CONFIDENTIAL

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1. MR POTTER BHP 30/9

2. CHANCELLOR

FROM: R FELLGETT

Date: 30 September 1988

cc: Chief Secretary
Financial Secretary
Sir Peter Middleton
Mr Anson
Mr Scholar
Mr Culpin
Mr Phillips
Mr Edwards
Mr Tyrie

OK – but v. important that John not in any way impact on the outcome of PES round

RATING REVALUATION: PRELIMINARY RESULTS OF EXERCISE: TRANSITIONAL ARRANGEMENTS

You might welcome a few comments to supplement the Valuation Office response of 28 September to your queries about large losers from the revaluation and move to NNDR.

2. Large percentage losses from the 1985 Scottish rating revaluation seem to have been concentrated among shops, including small shops, in suburban areas and large country towns that had become relatively much more prosperous since the previous revaluation. These are the bulk of the businesses to whom, in all, £60 million of rating revaluation relief has been paid.

3. I would be surprised if the same pattern of losses did not emerge in England. In addition, there are likely to be large losses among shops in the centre of London, where the retail trade has prospered over the last fifteen years and rate poundages are currently much lower than average. (Westminster, the City and Kensington in particular have rates at least 30% below average, despite financing the bulk of ILEA spending, because their rates base is so substantial. As these authorities are currently out of grant, the benefit of the high rates base is not at present shared nationally through the distribution of RSG.)

4. However, this VO survey also suggests that offices are likely to be losers overall (by about 9% on average), compared to an estimate that they would be small gainers in the previous VO survey conducted in the Autumn of 1986. This has helped reduce the average projected loss among shops to under 20%, compared to 30% in the earlier study.

5. It should also be noted that increased rates bills are not necessarily fully translated into increased costs for any business. Those paying direct taxes (Income Tax for partnerships and Corporation Tax for plcs) could offset up to 25%-35% of the increase in their other tax payments. And a redistribution of the rates burden should be offset in part through a redistribution of commercial rents as rents and leases are reviewed (normally on a 3-5 year cycle). But this will be no comfort to those owning their own business premises, where changes in rates are likely to be capitalised into property values, or making no profits.

6. These offsets will also affect gainers. Overall they will help smooth the change to new rates bills for most businesses, and thus supplement the transitional arrangements to which the Government is committed in principle.

7. More generally, I think the Inland Revenue study fulfils rather well the remit which you gave us to estimate the likely effects of the revaluation and transfer to NNDR, in a way that would inform detailed decisions this autumn about how the transition will be managed. We have been consulted about the study's methodology. As the figures now show, these decisions about the transition will not be easy. The preliminary estimate that a 20% limit on losses would require a smaller 12% limit on gains to be financially neutral, because the distribution is not symmetric, may prove difficult to sell to business. We are also discussing with DOE the option of basing the change on 1987-88 bills, not those for 1989-90, to remove one incentive for ratepayers to appeal against their 1973 valuation, about which you wrote to Mr Ridley on 22 July.

8. The Revenue figures will help you and colleagues to address these issues directly, and provide a much better chance than we had during passage of the Local Government Finance Bill, when no similar relevant facts were available, of reaching a conclusion that is both right for business, and protects the Exchequer. (The relief for large losses in Scotland referred to above might if repeated in England be more than £½ billion.)

9. I suggest that you now authorise the Revenue to release their full quantified report for limited circulation within Whitehall at official level. We will then work with DOE and WO to produce detailed nil-cost options for the transition, for E(LF) to consider in November.

Robert Fellgett

R FELLGETT

chex.md/aa/29 **CONFIDENTIAL**

FROM: A C S ALLAN
DATE: 3 October 1988

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MR FELLGETT

cc PS/Chief Secretary
PS/Financial Secretary
Sir P Middleton
Mr Anson
Mr H Phillips
Mr Scholar
Mr Culpin
Mr A J C Edwards
Mr Potter
Mr Tyrie

RATING REVALUATION: PRELIMINARY RESULTS OF EXERCISE: TRANSITIONAL ARRANGEMENTS

The Chancellor was grateful for your minute of 30 September. As you suggested, he has now authorised the Revenue to release their full quantified report for limited circulation within Whitehall at official level.

ACSA

A C S ALLAN