



Valuation Office

New Court
Carey Street
London WC2A 2JE

Telephone 01 - 324 1126

1. Mr Pitts

2. Chancellor

From: O T Morgan

Date: 4 November 1988

*Thanks.
Rs X, post ensure
that circulation is as
narrow as practicable.
M.*

REVALUATION EFFECTS & TRANSITIONAL ARRANGEMENTS REPORT FOR ENGLAND & WALES

- The Valuation Office and Revenue Statistics Division were commissioned to undertake work on the likely combined effects of the non-domestic rating revaluation and the national non-domestic poundage reform. This was to be a preliminary to a decision about the necessary transitional reliefs, to phase in those burden changes from 1990.
- The first phase of that work is now complete and the report is available for circulation inter-departmentally. We have, as requested, agreed the structure of the report with officials in DOE and the Welsh Office, and they have seen a near-final version within the last week. We intend releasing copies of the finished report on Monday.

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
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
 Mr Pitts
 Mr Calder
 Mr Gonzalez
 Mr Morgan
 Mr Jaundoo
 Mr Quinn
 Mr Higgs
 PS/IR

3. You saw preliminary results of the estimated effects (under cover of my minutes of 16 and 28 September). A summary of the findings (Part 1 of the Report) is attached, for all recipients of this note, and copies of both volumes are enclosed (top copy only).
4. The report is in 2 parts: Volume 1 considers the burden changes and shows the range and distribution of both gainers and losers, before exploring the effect of different transitional arrangements. Volume 2 comprises a description of the survey methodology, including some caveats about the limitations of the present work, and it contains some more detailed supplementary tables.
5. Copies of Volume 1 will be circulated separately on Monday to some recipients of this note. If others would like a copy (of either or both volumes), they are available on request.
6. The Secretary of State for the Environment earlier announced that it was intended to publish some details about the estimated changes of burden. That will be the subject of a separate submission shortly.

(I have suppressed this - do you want to see?)

No


O T MORGAN

PART 1**SUMMARY OF THE REPORT**

1.1 This Inland Revenue report looks at the effects of the 1990 non-domestic revaluation and the introduction of a national non-domestic rate (NNDR). It then considers possible options for the transitional arrangements which are to phase in the new (1990) rate burdens. It is in two parts: Volume One contains the main analysis, Volume Two, the survey methodology and supplementary data.

1.2 **PART 2** contains the estimates of NNDR poundages at 1990-91 levels: 34.46p for England, 34.23p for Wales. These have been derived by dividing estimates of the expected rates yield in 1990-91 by estimates of the aggregate values of all revalued properties (paragraphs 2.2 and 2.3).

1.3 **PART 3** looks at the effects of the revaluation, separately from the NNDR reform. It suggests that, in aggregate, rateable values will increase by 7.5 times in England and 8.1 times in Wales (para 3.2). Both countries are then analysed, by region and by property type, with regard to the "revaluation factor" (para 3.4.1), the new list estimates divided by the old (1973) list ones; and the "revaluation effect" (para 3.4.2), the effect of the revaluation relative to the national revaluation factor. This can be either positive (in the case of a rateable value increase greater than the national average), or negative.

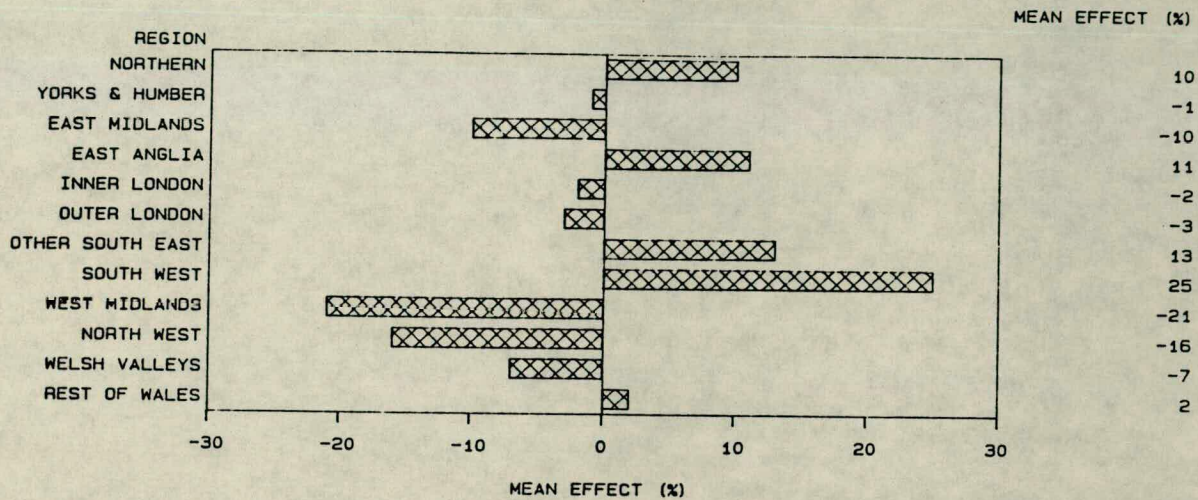
1.4 In terms of revaluation effects, the South West is most affected: its share of national rateable value is increased by 25% (para 3.5.2). The share of national rateable value for shops increases from 15% to 18% and for factories falls from 17% to 14% (para 3.6.2). There is a distribution of present and estimated rateable values in various value bands (Tables T3.3 and T3.4) and an analysis of the revaluation effects, by region and property types (Tables T3.5 to T3.8).

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1.5 In England, 1 in 9 properties have a revaluation effect of at least 100% (1 in 10 in Wales); over 10% of factories in England have a revaluation effect of - 50% or less (paras 3.8.1 and 3.8.2). Mean and median revaluation effects have been estimated and the mean effects are illustrated below, both for regions (Table T3.6) and property types (Table T3.8):

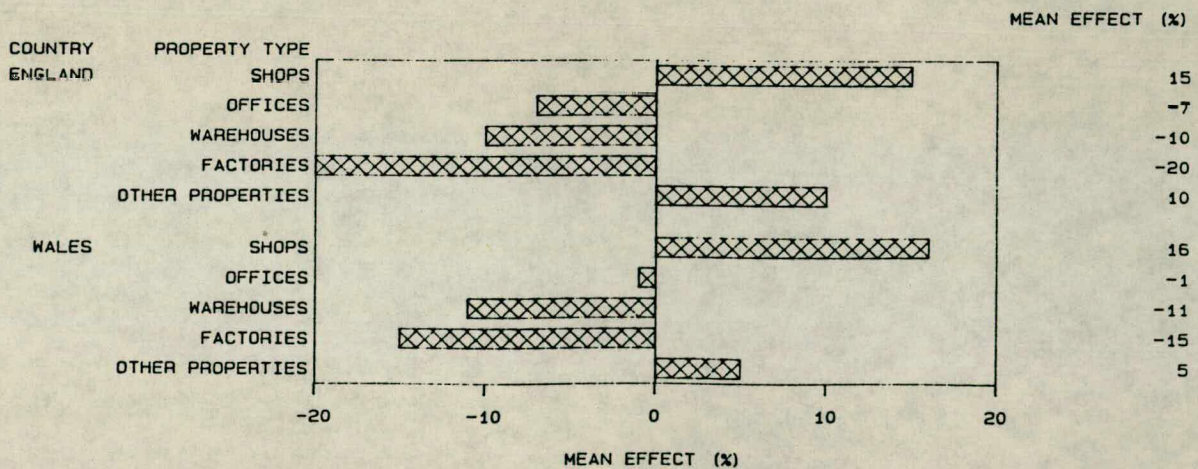
MEAN REVALUATION EFFECTS

ANALYSIS FOR REGIONS



MEAN REVALUATION EFFECTS

ANALYSIS FOR PROPERTY TYPES

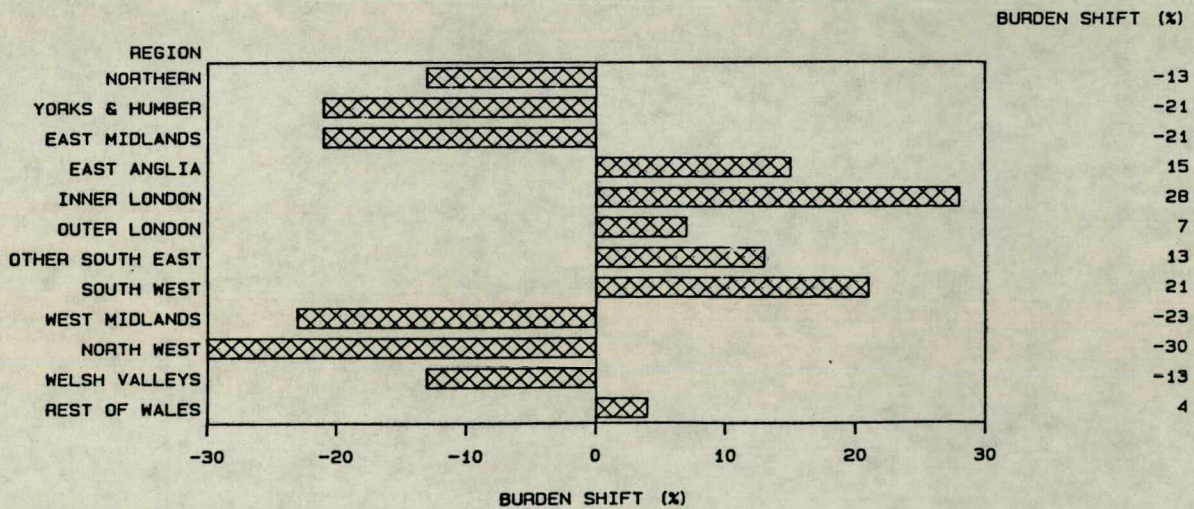


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1.6 PART 4 considers changes of burden that result from both the revaluation and the NNDR, ignoring at this stage the effect of any transitional arrangements. Comparison is here made between the burdens that could have been expected in 1990-91 had there been no reforms (ie no revaluation or NNDR arrangement), referred to as "indexed" 1989-90 burdens, and those that are estimated as a result of the reforms (para 4.2). The position is first considered regionally: East Anglia, Inner London, and the South West face burden increases of between 15% and 30%, all other English regions benefit by between 15% and 30% (para 4.3.2).

The results are illustrated below, the figures are at Table T4.1.

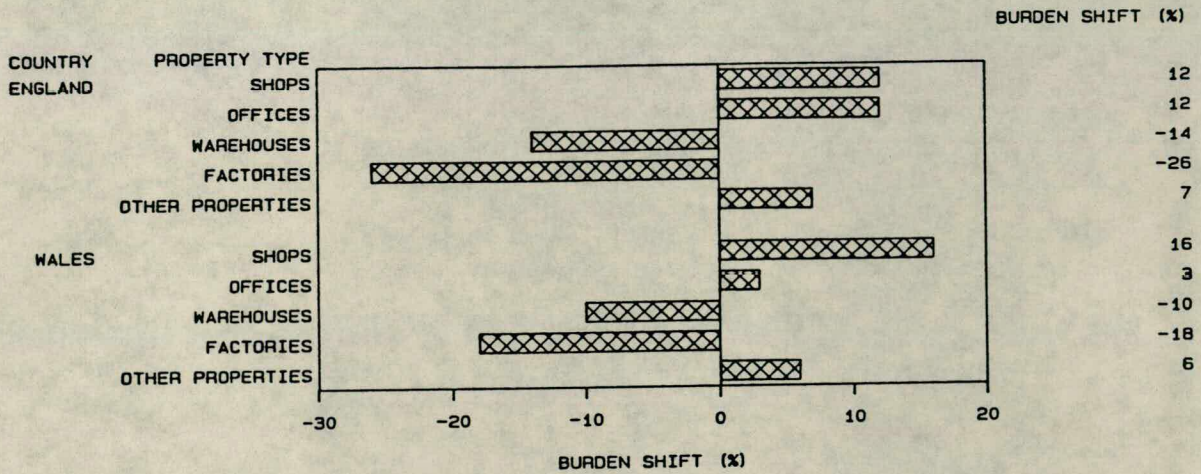
OVERALL SHIFTS IN RATES BURDEN
 COMPARISON OF 1990-91 AND INDEXED 1989-90 BURDENS
 ANALYSIS FOR REGIONS



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1.7 Next, the estimated burden changes are considered by property type, where burden increases are shown for shops (12%), offices (12%) and the residual category of other properties (7%) and decreases for warehouses (14%) and factories (26%). The pattern is broadly the same for England and Wales (paras 4.4.1 and 4.4.2), as shown below:

OVERALL SHIFTS IN RATES BURDEN
 COMPARISON OF 1990-91 AND INDEXED 1989-90 BURDENS
 ANALYSIS FOR PROPERTY TYPES



1.8 Looking at gainers and losers overall (para 4.5.1), it can be seen that losers outnumber gainers. 53% of properties face an increased burden, with an average increase of 47%. 46% benefit from a reduced burden, with an average reduction of 31%. Properties in London which are losers face an average increase in rates burden of 59%, compared with 40% for the rest of England, 30% for Wales. The average reduction for gainers is 22% in London, 33% for the rest of England, 23% for Wales. There is a shift of nearly £1900 million rates burden (19% of the total yield) and the spread of burden changes is very broad. 12% face an increased burden of at least 100%. A more detailed analysis of these gainers and losers is given in paras 4.5.3 to 4.6.4, and the accompanying tables.

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1.9 PART 5 deals with possible transitional arrangements to phase in these changes in rates burden. It assumes that such a scheme should be approximately revenue neutral within each financial year and that a fixed percentage cap will apply, so that losers will not pay more than a prescribed percentage increase (in real terms) from year to year (para 5.1).

1.10 Several different schemes are reviewed. The first is a fixed percentage cap on all losers, either 15%, 20% or 25%, for England (paras 5.2.1 to 5.2.3) and Wales (para 5.2.4). The 15% cap would affect more than 1.3 million properties in England (over 80% of those to be revalued), about half as gainers whose gains would be restricted, and half as losers whose losses would be delayed. Almost three-quarters of the expected shift of rate burden in 1990-91 would be delayed: even 4 years later nearly 20% of that shift would still not have taken place. To achieve revenue neutrality, the cap on gainers would vary between 8% and 10% in different rate years (losers would pay an extra 15% on their rate bills: gainers would get just 8% off theirs, to fund the relief). The higher the percentage cap, the fewer the number of properties affected, but the same percentage cap cannot be used for gainers and losers if the scheme is to be revenue neutral.

1.11 The next scheme is one that confers special relief for small properties, these being variously defined (in para 5.3.1) according to their present or 1990 rateable values. The relief provided by each of the options turns out to be much the same. Between 30,000 and 40,000 additional losers are brought within transitional arrangements in 1990-91 because of the relief for small properties. There is also further relief for those small losers which were already within transitional arrangements with a single 20% cap on all losers. The additional cost is small, and the impact on gainers is also small (para 5.3.2). But, again, there has to be a smaller cap on gainers than on losers, in order to fund the relief (for a 15% cap on businesses less than £5000 RV (1990 values) and 20% on all others - option 2 on Table T5.3 - the cap on gainers is 12%).

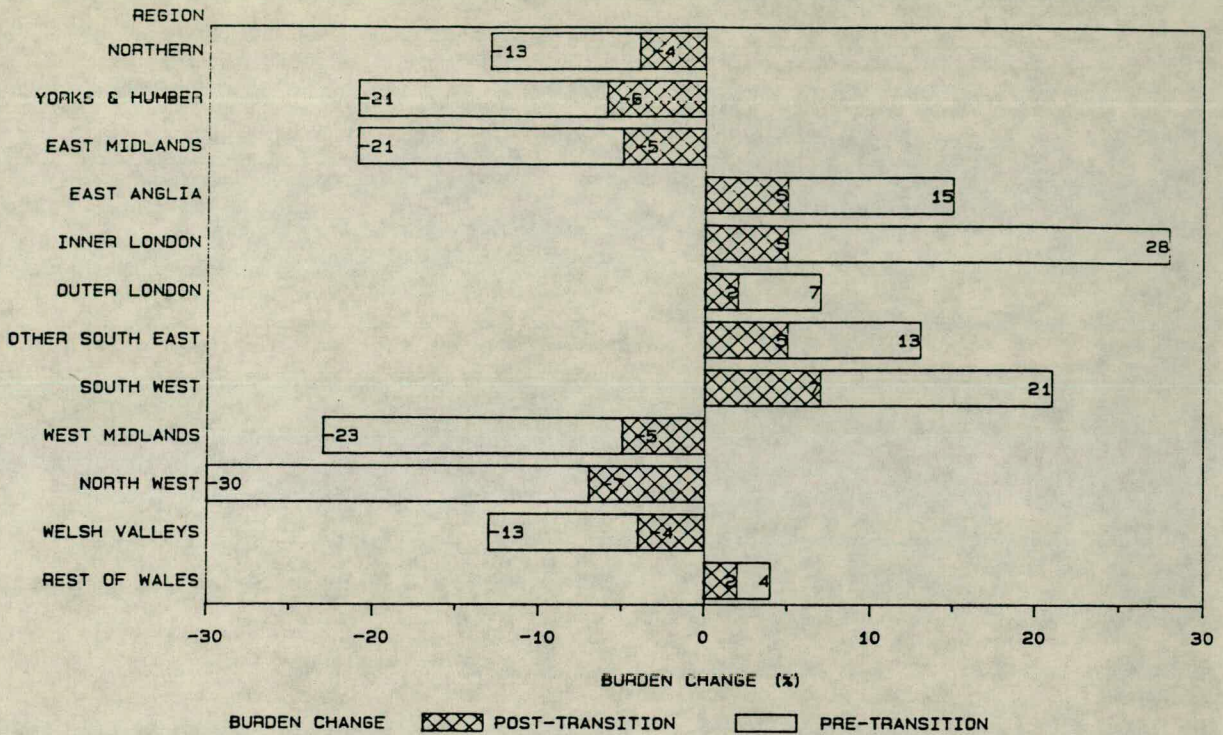
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1.12 The effect of transitional relief (using a scheme with a 15% cap on losers with a 1990 RV of less than £7500, 20% cap on other losers and a cap on gainers of 12% in England, 13% in Wales) on regional rate burdens in 1990-91 is that the shifts in burden that would otherwise occur are reduced by between 65% and 85%. Inner London benefits most, the North West is the most disadvantaged. The regional analysis of these altered burden changes (Table T4.1 compared with Table T5.5) is shown overleaf, followed by the analysis for property types (Table T4.2 compared with Table T5.6).

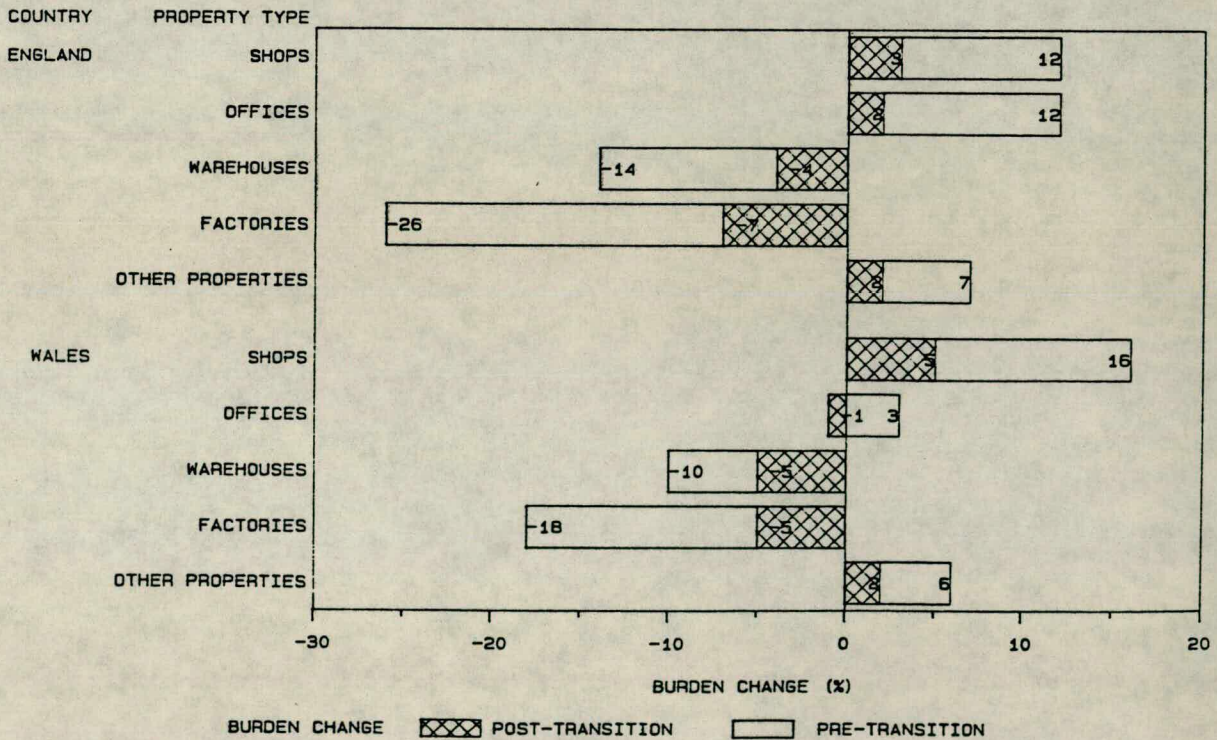
1.13 The report concludes (paras 5.5.1 to 5.5.7 and related tables) with an examination of different percentage caps on gainers and losers, and a consideration of the possibility of setting minimum cash changes in rates burden which would not be phased in by transitional arrangements. Different transitional schemes can be constructed from a comparison of the relevant tables.

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TRANSITIONAL ARRANGEMENTS
COMPARISON OF BURDEN CHANGES BEFORE AND AFTER TRANSITION
ANALYSIS FOR REGIONS



TRANSITIONAL ARRANGEMENTS
COMPARISON OF BURDEN CHANGES BEFORE AND AFTER TRANSITION
ANALYSIS FOR PROPERTY TYPES



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FROM: MISS M P WALLACE

DATE: 8 November 1988

MR O T MORGAN

cc Mr Pitts - IR

REVALUATION EFFECTS AND TRANSITIONAL ARRANGEMENTS REPORT FOR
ENGLAND AND WALES

The Chancellor was most grateful for your minute of 4 November.

MOIRA WALLACE