a proportion of the total pool related to its population.

5. Once the new rating system is in place (in April 1990) and the revaluation is complete (by about March 1991) the case for the continuation of RGPD is debatable. Instead the Government might, for example, make a lump sum payment to the pool. This might be based on an initial valuation of the total estate, which could then subsequently be adjusted each year by a formula related perhaps to changes in the price level and to estimates of the size of Government's estate. That is the type of option which I think we should consider.

6. Some valuation activities would still be needed, eg for those authorities still under transitional arrangements, for individual Government departments, and Crown premises outside GB. There is also an unresolved issue about the future of water rates. But whether one needs a dedicated office of specialists is open to question. Indeed the whole organisation of Government valuation expertise - in the Valuation Office and in PSA as well as RGPD - would be worth further examination, both for this reason and because its organisation and functions should be examined anew in the light of its staffing problems. There may be a possible agency here.

7. RGPD are now engaged on the 1990 revaluation of non-domestic property; this has to be completed. The last revaluation was in 1973 and it will be easier to present the broad brush payment idea

to local authorities if they know that the starting point reflects an accurate up-to-date value of the total Government estate. There will be other benefits too. Government departments themselves will continue to have an interest, if only for internal management accounting purposes, in accurate valuations of their premises. This interest will continue beyond the 1990 revaluation, but the national exercise will be an important baseline. We also have an interest in continuing to maintain property-related payments from NATO (principally USAF) forces stationed here. The revaluation should lead to a substantial increase in rateable values and payments which could more than offset the running costs of RGPD.

8. I therefore propose to use the time available before 1990 for a thorough review or reviews of the following issues:

- what sort of valuation work on central Government property will be needed once the Government's rate reform proposals are through?
- how should the valuation activities of central Government be organised?

9. This would need to involve the Revenue, the DOE and other departments. It would also need to take account of the decisions on the future of the PSA, which are about to be announced. We need to know where we stand before the introduction of the new local government finance arrangements in April 1990 (ie before the Government announces its grant and NNDR quantum in the autumn of 1989). In the meantime, the Government will need to announce its proposed regime for the payments in lieu of rates on Crown Property. I recommend that you should write to the Secretary of State for the Environment proposing that we should consider options such as that set out in paragraph 5 and the review suggested in paragraph 8. If you agree officials will provide a draft.

10. There may be difficulties for the management of RGPD in handling uncertainties over the future of the office, particularly at a time when they need to recruit. But if the professional staff see the questions as ones about the best way of organising to handle

MANAGEMENT IN CONFIDENCE

new and important tasks, rather than about the run down of the office, there could be a positive impact on morale.

A handwritten signature in black ink, appearing to be 'P E Middleton', written in a cursive style.

P E MIDDLETON



FROM: A C S ALLAN

DATE: 24 May 1988

SIR P MIDDLETON

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
Mr Anson
Mr Phillips
Mr A J C Edwards
Mr C D Butler
Mr Olney - RGPD
Mr Stannard
Mr Potter

RATING OF GOVERNMENT PROPERTY DEPARTMENT

The Chancellor was most grateful for your minute of 23 May. He very much agrees with your proposal for a thorough review of valuation work on central government property and of the valuation activities of central government generally. He would be grateful for a draft letter for him to send to the Secretary of State for the Environment.

A large, stylized handwritten signature in black ink, appearing to read 'ACSA'.

A C S ALLAN

MANAGEMENT IN CONFIDENCE

From: SIR PETER MIDDLETON

Date: 12 July 1988

CHANCELLOR

cc Chief Secretary
 Financial Secretary
 Paymaster General
 Mr Anson
 Mr Phillips
 Mr Scholar
 Mr C D Butler
 Mr Culpin
 Mr A Edwards
 Mr Olney - RGPD
 Mr Potter
 Mr Stannard
 Mr Hoare

Mr Battishill - IR

OK - [unclear]
(see [unclear])

GOVERNMENT VALUATION SERVICES

... Mr Allan's minute of 24 May indicated that you agreed with the proposal in my minute of 23 May for a thorough review of Government valuation services. I now attach a draft letter for you to send to the Secretary of State for the Environment, seeking his agreement to such a review. I am sorry that this has taken so long, but you will appreciate that this is a matter of some sensitivity and it has been necessary to consult a number of interested parties in the Treasury and the Inland Revenue.



P E MIDDLETON

CONFIDENTIAL
MANAGEMENT IN CONFIDENCE*pl type final
for ch to send*

DRAFT LETTER FROM: Chancellor

M.

TO: Secretary of State for the Environment

RATE REFORM: GOVERNMENT VALUATION SERVICES

Our forthcoming reforms to the non-domestic rating system raise questions about the future of central Government's payments to local authorities for properties occupied by the Government. As you know, after 1990 no local authority will have a close interest in the valuation of rates paid on any individual property in its area. Instead, in England and Wales, each authority will be concerned only about the aggregate size of the non-domestic rates pool which, together with its population, will determine the amount of rate revenue to be distributed to its area. In Scotland, the distribution of Government grant will produce much the same effect.

2. You suggested, in your minute of 30 July 1987 to the Prime Minister, that once the new system was in place (in April 1990), the Government might make a lump sum payment to the non-domestic rate pool, rather than individual payments to individual local authorities. I too think that this should be the preferred solution, and suggest that, provided the practical consequences can be sorted out, we should propose this to the local authorities. I understand that the Local Government Finance Bill, now before the Lords, explicitly allows for this approach.

3. Against this background *my Affairs* ~~we~~ have been considering the future of the Rating of Government Property Department (RGPD), which is of course part of the Treasury. At present it undertakes a great deal of detailed work in respect of the individual properties occupied by central Government and the NHS. This

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would cease to be necessary under a lump sum payment system, which might be adjusted annually by a simple formula. However, some of the activities carried out by RGPD would continue to be needed, ^{and} while Government departments will still have an interest in accurate valuations of their premises for management accounting purposes. I intend that RGPD should complete the 1990 revaluation of non-domestic Government property to provide a sound basis for the new system, but it is clearly questionable whether RGPD should be maintained in its present form once this exercise has been carried out.

4. There are of course other and major effects of the 1990 revaluation. In the Inland Revenue the end of domestic rates will precipitate a surplus of more than 1,000 staff in the Valuation Office, most of whom have experience in support roles in property, while the defence of the 1990 non-domestic assessments will impinge heavily on the professional valuers. We need to consider how the Valuation Office will proceed after 1990, and whether, for example, some of the surplus technical staff might usefully be re-deployed to other estates work.

5. It seems to me that, in view of the changes that are being made at PSA, and those that will need to be faced by the Valuation Office, there is a good case for considering RGPD's future as part of a wider review of the organisation of valuation work on central Government property and of the valuation activities of central Government generally. There would appear to be some degree of overlap between the work of RGPD, the Valuation Office and PSA's valuation service. Given the staffing difficulties faced by Estates Surveyors and Valuers throughout Government it is obviously essential that we should eliminate any unnecessary duplication and make the best possible use of the valuation resources that are available. The review would need to consider the case for brigading these resources together, possibly in the form of a "Next Steps" agency, and the scope for contracting work out to the private sector as well as the question of charging for services.

6. You will recall that there was a very full Review of Government Valuation Services in 1983, in the course of which

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a great deal of background information was collected about all the various groupings of Valuers and Estate Surveyors. On the Committee were representatives from the DOE, and the Inland Revenue as well as the Efficiency Unit and the private sector. But as our local government finance policy was not settled at that time, rating work was excluded from the terms of reference. Now that the end of the present system is in sight I believe a fresh look at the whole range of Government estate work is needed. Indeed it could be justified even if we did not also have the new context of "Next Steps".

7. There is one last point. The announcement or even the rumour of a new review could seriously worsen the already difficult recruitment/retention problem in our valuation services if it were to appear to signal a deterioration in career prospects. Present uncertainties over long term prospects is already contributing to the difficulties of recruiting and retaining valuers in the public service, and it will be very important to ensure that news of a fresh review does not make matters worse. Its terms of reference, and the handling of any announcements, will need very careful handling.

8. I will invite my officials to discuss with yours how the review (or reviews) should be carried forward. They will also need to consider how to inform the local authorities and other interested parties.

9. I am copying this letter to members of E(LF), to George Younger and to Sir Robin Butler.

[N L]



MJ

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

13 July 1988

Chief Secretary
Financial Secretary
Paymaster General

Mr Anson
Mr Phillips
Mr Scholar
Mr C D Butler
Mr Culpin
Mr A Edwards
Mr Olney - RGPD
Mr Potter
Mr Stannard
Mr Hoare

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

Sir P.

Middleton

Nicholas Ridley

Mr Battishill - IR

RATE REFORM: GOVERNMENT VALUATION SERVICES

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You suggested, in your minute of 30 July 1987 to the Prime Minister, that once the new system was in place (in April 1990), the Government might make a lump sum payment to the non-domestic rate pool, rather than individual payments to individual local authorities. I too think that this should be the preferred solution, and suggest that, provided the practical consequences can be sorted out, we should propose this to the local authorities. I understand that the Local Government Finance Bill, now before the Lords, explicitly allows for this approach.

Against this background my officials have been considering the future of the Rating of Government Property Department (RGPD), which is of course part of the Treasury. At present it undertakes a great deal of detailed work in respect of the individual properties occupied by central Government and the NHS. This would cease to be necessary under a lump sum payment system, which might be adjusted annually by a simple formula. However, some of the activities carried out by RGPD would continue to be needed and Government departments will still have an interest in accurate valuations of their premises for management accounting purposes. I intend that RGPD should complete the 1990 revaluation of non-domestic Government property to provide a sound basis for the new system, but it is clearly questionable whether RGPD should be maintained in its present form once this exercise has been carried out.



There are of course other and major effects of the 1990 revaluation. In the Inland Revenue the end of domestic rates will precipitate a surplus of more than 1,000 staff in the Valuation Office, most of whom have experience in support roles in property, while the defence of the 1990 non-domestic assessments will impinge heavily on the professional valuers. We need to consider how the Valuation Office will proceed after 1990, and whether, for example, some of the surplus technical staff might usefully be re-deployed to other estates work.

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You will recall that there was a very full Review of Government Valuation Services in 1983, in the course of which a great deal of background information was collected about all the various groupings of Valuers and Estate Surveyors. On the Committee were representatives from the DOE, and the Inland Revenue as well as the Efficiency Unit and the private sector. But as our local government finance policy was not settled at that time, rating work was excluded from the terms of reference. Now that the end of the present system is in sight I believe a fresh look at the whole range of Government estate work is needed. Indeed it could be justified even if we did not also have the new context of "Next Steps".

There is one last point. The announcement or even the rumour of a new review could seriously worsen the already difficult recruitment/retention problem in our valuation services if it were to appear to signal a deterioration in career prospects. Present uncertainties over long term prospects is already contributing to the difficulties of recruiting and retaining valuers in the public service, and it will be very important to ensure that news of a fresh review does not make matters worse. Its terms of reference, and the handling of any announcements, will need very careful handling.

I will invite my officials to discuss with yours how the review (or reviews) should be carried forward. They will also need to consider how to inform the local authorities and other interested parties.



I am copying this letter to members of E(LF), to George Younger and to Sir Robin Butler.

A handwritten signature in black ink, appearing to read 'Nigel Lawson', with a large loop at the end of the first name.

NIGEL LAWSON



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

Handwritten: 24/8

My ref:
Your ref:

The Rt Hon Nigel Lawson MP
HM Treasury
Parliament Street
LONDON
SW1 3AG

CH/EXCHEQUER	
REC.	12 AUG 1988
ACTION	MR POTTER
COPIES TO	CST, FST, PMG, SIR P MIDDLETON, MR ANDSON
	MR PHILLIPS, MR SCHOLAR, MR COBURN
	MR CULPIN, MR A EDWARDS
	MR OWNEY (RG PD),
	MR STANWARD, MR HOARE
	MR BATTISHILL
	MR WHITTEAR (T. SALVERS OFF-ICE)

12 August 1988

Handwritten: ✓ 12/8

Handwritten: Dear Nigel

RATE REFORM: GOVERNMENT VALUATION SERVICES

Thank you for your letter of 13 July, about the implications of the changes in the non-domestic rating system for the organisation and staffing of Government valuation services.

I agree that our officials should get together quickly to look at this. They need to consider the changes in the valuation function that will result from the rating reforms and the proposals for changes in accountabilities on the Government's civil estate and then take a view as to how the valuation and estates staff can be deployed most efficiently and economically. Given the present shortage of these specialist staff, it is essential to make the best use of resources and avoid any unnecessary duplication.

I doubt whether another full scale review is required at this stage but the discussion between officials should throw light on what is needed. Given the moves I announced on 25 May to restructure PSA as 3 businesses, my own view is that there is a strong case for continuing to keep specialist estates staff in PSA to manage the common user estate, with others bedded out in departments to enable them to exercise their new estate management functions.

I am inclined to agree that, generally for Crown properties occupied by the Government, it is likely to be more efficient for a single payment to be made centrally into the pool, than for payments to go on being made to local authorities only for them to pay these back into the pool.

I think it is essential, however, that not only should the initial level of this payment in 1990 be based on a proper valuation, but also that subsequent changes should reflect reasonably accurately changes in the value of property. First, without this, local authorities will be deeply suspicious that our longer term

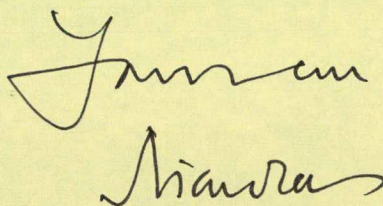
intention is to reduce the size of the payment or merge it into grant. Secondly, it is hard to see how Departments can be exposed to the full marginal costs of occupation unless the "rate" charged is based on a proper valuation.

There is a separate question about how payments, in respect of the community charge should be made. This might be the subject of separate official discussions.

The issues concerning fringe bodies treated as Crown occupiers for rating purposes are slightly different. More turbulence and loss of accountability might be caused by subsuming them in a single central payment than in leaving them to pay locally. In some cases the answer may be to remove them from the Crown exemption altogether.

I have no strong view as to whether the updating of the valuations on which the central payment is based should be carried out by RGPD or the Valuation Office. That can be looked at by officials along with the other issues you mention.

I am copying this letter to members of E(LF), to George Younger and to Sir Robin Butler.

A handwritten signature in cursive script, appearing to read 'Nicholas Ridley', written in dark ink.

NICHOLAS RIDLEY

~~BF 30/8~~

CONFIDENTIAL AND
MANAGEMENT IN CONFIDENCE

1

MR HOARE

mp

FROM: B H POTTER

Date: 22 August 1988

cc: PS/Chancellor
PS/FST
Mr Anson
Mr Phillips o.r
Mr Scholar
Mr Butler
Mr Culpin
Mr Edwards o.r
Mr C Allan
Mr Shutler V.O

✓
N

RATE REFORM: GOVERNMENT VALUATION SERVICES

behind

You will have seen that, in his letter of 12 August, the Environment Secretary has agreed to the proposed review of Government valuation services - albeit with reservations.

2. I discussed the next steps briefly with Mr Phillips on 18 August and with Mr Shutler (VO). It was agreed that no further Ministerial letter was necessary since Mr Ridley has agreed to the review. The first step might usefully be a preliminary meeting of Mr Phillips and Mr Shutler with Mr Osborn (DOE), with support from LG1, to clarify the purpose, scope and working methods of the review. Mr Phillips is content that this meeting be set up for soon after his return from leave. I will make the necessary arrangements.

3. EOG are looking for an appropriate Grade 7 within Treasury to help with the review.

4. The VO have reminded me that it is essential that the existence of this review should be strictly restricted to a need to know basis.

Barry H. Potter

BARRY H POTTER



ST. ANDREW'S HOUSE
EDINBURGH EH1 3DG

CONFIDENTIAL
MANAGEMENT - IN CONFIDENCE

The Rt Hon Nigel Lawson MP
HM Treasury
Parliament Street
LONDON
SW1 3AG

BF 15/9

8/9

CH/EXCH-QUER	
REC.	08 SEP 1988
ACTION	Mr Potter
COPIES TO	CST, FST, PMs Sir P. M. d. d. d. Mr ANSON, Mr Phillips Mr Scholer, Mr Culpin Mr Edwards, Mr Olney 8 September 1988 (RGPD) Mr Stannard, Mr Hoare Mr Battishill (12) Mr Whittear (TVO)

Dear Nigel,

RATE REFORM: GOVERNMENT VALUATION SERVICES

Thank you for the copy of your letter of 13 July to Nicholas Ridley. I have also seen his reply to you of 12 August.

From our point of view I am sure it would be possible in Scotland to operate from 1990/91 a similar system to that which you propose for England and Wales with a single payment made centrally in respect of Crown property occupied by the Government. We would then disburse this to local authorities as part of the revenue support grant. There is time for me to consider whether my existing powers to pay grant are adequate, but if any amendment is required it will be minor.

I agree with Nicholas, however, that local authorities will be highly critical of this approach unless we can demonstrate that the level of payment in 1990 is based on a proper valuation, and also that subsequent changes realistically reflect changes in the value and holding of property. I also see the need for this from the point of view of realistic Departmental accounting, but I have an open mind as to whether or not it should be carried out by RGPD. I would, however, be unwilling to see this function passed to the Regional Assessors in Scotland who might be inclined towards unjustifiably high valuations.

I share the view that there could be attraction in removing fringe bodies from Crown exemption and this should be examined by officials as part of the proposed discussions. I would wish my officials to be involved in this exercise.

I am copying this letter to Members of E(LF), to George Younger and to Sir Robin Butler.

*Yours ever,
Malcolm Rifkind*

MALCOLM RIFKIND

CONFIDENTIAL
MANAGEMENT IN CONFIDENCE

PP3 P1 T
return to Moira

1. MR PHILLIPS
2. CHANCELLOR

FROM: B H POTTER

Date: 13 September 1988

I agree. We should get on quickly with the contribution in lieu of rates and let this feed in to the review. That (the review) will be a delicate enterprise which if it drags on too long will founder. I have ∴ amended the draft letter to give as much emphasis to speed as to coverage.

cc: Chief Secretary
Paymaster General
Financial Secretary
Economic Secretary
Sir Peter Middleton
Mr Anson
Mr Butler
Mr Culpin
Mr Edwards
Miss Peirson
Mr Turnbull
Mr Gilhooly
Mr Wood
Mr Hansford
Mr Jones
Mr Fellgett
Mr Partridge
Mr Olney - RGPD

HP
13/9.

Chl content to write as drafted?

HP
OK as
with minor
amendments

VALUATION SERVICES REVIEW

You wrote to the Environment Secretary on 13 July proposing that:-

- (i) in place of the present practice of the Rating of Government Property Department (RGPD) making a contribution in lieu of rates on individual Crown properties, after 1990 the Government should make a lump sum to the new NNDR pool; and
 - (ii) the future of RGPD should be considered as part of a wider review of the organisation of valuation activities within central government.
2. In his reply (letter of 12 August), Mr Ridley agreed on (i) that there should be a central payment into the NNDR pool for central government properties based on an initial valuation of the estate. But he went on to propose that there should be a sustained link with valuations thereafter, while

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MANAGEMENT IN CONFIDENCE

acknowledging that the valuations themselves need not be done by RGPD. On (ii) above Mr Ridley also agreed to a "quick look" at the Government valuation services. But he expressed doubts about whether a full scale review was required particularly in the case of PSA valuers.

3. We have discussed Mr Ridley's letter with officials from DOE, VO and Inland Revenue. Following that meeting, the way is now clear for you to make specific proposals about handling both the payment to the NNDR pool and the review of valuation services.

Contribution in lieu of rates

4. The proposal for a central payment to the NNDR pool in place of RGPD contributions is essentially a policy issue. You have made your view clear. And Mr Ridley seems to have accepted the principle and endorsed the starting point in his letter ie that there should be a single payment and that the payment should initially be based on the amount payable after the 1990 valuation on the relevant properties.

5. Despite the fact that a single payment was first put forward by Mr Ridley over a year ago and the clear reference to single payments in his letter, however, there was some hint from DOE officials that he may want to back-track and go for multiple payments - from each building or each Department. Moreover, he has expressed a preference for the annual payment to be uprated in a complicated way, based on detailed property valuations. Your letter reflected our view that this is unnecessary; it absorbs Treasury running costs and the "fine tuning" of payments is lost in the roundings of Exchequer grant.

6. But we have proposed - and DOE officials accepted - that this policy issue should be carried forward separately from the review with the aim of reaching an agreement, in consultation with the Scots and Welsh, by no later than the end of October. If you are content, you need only flag up now that the payment could be uprated in a number of ways. The implications of the decision would be fed into the valuation services review.

Valuation services review

7. We have also reached agreement on proposed terms of reference and working methods for the review. The form of words proposed is as follows:-

"In the light of the changes to rating arrangements in the Local Government Finance Act 1988, to consider and to make recommendations on:

- (a) future valuation requirements which (the) central government will have from April 1990, including continuing requirements for the valuation of Government property for management accounting and other purposes in PSA and Departments; and
- (b) the future organisation and deployment of Government valuers.

8. The terms of reference make it clear that the review would be looking at all the demands for valuation services within Government and all the ways in which these demands are met ie VO, PSA, RGPD, small departmental groups of valuers and use of the private sector. So there will be no question, as hinted in Mr Ridley's letter, of excluding the PSA. (PSA officials have now accepted that.) Equally the second part of the terms of reference is intended to give wide scope: the review will need to consider whether there needs to be any in-house Government valuation service - it is not just a question of how Government valuers can best be brigaded or whether they might be a "Next Steps" agency candidate.

Organisation of the review

9. In keeping with Mr Ridley's wish for a "quick look", the review should be completed by the turn of the year. But there are very good reasons for driving the exercise forward at a fast pace: previous reviews have become bogged down in interdepartmental wrangling. It will be necessary to cut through entrenched departmental interests with some boldness and speed if a satisfactory conclusion is to be reached.

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(!) 10. It is proposed that a group to steer the review would be created under the chairmanship of Mr Phillips. Attached is a list of core members of the group (A)(representation would be at grade 3/5 level) and of the other Department who might occasionally be brought in (B). A grade 7 Secretary is being temporarily borrowed from RC2 Division and will be brigaded with LG1 for the purposes of the review. (This does not add to Treasury running costs.)

Notification

11. Finally there is a sensitive issue to be faced about what is said to VO, RGPD, PSA and other valuer staff. Clearly they need to be informed of the review and of its terms of reference. Our inclination is to do this in a relatively low-key way laying emphasis on the need to look at all this as part of the changes to rating arrangements ceated by the Local Government Finance Act 1988. It will be necessary to ensure that this tone is reflected in the way the purpose and existence of the review is explained to staff. This point is reflected in the draft letter attached for you to send to Mr Ridley.

Barry H. Potter

BARRY H POTTER

STEERING COMMITTEE MEMBERSHIP

A Core members

1. Inland Revenue including VO
2. DOE
3. PSA
4. Scottish Office
5. Welsh Office
6. Treasury (including RGPD)

B Other members

7. MOD
8. Department of Health
9. Home Office
10. Department of Social Services
11. Department of Employment
12. DPF (N.Ireland)
13. Department of Transport
14. Department of Trade and Industry

CONFIDENTIAL
MANAGEMENT IN CONFIDENCE*pl type
final for ch*DRAFT LETTER FROM CHANCELLOR TO SECRETARY OF STATE
FOR THE ENVIRONMENT

NON-DOMESTIC RATES: GOVERNMENT VALUATION SERVICES

Thank you for your letter of 12 August in reply to mine of 13 July in which I proposed that central government should make a single payment for Crown properties direct to the NNDR pool after 1990 in place of RGPD contributions to individual local authorities; and that, in view of changes to rating arrangements following the Local Government Finance Act 1988, there should be a review of Government valuation services.

I am pleased that you continue to favour the idea of a single central payment into the NNDR pool after 1990 in place of RGPD contributions. I agree that the initial level of this payment in 1990 should be based on a rating revaluation of the relevant properties. We will of course need to consider further how ~~that~~^{the} payment in subsequent years should be set: there are a number of ways in which this could be done. I understand that our officials are already in touch on this and I am content for them to consider this further - in consultation with the Scottish and Welsh Office - and put proposals to us. We need to have agreed proposals by the end of October to feed into the review of valuation services.

I also ^{strongly} support your view that the review should be undertaken quickly. I suggest that we should aim to have it completed by the turn of the year - and it will need to be driven hard in order to achieve this. In scope [~~the review must be thorough and comprehensive if it is to reach sensible conclusions:~~] it must look at all the demands made by Government departments for valuation services, and all the ways in which those services are now supplied to Government, including by the VO, PSA, RGPD and valuers in departments. I therefore propose the following terms of reference:

"In the light of changes to rating arrangements in the Local Government Finance Act 1988, to consider and make recommendations on:

- a) future valuation requirements which the central government will have from April 1990, including continuing requirements for the valuation of Government property for management accounting and other purposes in PSA and departments; and
- (b) the future organisation and deployment of Government valuers."

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To steer the review, ~~it is proposed~~ that a committee chaired by Mr H Phillips here should be established. At attachment A is a list of Departments whose representatives might best form the core group. But ~~it is expected that~~ ^{no doubt} others will wish to be represented at some of the meetings, particularly though not exclusively those identified in list B on the attachment. Mr Phillips will be writing shortly to set up a first meeting and it would be helpful if you and colleagues in the Departments concerned could nominate representatives or contact points at Grade 3/5 level.

It will be important to make staff who will be interested in the review, in particular all the valuers, aware of its existence and purpose. I will be making arrangements here to inform my staff at the VO and RGPD through their senior officers that the purpose of the review is to examine how best the Government can organise and deploy the resources available to meet the demands for Government valuation services, in the light of the changes to rating arrangements after 1990. It is highly desirable that other Ministers who have valuers within their Departments should make some similar arrangement.

I am copying this letter to the Prime Minister, all other members of the Cabinet and to Sir Robin Butler.

[N.L.]

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- Chief Secretary
- Paymaster General
- Financial Secretary
- Economic Secretary
- Sir Peter Middleton
- Mr Anson
- Mr Butler
- Mr Culpin
- Mr Edwards
- Miss Peirson
- Mr Turnbull
- Mr Gilhooly
- Mr Wood
- Mr Hansford
- Mr Jones
- Mr Fellgett
- Mr Partridge
- Mr Olney - RGPD

Treasury Chambers, Parliament Street, SW1
01-270 3000

15 September 1988

MR POTTER

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

Nick

MP

NON-DOMESTIC RATES: GOVERNMENT VALUATION SERVICES

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"In the light of changes to rating arrangements in the Local Government Finance Act 1988, to consider and make recommendations on:

- (a) future valuation requirements which the central government will have from April 1990, including continuing requirements for the valuation of Government property for management accounting and other purposes in PSA and departments; and
- (b) the future organisation and deployment of Government valuers."

... To steer the review, I propose that a committee chaired by Mr H Phillips here should be established. At attachment A is a list of Departments whose representatives might best form the core group. But no doubt others will wish to be represented at some of the meetings, particularly, though not exclusively, those identified in list B on the attachment. Mr Phillips will be writing shortly to set up a first meeting and it would be helpful if you and colleagues in the Departments concerned could nominate representatives or contact points at Grade 3/5 level.

It will be important to make staff who will be interested in the review, in particular all the valuers, aware of its existence and purpose. I will be making arrangements here to inform my staff at the VO and RGPD through their senior officers that the purpose of the review is to examine how best the Government can organise and deploy the resources available to meet the demands for Government valuation services, in the light of the changes to rating arrangements after 1990. It is highly desirable that other Ministers who have valuers within their Departments should make some similar arrangement.

I am copying this letter to the Prime Minister, all other members of the Cabinet and to Sir Robin Butler.

A handwritten signature in black ink, appearing to read 'Nigel Lawson', written over a large, stylized flourish.

NIGEL LAWSON

MANAGEMENT IN CONFIDENCE

M. W. Marland
AM

1. MR. POTTER
2. FINANCIAL SECRETARY

FROM M MARLAND
DATE 30 Sept.1988

cc PS. Chancellor ✓
PS C.S.T
Mr. Phillips
Mr. Butler
Mr. Gilhooly
Mr. Hurst

VALUATION SERVICES REVIEW

The Chancellor's letter to Mr. Ridley dated 15 Sept. 1988 (copy attached) set out the background and terms of reference for the above review. The review is progressing well and we have reached the stage of conducting initial meetings with departments. The first meeting was with the senior officials of the Valuation Office of the Inland Revenue, and we are now in the position where we need to make the staff there aware of the review and the reasons behind it. I attach the draft of a letter that the Chief Valuer proposes to send to all his staff explaining the rational behind the review.

2. The draft covers all the points concerning the announcement of the review to staff that the Chancellor made in his letter to Mr. Ridley and I see no need for any wider publicity.

3. Subject to your views on this, and if you are content with the proposed draft, I will give the necessary clearance for it to go out.

M. W. Marland

TO: ALL STAFF IN THE VALUATION OFFICE

Dear Colleague

When I wrote to you earlier this month I thought that would probably be the last time before my retirement. I did, however, indicate that many things were happening, and that I wanted you, and (especially) your representatives on the Trade Union Side, to be fully in the picture when there was a real development for me to report.

You will remember that in 1982/83 a Committee under the Chairmanship of Hugh Dalton CB reviewed the need for valuation services in government. Its report and most of its recommendations were accepted, but not all of them have so far been implemented.

The important point was that at that time the future of rating had not been decided and consequently our work on rating was totally excluded from the review. The 1982 Revaluation had been cancelled and a number of alternatives to rating were being considered. Since then the Local Government Finance Act 1988 has been passed and you are of course now heavily involved in the Non-domestic Revaluation. Any assessment of the Valuation Office must obviously have regard to this major task.

There has also been an increase in the need for valuations for all sorts of purposes including management accounting in the public sector; and growing difficulty in competing for an inadequate supply of the kind of people we need. Against this background the Chancellor's call for an updating and further review of valuation services is to be welcomed

The review is to be chaired by Mr Hayden Phillips at the Treasury, and is expected to report by the end of the year. Its terms of reference are as follows:-

"In the light of changes to rating arrangements in the Local Government Finance Act 1988, to consider and make recommendations on:

- a. future valuation requirements which the central government will have from April 1990, including continuing requirements for the valuation of Government property for management accounting and other purposes in PSA and departments; and
- b. the future organisation and deployment of Government valuers."

The purpose is to examine how best the Government can organise and deploy the resources available to meet the demands for Government valuation services, especially

in the light of the changes to rating arrangements after 1990. It will look at all the demands made by Government Departments for valuation services, and the ways in which those services are now supplied by the Valuation Office, PSA, Treasury Valuer and by valuers in other Government Departments. The question is not whether the services are needed, but how they should best be provided. The changes we have been making to our organisation should now stand us in good stead. I will ensure that you are kept informed as the review proceeds.

A B FALLOWS
CHIEF VALUER



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

Tony
Where did you get the copy list? I think this may be from the Val Appeals

My ref:

Your ref:

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1P 3AG

CHEQUER	
SEC.	12 OCT 1988
TO	Mr Potter
FROM	CST, F&T, PMG
TO	Sir P. Middleton
TO	Mr Amos, Mr Phillips
TO	Mr Scholar, Mr C.D. Butler
TO	Mr Culpin, Mr A Edwards
TO	Mr Stannard, Mr Hoare
TO	Mr Battishill (IR)
TO	Mr Whittier (TVO)
TO	Mr Olney (RGPD)

12/10
come on evidence. How about cc as on X?

11 October 1988

mp

Peison
Turnbull
Wood
Handford
Dear Nigel

Miss Pearson
Mr Turnbull
Mr Wood
Mr Handford
Mr Felgett
Mr Partridge
Mr Marland

NON DOMESTIC RATES: GOVERNMENT VALUATION SERVICES

Thank you for your letter of 15 September, about the arrangements for payment for Crown properties to the NNDR, and the proposal for review of Government valuation services.

So far as the former is concerned, our officials are progressing this in separate bilateral discussions with yours. So far as the review is concerned, I am content that this should go ahead with the terms of reference and the membership - both core and "peripheral" - which you suggest.

Representation from my Department will be led by Robert Gomme, PFO, PSA, supported by Richard Munday, from the Business Development Directorate; Richard Hore, Chief Estates Surveyor, PSA; and Christopher Howes, from the Land & Property Division, DOE. On the rating side, Neil Summerton will be our representative.

I am copying this letter to the Prime Minister, all other members of the Cabinet and to Sir Robin Butler.

Townen
Amos

NICHOLAS RIDLEY

Non-Domestic Property (Revaluation)

Dr. Cunningham: To ask the Secretary of State for the Environment when he proposes to announce the preliminary results of the revaluation of non-domestic property.

Mr. Ridley: I propose to announce shortly the results of a sample survey by the Inland Revenue of the likely outcome of the non-domestic revaluation for the main categories of properties and for individual regions.

Capital Expenditure and Finance

Dr. Cunningham: To ask the Secretary of State for the Environment whether he will publish a summary of responses to the document "Capital Expenditure and Finance: A Consultation Paper", issued by him on 7 July.

Mr. Ridley: I shall consider whether this is necessary since responses are frequently published by those who submit them, and copies of almost all responses are placed in the Library.

Dr. Cunningham: To ask the Secretary of State for the Environment what effect the proposal contained in the document entitled "Capital Expenditure and Finance: A Consultation Paper" for local authorities to repay debt in equal instalments of principal will have on local authorities' housing revenue accounts and general funds in 1990-91.

Mr. Ridley: The proposal that local authorities should provide for debt repayment by equal instalments of principal would ensure that from 1990-91 their housing revenue accounts and general funds reflect on a consistent basis the debt that local authorities have incurred.

Non-Domestic Rates

Dr. Cunningham: To ask the Secretary of State for the Environment when he will announce his detailed plans for phasing-in the effects of the national non-domestic rate and the revaluation of non-domestic property.

Mr. Ridley: I propose to issue a consultation paper shortly.

Local Government Finance Act

Dr. Cunningham: To ask the Secretary of State for the Environment what discussions his Department has had with (a) the Central Office of Information, (b) commercial advertising agencies and (c) the Independent Broadcasting Authority about future publicity campaigns on the implementation of the Local Government Finance Act.

Mr. Ridley: The COI is currently producing an update of the existing booklet explaining the community charge, following Royal Assent to the Local Government Finance Act 1988. My Department has had no discussions with commercial advertising agencies or with the IBA.

Public Representations

Mr. Tony Banks: To ask the Secretary of State for the Environment which subject within his Department's range of responsibilities has generated most representations

from the public in the past 12 months; and if he is able to estimate the numbers by correspondence and telephone calls.

Mr. Ridley: The Department receives a large number of representations from the public on a wide range of subjects. The information requested could be obtained only at disproportionate costs.

Dwellings (Unlawful Occupation)

Mr. Simon Hughes: To ask the Secretary of State for the Environment what are the most recent figures he has for the number of local authority dwellings unlawfully occupied in each London borough.

Mr. Trippier: The numbers of local authority dwellings in unlicensed occupation until April 1988, as reported by London boroughs in their housing investment programme returns, are as follows:

	<i>Numbers</i>
City of London	0
Barking and Dagenham	6
Barnet	0
Bexley	0
Brent	229
Bromley	7
Camden	340
Croydon	2
Ealing	79
Enfield	22
Greenwich	27
Hackney	953
Hammersmith and Fulham	143
Haringey	165
Harrow	0
Havering	0
Hillingdon	0
Hounslow	18
Islington	449
Kensington and Chelsea	6
Kingston upon Thames	8
Lambeth	1,170
Lewisham	163
Merton	18
Newham	52
Redbridge	7
Richmond upon Thames	5
Southwark	1,672
Sutton	0
Tower Hamlets	426
Waltham Forest	48
Wandsworth	65
Westminster	98

Castleford Town Centre Redevelopment

Mr. Lofthouse: To ask the Secretary of State for the Environment when he expects to make a decision on Wakefield metropolitan district council's application for urban development grant in respect of the Castleford town centre redevelopment scheme.

Mr. Trippier: I expect to be able to announce a decision shortly.

Disabled People (Adapted Dwellings)

Mr. Tony Banks: To ask the Secretary of State for the Environment (1) what information he has about the total number of specially adapted dwellings for the disabled built in England and Wales;

Alex

py



CH/EXCHEQUER	
REC.	30 NOV 1988
ACTION	CST
COPIES TO	

✓ 30/11

29/11/88

Prime Minister

UNIFORM BUSINESS RATE AND REVALUATION: TRANSITIONAL ARRANGEMENTS

We last considered this subject in February (my minute of 20 February, and John Major's and your Private Secretary's letters of 29 February), and I subsequently announced our agreed proposals in outline to the House at Report Stage of the Local Government Finance Bill on 21 April. I am now seeking your and colleagues' approval to detailed proposals to be contained in regulations, and an early announcement of their outline.

Background

The background is that the revaluation and uniform rate in 1990 will cause major shifts in the rate burden for many businesses. Broadly, retailers are likely to face increases, along with all businesses in some low-rated inner London boroughs; manufacturers, especially in the North and Midlands, are likely to gain.

During the passage of the Bill, the retailers' and small businesses' organisations and some of our backbenchers pressed for a transitional package including:

- a 10% per year ceiling on rate increases, continuing for as long as necessary for the biggest increases;
- increases in the uniform rate to be held below the increase in the RPI;
- a standard abatement of rateable value for small businesses;
- protection for losers to be financed by the Exchequer rather than by gainers.



We successfully resisted this. Instead, we announced a package consisting of:

- an unspecified percentage ceiling on increases for the first five years, with power to extend it beyond 1995 if required;
- power to set a lower ceiling for small businesses (more accurately, small premises);
- protection for losers to be financed by phasing benefits for gainers in corresponding fashion.

Rate Bill Changes

In resisting pressure to announce a figure for a ceiling on increases, we referred to an Inland Revenue survey of the forecast effects of revaluation, to be available in the autumn. We now have that survey; selected key tables are annexed. Broadly, it confirms our expectations of the likely pattern of gains and losses by area and type of business. In one major respect, it contains good news. The increase in total rateable values from the old 1973 list is forecast to be a multiple of 7.5, higher than expected; the proportionate reduction in the new uniform poundage from the present average can be correspondingly greater. This means that individual businessmen who have forecast their own RV fairly accurately, but have relied on published forecasts of the poundage, will pay less than they have been expecting.

The less good news is that changes in rateable value, and hence rate bills, are even more widely dispersed than we had expected, with a significant proportion of properties facing very large increases (4% in excess of 200%). No doubt when we publish an edited version of the survey, as we have promised, these cases will hit the headlines, although the businesses concerned will be protected by the transitional arrangements for at least five years.



The key findings of the survey are set out in Tables 1-3. Table 1 shows the numbers of properties gaining and losing by specified percentages. Table 2 shows the effect on rate burdens by region, with the North and Midlands gaining some £900m after transition, around half of it paid for by businesses in the City and Westminster. Table 3 shows the effect by property type by region. (This last table uses small samples and some figures may be unreliable.)

Proposed Transitional Arrangements

The survey goes on to analyse the cost of various possible transitional arrangements, in terms of the limit on gains that corresponds to specified levels of protection for losers in order to make the package self-financing and therefore neutral in its effect on local authority income. Table 4 shows that limits on annual increases of 15%, 20% and 25% would mean, respectively, limits on gains of 9%, 12% and 14% averaged out over the 5-year period; it also shows the numbers of properties with increases and reductions still to come after five years under each scheme, and that a 5% lower limit on losses for small businesses would make very little difference to the overall "cost" of the package.

My proposals are set against the background of these figures, the expectations generated during passage of the Bill, and the overriding need to make the pool broadly self-financing. On the one hand, businesses, especially small shopkeepers, are very worried about the effect of revaluation on their businesses, and have strong support on our backbenches. They are pressing for a 10% ceiling, and I think looking realistically for 15%. On the other hand, we also have an obligation to the manufacturers and others in the North and Midlands who stand to gain from our reforms; it will be particularly difficult to justify deferring these gains once it is on the public record what they "ought" to pay in rates.



I propose an annual percentage ceiling on increases of 20% for businesses at large, with a reduced ceiling of 15% for small businesses. The latter would be defined as properties with a new rateable value below £7500 in London and £5000 elsewhere; this includes the vast majority of corner shops, plus small workshops and other one- and two-man businesses. The ceiling works on a compound basis, with the result that for large businesses increases of up to 149% will come through in full by the fifth year; for small businesses the figure is 101%.

The cost of this in terms of the limit on gains, if spread over all gaining businesses, and averaged over five years as I propose, would be an 11½% per annum limit on gains. This means deferring rate reductions exceeding 46% to beyond the fifth year. However, the survey also reveals that it would be possible to discriminate in favour of small business gainers as well as losers, at relatively little cost to the big business gainers. This has advantages of administrative simplicity besides appearing more generous at modest cost. I therefore propose that small businesses (defined as before) should receive their full gains immediately. This means setting the limit for larger gainers at 10%, and deferring rate reductions of over 41% to beyond the fifth year.

There is one further small refinement. Included in the figures are a number of very small properties, such as AA phone boxes, which are not really businesses at all. Again for the sake of simplicity, I propose that properties with a new RV below, say, £100 should be outside transition entirely. Below that level one can be confident that a property is not supporting even a one-man business. Table 5 shows the detailed effects of all these proposals in combination.

The figures quoted above are all in real terms. There is a case for rolling up the annual RPI-linked increase in the uniform rate, making an assumption about inflation, and specifying the



limits in cash. With a 4% inflation assumption, 20% and 15% limits on gains might thus become 25% and 20%, and a 10% limit on losses would become 6%. This would be simpler to explain and administer. On the other hand, it makes the increases look larger, and involves going public with what would be seen as an inflation forecast for longer ahead than is our practice. On balance, I therefore propose to specify the limits in regulations in real terms, with the actual annual RPI increase to be added year by year.

I propose to maintain our previous line of giving no commitment to extending the arrangements beyond the fifth year, and, if pressed on behalf of the few very big losers, to say that we shall consider their position when we can forecast the results of the 1995 revaluation. By that time they may have benefited from some reduction in rents as the cost of the rate increases are passed on in part to landlords.

Taken as a whole, I believe my proposals strike the right balance between giving businesses in the North and Midlands their long overdue benefits, and checking the drift of economic activity to the South-East; and on the other hand giving small retailers the protection they are entitled to expect and ensuring that the horror stories from their organisations of widespread bankruptcies will not materialise. It is worth noting that rates are typically 1-4% of business turnover, and very rarely exceed 10%. A 15% annual increase will therefore commonly be less than $\frac{1}{2}$ % of turnover, and 2% at the very most.

Wales and Scotland

The arrangements in Wales would be subject to the same structure, but it would be open to Peter Walker to adopt different figures if he thought fit. In practice, I understand through officials that he is content to have the same limits for losers, but plans to calculate a different limit for gainers to balance the



separate Welsh pool. The position in Scotland is different, with no uniform rate in 1990 and much less turbulence likely to result from revaluation because of the shorter interval since the last one. It is for Malcolm Rifkind to decide whether to use his powers to phase the effects of the revaluation.

Timing and Announcement

I do not need to make the regulations until next summer. I undertook during passage of the Bill, however, to make an announcement this autumn when the Inland Revenue survey was complete. Subject to colleagues' agreement, therefore, I propose to announce it shortly giving a firm commitment on the protection for losers, and a provisional indication of what this will mean for the limit on gains. Leaving the latter open will give time to refine the figures and consult colleagues on matters not considered here including how, if at all, the arrangements are to apply to Crown property. Before the announcement, Nigel Lawson and I will also need to clear for publication an edited version of the Inland Revenue survey.

Conclusion

I therefore seek your and colleagues' approval for:

- i. a limit on annual rate bill increases of 20% in real terms for 5 years;
- ii. a lower limit of 15% for small properties (other than the very smallest);
- iii. these to be paid for by a limit - currently forecast to be 10% - on rate bill reductions for larger properties only;

and for my making an announcement setting out these proposals.



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

A handwritten signature, possibly "N.R.", consisting of a stylized 'N' and 'R'.

N R

29 November 1988

TABLE 1
Distribution of gainers and losers nationally (England)

	No of properties '000	%	1989-90 rate bills £m*	1990-91 burden £m	Real change in rates burden £m	% change in rates burden
<u>Change in rates burden</u>						
Reduction of 50% or over	131	8	1097	431	-666	-61
" 25% but less than 50%	281	18	2480	1576	-904	-36
" 5% " " 25%	262	16	2013	1725	-288	-14
" of 0.5% " 5%	53	3	420	409	- 10	- 3
Change of less than +/- 0.5%	13	1	60	60	---	---
Increase of 0.5% but less than 5%	46	3	351	360	9	3
" of 5% but less than 10%	50	3	347	371	24	7
" " 10% " " 15%	57	4	367	411	43	12
" " 15% " " 20%	59	4	352	411	59	17
" " 20% " " 25%	54	3	287	350	62	22
" " 25% " " 50%	196	12	1138	1541	402	35
" " 50% " " 75%	115	7	499	808	308	62
" " 75% " " 100%	74	5	337	634	297	88
" " 100% " " 200%	131	8	263	626	362	137
" " 200% " " 300%	35	2	30	104	74	242
" " 300% " " 500%	22	1	22	109	86	381
" " 500% or more	7	--	20	158	137	669
 SUMMARY						
All Gainers	728	46	6012	4143	-1869	-31
No gain/no loss	13	1	60	60	--	--
All Losers	852	53	4019	5888	1869	47
Overall Totals	1593		10091	10091	--	--

* In 1990-91 Prices

TABLE 2

Changes by region in rates burden: estimated 1990-91 burdens after revaluation and the introduction of NNDR compared with indexed 1989-90 burdens.

Region	Indexed 1990-91 burden		1990-91 burden after revaluation and introduction of NNDR		Change in rate burden relative to indexed 1989-90 burden	
	£m	% of National total	£m	% of National total	£m	% change
England:-						
North	596	6	517	5	-79	-13
Yorkshire & Humberside	928	9	733	7	-195	-21
East Midlands	731	7	575	6	-155	-21
East Anglia	325	3	375	4	49	15
Inner London	1809	18	2311	23	501	28
Outer London	881	9	947	9	65	7
Rest of South East	1963	19	2214	22	251	13
South West	692	7	836	8	144	21
West Midlands	948	9	727	7	-221	-23
North West	1212	12	852	8	-360	-30
England	10091	100	10091	100	--	--

Note : All figures in assumed 1990/91 prices

TABLE 3

ANALYSIS OF BURDEN CHANGES BY PROPERTY TYPE WITHIN REGIONS
COMPARISON OF 1990-91 BURDEN (BEFORE TRANSITIONAL ARRANGEMENTS)
WITH INDEXED 1989-90 BURDEN

Region	PROPERTY TYPE						
	Shops with living accommodation	Shops without living accommodation	Offices	Warehouses	Factories	Other + Properties	All Properties
	Burden Change (%)	Burden Change (%)	Burden Change (%)	Burden Change (%)	Burden Change (%)	Burden Change (%)	Burden Change (%)
Northern	-3	-15	-36	-47	4*	-15	-13
Yorkshire & Humberside	21	-15	-14	-32	-36	-14	-21
East Midlands	-3	-10	-26	-21	-40	-14	-21
East Anglia	34	36	10	2	-10	24	15
Inner London	69	61	20	3	-30	43	28
Outer London	32	30	0	-9	-24	25	7
Rest of South East	15	27	28	4	-8	17	13
South West	38	39	21	11	-4	25	21
West Midlands	-10	-13	-19	-35	-50	-4	-23
North West	-15	-28	-32	-38	-44	-19	-30
<u>England</u>	17	12	12	-14	-26	7	0

*The result for this category is suspected of being inaccurate

+ Includes Crown, local authority, public utilities, pubs and hotels, sport, entertainment and miscellaneous.

doc285sr

TABLE 4

EFFECTS BY FINANCIAL YEAR OF VARIOUS REVENUE NEUTRAL TRANSITIONAL SCHEMES

	Increase in burdens met by losers before transition £m	Effect of transitional scheme for losers		Restriction on gains to finance scheme		
		number benefiting '000	Cost £m	Cap on gainers %	Number affected '000	Yield £m
UNIFORM CEILINGS FOR ALL LOSERS						
15% CAP ON ALL LOSERS						
1990-91	1869	696	1367	9	617	1384
1991-92	1944	521	1005	10	497	1008
1992-93	2022	382	738	9	410	747
1993-94	2102	285	537	9	330	537
1994-95	2186	204	394	8	266	398
20% CAP ON ALL LOSERS						
1990-91	1869	639	1233	12	584	1240
1991-92	1944	428	811	12	442	827
1992-93	2022	293	533	12	336	527
1993-94	2102	190	356	10	254	357
1994-95	2185	115	256	9	201	261
25% CAP ON ALL LOSERS						
1990-91	1869	584	1114	15	542	1103
1991-92	1944	361	663	14	394	668
1992-93	2022	220	391	13	279	398
1993-94	2102	124	255	11	202	255
1994-95	2186	70	182	8	159	185
LOWER 'SMALL BUSINESS' CEILING						
15% CAP WHERE 1990 LIST VALUES LESS THAN £7500 IN LONDON, £5000 ELSEWHERE; OTHERWISE 20%						
1990-91	1869	674	1242	12	584	1240
1991-92	1944	478	825	12	442	827
1992-93	2022	346	548	11	344	551
1993-94	2102	245	370	10	264	374
1994-95	2186	170	269	8	208	274

Note : Cash figures in this table are assumed current prices in each year, derived by a uniform 4% pa uplift on 1988/9 prices.

TABLE 5

EFFECTS OF TRANSITION IN ENGLAND BY FINANCIAL YEAR

MAXIMUM INCREASE IN REAL TERMS RATE BILLS SET TO 20% GENERALLY, 15% FOR SMALL BUSINESSES
ALTERNATIVE 10% AND 10.5% REAL TERMS CAP ON BIG BUSINESS GAINERS ONLY

	1990/91	1991/92	1992/93	1993/94	1994/95
COST OF NET FOR LOSERS	£1242m	£825m	£548m	£370m	£269m
YIELD OF 10% CAP ON GAINERS	£1220m	£883m	£623m	£423m	£284m
POOL IMBALANCE	£-22m	£+58m	£+75m	£+53m	£+15m
YIELD OF 10.5% CAP ON GAINERS	£1198m	£851m	£588m	£391m	£259m
POOL IMBALANCE	£-44m	£+26m	£+40m	£+21m	£-10m
NUMBERS AFFECTED (000's)					
a) PROTECTED LOSERS	674	478	346	245	170
b) GAINERS CAPPED AT 10%	232	187	147	108	78
c) GAINERS CAPPED AT 10.5%	230	183	141	103	73

- NOTES: 1. In outturn prices assuming 4% per annum inflation from 1988/89.
2. Small businesses are those with an RV of below £7,500 in London, £5,000 elsewhere, on the 1990 list.
3. No allowance made for a de-minimis rule excluding the smallest hereditaments from transition.
4. The caps and nets were calculated in nominal terms. Hence a 20% real net is 24% in cash, (a 10% cap on gains is 6%), since inflation is assumed to be 4%.

✓ 31/12

M

EXCHEQUER	30 NOV 1988	CST			
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CONFIDENTIAL



2 MARSHAM STREET
 LONDON SW1P 3EB
 01-212 3434

My ref:
 Your ref:

Duty Clerk
 10 Downing Street
 LONDON
 SW1A 2AA

30 November 1988

Dear Duty Clerk,

My Secretary of State minuted the Prime Minister yesterday, Tuesday 29 November, about the Uniform Business Rate and Revaluation: Transitional Arrangements.

Unfortunately, we omitted to classify the minute "confidential". I would be grateful if this could be done and apologise for any inconvenience caused.

I am copying this letter to the private secretaries to the members of E(LF), Alison Smith in John Wakeham's Office, Murdo MacLean in David Waddington's Office and to Trevor Woolley in Sir Robin Butler's Office.

Yours sincerely,

Mrs E Cope

MRS E COPE
 Private Secretary



CONFIDENTIAL

- [1. MR EDWARDS] *agreed in draft*
- 2. CHANCELLOR

FROM: R FELLGETT

Date: 5 December 1988

- cc: Chief Secretary
- Financial Secretary
- Paymaster General
- Economic Secretary
- Sir P Middleton
- Mr Anson
- Mr Monck
- Mr Phillips
- Mr Scholar
- Mr Culpin
- Mr Turnbull
- Mr Potter
- Mrs Holmans
- Mr H Burns
- Mrs Chaplin
- Mr Tyrie
- Mr Call

Ch
I can see no point in a 6 page minute saying you agree with Nick Ridley on all but a few points. I attach a shortened version.

AA

Thanks. You version fine

UNIFORM BUSINESS RATE AND REVALUATION: TRANSITIONAL ARRANGEMENTS

Mr Ridley's minute of 29 November to the Prime Minister contains the expected proposals about transition to new business rate bills, following the revaluation and move to NNDR in England and Wales. I attach a draft minute you might send to the Prime Minister, broadly supportive of Mr Ridley's proposals but with some reservations, following your views recorded in Mr Alex Allan's minute of 28 November to me.

2. I hope the discussion of the substance of Mr Ridley's proposals in the attached draft is self-explanatory.

3. There are, however two aspects of the handling and announcement that may warrant further explanation. First, the draft suggests that an announcement on the transition may have to be put back until January. A number of important subsidiary points have yet to be settled, particularly those which Mr Ridley disputes in his letter of 29 November to the Chief Secretary. Perhaps the most important is that there should be no unplanned erosion of the base of business rates paid by the private sector

*below (not seen before)
 separate story.*

in 1990-91, as a result of higher payments by the public sector (financed out of other forms of taxation) within a given total of non-domestic rates. We assume that you continue to favour taking decisions on the fiscal stance at the time, and not even in this minor respect now as a result of the technicalities of revaluation. This point is referred to briefly in the draft minute to the Prime Minister. The Chief Secretary has indicated that he would be prepared to discuss all these points with Mr Ridley, but it will be difficult to find a slot for this before Christmas.

4. Second, the draft reflects your preference not to publish any of the results of the Inland Revenue study at this stage. Unlike your comments on the substance of the proposals, which Mr Ridley may accept, he is likely to argue quite strongly for some publication, to which he apparently feels committed. His main argument is likely to be that the business organisations and others will be aware that the Government must have information about the likely pattern of changes in rates bills in order to announce its decisions on transition. Although the decision to announce in the autumn (or early winter) was not taken on the assumption that the Inland Revenue study would be published, the Government did say at the time that preliminary results of the revaluation would become available by the autumn. Failing to publish something would therefore be likely to provoke requests, eg through PQs, for information, and it would arguably be better to manage the publication rather than release information ad hoc.

5. Information is bound to become available in about twelve months time, as the new rateable values are published for the first time. The question is therefore when information becomes available, and how the Government prepares public opinion for the likely changes.

6. It would seem very difficult to release no information until after the necessary transitional regulations have been taken through Parliament. Mr Ridley and his colleagues in the Lords would have difficulty obtaining agreement to regulations

specifying particular limits on gains and losses each year, without some supporting information designed to demonstrate that the Government had good reason to pick on these particular limits and not some others.

7. But these arguments do not apply with such force to the initial announcement and consultation with business and local authority interests. They will no doubt press for information, but such calls should be easier to resist than similar requests during Parliamentary scrutiny of regulations. It is also Mr Ridley's intention, which we suggest you support, that the limit on gains should be treated as an estimate rather than a firm proposal at this stage, because the data are not yet good enough.

8. The draft therefore acknowledges that Mr Ridley will need some well-chosen supporting evidence (ie not the full IR study) when the regulations are debated, but argues against any publication now. The main arguments advanced are that publication would create adverse publicity; it would be overtaken by later information in the Spring; and it would benefit chartered surveyors looking for rating valuation work more than business ratepayers.

Robin Fellgett

R FELLGETT

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**DRAFT MINUTE FOR THE CHANCELLOR'S SIGNATURE
TO: PRIME MINISTER**

**UNIFORM BUSINESS RATE AND REVALUATION: TRANSITIONAL
ARRANGEMENTS**

I have considered the proposals in Nicholas Ridley's minute of 29 November carefully, and very much agree with the broad package that he has devised. My only reservations are over points which, although important in themselves, are not central to the overall package.

2. We have undertaken to phase-in losses by placing a limit on the extent to which the rates bill on any business property can rise as a result of the revaluation and move to National Non Domestic Rate. The consequent reduction in the yield of business rates would be met by a corresponding phasing of gains, within a transitional scheme that must, as Nicholas emphasises, be self-financing.

3. Gainers are, of course, those whose rates are too high at present and deserve the benefit of the new system. Losers are similarly those who at present are paying less than their share. I have therefore considered the possibilities of phasing the changes rather faster than Nicholas envisages, but concluded like him that, on balance, it would be difficult to phase losses for the generality of business premises at more than 20% a year. I therefore agree that the cap on losses should normally be 20% (before the annual increase in the NNDR poundage, ie broadly in real terms).

4. I am also content for the limit on losses for small business premises to be set slightly lower at 15% a year, with small premises defined by reference to the thresholds that Nicholas proposes. As he implies, this should be good news for the supporters of small businesses on our back benches. There will, of course, be anomalies because the dividing line has to be drawn between small and large premises, and not according to whether they are occupied by businesses which are small or large in financial terms. But provided the differential between the two annual limits on losses is not too large, such anomalies will not have a major differential impact on otherwise similar businesses and should therefore be defensible.

X 5. On the figures available, these limits on losses would allow gains to be phased at ~~the~~ 11%-12% a year on the self-financing basis which has been agreed between us.

6. I do, however, have doubts about Nicholas's suggestion that gains for small premises (similarly defined) should come through immediately in 1990-91. There would then be a very marked difference between properties with rateable values below the threshold, who would receive gains in full immediately, and properties with slightly higher rateable values who, in extreme cases, would still be waiting for their final gains five years later. Particularly as the distinction has to be based on the rateable value of each property, rather than on the financial state of the company

owning it, I think that would be hard to defend. Companies with large premises who expect to gain from the changes would feel that they were subsidising all others - losers (large and small), and gainers with small buildings. Gains for large premises would be reduced to about 10%, very close to single figures. My preference would therefore be to phase all gains equally. Or, if some special concession for small properties among gainers is unavoidable, we could have a differential of no more than 5 percentage points as Nicholas proposes for losers. The limits would then be:

	Losers	Gainers (estimated)
Large premises	20%	11%
Small premises	15%	16% (which could be rounded to 15%)

7. I agree with the proposed refinement to exclude very small properties where the cash change from the reforms must be very small, even if it appears quite large in percentage terms. Nicholas mentions AA telephone boxes; advertising hoardings is another example. My officials are in touch with DOE about how this refinement could best be defined; it may prove to be something that we cannot finally reach a decision on until after the proposed period of consultation, because our knowledge of the type of "properties" and their owners is fairly limited.

8. I also agree that the figures should be in real terms, or more accurately before the annual increase in the NNDR poundage. (Clearly we should avoid publishing a forecast for the RPI each year to 1994-95.)

9. I would go a little further than Nicholas suggests on the possibility of extending transitional arrangements beyond the fifth year. There is, I agree, no point in committing ourselves to a particular scheme from 1995-96, because we must retain the flexibility to consider what we find at that stage. If, however, the few very big losers from the present changes are then still facing a very steep increase we will, I think, be bound to do something to moderate it. There is much to said for acknowledging now that we will consider their position sympathetically at the time, if we find that their potential increases have not been moderated by reductions in rents (which should feed through into lower rateable values after another revaluation).

10. Finally, on the substance of Nicholas' proposals, I should add that not only are rates typically a relatively small proportion of business turnover, but they are also taken into account in profits-related taxes. A loser paying Corporation Tax or Income Tax may typically therefore find up to about a third of their losses offset in other tax payments. Gains will often be correspondingly reduced in this way as well, within the overall tax bill of any business.

11. As to timing and announcement, I agree that it would be right to give a firm commitment about losers, but only an estimate of what this will mean for the limit on gains. It may well prove possible to refine the figures before the spring, and still leave time to take the regulations through Parliament before the summer recess. We need the best possible figures, to ensure that we have indeed calculated a scheme that is self-financing.

12. As Nicholas says, we have undertaken to make an announcement this autumn, although in practice that might need to slip until January. There are some important related points that John Major and I have to agree with Nicholas beforehand, such as how we ensure that the reforms affect only the distribution of business rates and do not, through their impact on public sector payments, generate wider changes in the tax burden.

13. We decided on an announcement, however, on the basis that we would by this autumn have some preliminary results of the valuation itself available; we did not plan to refer to the IR survey, which was intended primarily to aid the decisions we are now taking.

14. I would prefer not to publish even an edited version of the survey at this stage. It would undoubtedly be combed for selective quotes about the position of particular groups, who may be among the biggest losers. At some stage, I recognise,

suitable well-chosen information must be made public. It certainly cannot be removed from the revaluation itself, and the provisional valuation lists which will be deposited in about a year's time. I also understand that Nicholas may need significant supporting information when he comes to take the regulations through both Houses before the recess. Even two sets of information - preliminary information to support the regulations and, a few months later, the revaluation itself - may prove awkward, if, as is inevitable, there are some differences between the two. It would be even more awkward to provide three, slightly different, sets of information - one shortly, another in the spring, and a third around Christmas 1989. We should therefore continue to resist pressures for the publication of large quantities of information, which I fear would help chartered surveyors to drum up more business rather than businesses themselves. We can do so on the grounds that, although we have made some preliminary calculations, they are not yet sufficiently reliable to be useful to business ratepayers.

15. I therefore support Nicholas' proposals for announcement of a scheme along the lines he suggests, subject only to the points above.

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

[N.L]



7/12/88

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PRIME MINISTER

**UNIFORM BUSINESS RATE AND REVALUATION:
TRANSITIONAL ARRANGEMENTS**

I have seen Nicholas Ridley's minute dated 29 November to you on this matter.

The revaluation and uniform business rate will produce shifts in the rate burden in Wales which broadly follow the English pattern. Shops will bear a rather large share of the burden, and the proportion contributed by warehouses and factories will fall. There will be a distributional benefit for ratepayers in the South Wales valleys relative to those in the rest of Wales - we forecast a reduction of 13% in the valleys' share of the total rate burden, and an increase elsewhere of 4%. This will be good news for business in the valleys.

My proposals for transitional arrangements in Wales are very similar to those which Nicholas advances for England - an annual percentage ceiling on increases of 20% for large businesses, with a reduced ceiling of 15% for small businesses (those with a new rateable value of less than £5,000).

To meet the revenue losses which these proposals entail, and in order to balance the Welsh non-domestic rating pool, I propose to set a limit for gainers, but at a different level from that proposed for England. For large business gainers, a limit of 12% will secure the revenue necessary to meet the losses caused by protecting the position of large and small business losers, and this is the figure I propose to adopt for Wales. Small business gainers will obtain the full value of their rate reductions immediately. Those non-domestic properties whose new rateable values indicate that they are not truly businesses will be exempt from these transitional arrangements.

These proposals differ from those for England only in relation to the different limit advanced for large business gainers. Nicholas proposes to inform the house of the protection for losers, but to give only a provisional indication of what this will mean for gainers. Since our proposals for protection for losers are the same, I am happy for Nicholas to take the lead in informing the House of what we intend to do.

.../Nicholas

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Nicholas refers in his minute to arrangements for publication of the results of the revaluation exercise, and to the need to discuss this further with Nigel Lawson. Since the publication will include projections of the effect of the revaluation in Wales, and in view of my forthcoming assumption of responsibility for Welsh rating matters, I would wish to be involved in the discussions.

Copies of this go to members of E(LF), to John Wakeham and David Waddington, and to Sir Robin Butler.

7 December 1988

Keith Davies

PW

Approved by the Secretary of State
and signed in his absence



FROM: A C S ALLAN

DATE: 7 December 1988

ps

MR FELLGETT

- cc PS/Chief Secretary
- PS/Financial Secretary
- PS/Paymaster General
- PS/Economic Secretary
- Sir P Middleton
- Mr Anson
- Mr Monck
- Mr Phillips
- Mr Scholar
- Mr Culpin
- Mr A J C Edwards
- Mr Turnbull
- Mr Potter
- Mrs Holmans
- Mr H Burns
- Mrs Chaplin
- Mr Tyrie
- Mr Call

UNIFORM BUSINESS RATES AND REVALUATION: TRANSITIONAL ARRANGEMENTS

The Chancellor was grateful for your minute of 5 December. He decided he would prefer to send a shortened version of your draft ...
... minute to the Prime Minister, and I attach a copy.

ACSA

A C S ALLAN



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

PRIME MINISTER

UNIFORM BUSINESS RATE AND REVALUATION: TRANSITIONAL ARRANGEMENTS

I have seen Nick Ridley's minute to you of 29 November. I agree with almost all of what he proposes and in particular with his view that the overriding need must be to make the transitional arrangements self-financing. I have only a few points.

First, I have doubts about his suggestion that gains for small premises should come through immediately in 1990-91. There would then be a very marked difference between properties with rateable values below the threshold, who would receive gains in full immediately, and properties with slightly higher rateable values who, in extreme cases, would still be waiting for their final gains five years later. This would be hard to defend, particularly since the distinction has to be based on the rateable value of each property, rather than on the size of the company owning it; this may mean that a chain of small shops benefits whereas a single but slightly larger store does not. I can see the case for a special concession for small properties among gainers, but I feel this should be held at a differential of no more than 5 percentage points, as Nick proposes for losers. The annual limits on gains or losses would then be:



	<u>Losers</u>	<u>Gainers (estimated)</u>
Large premises	20%	11%
Small premises	15%	16%

Second, I would go a little further than Nick suggests on the possibility of extending transition arrangements beyond the fifth year. There is, as he says, no point in committing ourselves to a particular scheme from 1995-96 now. But if the very few big losers from the present changes are still facing a very steep increase then - even allowing for an offsetting impact on rents - we will be bound to want to do something to moderate it. There is much to be said for acknowledging that now.

Third, there are some important related points that John Major and I have yet to agree with Nick, and which need to be sorted out before an announcement is made. (John's letter of 21 November and Nick's reply of 29 November were copied to you.) These points include, in particular, how we ensure that the reforms affect only the distribution of business rates and do not, through their impact on public sector payments, generate wider changes in the tax burden.

Finally, I would prefer not to publish even an edited version of the Inland Revenue's Survey at this stage. That survey was designed to give us the material we needed to decide on the transitional arrangements, and I see no advantage - and considerable potential damage - from publishing it now. It would undoubtedly be combed for selective examples of particular big losers. We can consider nearer the time what material, if any, Nick will need in the Summer when he is taking the regulations through the House.



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

N.L.

[N.L.]

7 December 1988

CONFIDENTIAL

Alex's
shorter draft. *Payp*

Please type to
signature.

DRAFT MINUTE FROM CHANCELLOR TO:

PRIME MINISTER

UNIFORM BUSINESS RATE AND REVALUATION: TRANSITIONAL ARRANGEMENTS

I have seen Nick Ridley's minute to you of 29 November, and ^T agree with almost all of what he proposes, and in particular with his view that the overriding needs~~x~~ must be to make the transitional arrangements self-financing. I have only a few points.

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than 5 percentage points, as Nick proposes for losers. The annual limits on gains or losses would then be:

	<u>Losers</u>	<u>Gainers</u> <u>(estimated)</u>
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Third, there are some important related points that John Major and I have yet to agree with Nick, and which need to be sorted out before an announcement is made. (John's letter of 21 November and Nick's reply of 29 November were copied to you.) These points include, in particular, how we ensure that the reforms affect only the distribution of business rates and do not, through their impact on public sector payments, generate wider changes in the tax burden.

Finally, I would prefer not to publish even an edited version of the Inland Revenue's Survey at this stage. This ^{at survey} was designed to give us the material we needed to decide on the transitional arrangements, and I see no advantage - and considerable potential damage - from publishing it now. It would undoubtedly be combed for selective ~~quotes about~~ ^{examples of} particular big losers. We can consider nearer the time what material, if any, Nick will need in the Summer when he is taking the regulations through the House.

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

[N.L.]

6 December 1988

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From the Private Secretary



10 DOWNING STREET
LONDON SW1A 2AA

12 December 1988

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Good
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Pop

Dear Roger,

**UNIFORM BUSINESS RATE REVALUATION:
TRANSITIONAL ARRANGEMENTS**

The Prime Minister was grateful for your Secretary of State's minute of 29 November. She has also seen the minutes of 7 December from the Chancellor of the Exchequer and the Secretary of State for Wales.

The Prime Minister agrees with the Chancellor that it would be appropriate to amend the package set out in your Secretary of State's minute to provide a limit on the gains for small properties some five percentage points above the limit for large properties. She also thinks it would be sensible to handle the issue of extending transitional arrangements beyond the fifth year in the way the Chancellor suggests. The Prime Minister would be content to delay publishing a summary of the Inland Revenue's survey if this can be justified, but she has commented that this will have to be published in any event in the summer. The Prime Minister hopes that the other matters to which the Chancellor refers in the third point in his minute can be sorted out bilaterally.

I am sending a copy of this letter to the Private Secretaries to members of E(LF), Alison Smith (Lord President's Office), Murdo Maclean (Chief Whip's Office) and Trevor Woolley (Cabinet Office).

Yours,
Paul

(PAUL GRAY)

Roger Bright, Esq.,
Department of the Environment.

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Prime Minister

✓ 15/12

15/12/88.

UNIFORM BUSINESS RATE AND REVALUATION: TRANSITIONAL ARRANGEMENTS

I have seen Nicholas Ridley's minute to you of 29 November outlining his proposals for phasing in the joint effects of the revaluation and introduction of a uniform business rate in England in 1990, and the reply from your office.

We do not anticipate that the 1990 revaluation in Scotland will result in changes in rates bills of the magnitude predicted by the Inland Revenue survey for England and Wales but there will be losers and, especially after the experience of 1985, I think it is essential to offer them adequate transitional protection. I intend, therefore, to provide the same protection to Scottish business losing as a result of the revaluation as Nicholas Ridley and Peter Walker propose. The proposed ceilings of 20% and 15% in real terms on annual increases in rates bills should allow us to phase in the effects of the revaluation in Scotland within 4 years.

On the basis of the Inland Revenue survey Nicholas Ridley proposes that in order to meet the cost of these transitional arrangements for losers in 1990, a ceiling of the order of 10% will be required on larger properties which gain in England. The figure for Wales will be around 12%. The assessors in Scotland, who are very much involved with outstanding appeals from the 1985 revaluation and preparation for the introduction of the community charge in April, are less far down the road in gathering information for the 1990 revaluation. It is, therefore, too early for me to take a view on how to meet the costs of the protection for losers in Scotland. The fact that Nicholas Ridley proposes to give only an indication of the likely level of ceiling on gainers at this stage is, therefore, helpful to me.

Nigel Lawson has suggested that detailed forecasts of the effect of revaluation in England and Wales should not be given at this stage. As I have said, I do not yet have similarly detailed information for Scotland, because the Scottish assessors have so far been able to give me only very broad estimates. There would be some embarrassment for me if I could not match the detail produced for England and Wales, and I therefore support Nigel Lawson's proposal that the Inland Revenue information should not be published at this stage.

I am not clear what mechanism Nicholas Ridley proposes for announcing these transitional arrangements but I should be grateful if his officials would liaise with mine to ensure we coordinate the announcements north and south of the Border.

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

M R

15 December 1988

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PRIME MINISTER

15/12/88.

UNIFORM BUSINESS RATE AND REVALUATION: TRANSITIONAL ARRANGEMENTS

I have seen a copy of Nicholas Ridley's minute to you of 29 November about transitional arrangements for business rates. I have also seen minutes from Nigel Lawson, Peter Walker, and your Private Secretary.

I support Nicholas's proposals, which seem to strike a reasonable balance between the claims of Northern businesses to a fairer rates burden and the need to protect business losers in the South from excessive financial pressures. I am content for Nicholas to make an early announcement of his proposals in outline.

I particularly appreciate the concessions Nicholas has included for small premises, which represent a welcome gesture to the small firms sector and which I believe will enhance the political acceptability of his overall package. Nigel drew attention to potential anomalies in the proposal to allow small premises to receive their gains immediately in full, and put forward an alternative proposal with which you agreed. I believe that there is a case for treating small firms generously and I feel that the political benefits of the original proposal could well outweigh the potential drawbacks. However, I am willing to accept Nigel's alternative proposal, which can also be presented as a concession to small firms.



On a point of detail, I was a little concerned to see that the Inland Revenue's forecasts of rate gains and losses for individual regions and property types (Table 3) show factories in Northern region facing an estimated 4% total rise in rates, and shops with living accommodation facing a 21% increase in Yorkshire and Humberside. These findings are strongly against the prevailing trend for reduced rates burdens on businesses in the North and may well provoke representations from the regions affected. Nicholas acknowledges in his minute that some of the figures in this table are unreliable because of the small sample size used. I do not know whether it would be possible to improve the reliability of the figures with further work, but I think this is one point which might be taken into account when considering publication of the revaluation survey results.

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

A handwritten signature in black ink, appearing to be 'NF', written in a cursive style.

NF

15 December 1988

→ Alex

pay

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

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

CH/EXCHEQUER	
REC.	16 DEC 1988
ACTION	CST
COPIES TO	

v142

Department of
Trade and Industry

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London SW1H 0ET

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Direct line 215 5147

Our ref

Your ref

Date 16 December 1988

John Nich.

UNIFORM BUSINESS RATE AND REVALUATION: TRANSITIONAL ARRANGEMENTS

Thank you for sending me a copy of your letter of 29 November to the Prime Minister.

There will no doubt be complaints both from gainers and losers about any self-financing transitional arrangements. But given the results of the Inland Revenue survey, I think your modified proposals are a fair compromise between divergent business interests. Your proposal to allow small gainers the full benefit of their gains immediately goes beyond the assurances given in Parliament; but I can see the administrative advantage, and it may well on balance be attractive politically.

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

Newton

TONY NEWTON

*Central with
1st variant of
memo (file) system*

FROM: R FELLGETT
DATE: 20 DECEMBER 1988

- 1. MR EDWARDS
- 2. CHIEF SECRETARY

- cc
- Chancellor
 - Sir P Middleton
 - Mr Anson
 - Sir A Wilson
 - Mr Monck
 - Mr Phillips
 - Mr C D Butler
 - Mr Culpin
 - Mrs Lomax
 - Miss Peirson
 - Mr Luce
 - Mr Olney (RGPD)
 - Mr Potter
 - Mr S Wood
 - Mr MacAuslan
 - Mr G C White

I agree with this submission,
which reflects a considerable
amount of internal discussion.
If you are content, we will com-
mend this approach to DOE officials,
in preparation for the omnibus
meeting between Treasury and DOE ministers early in

GOVERNMENT CONTRIBUTIONS IN LIEU OF RATES

*January on NNDR
matters.*

*AJCE
20 xii*

We have been giving further thought to the future of the government's contribution to local authorities in lieu of non-domestic rates, under the new local government finance system from April 1990. Our conclusion is broadly to reaffirm earlier advice that such contributions in lieu should continue, with a payment based in 1990-91 on an up to date revaluation of government property, uprated thereafter annually by a simple formula. However, we would now attach the proviso that we need to secure adequate mechanisms in future public expenditure Surveys, to ensure that any changes in the contribution are consistent with wider public expenditure policies towards local government.

2. We should be glad to know whether you and the Chancellor agree with this conclusion. If you do, we will conduct current discussions about contributions in lieu and the handling of future Surveys with DOE, Scottish and Welsh officials accordingly. We will also brief you similarly for your forthcoming meeting with Mr Ridley about business rating issues.

*Ch
I think this is right. In principle I favour scrapping the whole system of contributions in lieu of rates but it isn't really worth fighting that battle again now if we can get a simple lump-sum solution.*

AP

Background

3. The government is not legally liable to pay rates. But at least for the last century, it has generally endeavoured to pay as much to each local authority on each building it occupies as if it were liable. The bulk of the rating valuations needed for this purpose, and many of the payments as well, are made by the Rating of Government Property Department, which is part of the Treasury. It has running costs of approximately £1 million a year.

4. Under the reformed system of local government finance, contributions in lieu of rates on domestic property will cease, although in a few exceptional cases government departments (not normally the Treasury) will make contributions in lieu of Community Charges.

5. If the government continues to make payments in lieu of non-domestic rates, as informed public opinion expects it to do, payments of around £600 million a year at present are liable to rise to, perhaps, £800 million a year as a result of the rating revaluation. This figure covers government property (defence and civil) and the NHS. Many departments would pay more than they do now, although some would pay less, reflecting the latest information on the value of the property that they use. The total sum would go into the National Non-Domestic Rate (NNDR) pool and be distributed to local authorities as about £20 for each adult resident in their area, just like the 'standard' element of Revenue Support Grant. (The arrangements in Scotland would be slightly different, as there will not be an NNDR pool, but the effect would be essentially the same).

Objectives

6. We suggest that the four key objectives for the future of the contributions in lieu of rates system, are to:

- (i) bring the costs of central government property properly to account, both in departmental expenditure control totals and in the national accounts and GGE;

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MANAGEMENT IN CONFIDENCE

- (ii) minimise the administrative cost of doing so, both in the Treasury and elsewhere, while meeting legitimate requirements for property valuations to meet the first objective;
- (iii) minimise the quantum of grant and equivalent finance for local authorities, consistently with local government finance and public expenditure policies;
- (iv) avoid presentational difficulties, and particularly avoid giving any appearance of an unlevel playing field between central government on one hand and the local authorities and the private sector on the other.

Options

7. The Chancellor therefore proposed in his letter of 13 July to the Secretary of State for the Environment, that a government contribution in lieu of rates should continue under the new local government finance system. He further suggested that, rather than continuing to make individual payments to individual local authorities on individual buildings (which the local authorities would remit to central government for the NNDR pool), the contribution in lieu should probably be paid as a lump sum into the English and Welsh pools, with equivalent arrangements in Scotland. The payment in each country in 1990-91 would be based on an up to date valuation of government property, which there were good property management reasons to complete, and be uprated thereafter by a simple formula. Mr Ridley (12 August) and Mr Rifkind (8 September) have broadly accepted this approach, though each has queried in different ways whether the annual uprating can be by a very simple formula, or rather by something rather more complex which carefully reflects annual changes in the government property estate.

8. This approach meets the objective to bring property costs properly to account, on the assumption that the aggregate payment into the pool would comprise a number of payments from departments, each reflecting their own use of property. To meet

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the second objective - minimum administration costs - we envisage that the annual payment would be uprated by whatever information is readily available about the size and value of departmental estates, arising from valuations required for estate management purposes. That should also meet Mr Ridley's and Mr Rifkind's concern. This approach further avoids major presentational difficulties, because the government would appear to continue to treat itself like it treats private sector business rate payers, and because it would continue to make a financial payment to local authorities which they have come to expect.

9. The potential difficulty with this approach is that we are now aware that contributions in lieu of rates on government non-domestic property may rise by perhaps £200 million, largely as a consequence of revaluations under the contractor's basis of rating, of which you are aware. The extra payments would not only add to the total of general government expenditure (because rates paid by government on its property score in GGE, just like any other indirect tax payment by government) but would, unless offsetting action was taken, add to the total finance available to local authorities, and thereby encourage additional expenditure by them. You have therefore proposed to Mr Ridley in your letter of 21 November that any increase in contributions in lieu in 1990-91 should be offset by reductions in the quantum of RSG that would otherwise be payable. He has disputed this (his reply of 29 November), and you are to meet to consider the point and other issues in January. These also include the need to ensure that any increase in the contribution in lieu does not result, within an unchanged total NNDR pool, in a reduction in the yield of private sector business rates.

10. We have therefore considered seriously the alternative option of ceasing to pay contributions in lieu of rates. The £600 million paid at present would almost certainly have to be transferred to RSG, to make the change financially neutral for central and local government and central and local tax payers. Arguably, this is the most logical approach, as under the new local government finance system contributions in lieu of rates will, to all intents and purposes, be just another form of grant

financed by central taxpayers. Annual changes in the value of the government estate as a whole are tiny - equivalent to just £3m in additional contributions in each recent year - outside of years in which there is a rating revaluation. It would also meet the third objective listed above - minimising general government expenditure and grant payments - and the second objective - minimising administrative costs.

11. But there are two key objections:

- (i) It could look bad vis a vis both local authorities and private businesses, if the government appeared to be exempting itself from taxation obligations borne by everyone else. It thus runs counter to the fourth objective of avoiding presentational difficulties;
- (ii) abolition could also appear to be at variance with the thrust of policy whereby departments should be made fully accountable for the cost of the property that they occupied. It might even increase our difficulties in persuading departments that the opportunity cost rents they pay for accommodation must include a rates element.

ie original advice!

12. We therefore conclude that the Chancellor's original proposals represent the preferable option, provided they can be squared with our public expenditure concerns in the light of the information about likely changes in contributions in lieu which is now available. We believe they probably can. Notwithstanding Mr Ridley's initial objections, we believe that it should be possible in practice to obtain an offset in RSG for any increase in contributions in lieu. Ministers will be concerned in forthcoming RSG negotiations, about the level of exchequer support to local authorities (whether called grant or contributions in lieu or anything else) and the levels of expenditure they can therefore incur at different levels of community charge. If the discussions are dominated by these concerns, a complete offset should be achieved. With additional contributions in lieu, the same levels of expenditure could be financed with the same community charges but less RSG.

13. We believe that the chances of achieving such an offset would be further reinforced if we could secure agreements that RSG and the levels of other unhypothecated payments for the following year should all be decided and announced together in October 1989 and subsequent Surveys towards the end of the Survey, rather than in July. (The Autumn Statement itself would be too late for local authority budgeting timetables, especially in Scotland, although the plans for grant for years 2 and 3 under the new planning total could easily be held back until then). We know that DOE are firmly attached to announcing RSG in July, as they announce AEG now. But RSG will account for less than half of the total unhypothecated payments flowing from central government to local authorities under the new system, and it is far from clear that it will be useful to tell local authorities what the size of this single element will be. If we cannot persuade DoE that everything should be announced in October, we could fall back on the proposition that local authorities should be told in July about the total of central government payments envisaged in the following year, rather than RSG on its own. The quantum of RSG within this total would then be set as a residual, after fixing contributions in lieu and other payments.

Conclusion

14. We therefore see a choice between:

(i) Continuing to make a contribution in lieu payment broadly as the Chancellor proposed in July, provided either that RSG, contributions in lieu and other unhypothecated payments to local authorities are decided and announced together in the autumn, or that they are announced in total in July with the split announced later; or

(ii) abolishing contributions in lieu of rates and increasing RSG by the £600m paid at present, facing the presentational disadvantages that would result, and finding ways of persuading departments nevertheless to pay full opportunity cost rents (including rates) which would be retained in the centre and not passed on to local authorities.

*This is
my letter
option.*

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MANAGEMENT IN CONFIDENCE

15. On balance, we advise in favour of the first option. We should be glad to know whether you agree.

Robin Fellgett

R FELLGETT

CONFIDENTIAL

Res *pur*

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01-270 (Llinell Union)**

**WELSH OFFICE
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01-270 (Direct Line)**

Oddi wrth Ysgrifennydd Gwladol Cymru

The Rt Hon Peter Walker MBE MP

From The Secretary of State for Wales

CT/6239/88

21 December 1988

[Handwritten signature]

**UNIFORM BUSINESS RATE AND REVALUATION:
TRANSITIONAL ARRANGEMENTS**

I have seen your minute of 7 December to the Prime Minister on this matter, and her Private Secretary's reply of 12 December.

As you know, my proposals for transitional arrangements in respect of Wales were similar to those which Nicholas Ridley proposed for England. In particular, I favoured allowing small businesses to gain the full benefits of their rate reductions straight away, and intended to obtain the necessary yield by capping large business gainers at 12%. I am, however, persuaded by your arguments and am prepared to modify my proposals to provide for a large business gainers' cap of 13% and a cap for small business gainers of 18%. These are the figures required to meet the revenue loss which my proposals for large and small business losers imply.

So far as publication of the results of the Inland Revenue's Survey is concerned, I understand and share your reluctance to publish, but I do not see how we could withdraw from the public commitments to publication which have been given. The existence of the survey is well-known, and it will be well understood that our detailed proposals for transitional arrangements are based upon it. In the light of this, a decision not to publish now could bring forth accusations both of a breach of commitment and of a cover-up, and it would therefore be preferable to publish the summary when we announce the transitional arrangements.

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

[Large handwritten signature]

Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1P 3AG

CH/EXCHEQUER	
	21 DEC 1988
	CST
DELIVERED TO	

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**CONFIDENTIAL
MANAGEMENT IN CONFIDENCE****FROM: A C S ALLAN****DATE: 22 DECEMBER 1988***ppp***PS/CHIEF SECRETARY****cc: Sir P Middleton
Mr Anson
Sir A Wilson
Mr Monck
Mr Phillips
Mr C D Butler
Mr Culpin
Mr A J C Edwards
Mrs Lomax
Miss Peirson
Mr Luce
Mr Olney (RGPD)
Mr Potter
Mr S Wood
Mr Fellgett
Mr MacAuslan
Mr G C White****GOVERNMENT CONTRIBUTIONS IN LIEU OF RATES**

The Chancellor has seen Mr Fellgett's submission of 20 December. He is content with the first variant of the recommended option in 14(i) - ie that we should continue to make a contribution in lieu provided that RSG, contributions in lieu and other unhypothecated payments to local authorities are decided and announced together in the Autumn.

ppp
h p a
A C S ALLAN

CONFIDENTIAL

Handwritten initials/signature

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

Handwritten signature



CH/EXCHEQUER	
REC.	30 DEC 1988 ✓ 30/12
ACTION	CST
COPIES TO	

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament St
London
SW1P 3AG

23 December 1988

Handwritten notes:
I was with answer of P...
Committee (C...)

Handwritten notes:
To see - can avoid officials' advice.
P... commitment to... does look difficult to avoid (given without any consultation with you).
But will need to crawl through test to make sure presentation is right.

Dear Chancellor

UNIFORM BUSINESS RATE AND REVALUATION : TRANSITIONAL ARRANGEMENTS

Thank you for your letter of 7 December in response to my minute of 29 November to the Prime Minister. I have also seen her Private Secretary's letter of 12 December and Peter Walker's minute of 7 December.

I am entirely content to adopt your proposals, also supported by the Prime Minister, on the treatment of small gainers, in order to avoid creating an undue cliff-edge effect at the boundary between large and small businesses.

I also do not think that there is anything of substance between us on extended transitional arrangements beyond 1995. I am content to say that there will be such arrangements if they appear to be necessary. I merely prefer to avoid bequeathing to a successor any awkward commitments on how we shall judge what is necessary, bearing in mind that we shall need to consider not only the size of increases outstanding from 1990, but also the extent to which rents have adjusted to changes in rates and the effect of the 1995 revaluation.

On the question of publication, I cannot agree that the balance of advantage lies in withholding Inland Revenue report for the time being. It is not just a question of the commitment given by Malcolm Caithness in the Lords on 1 June, and subsequently confirmed by me in answer to Jack Cunningham on 24 October. Even without those undertakings, I believe that with the existence of the report being widely known, not publishing would do more harm than good. If we do not publish, we shall be accused - rightly - of suppressing the facts and depriving outside bodies of the information needed to form a reasoned view of our proposals. The inference is bound to be drawn that the picture in terms of the number of large losers is worse than it is. We would face a period of sustained pressure in the House and outside, and a more hostile response to our transitional proposals than they

(see Hansard extract)



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might otherwise receive; when we eventually decided to publish this would inevitably seem as a concession to pressure. As for the view that publication will deliver ammunition to our critics, the report does little more than confirm what has already been widely forecast.

If we decide to publish, we can of course omit some of the detail about the largest losers, on the basis that at that level the numbers sampled are small and unreliable. I have in mind in particular that in the draft report that you (but not copy addressees) have seen, in Table 4.4, the categories of increases exceeding 200% would be combined into a single line. On that basis, and subject to clearance of a revised text with you and Peter Walker, I hope that you can withdraw your objections to publication at or shortly after the time of an announcement.

On the related issues on which John Major and I have exchanged letters, I have now seen John's further letter of 9 December those from Peter Walker and Malcolm Rifkind and Tony Newton of 8 and 9 and 15 December, and I understand that officials have now met to discuss these issues. I gather they have identified the matters still to be resolved, and I shall arrange to meet John as soon as possible in the new year to discuss them. It will be highly desirable to have those issues settled before I make an announcement on transition, which I hope can be soon after the House resumes. I share the Prime Minister's hope that we can settle them bilaterally; if not, we shall have to invite colleagues in E(LF) to resolve the issues.

I am sending copies of this to the Prime Minister and members of E(LF), and to Sir Robin Butler.

Yours sincerely
R. Ridley

NICHOLAS RIDLEY

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

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[still shows
64,000
properties
having two
rate bands
average
quadrupled]

strong
@ bottom
of the
bundle -



MP
23/12/88

Treasury Chambers, Parliament Street, SW1P 3AG

01-270 3000

23 December 1988

FINANCIAL SECRETARY

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

Chief Secretary
Sir P Middleton
Mr Anson
Mr Phillips
Mr Scholar
Mr Culpin
Mr Edwards
Mr Chivers
Mr Gilhooly
Mr Potter
Mr Fellgett

Dear Secretary of State

RATING APPEALS

Thank you for your letter of 8 December.

Mr Shutler (VO)
Mr Pitts (IR)

As you know, I very much support your proposal that we should remove the existing statutory proposal and appeal rights against the 1973 List, while giving the Valuation Office the power and duty to act as arbiters with regard to the existing List, and that this new arrangement should apply to both domestic and non-domestic premises.

I have two points on the details of what you propose.

First, I think that non-domestic ratepayers would criticise the NNDR transitional arrangements as being unfair if we were to ignore any changes smaller than 20 per cent in the existing non-domestic Valuation List, when this list will continue to affect the actual rate bills of many companies for several years to come: we would also be likely to lose significant amounts of revenue.

Second, I think it would be better to provide for aggrieved ratepayers to make representations to the Valuation Office's Regional Superintending Valuers if they are dissatisfied with the local valuer's decisions, rather than to their MPs and the Chief Valuer (or, in practice, Ministers).

Finally, I am advised that these arrangements should be applied to circumstances where there has been a 'physical alteration in the property or locality' rather than a 'substantial change in the state of the property or its environment'.

The variant which I would prefer would therefore have the following elements:



- (a) the ratepayer's rights to propose and appeal against the 1973 List would be removed, though he would retain the right to make representations to the local Valuation Officer;
- (b) in the case of non-domestic premises, the Valuation Officer would be obliged to make any changes he considered right in the rateable values in the 1973 List, without any cut-off point;
- (c) in the case of domestic premises, such changes would be made (as you envisage) only if they exceeded 20 per cent in either direction; and
- (d) aggrieved ratepayers would be able to make representations to the Valuation Office's Regional Superintending Valuer if dissatisfied with the local Valuer's decisions.

I very much agree with you that the supply-side initiatives should be pursued as well, not least because the full savings in valuer time from the measures discussed above will not come through for twelve months, and the next twelve months will be critical ones. We shall be pursuing all the promising possibilities and looking at the scope for further reordering of priorities, for example on right-to-buy and other local authority work.

I also agree with you that we should ask officials to work out the remaining technical details as a matter of urgency. In addition, and in a rather less hectic timescale, I would like them to examine and report back on three further possibilities for the new NNDR system:

- (a) rolling annual revaluations in place of the periodic big-bang revaluations which are now causing us such problems of workload and transition;
- (b) a presumption that rejected appellants will have to bear costs; and
- (c) obliging proposers to include a full statement of reasons with their original proposals.

The next stage is presumably for you to consult the Prime Minister, the Lord President, the Law Officers and other Ministers as necessary.

Yours sincerely,

Muir Wallace

pp NIGEL LAWSON

(Approved by the Chancellor and signed in his absence.)



FROM: A C S ALLAN
DATE: 5 January 1989

MR FELLGETT

cc PS/Chief Secretary
Sir P Middleton
Mr Anson
Mr Monck
Mr Phillips
Mr Scholar
Mr Culpin
Mr A J C Edwards
Mrs Lomax
Mr Potter
Mrs Holmans
Mr H Burns
Mrs Chaplin

UNIFORM BUSINESS RATE AND REVALUATION: TRANSITIONAL ARRANGEMENTS

The Chancellor has seen Mr Ridley's letter of 23 December.

2. He was not previously aware of Mr Ridley's public commitment to Dr Cunningham to publish the results of the Inland Revenue study. He feels Mr Ridley should have consulted him before giving this undertaking. It clearly makes it much harder to resist publication. He awaits advice, but if we do have to publish, he feels we will need to crawl through the text very carefully to make sure the presentation is right - and not just make the amendments to Table 4.4 which Mr Ridley seems to envisage.

3. He notes that the Chief Secretary is taking forward the other related issues bilaterally with Mr Ridley.

ACS
A C S ALLAN



CH/EXCHEQUER	
REC.	06 JAN 1989
ACTION	MR ASC EDWARDS ✓ 6/1
COPIES TO	CST SIR P MIDDLETON
	MR ANSON MR H PHILIPS
	MR CULPIN MRS POTTER
	MR FELLOTT MRS CHAPLIN PETER

PRIME MINISTER

RATING APPEALS

6/1/89.

Nigel Lawson and I have become seriously concerned that it might not prove possible for the Valuation Office of the Inland Revenue to complete satisfactorily the revaluation of non-domestic property in England and Wales in time for the new rating lists to be deposited in December 1989. The revaluation is an essential part of the new business rate system and it would be a serious blow if it could not be completed adequately and on time. I have considered with Nigel what steps we might take to avoid such a delay and we believe that the best way to enable the Valuation Office to give the necessary priority to the revaluation is to reduce substantially the volume of proposals and appeals against the old, 1973 valuation list during its remaining life.

The root of our problem is that the Valuation Office has a severe shortage of professional valuers. The buoyancy of the property market has led to loss of staff to the private sector, where pay levels are higher, and to recruitment difficulties. Nigel is taking action to reduce the shortage and to make the most effective use of the resources available. But these measures will not be sufficient to safeguard the revaluation especially if, as we very much fear, there is a big surge in the number of proposals to amend the 1973 list once we announce the transitional arrangements for the introduction of the business rate which we have just agreed. These proposals will come from businesses anxious to reduce their rateable values so as to improve their position under the transition. Many such proposals will be entirely speculative and many may relate to entries in the list which have been the subject of unsuccessful proposals in the past. Businesses will be encouraged to make proposals because it is known that the Valuation Office is short of staff and unable to resist unjustified reductions with its normal vigour.

 RIDLEY
 → PA
 6/1



I am also concerned that, if nothing is done to stem the potential surge of proposals, the Valuation and Community Charge Tribunals, which hear the appeals which result from proposals that cannot be resolved by negotiation between ratepayer and valuation officer, will become overloaded, leading to serious delays in hearing community charge appeals and appeals from businesses against their entries in the new rating list.

I therefore propose that when announcing the transitional arrangements for the business rate, I hope within the next 2 to 3 weeks, I should also announce that we propose to legislate to nullify the effect of any proposals (and therefore of any successful appeal resulting from such a proposal) made to alter the 1973 list by both domestic and non-domestic ratepayers in England and Wales which are received by the Valuation Office after the time of the announcement. I believe that we can justify this on the grounds that the list is now 15 years old, ratepayers have had ample opportunity to object to it, and that we now want the Valuation Office and the VCCTs to concentrate their resources on preparations for the new system.

Some provision must be made for cases where a change in rateable value is justified. I therefore propose that the Valuation Officer should, with one exception, continue to be able himself to make proposals to change both domestic and non-domestic entries in the 1973 list and, indeed, that he should remain under a statutory duty to maintain the list. He would also continue to make proposals in respect of new buildings. The ratepayers' right to appeal against a Valuation Officer's proposal would be unaffected. The exception relates to domestic property and here I suggest that proposals by the Valuation Officer after 31 March 1989 for a change in rateable value of 20% or less, up or down, or which do not relate to a physical change in the property or its environment should be nullified. That will give the Valuation Office time to deal with cases of which they have already been notified by local authorities, but after that date in practice Valuation Officers



would not make such proposals. The Valuation Officer's duty to maintain the list would need to be modified accordingly. I believe that we can justify this exception on the grounds that domestic rateable values will cease to have any effect on 1 April 1990 and that it is no longer sensible to devote resources to making large numbers of minor changes to the list.

The effect would be to deter ratepayers from pursuing proposals and to encourage them, where there had been a change justifying amendment of the rateable value, to notify the Valuation Officer so that he could propose a change in the list. Some ratepayers may of course continue with proposals undeterred and these would have to be dealt with in the normal way until enactment of the legislation, when any effect would be nullified. In view of the time currently taken for appeal cases to be heard, however, it is unlikely that many would reach that stage before enactment. If there were some successful appeals the Valuation Officer would usually himself propose a change to the list to the same effect (except in the minor domestic cases mentioned above), so the ratepayer would not be disadvantaged.

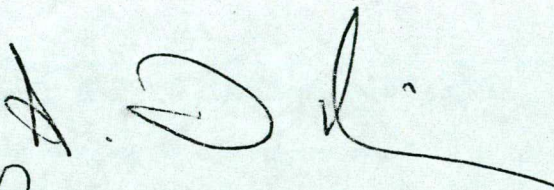
It would be important that Valuation Officers should propose amendments to the list in genuine cases and as an extra safeguard, I propose that we should announce that in any instance where the Valuation Officer had been notified by the ratepayer of a change in the property but had declined to make a proposal, the ratepayer, if dissatisfied, could ask the Regional Superintending Valuer of the Valuation Office to review the case. This would be a non-statutory arrangement. We should also draw ratepayers' attention to the fact, that as a last resort, they can ask their MP to take up their case.

Although we shall be criticised in some quarters for these proposals, I believe that they are essential if we are to avoid the much greater criticism which would result if the revaluation were seriously delayed, and I think that they can be successfully



presented. If you agree, I would propose to include the necessary legislative provisions (which would not be substantial) in the Local Government and Housing Bill.

I am copying this letter to Nigel Lawson, John Wakeham, Patrick Mayhew, Peter Walker and Malcolm Rifkind and to Sir Robin Butler.


P.P. NICHOLAS RIDLEY

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

-6 JAN 1989



CH/EXCHEQUER	
REC.	06 JAN 1989
ACTION	MR AJC EDWARDS
COPIES TO	GST
	SER P MIDDLETON
	MR ANSON
	MR H. PHILLIPS
	MR CULPEN
MRS POTTER	
MR FELLOUET	
MRS CHAPLIN	

2 MARSHAM STREET
LONDON SW1P 3EB

01-276 3000

My ref:

Your ref:

The Rt Hon Nigel Lawson MP
HM Treasury
Parliament Street
LONDON
SW1 3AG

PS/IR

6 January 1989

Dear Chancellor,

RATING APPEALS

Thank you for your letter of 23 December agreeing in broad terms to my proposals on rating appeals.

I am content to accept your suggested modifications to the arrangements if this makes the scheme more workable for the Valuation Office. I have only one reservation. I think it would help a lot presentationally if we were to say that, as a last resort, aggrieved ratepayers would be able to ask their MP to take up their case. I understand, of course, that you would not want to provoke a flood of such cases, but as ratepayers could in any event approach their MP if they chose, I think it would do no harm if I were to mention this in my statement.

I understand that our officials have now discussed the details of the proposals and I am therefore writing to the Prime Minister seeking agreement to my announcing them at the same time as those on the transitional arrangements, I hope within the next few weeks.

I welcome your suggestion that officials should look at some longer term changes to the rating system, in particular the possibility of rolling annual revaluations which has been opened up by the computerisation of the rating list. I suggest that we should ask for a report on these issues by the Summer.

Yours sincerely
Nicholas Ridley
PP

NICHOLAS RIDLEY

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

Ch
presumably cannot stop someone asking MP to take up case. issue is whether to publicise/promote this.
Both keep this up has slip for [initials]
not defining (probably done)
no passage (to B.M.)

RIDLEY
-> ch/ex
6/1

Alex

FROM: A J C EDWARDS
DATE: 6 January 1989

CHIEF SECRETARY

- cc **Chancellor**
- Sir P Middleton
- Mr Anson
- Mr Scholar
- Mr Phillips
- Mr Culpin
- Mr Potter
- Mr Fellgett
- Mr Call

CL
This seems OK
to me.
AA

BUSINESS RATES (NNDR):

DISCUSSION WITH MR RIDLEY, 16 JANUARY

Mr Ridley needs to make an announcement this month on the transitional arrangements for the new national non-domestic rating system (NNDR). He wants, understandably enough, to cover in the same statement the removal of appeal rights against the existing valuation list. There are also certain matters which need to be resolved in order that preparation of the new rateable values list may proceed. You are due to discuss all outstanding issues with Mr Ridley on 16 January and to have a preliminary discussion with us on 13 January.

2. The task for the 16 January meeting will be to resolve four main issues viz:

- (i) the first-year NNDR yield;
- (ii) decapitalisation rates;
- (iii) Government contributions in lieu of rates; and
- (iv) publication of projected effects of the new revaluation and rating system.

What has just - was not taken without authority. New Ann. can show a list of what was done. What effect? numbers? 2.1 agree with you (AA's) 2.0

This brief suggests how you should deal with these topics.

3. You asked also for an aide-memoire on the NNDR as a whole. I hope that the note at Annex A will give you all the background you need.

Objectives for 16 January meeting

4. Your broad objective should be to reach agreement with Mr Ridley on the outstanding matters listed in paragraph 2 above, and to review briefly progress on other matters. The most important points from the Treasury's point of view are:

(i) we cannot agree to erosion of the private business rates tax base;

(ii) while we are content to see Government contributions in lieu of rates continue, this will have to be managed in such a way that there is no increase in total funding for local authorities;

?!
(iii) we must avoid decisions on the technicalities which will [grossly] inflate the public expenditure totals; and

(iv) it would be premature to publish detailed projections now for the effects of the new business rating system, though sufficient indications will need to be given to honour the undertakings provided by Mr Ridley and Lord Caithness.

First-year NNDR yield (1990-91)

5. Problem. Ministers have made clear that the Government's broad intention is to preserve the yield of existing business rates in real terms in the first year of the new NNDR system, with an allowance for the buoyancy of the rateable values base. Under any of the options on decapitalisation rates discussed below, however, we expect the public sector's share of the total NNDR

pool to increase as a result of the revaluation, by at least £280 million a year. The question is whether the Government's commitment to preserve the real yield plus buoyancy should be applied -

(a) to the NNDR pool as a whole, thus giving private businesses an unexpected and uncovenanted bonus of some £280 million or more, not only in the first year of the new system but also, through the RPI indexation provisions, in all subsequent years; or

(b) to the yield of private business rates, so that the rate burdens on private businesses (including Nationalised Industries for this purpose) would be maintained in real terms (with an allowance for buoyancy), without any uncovenanted bonus.

6. Ministerial commitments. In our view, which DOE officials do not dispute, existing Ministerial commitments are compatible with either of the above interpretations. For example your written answer in March of this year undertook to "set NNDR multipliers in England and Wales so as to produce the same yield of business rates in each country as if the rate poundage set by local authorities in 1989 had been indexed to the retail prices index and there had been no revaluation". When you gave this answer, we were not aware that this commitment would produce different results depending on whether it was applied to the total yield of private business rates or that of private and public business rates. We believe however that the latter interpretation would be entirely consistent with the Government's broad political commitment to private business to index the average level of business rates to the RPI.

7. Line to take.

- Both you and the Chancellor have made clear the importance you attach to maintaining the yield of private business rates in 1990-91 and not allowing an erosion of the tax base, which would carry through to future years as well. The issue is one of fiscal policy.

- The private business sector's position has already been generously protected in the provisions of the 1988 Act, whereby the annual increase in the poundage will not exceed the percentage increase in the RPI over the previous September/September.
- It is quite unnecessary to give private businesses an uncovenanted bonus of perhaps £280 million on top of this. The effect would be to increase the amounts which have to be raised in other forms of taxation, (including an increase in Community Charges to finance LA rates), thus negating a central element in the Government's policies.
- Maintaining the real yield of private business rates is quite compatible with existing Ministerial commitments.

8. In case of disagreement. We think Mr Ridley will probably accept that this is primarily an issue for Treasury Ministers and give way. If he does not, we suggest you should stand firm and make clear that you or the Chancellor will have to elevate the matter to the Prime Minister's level if Mr Ridley remains intransigent.

Decapitalisation rates

9. Problem. As you will recall, there are certain categories of premises where no rental information is available. Rateable values are therefore calculated under the 'contractor's basis' procedure by estimating capital values and applying a so-called "decapitalisation rate" to convert these into notional rentals. There are two main issues.

10. First, what should the private sector decapitalisation rate be? The professional advice is that 7 per cent would be the best figure to use, though 6 per cent would be just about defensible. Mr Ridley suggested going to consultation on a rate of 6 per cent. You counter-suggested going to consultation on a rate of 6 to 7 per cent while reckoning to settle on 6 per cent.

11. The second issue concerns the treatment of education and public sector premises. Mr Ridley proposed that educational premises should have a decapitalisation rate of 4 per cent - not just private educational charities but also schools and universities in the public sector. All other public sector bodies who have buildings rated on the contractor's basis (MOD and hospitals, mainly) would pay on the basis of the full 6 per cent.

12. Public expenditure effects. Both Mr Ridley's approach and yours would have the effect of raising GGE by some £280 million a year (on present estimates). The GGE effect arises because, for national accounts and GGE purposes, the statisticians make an allowance for the full costs of accommodation used by public sector bodies. You considered the case for going for a lower rate for the public sector, such as 4 per cent, but accepted that our advice that it would be difficult to defend such a large differential compared with the private sector and that this would infringe in some degree the integrity of the public expenditure totals. A rate of 6 per cent through out the public sector would raise the annual public expenditure totals by some £550 million.

13. Reasons for Mr Ridley's proposals. We have established in discussion with DOE officials that their recommendation was driven by two considerations. First, they wanted to keep a low decapitalisation rate for private educational charities so that the Government could not be accused of taking back from educational charities the concessions on charities generally which the Government conceded in the House of Lords in the summer, whereby they pay only 20 per cent of the assessed rates bill. Second, they have been advised that the existing Act allows them to differentiate only by type of building and not by user. Hence Mr Ridley's argument that the 4 per cent rate should be generalised to all educational establishments.

14. Line to take.

- The issue on the private sector decapitalisation rate is purely one of tactics. You have no doubt that the eventual decision will be 6 per cent. If the Government consults simply on 6 per cent, however,

virtually all respondents will argue for a lower rate. If on the other hand the Government consults on the basis that the lowest defensible rate would be 6 per cent and the question is where in the range 6 per cent plus the rate should be set, it will then be much easier to decide after consultation on 6 per cent. Surely a form of words along these lines would not cause any difficulty. You do not insist on mentioning a range of 6 per cent to 7 per cent.

- On the question of lower decapitalisation rates for the public sector or educational institutions, with the best will in the world you cannot see how the Government could defend singling out educational buildings (as against hospitals and so on) for a substantially lower rate of 4 per cent as proposed by Mr Ridley. The fact is that Mr Ridley's recommendation was driven by his wish to keep the education charities decapitalisation rate to 4 per cent and to avoid any amendments to last year's Act; but the tail should not be permitted to wag the dog.
- In your view, it would be much better to go for a rate of 5 per cent for the public sector generally, as against 6 per cent for the private sector. This could just about be defended on the grounds that -
 - (a) the public sector can borrow more cheaply than the private sector,
 - (b) there is less risk for landlords in lending to the public sector, and
 - (c) the existing precedents established in the Courts already provide for a differential of more than 1 percentage point in the public sector's favour.
- As you have already acknowledged, you would have no objection to private education charities continuing to benefit from a special concessional rate, such as 4 per cent, if other colleagues feel that is appropriate.

- To give effect to your approach for local authorities it would admittedly be necessary to make a small amendment in the relevant schedule to last year's Act. (Central government payments in lieu of rates are extra-statutory.) This could however readily be done in the present Session's Housing and Local Government Bill.

15. Likely outcome. This issue is less crucial, from the Treasury's point of view, than preventing erosion of the private business rates tax base or additions to the total central funding of local authorities. The fact is, however, that Ministers would have great difficulty in providing any rational justification for Mr Ridley's approach. We would hope that he will come to acknowledge the force of this point and accept your suggestion of 6 per cent for the private sector, 5 per cent for the public sector and 4 per cent for educational charities, with a small amendment to last year's Act incorporated in this year's Bill.

Government contributions in lieu of rates

16. Problem. The question here is what should happen under the new system to Government contributions in lieu of rates. As you will recall, the Crown has no legal obligation to pay rates but has as a matter of practice done so mainly in order to preserve the appearance of a level playing field between public and private sectors.

17. Chancellor's approach. In response to Mr Fellgett's recent submission, which identified the two options of

(a) abolishing contributions in lieu (on the grounds that they would be RSG in all but name) and

(b) retaining them, provided that this was not allowed to result in extra total funding for local authorities,

the Chancellor has agreed that the Government should continue to make contributions in lieu provided that RSG, contributions in lieu and other unhypothecated payments to local authorities are decided and announced together in the autumn.

18. The point here is that, if decisions are taken in the autumn on the total of government funding for local authorities as against individual components, it will be possible to ensure that an expected increase of some £200 million or more in Government contributions in lieu, including at least an extra £100 million as a result of higher decapitalisation rates, will be offset by a corresponding reduction in RSG. If, on the other hand, we had to announce RSG on its own first, it would be difficult to ensure that this offset was made.

19. DOE's position. DOE are anxious that contributions in lieu should continue. They will urge that they should be exactly on all fours with other business rate assessments. We have it in mind that they should be assessed in a less laborious and more cost-effective way, consistent with the Chancellor's agreement with Mr Ridley that it should take the form of a single payment into the NNDR pool in place of individual payments to each LA on each building. It should however be possible to reach agreement on the broad approach here.

20. The more difficult point is that Mr Ridley will not, I think, be willing to agree at this stage that there should be no announcement about RSG or other local authority grants for the following year in July and that all the announcements should be made together in October. DOE always feel under immense pressure from local authorities to indicate the funding that will be available for the following year in July rather than leaving this over until the autumn.

21. Line to take.

- You are willing to go along with continuation of Government contributions in lieu of rates, but only on the basis that there is no increase in total government funding of local authorities as a result of this. The expected increase of £200 million plus in Government contributions in lieu as a result of the revaluation and other changes must be fully offset by a corresponding reduction in revenue support grant.

This is ridiculous (and always has been since abolition of targets). Total grant gives very little indication to individual LAs of what they will get.

- Only way to ensure that this happens is to leave over the announcement on Government funding of local authorities until October (as against July) and then to decide and announce all Government grants together and not just RSG in isolation. The fact is that it is far more useful to local authorities to tell them about the aggregate exchequer funding which they will receive rather than the RSG (which is only one element in a total which comprises RSG, NNDR, specific grants and community charge benefit grants).

22. Expected outcome. If you find, as I fear you will, that there is no prospect of outright victory at this stage on October decisions and announcement, you and the Chancellor may think it reasonable to settle for a "draw" on this for the moment on the basis that

(a) the decision and the announcement should be in terms of total exchequer funding of local authorities rather than RSG and

(b) further consideration will be given to whether the announcement will be made in July or October.

In my view, the Treasury's prime interest lies in winning point (a), though it would of course be highly desirable to win point (b) as well.

Publication of Inland Revenue's NNDR projections

23. Problem. When Mr Ridley makes his statement later in the month on the transitional arrangements, should he simultaneously publish projections of new rates bills for various parts of the country and industrial sectors based on the Inland Revenue's recent sample survey? The main results from this survey are summarised in the accompanying table.

4. DOE's position. DOE Ministers are strongly persuaded that the commitments which they have already given to Parliament oblige them to publish something substantial in January. Mr Ridley said in a written answer on 24 October that "I propose to announce shortly the results of the Inland Revenue's sample survey". Lord Caithness told the Lords on 9 June 1988 that "the results of the sample survey will be made available as soon as they are known".

25. Chancellor's approach. The Chancellor argued strongly at an earlier stage against publication of the Inland Revenue sample findings on the grounds that this would stir premature and unnecessary controversy. In the light of the commitments given in Parliament by Lord Caithness and Mr Ridley, however, he has acknowledged that it would be difficult to release nothing at this stage.

26. Line to take. Subject to the Chancellor's views, we suggest that your line might be:

- Would much have preferred to leave over publishing anything on expected effects of new NNDR system until June, when much better projections will be available and the regulations on the transitional arrangements will be promulgated.
- Accept nevertheless that, given the undertakings which Mr Ridley and Lord Caithness have given, some kind of announcement will have to be made on the results of the sample survey.
- Believe it would be a bad mistake to publish anything resembling the full report. The more projections we provide now, the more unnecessary controversy will be provoked and the greater the Government's embarrassment will be when, in June or thereabouts, revised projections based on firmer information from actual revaluations and 1989-90 rates bills will be available.

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- Believe therefore that best way ahead will be to publish a short piece only (perhaps two or three pages of type-script) at the time of Mr Ridley's announcement on the transitional arrangements setting out the broad picture revealed by the sample projections with regard to types of property, regions, numbers of gainers and losers, total amounts involved and average gains and losses. The note might set out in rounded terms the main points in the accompanying summary table. It should also explain why the ceiling on reductions in rate bills from year to year will have to be lower than that on annual increases.

27. Expected outcome. We would hope that Mr Ridley will be willing to settle for something along these lines, bearing in mind that the commitments which he and Lord Caithness have given were to "announce the results" of the sample survey and not to publish the survey.

Trade-offs

28. DOE officials seem to envisage that you and Mr Ridley will strike some kind of compromise deal. The problem is that the Treasury is not really in a position to make substantial concessions. As a tactical matter, therefore, you may think it helpful to present as concessions:

(a) your willingness to continue with Government contributions in lieu (subject to the important provisos discussed above);

(b) your willingness to consult on the basis of "6 per cent plus" rather than 6-7 per cent for the private sector decapitalisation rate; and

(c) your willingness to announce the broad findings of the sample survey, albeit in much abbreviated and rounded form.

Other issues

29. If time permits, you might like to touch briefly on other related issues, as follows:

- Transitional arrangements. Glad we are agreed on need for these to be self-financing. Will not be possible to announce at this stage a firm figure for the limitation on annual gains needed to offset the 20 per cent limitation on annual losses.

- Appeals against existing rateable values list. Glad we have agreement on this, too, subject to views of Prime Minister and Law Officers. Better in our view not to encourage aggrieved ratepayers to enlist help from their MPs. Important to pursue Chancellor's suggestions for continuous revaluations and reducing flow of appeals against the new rateable values list.

AJCE

A J C EDWARDS

NNDR AND REVALUATION:

AVERAGE GAINERS AND LOSERS AFTER END OF TRANSITIONAL PERIOD
(Estimates based on Inland Revenue's sample)

	<u>Gainers</u> (paying <u>less</u> rates)		<u>Losers</u> (paying <u>more</u> rates)	
Type	Warehouses	14%	Shops (esp. large)	12%
	Factories	26%	Offices (esp. small)	12%
Region	North West	25%	Inner London	28%
	Midlands	22%	South West	21%
	Yorks & Humberside	21%	East Anglia	15%
	Welsh Valleys	13%	South East (exc. London)	13%
Nos.	750,000 (45% of total)		900,000 (55% of total)	
Amounts*	£1.9b (20% of total)		£1.9b (20% of total)	
Average Gain/Loss*	£2,600		£2,200	

*1990-91 prices

ANNEX A

**NATIONAL NON-DOMESTIC RATE (NNDR):
AN AIDE-MEMOIRE**

Main features of NNDR

The Local Government Finance Act, 1988 provides for the replacement of existing business rates by a national non-domestic rate (NNDR) in England and Wales.

2. The NNDR will be based on the rateable values which emerge from the 1990 revaluation of business properties by the Valuation Office, now under way.

3. In contrast with existing business rates, the NNDR will be levied in accordance with common national poundages, which will be uprated each year in line with the RPI over the previous September/September unless the Chancellor decides on a lower uprating.

4. The NNDR will be collected by local authorities but will then be paid into the NNDR pool and redistributed to local authorities just like the revenue support grant. The first-year yield is likely to be of the order of £10.5 billion (England and Wales).

Evaluation

5. In our view, this is one of the best among recent local government finance reforms. The new system for business rating will have two particular advantages:

- (i) it will be fairer as between individual businesses;
- (ii) it will not distort location decisions.

The removal from local authorities of independent taxing powers over non-voting firms will in principle be a further advantage of the new system, and assist public expenditure control.

Issues agreed and outstanding

6. The major issues on the NNDR have already been agreed. Four important subsidiary issues are discussed in the covering minute.

Forthcoming announcement by Mr Ridley

7. Mr Ridley's announcement later this month will be concerned with the transitional arrangements. Subject to the agreement of the Prime Minister and the law officers, he will also take the opportunity to announce the Government's decision to remove appeal rights against the existing valuation list. (See further below).

Transitional arrangements

8. The combination of a new revaluation (the first for 15 years) and the introduction of national poundages means that many businesses will face substantial changes in their rating bills (see the summary table in the main submission). The Government has always been clear, therefore, that transitional arrangements will be needed.

9. The Chancellor and Mr Ridley have agreed that the basic form of the transitional arrangements should be that the annual increase in the rate bill on any particular building should not exceed 20 per cent.

10. Ministers have also agreed that the transitional arrangements should be self-financing, in the sense that limitations on the losses of firms paying higher bills should be totally financed by limitations on the gains of firms paying lower bills. On present estimates, annual gains will have to be limited to around 11 per cent a year to make the system self-financing. We envisage, however, that Mr Ridley will explain publicly that the annual ceiling on gains will have to be set later when more reliable information on the results of the valuation is available so as to ensure that the arrangements overall are self-financing. All this will require careful presentation.

11. So far as small firms are concerned, or more precisely premises with a new rateable value of less than £5,000 (or £7,500 in London), Mr Ridley has now accepted the Chancellor's proposal that the ceiling on their gains should be 5 percentage points higher than that for firms in general (that is, in practice around 16 per cent), consistently with Mr Ridley's proposal that the ceiling on their annual losses should be 5 percentage points lower (15 per cent).

Proposals and appeals against existing valuation list

12. Ministers have been concerned to ensure that the Valuation Office and the new valuation and community charge tribunals will be in a position to introduce the new rating systems as smoothly as possible, with a high quality revaluation and reasonably expeditious handling of the many appeals which are expected against the new rateable values list.

13. To that end, Mr Ridley and the Chancellor have now agreed that the existing statutory rights of ratepayers to make proposals and appeals against the existing (1973) rateable values list should be removed with effect from the day of the announcement. However, District Valuers will continue to have an obligation to keep the non-domestic list up to date (this list will continue under the transitional arrangements described above to affect many business rating bills for some years to come) and to make any changes in excess of 20 per cent in the domestic rateable values list resulting from physical alterations in the property or its location. Aggrieved ratepayers would have the right to make representations to the regional Superintending Valuer.

14. Mr Ridley is commending these proposals to the Prime Minister, the Law Officers, the Leader of the House and other Ministers concerned (though at the time of writing his minute has not arrived). The one suggestion he is making which Treasury Ministers may dislike is that he wishes to say in his statement that aggrieved ratepayers will be able to take up their grievances with their local MPs. It seems to us to be undesirable to

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encourage aggrieved ratepayers to do this and we are not even sure that MPs themselves would welcome such encouragement. Although this is very much for Ministers themselves to judge, we suspect that a better approach would be for Mr Ridley to avoid saying anything on these lines in his prepared statement but to have a suitable sentence or two ready in his supplementary briefing for use in case of need. This might be along the lines that "it will of course be open to people in this as in other fields to approach their MPs if they feel that the proper procedures have not been carried out".

15. In the Inland Revenue's view, this removal of appeal rights against the existing list, taken together with a range of supply and lesser demand side measures which the Valuation Office are introducing, should enable the Valuation Office to cope fully with its workload during 1989-90. Thereafter, they foresee a substantial shortfall of valuers again as a result of the expected flood of appeals against the new rateable values list. The Chancellor has however suggested, and Mr Ridley has agreed, that officials must look into the possibility of reducing the volume of such appeals through such measures as introducing a presumption that failed appellants will have to bear costs and requiring them to include a full statement of the reasons for their appeals at the outset. The Chancellor has also proposed that officials should study the possibility of replacing periodic "big-bang" revaluations by a continuous revaluation process, which would avoid repetitions of the current problems of transitional arrangements and large cyclical variations in valuer workload.



The Rt Hon Norman Fowler MP
 Department of Employment
 Caxton House
 Tothill Street
 LONDON
 SW1

CH/EXCHEQUER	
REC.	11 JAN 1989
ACTION	EST
COPIES TO	

2 MARSHAM STREET
 LONDON SW1P 3EB

01-276 3000

My ref:

Your ref:

10 January 1989

Dear Norman

UNIFORM BUSINESS RATE AND REVALUATION: TRANSITIONAL ARRANGEMENTS

Thank you for copying to me your minute of 15 December to the Prime Minister in response to mine of 29 November.

In relation to your fourth paragraph, it may be helpful to clarify that unlike the other four tables attached to my minute, Table 3 is not among those contained in the main Inland Revenue report which I have proposed should be published. That contains tables of revaluation effects and rate bill changes by region and by property type separately; but I am advised that the cross-tabulation is not robust enough because of the small sample sizes in some of the boxes. This is confirmed by the two somewhat freakish figures that you mention.

The figure for factories in the Northern region is probably overstated because the sample picked up a couple of large factories valued by the contractor's test, where the survey assumed a higher decapitalisation rate than I have proposed to prescribe. This does feed through into the mean revaluation effect for all businesses in the Northern region, which is shown in the tables proposed for publication, and which, contrary to all expectation, shows a 10% increase (turned into a 13% reduction by the NNDR benefit). A corrective is applied by showing alongside it the median effect, which - much more plausibly - shows a reduction of 8%.

The other figure you mention, for shops with living accommodation in Yorkshire and Humberside, is indeed unexpectedly high, but less obviously a freak. Shops across the country as a whole will face increases and although the figure does look odd alongside that for the North West, it is possible that this effect extends into some of the less prosperous regions.

I am sending copies of this to members of E(LF) and to Sir Robin Butler.

Nicholas Ridley

NICHOLAS RIDLEY



FROM: A C S ALLAN

DATE: 10 January 1989

py

MR A J C EDWARDS

cc PS/Chief Secretary
Sir P Middleton
Mr Anson
Mr Phillips
Mr Culpin
Mr Potter
Mr Fellgett
Mrs Chaplin

PS/IR

RATING APPEALS

The Chancellor has seen Mr Ridley's letter of 6 January. On Mr Ridley's comment that "it would help a lot presentationally if we were able to say that, as a last resort, aggrieved ratepayers would be able to ask their MP to take up their case", the Chancellor commented that it would be better if Mr Ridley were to keep this up his sleeve for use defensively (probably during the passage of the Bill).

ACSA

A C S ALLAN

ACSA
→ EDWARDS
10/1



FROM: A C S ALLAN

DATE: 10 January 1989

Pay

PS/CHIEF SECRETARY

cc Sir P Middleton
Mr Anson
Mr Scholar
Mr Phillips
Mr Culpin
Mr A J C Edwards
Mr Potter
Mr Fellgett
Mr Call

BUSINESS RATES (NNDR): DISCUSSION WITH MR RIDLEY, 16 JANUARY

The Chancellor has seen Mr Edwards' minute of 6 January.

2. He noted that many nationalised industries feel - not altogether without justification - that they already pay more than their fair share in rates. He would be interested to know what the effect of the proposals on decapitalisation rates would be on nationalised industries, where they are relevant. And do we have any information on what the likely effects of the revaluation will be on nationalised industry premises where rateable values are assessed in the normal way?

3. He is very sceptical about the DOE arguments for giving local authorities an indication in July of the funding that will be available for the following year: figures for total grant give very little indication to individual authorities of what they will get.

4. He was content with the various lines to take.

ACSA
A C S ALLAN

SECRET

Papers please

CHANCELLOR

FROM: R FELLGETT

Date: 11 January 1989

cc: Chief Secretary
Sir P Middleton
Mr Anson
Mr Phillips
Mr Culpin
Mr A J C Edwards
Mr Potter
Mrs Chaplin
PS/Inland Revenue

Ch
Think ok in meeting
I have redrafted minute to PM, to get points across more simply. I did wonder whether you should write separately to Mr Ridley since he wrote to you, but I think this approach is OK.
AA

RATING APPEALS

Mr Ridley's minute of 6 January to the Prime Minister, and his letter of the same date to you, accept virtually everything you suggested in your letter of 23 December.

2. The one exception is his desire to be able to say that ratepayers could approach their MP if they were aggrieved about the way the Valuation Office had handled a case. As you have noted, in Mr Alex Allan's minute of 10 January to Mr Edwards, it would be better if this was for defensive use only. We also agree that it would be much better held back for the passage of the Bill; if you accepted that Mr Ridley could use it, even defensively, at the time of his announcement he would probably do so and arrange for it to be included in his department's press briefing, even if it was not highlighted in any press announcement itself.

3. It is also important that MPs should only be able to take up a case (if at all) if they felt it had not been handled properly; it would be very awkward for MPs to expect you or colleagues to review the merits of any rates assessment.

4. You might like to make these points, while supporting Mr Ridley's proposals in all other respects. A short draft minute to the Prime Minister is attached.

R.F.

R FELLGETT

FELLGETT
-> c/flex
11/1

SECRET

DRAFT MINUTE FOR THE CHANCELLOR'S SIGNATURE

TO: PRIME MINISTER

RATING APPEALS

I very much support the proposals in Nicholas Ridley's minute of 6 January. *We need to reduce the scope for* [Substantially reducing the volume of proposals and appeals against the old 1973 valuation list] *would, together with the management measures the Valuation Office are taking, greatly help the Valuation Office to give the proper priority to the business rating revaluation.]* *if we are to complete the non-domestic revaluation satisfactorily. I have separately, as Nick says, taken steps* My only reservation is on Nicholas' suggestion that *we* [his statement] should draw ratepayers' attention to the fact that, as a last resort, they can ask their MP to take up their case. They will no doubt be able to do so. *h* But I fear that to draw specific attention to the possibility in the statement would actively encourage ratepayers with some alleged grievance to expose it under the brightest possible political spotlight. Their advisers may encourage them to do so, with the aim of bringing pressure to bear on Ministers, although it would be quite wrong for any of us to take a close interest in the merits of any individual rating assessment.

and I would have no objection to Nick ~~saying~~ referring to this if he is pressed during the passage of the Bill.

I would therefore prefer not to make such a statement when Nicholas announces these proposals. If we come under significant pressure we might consider whether Nicholas should say during the passage of the necessary additional clauses to the Bill something along the lines that it would be open to people in this, as in all other fields, to approach their MP if they felt that the proper procedures had not been carried out.

to make sure the resources of the Valuation Office are used effectively.

I am copying this minute to Nicholas Ridley, John Wakeham, Patrick Mayhew, Peter Walker and Malcolm Rifkind, and to Sir Robin Butler.

[N.L]

SECRET



Copy 2 of 11

CH/EXCHEQUER	
REC.	12 JAN 1989
ACTION	MR AJC EDWARDS ✓ 12/1
COPIES TO	CST, FST
	SIR PMIDDLETON
	MR ANSON
	MR PHELIPS
	MR CULPIN
MR POTTER	
MR FELCOTT	
MRS CHAPLIN, R/S/R	

PRIME MINISTER

RATING APPEALS

I have seen Nicholas Ridley's minute of 6 January to you on this matter. Nicholas' proposal effectively to nullify the rights of ratepayers to propose alterations to the 1973 list will be controversial. I consider however, that action must be taken to ensure that the revaluation of non-domestic property will be completed on time, and that non-domestic ratepayers should be prevented from seeking to take artificial advantage of our proposals for transitional arrangements. I would therefore support the course of action which Nicholas proposes.

I am copying this to Nicholas Ridley, Nigel Lawson, John Wakeham, Patrick Mayhew and Malcolm Rifkind, and to Sir Robin Butler.

PW

12 January 1989

WALKER
→ PM
12/1

SECRET



Treasury Chambers, Parliament Street,
01-270 3000

PRIME MINISTER

RATING APPEALS

I very much support the proposals in Nick Ridley's minute of 6 January. We need to reduce the scope for appeals against the old 1973 valuation list - particularly once we announce the transitional arrangements for introducing the new business rates - if we are to complete the non-domestic revaluation satisfactorily. I have, as Nick says, also taken separate steps to make sure the resources of the Valuation Office are being used as effectively as possible.

My only reservation is on Nick's suggestion that we should draw ratepayers' attention to the fact that, as a large resort, they can ask their MP to take up their case. They will no doubt be able to do so, and I would have no objection to Nick referring to this if he is pressed during the passage of the Bill. But I would not want to promote the use of this route, for example by including it in Nick's statement. That would actively encourage ratepayers to approach their MPs, which would greatly increase the amount of work involved - and raise the political temperature - compared with the simpler route of taking up cases with the Regional Superintending Valuer direct.

I am copying this minute to Nick Ridley, John Wakeham, Patrick Mayhew, Peter Walker and Malcolm Rifkind, and to Sir Robin Butler.

N.L.

[N.L.]

12 January 1989

ps

FST

cc PS/Chief Secretary
Sir P Middleton
Mr Anson
Mr Phillips
Mr Culpin
Mr Potter
Mr Fellgett
Mrs Chaplin
Mr A. Edwards
PS/IR

Please type
for signature

DRAFT MINUTE FROM THE CHANCELLOR TO THE PRIME MINISTER

RATING APPEALS

I very much support the proposals in Nick Ridley's minute of 6 January. We need to reduce the scope for appeals against the old 1973 valuation list - particularly once we announce the transitional arrangements for introducing the new business rates - if we are to complete the non-domestic revaluation satisfactorily. I have, as Nick says, also taken separate steps to make sure the resources of the Valuation Office are being used as effectively as possible.

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I am copying this minute to Nick Ridley, John Wakeham, Patrick Mayhew, Peter Walker and Malcolm Rifkind, and to Sir Robin Butler.

NLS



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

pay

SECRET

Paul Gray Esq
Private Secretary
10 Downing Street
LONDON
SW1A 2AA

CH/EXCHEQUER	
REC.	13 JAN 1989
ACTION	MR A J C EDWARDS
COPIES TO	CST, FST
	SER P HADDLETON
	MR ANSON
	MR PHELIPS
	MR CULPIN
MR POTTER	
MR FELLGOTT	
MRS CHAPLIN, PS/IR	

✓ 13/1

12 January 1989

Dear Paul,

RATING APPEALS

My Secretary of State has seen the Secretary of State for the Environment's minute of 6 January. He agrees that it is important to ensure that the 1990 Valuation is completed satisfactorily and on time, and he has no objection to Mr Ridley's proposals.

Mr Ridley's proposals to legislate to reduce the opportunity for business ratepayers to appeal against the valuation of their property in the 1973 List have no implications for Scotland. In general, Scottish ratepayers can only appeal in the first 6 months following a revaluation. The exceptions to this are, broadly speaking, those where Mr Ridley proposes to retain the right of appeal in England. Similarly, in view of the fact that the community charge is being introduced in Scotland in April this year, the proposals in respect of domestic property have no implications for Scotland. Mr Rifkind does not therefore propose to take any corresponding action in Scotland.

I am copying this letter to the Private Secretaries to Mr Lawson, Mr Wakeham, Mr Mayhew, Mr Walker and Sir Robin Butler.

Lawson

David

DAVID CRAWLEY
Private Secretary

CRAWLEY
→ GRAY
12/1

SECRET



01-936 6269

CH/EXCHEQUER	
REC.	13 JAN 1989
ACTION	MR AJC EDWARDS ✓ 13/1
COPIES TO	CST, FST
	SER P MIDDLETON
	MR ANSON
	MR PHILLIPS
	MR CULPEN
MR POTTER	
MR FELLOTT	
MRS CHAPLIN, PS/IR .	

ROYAL COURTS OF JUSTICE
LONDON, WC2A 2LL

(Copy No. 3 of 7)

The Rt. Hon Nicholas Ridley AMICE, MP
Secretary of the State for the Environment
2 Marsham Street
LONDON SW1P 3EB

13 January 1989

Dear Secretary of State

RATING APPEALS

You copied to Patrick Mayhew your minute of 6 January to the Prime Minister in connection with your proposal to curtail retrospectively the rights of ratepayers to make proposals for alterations to the 1973 valuation list. When the matter was first raised in correspondence last July, I expressed concern about the degree of retrospection then proposed and the arrangements which were to be made for dealing with ratepayers' proposals and appeals made after the announcement of the changes but before the relevant amending legislation had received Royal Assent.

It is now your aim to secure Royal Assent in October 1989 for changes to appeal rights which will apply retrospectively to ratepayers' proposals received after your announcement of the policy later this month. The period of retrospection now envisaged is therefore a little less than nine months, and the Bill to effect the necessary amendments to the General Rate Act 1967 will be on the point of introduction when the changes are announced. I note in particular that these measures are aimed primarily at neutralising the serious consequences for the revaluation of business premises which will flow from the foreseeable (and in many cases deliberate) overloading of the rating appeals system between now and April 1990.

SECRET

SOL. GEN
→ RIDLEY
13/1

SECRET



In view of the scale of the retrospective provision now contemplated and the likelihood of damaging abuse of the existing rules if it is not employed, I would not wish to object on constitutional grounds to what is proposed, provided that the rights of those ratepayers who have meritorious cases but who are now to be prevented or deterred from pursuing proposals and appeals are adequately protected. The effect of the safeguards you have in mind will, in most cases, be to preclude the alteration of the 1973 list in a ratepayer's favour unless the valuation officer is satisfied that some recent physical change to the property or its environment justifies a reduction in rateable value (which, in the case of a domestic ratepayer, must be more than 20%). Although this restriction has the clear merit of limiting alterations to the list to those proposals which are founded on significant changes of circumstances, its effect is to substitute an official for an independent tribunal as the ultimate arbiter of the ratepayer's rights. I am concerned to ensure that this restriction does not conflict with our obligations under the European Convention on Human Rights, and will write to you again early next week when I have satisfied myself about this point.

In the light of your forecast that very few proposals made by ratepayers following your announcement are likely to result in awards by valuation courts prior to Royal Assent, I am satisfied that those domestic cases in which a favourable award is not sufficiently substantial to be reflected in a valuation officer's proposal will be truly de minimis.

Finally, I must emphasise that Inland Revenue Staff should, until the Bill receives Royal Assent, continue to use their best endeavours to ensure that there is no undue delay in their handling of ratepayers' proposals received after your announcement. There is some likelihood that disappointed ratepayers may seek to show, in judicial review proceedings, that such proposals are being held back from valuation courts until after the amending legislation receives Royal Assent. If faced with such a challenge the Inland Revenue will, I think, need to be able to demonstrate at least that the progress of appeals is no slower than it has been in the past. It is indeed possible that a judge might be persuaded that the Inland Revenue should, in the light of the impending changes in the Bill, be taking steps to increase the progress of proposals and appeals. The risk of this is not, in my judgment, a very great one but it should nevertheless be acknowledged, and thought should be given to the arguments which might be deployed in response to

SECRET

SECRET



such a contention.

Subject only to that caveat and to an early examination of the Human Rights point I have mentioned above, I am content with what you propose.

I am sending a copy of this letter to the Prime Minister, Nigel Lawson, John Wakeham and Malcolm Rifkind, and to Sir Robin Butler.

Yours sincerely

Peter Milner

B: NICHOLAS LYELL

(Approved in draft by the Solicitor General
but signed in his absence)

SECRET



10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

16 January 1989

*Ch
Looks as if you & R. Ridley
will need a quiet meeting
with PM.
INDEXED
M. AA*

CH/EXCHEQUER	
REC.	16 JAN 1989
ACTION	MR AJR EDWARDS ✓ 16/1
COPIES TO	CST, FST
	SER P MCODLETON
	MR ANSON
	MR PHELIPS
	MR CULPIN
MR POTTER	
MR HUDSON	
MRS CHAPLIN, PS/IT	

RATING APPEALS

The Prime Minister has seen your Secretary of State's minute of 6 January, and subsequent comments from the Chancellor of the Exchequer, the Secretaries of State for Wales and Scotland and the Solicitor General.

I should be grateful if you and copy recipients could ensure that this letter is seen only by those with a strict need to know.

The Prime Minister has major reservations about the proposed changes. She has commented that people cannot be deprived of a right of appeal for the administrative convenience of Government; this would be totally inequitable. She suggests that the Inland Revenue will have to find a rule of thumb multiplier for the rating of those properties they cannot resolve in time; with adjustment retrospectively once the new valuation is determined.

I am copying this letter to Alison Smith (Lord President's Office), Michael Saunders (Law Officers' Department), Stephen Williams (Welsh Office), David Crawley (Scottish Office) and Trevor Woolley (Cabinet Office).

PAUL GRAY

Roger Bright, Esq.,
Department of the Environment.

SECRET

pwp

FROM: R FELLGETT
DATE: 17 JANUARY 1989

CHANCELLOR

cc. Chief Secretary
Financial Secretary
Sir P Middleton
Mr Anson
Mr Phillips
Mr Culpin
Mr A Edwards
Mr Potter
Mrs Chaplin
PS/Inland RevenueAA
WaspFELLGETT
→ ch/lex
17/1RATING APPEALS

The Prime Minister's reservations about Mr Ridley's proposals (which you supported) to curtail the ability of ratepayers to propose changes to, and appeal against, the 1973 rating valuation list has been added to the agenda for your meeting with Mr Ridley tomorrow. This submission provides briefing on the main issues.

Background

2. You will recall that the underlying problem is a shortage of professional valuers in the VO, which they estimate to be 275 staff (about 15 per cent of complement) at 1 April 1989, falling slightly to 220 professionals at 1 April 1990. The shortfall is particularly serious in the South East, where the property market is buoyant and professional valuers can attract higher salaries in the private sector.

3. Action is being taken to increase the supply of valuers and to improve efficiency in the VO, but these moves alone will not suffice, as the figures above (which assume they will be successful) show. As a consequence, the VO expect the quality of the present business rating revaluation to suffer, with the consequences that:

- i. the yield of the NNDR will be unpredictable;
- ii. there will be even more appeals against the 1990 rateable values;
- iii. with very long queues of up to 2-3 years for those appeals to be heard;
- iv. and possibly a need to postpone the further revaluation planned for 1995.

4. The removal of proposal and appeal rights against present rateable values would probably have solved the valuer shortfall in the critical year of 1990. If, as the Prime Minister argues, proposals and appeals should continue this shortfall will reappear.

5. There is also a timing problem. Parliamentary Counsel has advised DOE that clauses to remove proposal and appeal rights (if agreed) would have to be included in the Local Government and Housing Bill when it is introduced on 1 February, because it would not have sufficient scope to introduce them by Government amendment. This deadline would require very quick agreement, and an announcement of it before the end of this month. Mr Ridley would no doubt insist on announcing it at the same time as all aspects of the transition to new business rates bills, including the items which have yet to be resolved between Mr Ridley and the Chief Secretary. We would not advise you to accept any concession on the transition for the sake of an announcement on rating appeals.

Discussions with Mr Ridley

6. You will wish to discuss with Mr Ridley whether to approach the Prime Minister quickly to press his earlier proposals (although we understand that it his initial reaction was that he would not be willing to do so). The essential political judgment will be between:

- i. complaints from ratepayers now that they have had their appeal and proposal rights removed them;
- ii. a risk of complaints from many ratepayers in 1990/91 and later that their rating assessments are wrong, and they cannot always have them put right quickly because the VO is overloaded and the appeal process is clogged.

7. The Revenue have also suggested that, if the Prime Minister is approached again, Mr Ridley could drop his suggestion to curtail the appeal rights of domestic ratepayers, in the last year of domestic rates, which would save only 22 valuers. They feel that the Prime Minister might be particularly concerned about the position of householders. They are strongly in favour of a further approach to the Prime Minister.

8. If the Prime Minister is approached again, it will also be important to re-emphasise that any further proposals and appeals against the 1973 list would largely consist of opportunistic appeals against rateable values which are now anyway 15 years out of date, and against which ratepayers had had in most cases ample opportunity to appeal already.

9. The alternative is to continue proposal and appeal rights against the 1973 list, and accept the risk to the quality of the revaluation and to the timeliness of subsequent work on the new rateable values. Other measures should help, but are unlikely to be sufficient to meet the shortfall in professional valuers.

10. The VO already have efficiency improvements and supply side measures in hand. We are also considering urgently charging local authorities for VO advice, and making ratepayers who appeal unsuccessfully bear the costs. In the longer term, rolling revaluations may be easier to handle than all-at-once reassessments.

[I'm v dubious about this: no problems in retrospectively cutting, but big problems in retrospectively increasing]

11. We believe it would also be possible to build on the Prime Minister's suggestion that "the Inland Revenue will have to find a rule of thumb multiplier for the rating of those properties they cannot resolve in time; with adjustment retrospectively once the new valuation is determined". The VO will deposit initial rating valuation lists by 31 December 1989, and final lists by 1 April 1990. We and they are already in discussion with DOE about using that period to improve the quality of the initial rating assessments. They will also be able to amend rateable values once the final lists have been published, and if those amendments take place during 1990/91 the effect will be to retrospectively change rates bills for the properties concerned for that year.

12. It would be possible to go further, although only with primary legislation, and allow the VO say nine months from 1 January to 1 October to improve the quality of the original rating valuation list, before ratepayers could formally propose changes in it. That should defer formal proposals and appeals, and might reduce the number of them by improving the quality of the assessments against which ratepayers were proposing changes. It could be coupled with legislation to re-calculate the NMDR poundage, and avoid some of the uncertainty in the yield. We could investigate this option in more depth urgently, if you wished. But it would not ease the valuer shortage in 1990, because appeals in that year would only come to the local valuation courts and require substantial professional time a year or more later.

R.F.

R FELLGETT

FROM: R FELLGETT
DATE: 17 JANUARY 1989

CHIEF SECRETARY

cc PS/Chancellor
Sir P Middleton
Mr Anson
Mr Scholar
Mr Phillips
Mr Edwards
Mrs Case
Mrs Lomax
Miss Peirson
Mr Culpin
Mr Potter
Mr Call

BUSINESS RATES (NDR): DISCUSSION WITH MR RIDLEY

*ie in October
so that higher Govt contribs
in lieu can be partly
offset by RSG.*

You asked for a summary of the main arguments for deciding and announcing all government finance for local authorities together. The main benefits for Ministers would be:

- (i) To be able to decide in total how much money local authorities should have to finance their expenditure or reduce their community charges;
 - (ii) there will be a number of changes (up and down) in some of the components of this total, and it would be easier to consider the overall effect rather than track the effect of changes bit by bit;
 - (iii) the government will wish to announce the biggest possible figure for its support for local authorities.
2. For local authorities the main advantage would be that they would know in total how much money they were getting, rather than have to rely on a series of announcements about the components.
3. It is clear to us that the aggregate must include at least the unhypothecated payments to local authorities - RSG and National Non Domestic Rates (including the government's

contribution in lieu of rates). We are considering the pros and cons of including also some or all of the specific grants in support of expenditure and community charge rebates, and expect to forward advice on this point towards the end of the week.

4. We understand that Mr Ridley has decided to write in advance of the meeting to offer a "compromise". He will concede that the NNDR poundage in 1990-91 should be set so as to maintain the yield of business rates from the private sector, on condition that you accept his point of view on the other items to be discussed. The advantages for Mr Ridley in this approach are that he would concede a fiscal point, which he recognises you would be ultimately bound to win. But he would achieve an increase of possibly 50% or £300 million in the government contribution in lieu of rates (£180 million from the effect of 6% decapitalisation rate on the assessed value of hospitals and army bases, plus possibly another £120 million from other changes). Without an effective mechanism for offsetting this in the total of RSG, it would be as useful to Mr Ridley as an extra £300 million of grant, before the RSG negotiations had even begun.

5. Mr Ridley's compromise would therefore be unacceptable. His approach makes it even more important to argue that you would only be prepared to continue to make a government contribution in lieu of rates payment to local authorities, rather than transfer the £600m paid at present to grant, if you are satisfied that there would be a fully effective mechanism for offsetting the bulk of such a payment in RSG in the Survey.

R.F.

R FELLGETT



The Rt Hon John Major MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1

CHIEF SECRETARY	
REC.	17 JAN 1989
ACTION	Mr FELGETT
COPIES TO	Mr ANSON, Mr PHILLIPS Mr MONCK, Mr A J C EDWARDS Mrs LOMAX, Mr MACKAY Mr LAITE, Mr POTTER Mr THORSON

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434
My ref:
Your ref:

PWP

January 1989

Dear Chief Secretary

Ch/ Mr Ridley proposes
an unacceptable
quid pro quo. See
Mr Felgett's advice
(attached)
D/S

NON-DOMESTIC RATING

I have been giving some further thought to the issues which we are to discuss at our meeting on non-domestic rating tomorrow. I thought it would be helpful if I were to write in advance to let you know my conclusions.

Good

I am prepared to accept that when we set the national non-domestic rate poundage for 1990-91 we should aim to maintain the yield from private sector businesses rather than from the non-domestic sector as a whole. I think that we must accept that we shall be criticised by business for this, but I agree that we should successfully be able to argue that business as a whole is not being required to pay more than at present and our undertakings about freezing the yield were never meant to apply to the mere recycling of public money involved in local authorities paying rates and the Crown contributions-in-lieu. I know that this issue was of serious concern to you and I hope that my willingness to accept your approach may make resolution of the other matters between us easier.

It seems to me to be essential that rates should fall, and should be seen to fall equally on the private and public sectors. I am not convinced by the arguments for different capitalisation rates for private business on the one hand and for local authorities and the Crown on the other: this simply leads to distortions. So I would prefer to have a common rate of 6%. For schools however I have proposed a lower rate of 4% because to fix a higher figure would lead to accusations that we were trying to claw back the concession which we made to charities, and as the legislation stands the same rate would need to be applied to local authority schools. In any event I see no difficulty in prescribing a lower figure for schools which are distinct class of property.

I understand that you would like to discuss the possible abolition of Crown contributions in lieu of rates with a commensurate increase in grant. The argument that there should be a level playing field as between the public and private sectors applies equally strongly here. Also I see considerable presentational difficulties in what you propose. It would be impossible to convince community charge and rate payers that the Crown was bearing its fair share of costs. I hope that in view of this, and



of what I have said about the yield, you will not press this point.

Finally you wanted to raise the question of the publication of the Inland Revenue's revaluation survey. As I have said before, I do not think that we have any choice but to publish. To withhold the survey results will cause far more problems than to publish them. We could, however, clearly look at ways of reducing the amount of detail to be published if that would help. I hope that you can now accept this and that we can proceed to an early announcement of the transitional arrangements which we have agreed.

Yours sincerely,

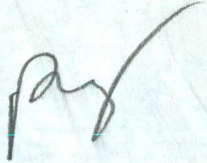
N Ridley

NICHOLAS RIDLEY

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

SECRET

FAX => DS/IR

FROM: R FELLGETT
DATE: 17 JANUARY 1989

CHANCELLOR

cc. Chief Secretary
Financial Secretary
Sir P Middleton
Mr Anson
Mr Phillips
Mr Culpin
Mr A Edwards
Mr Potter
Mrs Chaplin
PS/Inland RevenueRATING APPEALS

The Prime Minister's reservations about Mr Ridley's proposals (which you supported) to curtail the ability of ratepayers to propose changes to, and appeal against, the 1973 rating valuation list has been added to the agenda for your meeting with Mr Ridley tomorrow. This submission provides briefing on the main issues.

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3. Action is being taken to increase the supply of valuers and to improve efficiency in the VO, but these moves alone will not suffice, as the figures above (which assume they will be successful) show. As a consequence, the VO expect the quality of the present business rating revaluation to suffer, with the consequences that:

- i. the yield of the NNDR will be unpredictable;
- ii. there will be even more appeals against the 1990 rateable values;
- iii. with very long queues of up to 2-3 years for those appeals to be heard;
- iv. and possibly a need to postpone the further revaluation planned for 1995.

4. The removal of proposal and appeal rights against present rateable values would probably have solved the valuer shortfall in the critical year of 1990. If, as the Prime Minister argues, proposals and appeals should continue this shortfall will reappear.

5. There is also a timing problem. Parliamentary Counsel has advised DOE that clauses to remove proposal and appeal rights (if agreed) would have to be included in the Local Government and Housing Bill when it is introduced on 1 February, because it would not have sufficient scope to introduce them by Government amendment. This deadline would require very quick agreement, and an announcement of it before the end of this month. Mr Ridley would no doubt insist on announcing it at the same time as all aspects of the transition to new business rates bills, including the items which have yet to be resolved between Mr Ridley and the Chief Secretary. We would not advise you to accept any concession on the transition for the sake of an announcement on rating appeals.

Discussions with Mr Ridley

6. You will wish to discuss with Mr Ridley whether to approach the Prime Minister quickly to press his earlier proposals (although we understand that it his initial reaction was that he would not be willing to do so). The essential political judgment will be between:

- i. complaints from ratepayers now that they have had their appeal and proposal rights removed them;
- ii. a risk of complaints from many ratepayers in 1990/91 and later that their rating assessments are wrong, and they cannot always have them put right quickly because the VO is overloaded and the appeal process is clogged.

7. The Revenue have also suggested that, if the Prime Minister is approached again, Mr Ridley could drop his suggestion to curtail the appeal rights of domestic ratepayers, in the last year of domestic rates, which would save only 22 valuers. They feel that the Prime Minister might be particularly concerned about the position of householders. They are strongly in favour of a further approach to the Prime Minister.

8. If the Prime Minister is approached again, it will also be important to re-emphasise that any further proposals and appeals against the 1973 list would largely consist of opportunistic appeals against rateable values which are now anyway 15 years out of date, and against which ratepayers had had in most cases ample opportunity to appeal already.

9. The alternative is to continue proposal and appeal rights against the 1973 list, and accept the risk to the quality of the revaluation and to the timeliness of subsequent work on the new rateable values. Other measures should help, but are unlikely to be sufficient to meet the shortfall in professional valuers.

10. The VO already have efficiency improvements and supply side measures in hand. We are also considering urgently charging local authorities for VO advice, and making ratepayers who appeal unsuccessfully bear the costs. In the longer term, rolling revaluations may be easier to handle than all-at-once reassessments.

11. We believe it would also be possible to build on the Prime Minister's suggestion that "the Inland Revenue will have to find a rule of thumb multiplier for the rating of those properties they cannot resolve in time; with adjustment retrospectively once the new valuation is determined". The VO will deposit initial rating valuation lists by 31 December 1989, and final lists by 1 April 1990. We and they are already in discussion with DOE about using that period to improve the quality of the initial rating assessments. They will also be able to amend rateable values once the final lists have been published, and if those amendments take place during 1990/91 the effect will be to retrospectively change rates bills for the properties concerned for that year.

12. It would be possible to go further, although only with primary legislation, and allow the VO say nine months from 1 January to 1 October ¹⁹⁹⁰ to improve the quality of the original rating valuation list, before ratepayers could formally propose changes in it. That should defer formal proposals and appeals, and might reduce the number of them by improving the quality of the assessments against which ratepayers were proposing changes. It could be coupled with legislation to re-calculate the NMDR poundage, and avoid some of the uncertainty in the yield. We could investigate this option in more depth urgently, if you wished. But it would not ease the valuer shortage in 1990, because appeals in that year would only come to the local valuation courts and require substantial professional time a year or more later.

R.F.

R FELLGETT

BF 23/1
25/1

FROM: P M RUTNAM
DATE: 18 January 1989

- 1. MR FELLGETT ^{R.F.}
- 2. CHANCELLOR ^{18/1}

- cc PS/Chief Secretary
- Sir P Middleton
- Mr Anson
- Mr Scholar
- Mr Monck
- Mr Phillips
- Mr Culpin
- Mr A J C Edwards
- Mr Bent
- Mr Potter
- Mr A Hudson
- Mr Call
- Mr A Prior (VO)

Ch
 Hmm. Comment from
 Mr Monck? *you post - esp on the*
AA water work
para 4 of the
large unsubsidiarised
assess
 @ X.

BUSINESS RATES: NATIONALISED INDUSTRIES

You asked (Mr Allan's minute of 10 January) about the likely effect on nationalised industries of the business rating revaluation, including the decision on decapitalisation rates for the contractor's basis of rating.

2. The only industry significantly affected by a change in decapitalisation rates would be Water (England and Wales). Sewage works are assessed on the contractor's basis, using a decapitalisation rate of 4%. This is low - comparable to the rates applied to hospitals and schools - and no doubt reflects the industry's former status as a local authority service. A decapitalisation rate of 6% (such as we and DoE are proposing for Nationalised Industries and the private sector) would imply a rise in this element of the industry's rates bill of 50%, around £24m. This increase may well be compounded by a further, but smaller, rise as a consequence of the regional shifts identified by the Valuation Office survey.

(not v clever for privatisation)

3. Two industries are likely to be rated largely by conventional comparisons with market rents after 1990: the Post Office and British Coal. The PO's rates bill is likely to rise only marginally, if at all, given its wide distribution of property. Coal's, on the other hand, will go up by as much as 30%, or £15m, reflecting the correction of past under-assessment

(a consequence of formula rating, now to be abandoned for this industry, see below), offset by benefits from the regional shift.

4. The other major industries (BR, LRT, and Electricity) will largely be rated separately, under specific secondary legislation ('formula rating'). This will also be true of the other 70% of Water (reservoirs etc), and of large parts of former nationalised industries (Gas, part of BT). Special arrangements are needed for these industries because of the shortage of valuers, and absence of comparable rental information.

5. The new rateable values in each case will be the subject first of negotiation with the industries concerned, and then of ministerial decision, to be incorporated in secondary legislation. The Treasury has supported the view that the new rateable values should be based on the current value of the industries' property assets, to which (as in the contractor's basis) a percentage like the decapitalisation rate should be applied to derive a rateable value. This method is the closest to more conventional methods of rating (ie the contractor's basis) and should help to ensure a 'level playing field' between the rates liabilities of different industries.

X | 6. There are strong arguments for big increases in the rates liabilities of all the nationalised industries rated in this way, except perhaps Water. Although, as the NIs point out, this would mean that they paid a higher than average proportion of profits or turnover in rates, these are capital-intensive industries and rates are therefore likely to be higher than for others. An increase is, however, likely to be opposed by sponsoring departments. Treasury ministers' intervention to support the principle of comparability between these industries' rate bills and others may well be needed in due course.

P. M. Rutnam

P M RUTNAM



Inland Revenue

Capital and
Valuation Division
Somerset House

From: D Y Pitts

Date: 18 January 1989

1. CHAIRMAN *18/1*
2. CHANCELLOR

RATING APPEALS

1. Like each of the rest of us on first impact, the Prime Minister has seen restriction of appeal rights as pretty unthinkable. It has only been when we have seen the alternative to be even more so that - reluctantly - we have all returned to it. The Prime Minister is still at the first stage.
2. And again like the rest of us, she has looked - in her case, inevitably quickly - for some other solution. But there are almost certainly no more such ideas to be had. And with respect, her own is a reformulation of one part of the cause of the problem rather than a solution.
3. The Treasury are presenting you with their own further proposal, to defer appeal rights against the new list. But that will gain unpopularity without contributing significantly to a solution.

cc Chief Secretary
Financial Secretary
Sir P Middleton
Mr Anson
Mr Phillips
Mr Culpin
Mr Fellgett
Mrs Chaplin

Chairman
Mr Painter
Mr Shutler
Mr Crawley
Mr Pitts
PS/IR

4. We are of course continuing the search for yet more measures to reduce the size of the problem. But unless the Prime Minister can be persuaded to go the second mile, it would be wrong of us to down play the probability that there will follow the result which both you and Mr Ridley have so far seen as an alternative even worse than formally restricting proposal (and so appeal) rights.

5. This result will emerge in 1990, at the time when you will be introducing the new community charge, and will continue afterwards, affecting for example the 1995 revaluation.

6. That is the main point I suggest you could make to Mr Ridley and to the Prime Minister. A second is that we have all searched exhaustively for other solutions. Neither the Prime Minister's idea nor any other is at all likely now to provide a solution to the problem which remains after the raft of measures already taken or being worked up.

7. The third is to allow domestic appeal rights to continue unabated. They involve much less professional valuer time, much the smaller proportion of the savings expected from the whole of Mr Ridley's proposal. That part of his proposal could be dropped if it were thought to be the major difficulty.

We must leave it to you and Mr. Ridley to judge how best to handle this with the Prime Minister. I recognize how politically difficult it is to curtail appeal rights - but the problem will also be difficult if left unresolved.

DP

D Y PITTS

With the Inland Survey we have come a long way in reducing the potential size of the valuation problem in 1989/90. But none of us can see how to bridge the remaining gap without some relief on appeals. And I am afraid the Prime Minister's solution - to cut corners on the revaluation - binds up the very house we are seeking to avoid when the new list comes into force.

AD/18/1

SECRET



Inland Revenue

Capital and Valuation Division
Somerset House

PWP

From: D Y Pitts
Date: 18 January 1989

- 1. *ADY*
CHAIRMAN / B/1
- 2. CHANCELLOR

*Thank - I will be back soon
PWP - R*

RATING APPEALS

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 - Mr Anson
 - Mr Phillips
 - Mr Culpin
 - Mr Fallgett
 - Mrs Chaplin

- Chairman
- Mr Painter
- Mr Shutler
- Mr Crawley
- Mr Pitts
- PS/IR

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D Y PITTS

With the Intrinsic Demerit we have come a long way in reducing the potential size of the value problem in 1989/90. But none of us can see how to bridge the remaining gap without some relief on appeal. And I am against the Prime Minister's solution - to cut corners on the valuation - binds up the very houses we are seeking to avoid when the new list comes
05/10/1



01-936 6269

ROYAL COURTS OF JUSTICE
LONDON WC2A 2LL

19 January 1989

The Rt Hon Nicholas Ridley MP
Secretary of State for the Environment
2 Marsham Street
LONDON S W 1

Dear Nicholas

CH/EXCHEQUER	
REC.	19 JAN 1989
ACTION	MR AJC EDWARDS ✓ 19/1
COPIES TO	CST, FST SIR P MIDDLETON MR ANSON MR PHELPS MR CULPIN MR POTTER MR FELLOTT MRS CHAPLIN, RS/IR

RATING APPEALS

In my letter of 13 January I said that I would write again when I had given consideration to the question whether your proposal conflicted with our obligations under the European Convention on Human Rights.

I have now been able to consider the question and I have concluded that the reason for the retrospective element of the proposal is one which will be unlikely to be found convincing in Strasbourg. We would therefore be vulnerable under Article 1, Protocol 1 to the Convention in respect of challenges brought by the small number of domestic ratepayers who succeed in achieving awards by valuation courts amounting to less than 20% alteration.

I am copying this letter to the Prime Minister, Nigel Lawson, John Wakeham and Malcolm Rifkind and to Sir Robin Butler.

John. em

Nick.

Don't think she's using this as a reason for dropping the doubtless part of the proposals.

Ch

This arrived late, & I told Robin Fellgett to clear up the point before submitting draft memo to PM tomorrow.

RF