



Valuation Office

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- 1. Mr Pitts
- 2. Chancellor

16/9

From: O T Morgan

Date: 16 September 1988

Thanks. I had been to know how all the houses were approx. to X.9. Who are the shops? In addition to the shops for help. Have a look at the shops. No change in shops. Pps pl.

RATING REVALUATION

PRELIMINARY RESULTS OF EXERCISE:

TRANSITIONAL ARRANGEMENTS

1. // Following discussions at E(LF) in February, and subsequent correspondence with Mr Ridley, you agreed with him that no announcement would be made about the intended transitional arrangements (to phase in the effects of the 1990 rating reform) until after Valuation Office data were available this Autumn.
2. We have accordingly been working on the exercise that was then commissioned (a joint project by the Valuation Office and Revenue Statistics Division) and the preliminary results of the work are now available. Mr Ridley, and his

- cc
- Chief Secretary
 - Financial Secretary
 - Sir Peter Middleton
 - Mr Anson
 - Mr Scholar
 - Mr Culpin
 - Mr H Phillips
 - Mr A J C Edwards
 - Mr Potter
 - Mr Fellgett
 - Mr Tyrie

- Chairman
- Mr Painter
- Mr Fallows
- Mr Heard (O/R)
- Mr Shutler (O/R)
- Mr Pitts
- Mr Calder
- Mr Gonzalez
- Mr Morgan
- Mr Jaundoo
- Mr Quinn
- Mr Heggs
- PS/IR


officials, are understandably anxious to have any information as soon as possible, but we consider it appropriate to let you have first sight of the figures. Accordingly circulation is restricted to the Treasury and Revenue only.

3. We have agreed a strategy for the work with DOE and WO officials (with Treasury representation) and have already circulated to them a skeleton of the report (without any figures). We hope to issue a first draft of the report by the end of this month for further inter-departmental consideration. As it is structured to show how several different options work in relation to the estimated pattern of gainers and losers, we expect that we will then be asked to experiment with further options before the report can be finalised, and circulated.

4. We are also exploring with DOE officials how best to restrict ratepayer appeal rights, so as to off-set some of the valuer shortages in the VO. It has been suggested that the opportunity might be taken to link any such arrangement to the announcement about transitional provisions, which adds to the urgency of this work. It is possible that DOE Ministers might want to use the appeal curtailment issue as a counter-balance when the transitional regime is being considered.

PRELIMINARY RESULTS

5. You agreed with the Secretary of State that the transitional arrangements should:-
- be financially neutral (ie no Exchequer cost);
 - be broadly symmetrical for the phasing of gainers and losers;
 - have an annual cap on real gains and losses which would be announced this Autumn; and
 - have a smaller cap on rate increases for small businesses.
6. We have included a small selection of broad estimates at this stage to give you a flavour of the results as they are beginning to come through. These are shown, with a brief commentary, at Annex 1 and we have included some technical comments at Annex 2.
7. In selecting the Annex 1 material, we have assumed that your main interest at present is the distribution of gainers and losers, together with the implications that then follow for transitional purposes. We shall, of course, be pleased to supply further information at this early stage, if required. But you may prefer to consider the report when it is circulated inter-departmentally.


O T MORGAN

ANNEX 1

This annex comprises a brief commentary on the preliminary results of the exercises and 5 Tables which give greater detail.

The assumptions used, and some caveats, are mentioned in Annex 2.

1. NNDR POUNDAGE

1.1 We presently estimate that the national non-domestic rate poundage (NNDR), as at 1990/91 levels, will be 36.2p for England, 35.5p for Wales.

2. CHANGES IN RATES BURDEN BY REGION (BEFORE TRANSITION)

2.1 Estimates of the combined 1990 revaluation and NNDR effects in 1990/91 are shown in Table 1. In percentage terms, the main GAINERS are likely to be:-

North West (-27%)

West Midlands (-22%)

East Midlands (-20%)

2.2 As expected, the LOSERS are likely to be:-

South West (+20%)

East Anglia (+19%)

South East (+16%)

2.3 These figures represent reduced or increased rates burden within the region as a whole. At this stage London has not been separated out of the South East region, although it is to be shown separately in the report.

3. CHANGES IN RATES BURDEN BY BROAD PROPERTY CATEGORY (BEFORE TRANSITION)

Table 2 shows the redistributive effects by property category, separately for England and for Wales. Again, the results are much as expected.

The GAINERS are:-

	<u>England</u>	<u>Wales</u>
Factories	-24%	-17%
Warehouses	-12%	- 8%

Shops are gainers

The main LOSERS are:-

<i>YI</i> Shops	+16%	+19%
Offices	+ 9%	+ 6%

4. DISTRIBUTION OF GAINERS AND LOSERS (BEFORE TRANSITION)

4.1 We have defined gainers and losers by comparing the rates burden as it is estimated it would have been in 1990-91 (using RPI assumptions) had there been no reform, with our

estimate of the post-reform position for that same rate year.

4.2 On this basis, **Table 3** gives an early indication of the broad picture, for England, and for Wales, both by numbers of property and by changes in rate bills.

4.3 There are more losers than gainers in both England and Wales:-

Estimating the position by numbers of properties, in England 57% of occupiers will receive increased rate bills (ie greater than they could otherwise expect in an unreformed 1990/91), only 43% will gain. In Wales the figures are 65% losers and 35% gainers.

4.4 Looking further at the position in England:-

+ Some 8% of occupiers will be affected, either as gainers or losers, by no more than a 5% change of rate burden.

+ 23% will be gainers by at least 25% of their present rate bills. The amount of current rateable value upon which they are liable is 27% of the total, and the effect is that their expected total pre-reform rate burden of £3,194 million would be reduced, by the reform, by £1,382 million (43%).

X + 12% of occupiers (about 200,000 properties) will be losers by at least 100%. Instead of paying £369 million in rates, the effect of the reform (without any transitional relief) is that they would pay a further £578 million (an increase of 157%).

+ Some properties have been found in this small sample which were subject to increases of more than 500%.

5. SCALE OF TRANSITIONAL ARRANGEMENTS

5.1 The transitional arrangements to be costed are being considered inter-departmentally but, for illustrative purposes, we have used the one referred to by the Secretary of State during the passage of the Local Government Finance Bill. This assumes that for more valuable properties, burden increases in 1990/91, and each year thereafter, would be limited to 20% (in real terms) of the previous year's burden. Smaller assessments would have a limit of 15% (in real terms). We have defined more valuable properties as those with a rateable value in the new lists of more than £7,000 rateable value, and estimate that about 30% of properties in England and Wales would thus qualify for the 15% regime.

5.2 We estimate that in 1990/91 about 1.3 million properties (nearly 80%) would be affected by this transitional scheme. About $\frac{3}{4}$ million would be losers - whose increases would be capped (to 20 or 15%) - and over $\frac{1}{2}$ million would be gainers

- whose gains would be capped (to 12%). Even in 1994/95, the year before the next revaluation, there would still be over 300,000 properties affected.

5.3 On this basis, Table 4 shows the cost of the relief that would have to be recovered from other ratepayers. If this was done merely by limiting gains (ie from ratepayers whose burden will fall because of the reforms), and those gains are capped at a standard percentage, the limit on their gains year-by-year would be in the region of 12%.

6. DURATION OF TRANSITIONAL ARRANGEMENTS

6.1 Properties which qualified for 20% relief would only be fully phased into their new rate burdens by 1995 (the date of the next revaluation) if the increased rate burden was less than 150%. Where the 15% applied, the increased rate burden would have to be less than 100%.

6.2 In 1995/96, the first year to be based on the next (1995) revaluation, over 200,000 properties (more than 10%) would carry over transitional effects from the 1990 reform.

7. EFFECT OF TRANSITIONAL RELIEFS

7.1 Table 5 shows the effect such a transitional arrangement (20 and 15% losers; 12% gainers) would have at a regional level. For example, without transitional relief the rate burden on the North West would have reduced by £321 million:

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in the first year the relief would reduce that gain by £230 million to £90 million. By contrast, the South East would have had an increased burden of £779 million, but relief would reduce that increase by £551 million.

TECHNICAL NOTES

1. The present results are based on a database which is not yet finalised, but even when it is the estimates will remain provisional. When these preliminary results were extracted the database still excluded about 400 sample cases - some of which may be the most extreme and a few technical issues still had to be resolved inter-departmentally.
2. The estimates are derived from a sample of 10,000 properties in England and 2,000 in Wales which were specially valued in July 1988, in advance of the actual revaluation process.
3. The sample was stratified to attempt a good spread both geographically and by property type. A large sample would be required to give a reliable estimate of extreme values but this would have conflicted unduly with the revaluation itself.
4. At present relatively few properties have actually been revalued, and there are several imponderables (some requiring Ministerial consideration) which could have important consequences for a significant fraction of the list. In those cases valuers were asked to make "best estimates".

5. Current (1988/89) rates burdens are estimated from the present value times the local poundages in each relevant rating authority area. To estimate pre-reform 1990/91 burdens, those poundages were uplifted by 2 years' RPI increase (we have used 4% per annum for this report).

TABLE 1

ESTIMATED RATES BURDEN CHANGES IN ENGLAND & WALES BY REGION (BEFORE TRANSITIONALS)

COUNTRY	REGION	1990-91	1990-91 RATES	CHANGE IN RATES BURDEN	
		UNREFORMED RATES BURDEN (£M)	BURDEN POST- REFORM (£M)	(£M)	(%)
ENGLAND	NORTHERN	527	445	-81	-16
	YORKSHIRE & HUMBERSIDE	953	768	-184	-19
	EAST MIDLANDS	842	677	-164	-20
	EAST ANGLIA	271	323	51	19
	SOUTH EAST	4,824	5,603	779	16
	SOUTH WEST	719	859	140	20
	WEST MIDLANDS	1,007	788	-218	-22
	NORTH WEST	1,208	887	-321	-27
	TOTAL	10,354	10,354		-0
	WALES	WELSH VALLEYS	123	108	-15
REST OF WALES		314	329	15	5
TOTAL		438	438		-0
ENGLAND AND WALES		10,792	10,792		-0

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TABLE 2

ESTIMATED RATES BURDEN CHANGES IN ENGLAND & WALES BY PROPERTY TYPE (BEFORE TRANSITIONALS)

COUNTRY	PROPERTY TYPE	1990-91	1990-91 RATES	CHANGE IN RATES BURDEN	
		UNREFORMED RATES BURDEN (£M)	BURDEN POST- REFORM (£M)	(£M)	(%)
ENGLAND	SHOPS	1,599	1,856	257	16
	OFFICES	1,872	2,049	177	9
	WAREHOUSES	1,228	1,081	-147	-12
	FACTORIES	2,014	1,529	-484	-24
	OTHER PROPERTIES	3,639	3,837	197	5
	TOTAL	10,354	10,354		-0
	WALES	PROPERTY TYPE			
WALES	SHOPS	68	81	12	19
	OFFICES	18	19	1	6
	WAREHOUSES	33	31	-2	-8
	FACTORIES	122	101	-20	-17
	OTHER PROPERTIES	194	204	9	5
	TOTAL	438	438		-0
ENGLAND AND WALES		10,792	10,792		-0

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TABLE 3

GAINERS AND LOSERS FROM THE REFORMS (BEFORE TRANSITION)

COUNTRY= ENGLAND		1973 ADJUSTED RATEABLE VALUE				1990-91 UNREFORMED RATES BURDEN		CHANGE IN RATES BURDEN	
		NUMBER OF PROPERTIES (000)	(%)	(£M)	(%)	(£M)	(£M)	(%)	
		(B)		(A)					
EFFECT OF REFORMS ON RATES BILLS									
REDUCTIONS (%)	AT LEAST 50%	97	6	313	8	966	-583	-60	
	AT LEAST 25% BUT LESS THAN 50%	264	17	765	19	2,228	-799	-36	
	AT LEAST 5% BUT LESS THAN 25%	255	16	828	21	2,256	-335	-15	
	LESS THAN 5%	61	4	239	6	647	-16	-3	
NO GAIN/NO LOSS	NO GAIN/NO LOSS	4	0		0	1		0	
INCREASES (%)	LESS THAN 5%	61	4	242	6	578	14	3	
	AT LEAST 5% BUT LESS THAN 25%	216	14	623	16	1,457	197	14	
	AT LEAST 25% BUT LESS THAN 50%	218	14	494	12	1,099	414	38	
	AT LEAST 50% BUT LESS THAN 100%	209	13	313	8	747	528	71	
	AT LEAST 100% BUT LESS THAN 300%	179	11	161	4	352	504	143	
	AT LEAST 300% BUT LESS THAN 500%	22	1	8	0	15	59	39	
	AT LEAST 500%	2	0	1	0	2	15	58	
EFFECT OF REFORMS SUMMARY									
REDUCTIONS (%)		679	43	2,146	54	6,099	-1,735	-28	
NO GAIN/NO LOSS		4	0		0	1		0	
INCREASES (%)		911	57	1,845	46	4,253	1,735	41	

Average Size
1973 revs

3200

2900

3250

3900

—

4000

2900

2300

1500

900

350

(* ie (A)/(B))

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TABLE 3

GAINERS AND LOSERS FROM THE REFORMS (BEFORE TRANSITION)

COUNTRY= WALES		1973 ADJUSTED RATEABLE VALUE				1990-91 UNREFORMED RATES BURDEN	CHANGE IN RATES BURDEN	
		NUMBER OF PROPERTIES (000)	(%)	(£M)	(%)	(£M)	(£M)	(%)
EFFECT OF REFORMS ON RATES BILLS								
REDUCTIONS (%)	AT LEAST 50%	21	21	91	61	261	-141	-571
	AT LEAST 25% BUT LESS THAN 50%	101	101	231	151	671	-231	-351
	AT LEAST 5% BUT LESS THAN 25%	171	171	361	231	1041	-151	-151
	LESS THAN 5%	41	51	81	51	221		-21
NO GAIN/NO LOSS	NO GAIN/NO LOSS		01		01			01
INCREASES (%)	LESS THAN 5%	31	41	211	141	581	11	31
	AT LEAST 5 % BUT LESS THAN 25%	171	171	311	201	841	111	131
	AT LEAST 25 % BUT LESS THAN 50%	161	161	161	101	441	151	361
	AT LEAST 50 % BUT LESS THAN 100%	171	171	81	51	231	161	701
	AT LEAST 100 % BUT LESS THAN 300%	91	91	21	21	61	91	1361
	AT LEAST 300 % BUT LESS THAN 500%		11		01			3531
EFFECT OF REFORMS SUMMARY								
REDUCTIONS (%)		351	351	761	491	2201	-541	-251
NO GAIN/NO LOSS			01		01			01
INCREASES (%)		661	651	801	511	2171	541	251

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TABLE 4

COST OF TRANSITIONAL ARRANGEMENTS FOR LOSERS

FINANCIAL YEAR	COST OF TRANSITION (£M)
1990-91	1,147
1991-92	712
1992-93	430
1993-94	253
1994-95	146

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TABLE 5

EFFECTS OF THE REFORM WITH AND WITHOUT TRANSITIONAL RELIEF
1990-91 RATES BURDEN BY REGION

COUNTRY	REGION	UNREFORMED BURDEN	CHANGE IN BURDEN WITHOUT TRANSITION	CHANGE IN BURDEN DUE TO TRANSITION	OVERALL CHANGE IN BURDEN
		(£M)	(£M)	(£M)	(£M)
ENGLAND	NORTHERN	527	-81	53	-28
	YORKSHIRE & HUMBERSIDE	953	-184	123	-61
	EAST MIDLANDS	842	-164	113	-51
	EAST ANGLIA	271	51	-35	16
	SOUTH EAST	4,824	779	-551	227
	SOUTH WEST	719	140	-106	34
	WEST MIDLANDS	1,007	-218	165	-53
	NORTH WEST	1,208	-321	230	-90
	TOTAL	10,354		-61	-61
WALES	REGION				
	WELSH VALLEYS	123	-15	11	-3
	REST OF WALES	314	15	-8	7
	TOTAL	438		3	3
ENGLAND & WALES		10,792		-21	-21

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