24/1/342/023

CONFIDENTIAL

pmp

~~1. MR POTTER~~ not available.

2. CHIEF SECRETARY

FROM: R FELLGETT

Date: 2 March 1988

cc: PS/Chancellor
PS/Financial Secretary
Sir P Middleton
Mr Anson
Mr Phillips
Mr Monck
Mr Scholar
Mr Hawtin
Mr Turnbull
Mr Luce
Miss Sinclair
Mr MacAuslan
Mr Tyrie
Mr Call

NON-DOMESTIC RATE TRANSITION

Mr Ridley is coming to see you at 2.30 pm this afternoon. I understand that he hopes to convince you that his proposal for asymmetric phasing of the transition to the NNDR and revalued rateable values is right, not withstanding your letter of 29 February. He also wishes to discuss what he can say in Committee on Thursday.

2. Given the terms of Paul Gray's letter of 29 February from No.10 - the Prime Minister hopes Mr Ridley will agree with you and if not will take a meeting on her return from the NATO Summit - I doubt if you need concede anything of substance, whatever Mr Ridley's concerns about his own supporters in Committee who have been briefed by the small business lobby. DOE officials acknowledge that they are unlikely to be defeated in Committee, although they continue to maintain that something will have to be decided and announced for Report in April.

3. The main points in your letter were:-

(i) the Bill should be amended to allow for symmetric phasing (ie X% increase a year for losers, and similar phasing of roughly X% for gainers so the transition is financially neutral);

(ii) no decision on the figure (X) until the VO have real information on the actual revaluation starting in July, but a presumption that this should be as high as possible to phase-in the long overdue revaluation.

If you are convinced that political pressures compel an announcement of a figure, despite the dangers of doing so without adequate information, you might concede the second point at a meeting with the Prime Minister provided you secure agreement to broadly symmetric phasing. I attach an aide memoir of the main arguments.

4. If Mr Ridley is unconvinced and wishes to take this issue to a meeting with the Prime Minister, I think you could accept whatever form of words Mr Ridley feels is necessary to placate the Committee, provided they:-

(i) reaffirm the Government's commitment to a financially neutral transition, ie no new Exchequer money;

(ii) acknowledged the possibility of amendment to permit symmetric phasing (if the possibility is not even mentioned in Committee it will be more difficult to bring forward amendments on Report or in the Lords);

(iii) gives no commitment on the figure X.

Robin Fellgett

R FELLGETT

Previous decisions and correspondence

1. E(LF) on 30 April 1987 considered Mr Ridley's proposal for transition with "protection for the largest losers ... paid for by a corresponding delay in the largest gains" (ie broadly symmetric phasing for gainers and losers). PM summed up "phase the largest gains and losses over 5 yers by imposing a percentage limit on the annual charge in the individual rates bills".

2. Mr Ridley's minute of 25 June said "[E(LF) decision] means setting an NNDR poundage in 1990-91 slightly above the average poundage for 1989-90". Unfortunately not recognised as a new proposal for asymmetric phasing. In any case 10% supplement to NNDR in 1990-91 now proposed hardly "slight".

Arguments for symmetric phasing

1. Asymmetric approach requires 10% supplement to NNDR in 1990-91 (in real terms) according to Mr Ridley. Would be seen by business as new impost by Government and a breach of faith - average business expecting no real incrase in rates in 1990-91.

2. Asymmetric approach turns (small) gainers into losers in 1990-91.

3. Symmetric approach would still allow gainers to see tangible benefit - a cash reduction in rates bills - each year until full gains in place.

4. Symmetric approach apparently favoured by Institute of Directors. Letter of 16 February to Financial Secretary says "[phasing for losers] will have to be funded by a corresponding phasing of reductions in rates bills."

Arguments for delaying decision on annual percentage limit

1. Inadequate information on <u>distribution</u> of gains and losses. Have only estimates of <u>average</u> effect on various categories of business in different areas (eg shops in Westminster or factories in Liverpool). Cannot say, for example, what proportion of businesses will gain or lose by over 25% or 100%.

2. First relevant information will be gathered in July as revaluation starts.

3. Business can be assured that the Government will announce its intentions as soon as adequate information is available in autumn, and Parliament will have opportunity to debate them.

Arguments for a high (eg 25%) annual limit on losses

1. Gets more of long over-due revaluation into place by 1995. (Eg 25% annual compound limit would phase in changes of up to 200%; 15% limit would only phase in changes up to 100%,)

2. With symmetric phasing, allows bigger annual gains for gainers, eg manufacturing industry in north and inner cities.

Arguments for **not** publishing VO study of gainers and losers

1. Not a good basis for assessing transition (see above).

2. New immediate study to provide better information would cost about £¼ million in VO running costs and disrupt preparation for revaluation; better done as part of revaluation itself in July.

3. Study can only represent VO's best guess of revaluation. Could be embarrassingly wrong in places.

4. Study could be unduly alarming (eg VO estimate shops in Kensington face 250% increase on average) and taken as definitative. Small business representatives and private sector valuers will be seen to have their own axes to grind.