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Valuation Office

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Comment for LE? AT *yr* *psk: ASAP*

- 1. Mr Pitts *at 29/9*
- 2. Chancellor

From: O T Morgan

Date: 28 September 1988

RATING REVALUATION

PRELIMINARY RESULTS OF EXERCISE:

TRANSITIONAL ARRANGEMENTS

1. We showed you some preliminary results, under cover of my minute of 16 September, and you asked

(a) for more information about those likely to lose by at least 100 per cent, especially the shops, and

(b) whether it was true that larger firms gain, smaller ones lose, and very small ones lose a lot and, if so, why? (Mr Allen's minutes of 21 and 22 September refer.)

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 Shutler
 Mr Pitts
 Mr Calder
 Mr Pawley
 Mr Gonzalez
 Mr Morgan
 Mr Jaundoo
 Mr Quinn
 Mr Heggs
 PS/IR

2. The database has now been further developed so that it can be used as a basis for the draft report which, if you are content, will be shortly issued for inter-departmental consideration. As expected, this has produced some changes to the preliminary tables you have seen, but they are not significantly different. For convenience, updated versions of Table 3 are attached, showing the overall pattern of gainers and losers for England and, separately, for Wales.
3. Table A gives a broad picture for England and Wales using present (1973) rateable values to further sub-divide the estimates. Although rateable values vary between localities, in general terms £1000 RV would be about the value of a standard unit shop in a district shopping locality (ie comprising about 100 shops). Properties of lower value would include smaller and neighbourhood shops, workshops, garages, advertising rights and a miscellany of smaller non-domestic property types.
4. As Table A shows, losers outnumber gainers in this category of small properties; in England 60% of occupiers with properties of less than £1000 RV are losers, in Wales 65%. For larger properties the position is reversed.
5. Table B gives more detailed coverage (for England only) of the distribution of those likely to lose by 100% or more by (a) region and (b) property type. Again, the estimates are sub-divided into present rateable value bands. This shows:

- * that the very heavy losses (increases of at least 300%) are almost entirely restricted to the occupiers of small properties;
 - * that losses between 100 and 300% for larger properties (ie those of £5000 RV and above) are concentrated in the South East and markedly affect shops and offices;
 - * for smaller properties (with a rateable value less than £1000), heavy losses are concentrated on shops, warehouses and other properties (this latter category includes a wide variety of property types such as advertising rights or garages), and in the South East and South West.
6. Comparing Tables A and B, it appears that over 25 per cent of small properties (with 1973 values less than £1000 RV) face increases of at least 100%. For medium sized properties (£1000 to £5000 RV) the figure is 15 per cent, and for large properties (£5000 RV and over) 10 per cent.
7. **Table C** gives further details for shops where losses exceed 100%. There are about 540,000 shops in England, of which about 140,000 are classified in the valuation lists as shops "with living accommodation". About 1 in 9 of all shops face a burden increase of at least 100%, the distribution between the two types of shop being very similar.

8. The limited sample of properties (12,000 in both England and Wales) had to be specially valued in advance of the revaluation itself, and it was aimed at this stage at eliciting the broad changes that are likely to occur nationally. We cannot distinguish between chain stores and independent shops because we have collected no data about occupation. Indeed the present valuation list definition of "shop" is quite general: it can include banks in shopping areas but exclude large out-of-town retail outlets.

— What are they classed as, then?

9. As the revaluation proceeds and more data become available we will be able to analyse the changes more thoroughly though, again, we shall have only limited information about actual occupation. This is something which is more relevant to rating authorities, who collect the rates, than to the valuation office, who value the property as though vacant and to let.

10. You ask why the losses should be affecting the smaller properties most. It is difficult to give a general answer. It is tempting to say that this is what the rental evidence shows after a lapse of 15 years (the last revaluation was in 1973), and to speculate that this is the result of a changing pattern of demand, for smaller rather than larger units. But the position is more complicated than that because the reforms include the combined effects of the

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reevaluation, and the change to a national non-domestic rate which has a separate set of effects dependent upon the existing pattern of rate poundages. It would be possible to use the database to separate these effects, but we would prefer to concentrate our resources on the first phase of our inter-departmental commitments.

11. Our present conclusion is that there is no one discernible reason for the pattern of gainers and losers that is beginning to emerge, but that a set of explanations may be forthcoming at a later stage of the reevaluation process when we can look at a much larger sample of actual valuations.



O T MORGAN

TABLE 3 - FINAL SAMPLE

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)	(%)	
EFFECT OF REFORMS	ON RATES BILLS								
REDUCTIONS (%)	AT LEAST 50%	123	8	343	9	1,052	-637	-61	
	AT LEAST 25% BUT LESS THAN 50%	275	17	869	22	2,503	-905	-36	
	AT LEAST 5% BUT LESS THAN 25%	255	16	740	19	1,952	-278	-14	
	LESS THAN 5%	60	4	184	5	464	-11	-2	
NO GAIN/NO LOSS	NO GAIN/NO LOSS	15	1	30	1	78		-0	
INCREASES (%)	LESS THAN 5%	37	2	128	3	315	7	2	
	AT LEAST 5 % BUT LESS THAN 25%	224	14	626	16	1,500	201	13	
	AT LEAST 25 % BUT LESS THAN 50%	204	13	515	13	1,193	428	36	
	AT LEAST 50 % BUT LESS THAN 100%	199	12	377	9	878	634	72	
	AT LEAST 100 % BUT LESS THAN 300%	168	11	152	4	325	459	14	
	AT LEAST 300 % BUT LESS THAN 500%	23	1	10	0	17	65	38	
	AT LEAST 500%	4	0	2	0	5	35	65	
EFFECT OF REFORMS	SUMMARY								
REDUCTIONS (%)		715	45	2,138	54	5,973	-1,832	-31	
NO GAIN/NO LOSS		15	1	30	1	78		-0	
INCREASES (%)		862	54	1,813	46	4,236	1,832	43	

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TABLE 3 - FINAL SAMPLE

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	ION RATES BILLS								
REDUCTIONS (%)	IAT LEAST 50%	21	21	81	51	231	-131	-581	
	IAT LEAST 25% BUT ILESS THAN 50%	111	121	231	161	671	-231	-351	
	IAT LEAST 5% BUT ILESS THAN 25%	181	181	361	241	1021	-151	-151	
	ILESS THAN 5%	31	41	161	111	431	-11	-31	
NO GAIN/NO LOSS	NO GAIN/NO LOSS	11	11	11	11	31		01	
INCREASES (%)	ILESS THAN 5%	21	31	91	61	261		31	
	IAT LEAST 5 % BUT ILESS THAN 25%	171	181	231	161	651	81	131	
	IAT LEAST 25 % BUT ILESS THAN 50%	151	161	211	141	571	191	341	
	IAT LEAST 50 % BUT ILESS THAN 100%	161	171	91	61	241	171	701	
	IAT LEAST 100 % BUT ILESS THAN 300%	81	91	21	11	51	71	1341	
	IAT LEAST 300 % BUT ILESS THAN 500%		11		01			341	
	IAT LEAST 500%		01		01			6541	
EFFECT OF REFORMS	SUMMARY								
REDUCTIONS (%)		351	361	831	561	2371	-541	-231	
NO GAIN/NO LOSS		11	11	11	11	31		01	
INCREASES (%)		621	631	661	441	1791	541	301	

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TABLE A

ANALYSIS OF GAINERS AND LOSERS
BY 1973 RATEABLE VALUE

NUMBER OF PROPERTIES (000s)
(- = LESS THAN 500)

	1973 RATEABLE VALUE		
	Less than £1000	£1000 but less than £5000	£5000 or more
ENGLAND			
Gainers	457	192	66
No Gain/No Loss	12	3	1
Losers	656	163	43
WALES			
Gainers	26	8	2
No Gain/No Loss	1	-	-
Losers	55	6	1

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TABLE B

**ANALYSIS OF GAINERS AND LOSERS
BY REGION AND PROPERTY TYPE
OF PROPERTIES FACING A BURDEN INCREASE OF AT LEAST 100%**

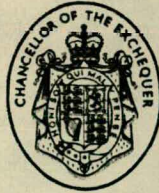
**NUMBER OF PROPERTIES (000s)
(- = LESS THAN 500)**

	RATE BURDEN INCREASE - AT LEAST 100% BUT LESS THAN 300%			RATE BURDEN INCREASE- AT LEAST 300%		
	1973 RATEABLE VALUE					
	Less than £1000	£1000 but less than £5000	£5000 or more	Less than £1000	£1000 but less than £5000	£5000 or more
REGION						
Northern Yorks & Humberside	6	-	-	2	-	-
E Midlands	13	1	-	2	-	-
E Anglia	6	-	-	1	-	-
South East	9	1	-	1	-	-
South West	66	18	4	15	1	-
W Midlands	27	2	-	4	-	-
North West	6	1	-	1	-	-
	8	-	-	1	-	-
England	142	23	4	26	1	-
PROPERTY TYPES						
Shops	43	7	1	7	-	-
Offices	15	5	1	1	-	-
Warehouses	33	1	-	5	-	-
Factories	2	-	-	-	-	-
Other properties	48	10	1	12	1	-
England	142	23	4	26	1	-

TABLE C

**ANALYSIS OF ENGLISH SHOPS
FACING A BURDEN INCREASE OF AT LEAST 100%****NUMBER OF PROPERTIES (000s)**

	RATE BURDEN INCREASE - AT LEAST 100% BUT LESS THAN 300%	RATE BURDEN INCREASE - AT LEAST 300%	ALL BURDEN INCREASES (AT LEAST 100%)
Shops with living accommodation	13	2	15
Other shops	39	5	45
All shops	52	8	60



FROM: A C S ALLAN

DATE: 3 October 1988

MR O T MORGAN - INLAND REVENUE

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 Fellgett
Mr Tyrie

PS/IR
Mr Painter IR
Mr Pitts IR
Mr Fallows IR

RATING REVALUATION: PRELIMINARY RESULTS OF EXERCISE: TRANSITIONAL ARRANGEMENTS

The Chancellor was grateful for your minute of 28 September, and the further information you supplied. He is content for you to proceed with releasing your full quantified report for limited circulation within Whitehall at official level.

A handwritten signature in dark ink, appearing to read 'ACSA', with a long horizontal stroke underneath.

A C S ALLAN