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Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

23 November 1989

Rt Hon Christopher Patten MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London
SW1P 3EB

NBPM at his desk.
Rc 6
refer

Dear Secretary of State,

REPORT OF THE REVIEW OF GOVERNMENT VALUATION SERVICES

Nigel Lawson agreed with Nick Ridley last year that there should be an interdepartmental review of Government valuation and estate surveying services, in the light of the reforms made in the Local Government Finance Act 1988 (his letters to Nick of 13 July and 15 September, and Nick's replies of 12 August and 11 October). The Review team were asked to look in particular at the Government's future requirements for valuation services, including the valuation of Government property, and the future organisation and deployment of the valuers that we employ.

Ann P10

The Review has now been completed, and I attach the Summary Report. It notes that a number of initiatives are already underway to improve the management of the Government's different estates, and that these are likely to require more and better information about the value of government property. It also identifies scope for eliminating a good deal of duplication in the valuation of Government property, and for making better use of the large amount of information which we already have.

With these objectives in mind, the report's main conclusions are:

- (a) there should be a single database for each of the Government's main property estates, set up in a consistent and compatible form and used both for the purposes of capital asset management and for assessment of Government contributions in lieu of rates;
- (b) with a view to bringing the supply and demand for Government valuation services into better balance, the Valuation Office should give low priority to work which it is under no obligation to perform, and there should be a review

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of all aspects of business rating practice, to see whether a simpler and more economic system could be devised;

(c) the majority of existing valuation work should continue to be done in-house, but the remainder should be considered for market testing and contracting out;

(d) valuation services provided by Government departments, whether to other departments or other bodies, should be charged for;

(e) departments should be untied for the valuation work which does not have to be done by Government Valuers;

(f) the existing deployment of Government Valuers should broadly be retained, but consideration should be given to turning the main teams of valuers into Executive Agencies;

(g) there should be a review of the case for transferring responsibility for rating assessments in Scotland from local authorities to central government;

(h) a committee of officials should be set up to monitor progress in carrying through the work of the Review, and to consider the options which might be presented to Ministers, wherever there are competing demands for valuation resources;

(i) a project team should be established under Treasury leadership to carry forward the work on property and capital assets databases.

These conclusions, and particularly the establishment of consistent and compatible databases, are of potentially great importance to the efforts we are making on a number of fronts to improve the management of Government land, property and other capital assets. One thing which has emerged in this work, not least in the survey of surplus land and buildings about which Nigel Lawson wrote to selected colleagues separately, is the patchy availability of proper data on capital assets. This has also been confirmed in a survey of departments' practices in accounting for their capital assets undertaken by Alan Hardcastle, the Chief Accountancy Adviser. The improvement of such data is an essential step in the efficient management of the Government's estate.

The report proposes a review of rating valuation practice. I think it is important that this should take a hard look at the basic approach to this area, and compare this with practice overseas, to see if there is an alternative way of taxing business property which will require less time from professional valuers. This review should look at the points about rolling revaluations and appeals which Nigel Lawson put to Nick Ridley last year. But

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it should also look at the scope for more radical changes in rating practice.

The recommendations on market testing and contracting out, charging, and untying, would provide, in effect, for the introduction of an internal market in valuation services within Government. At present, there is charging for some services, but by no means all. Market testing is the exception rather than the rule. I am sure it is right in this area, as elsewhere, to try to introduce a market mechanism (or the best proxy for it) which will make consumers aware of the costs of valuation services, and make providers aware of how their costs and services compare with those of other valuers. Further work will, of course, be needed to develop detailed arrangements for charging. My officials have this in hand, and I hope that it will be possible to put proposals to colleagues on this shortly.

The Review concludes that there are clear arguments for retaining broadly the existing deployment of valuers. It would be disruptive to make major changes at a time when the Valuation Office and many others are heavily committed to major projects, notably the business rating revaluation itself. But the Review does recommend that the existing responsibilities of the Rating of Government Property Department should be transferred as from April 1991 to the Departments holding the new databases, with the responsibility for rating of Government property and for ensuring consistency and compatibility going to the Valuation Office. It also recommends that responsibility for rating assessments in Scotland be reviewed.

I believe that the conclusions of this Review should make a useful contribution to the efficient operation of the Government's valuation and estate surveying services, and, more widely, to the effective management of Government property and capital assets. If you and colleagues are content, therefore, I propose that we should endorse the strategy set out in the conclusions of the Report and ask officials to proceed accordingly. My officials will be calling a meeting of Principal Finance Officers to consider how the results of the review, and of other related work, can be brought together effectively.

It will be important to inform the staff concerned about decisions on the review early in December. I would therefore appreciate any comments which colleagues may have by 4 December, please.

I am copying this letter to the Prime Minister, all other members of the Cabinet and Sir Robin Butler.

*Yours sincerely,
Duncan Sparkes*

p.p. JOHN MAJOR
[Approved by the Chancellor
and signed on his behalf]

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REVIEW OF GOVERNMENT VALUATION SERVICES:
SUMMARY REPORT

Introduction

In the summer of 1988, the Chancellor of the Exchequer agreed with colleagues that there should be a Review of Government Valuation Services with the following terms of reference:

"In the light of changes to rating arrangements in the Local Government Finance Act 1988, to consider and make recommendations on:

- (a) future valuation requirements which the central Government will have from April 1990, including continuing requirements for the valuation of Government property for management accounting and other purposes in PSA and departments; and
- (b) the future organisation and deployment of Government valuers."

2. This summary report of the Review includes all our recommendations. It also considers, in turn: the present demand for Government valuation services, the organisations which meet it and a projection of future demand; future valuation of Government property for management and rating purposes; action that might be taken to moderate demand, particularly in work for local authorities, and in the longer term on business rating assessments; contracting out, charging and untying; the future organisation of services provided in-house by Government employees; setting priorities for the Government valuation and estate surveying services; a timetable; and expenditure implications of the recommendations.

Government valuation services

3. Government valuers and estate surveyors play a key role in many areas of Government policy. In most areas they are (and will continue to be) well-placed to provide services which combine good

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value for money with professionalism, consistency, confidentiality, independence and impartiality.

4. These services cost (in 1988-89) around £160 million a year to provide. They assist with the management of central Government (including NHS) land and property worth over £50 billion, help collect taxes yielding over £10 billion a year, and support other important programmes.

5. The Government employs over 2,000 professional valuers and estate surveyors in Great Britain, with a larger number of supporting non-professional staff. Over half deal with rating and other tax assessments, and the remainder meet a wide range of other needs. Government departments are currently around 400 professional staff below complement, and action has been taken to reduce demand and streamline working practices.

6. Two specialist valuation organisations currently employ about three-quarters of professional staff within Government. These are the Valuation Office for England and Wales (VO(E&W)) and the Valuation Office for Scotland (VO(S)). Both organisations are part of the Inland Revenue. DOE/PSA, MAFF (and DAFS) and MOD also employ significant numbers of valuers and estate surveyors.

7. The demand for valuation services generated by the Government is unlikely to diminish in the 1990s. The end of domestic rating, and introduction of the community charge, will entail some reduction in demand, equivalent to about 40 valuers. But this is likely to be offset by other new or growing demands. In particular, the new business rating assessments will need to be defended and improvements made in the information available to manage Government property. A continuing shortfall of around 400 professionals is therefore projected unless present policies and working practices can be further adjusted or more people can be recruited and retained.

Valuation of Government property

8. Valuation of Government property currently absorbs the equivalent of around 50 professional staff. Most property is systematically valued to assess the Government contribution in lieu of rates payment. Many properties are also valued on other

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occasions and for other purposes, in support of good estate management practice. These valuations are however not made consistently, and do not cover all Government land and property.

9. In future, it will be increasingly important to ensure that valuation information is consistently and readily available to managers in respect of all Government property. This is important to ensure improved estate management, and greater efficiency in the management of capital assets. A number of developments are already under way in the management of Government property in this respect. These include revising the existing system of charging opportunity cost rents for the civil estate; the development of a system of capital charges for hospitals in the NHS; management accounting developments in many departments; and a review by Treasury of options for accounting for capital throughout central government, including land and property. Whatever precise form these developments take, all will require increased amounts of valuation information. The provision of information for these purposes should therefore form the primary objective of valuations of Government property.

10. Under the present system, the rating of Crown property involves a good deal of duplication. The Treasury's Rating of Government Property Department (RGPD), which employs 10 valuers is responsible for determining rateable values for all Crown properties, and for making payments in respect of most such properties to individual local authorities. However, RGPD also discusses the rateable values for Crown properties with representatives of the local authorities in whose areas the properties are situated. In most of these discussions in England and Wales, the local authorities are represented by the VO(E&W). The valuation of Crown properties for rating therefore often involves at least two sets of Government-employed valuers.

11. For the future, a key objective will be for departments to have available information not just on rental values for rating purposes but also (where the department owns the freehold, or a long leasehold) on capital values in existing use. It is also important that departments should have awareness of the development values of their property, where they own it. These

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values measure the opportunity costs associated with the occupation of property, which are highly relevant to efficient management of capital assets.

12. Ministers have made clear in addition that they wish the administration of Government contributions in lieu of rates to be conducted in as simple and cost-effective a way as possible, bearing in mind that they will no longer have the same significance as in the past for individual local authorities. Ministers have also underlined the need to avoid duplication of effort between different types of valuation.

13. To fulfil these objectives, we suggest that the valuation of Government property should in future be organised as follows.

- (a) First, there should in future be a single database for each of the Government's main property and land estates, from which capital, rental and rateable values should be derived as required. The level of detail should not exceed that justified by management needs.
- (b) The main databases, with the Departments responsible for them, should be:
 - i. the defence estate (MOD);
 - ii. the NHS estate (DH);
 - iii. the prison estate (Home Office);
 - iv. the civil estate, both common user and departmental (Property Holdings);
 - v. the overseas diplomatic estate (FCO); and
 - vi. other estates (Property Holdings).

The main estates covered by item vi. above are listed at the Annex. The precise arrangements for the databases at iv. and vi., as between Property Holdings and the Departments and other bodies concerned, will need further consideration.

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All these databases would draw as far as possible on RGPD's existing data. It will, however, be necessary to consider whether the databases should also include data on non-rateable property, such as agricultural land, which is not covered by RGPD. In some instances (the Forestry Commission woodlands, for example) it may not be sensible to marshal data on these assets with information on buildings and similar assets stored in the databases.

The databases should also draw on other information already gathered by departments. The NHS estate database should, for example, draw on the existing databases maintained by DH. The civil estate database (both common user and departmental estate) should be a development of PSA's estate management database (CERIS), as well as RGPD's data, and should also draw on the recent valuations by Hillier Parker.

- (c) The databases would include, for all Crown property in each of these estates:
- i. basic data, including location, use, land-area and floorspace,
 - ii. rental values (used inter alia for contributions in lieu of rates),
 - iii. existing use capital values (where the Crown has freehold or a long leasehold), and
 - iv. any available information on development values (again where the Crown has freehold or a long leasehold).

The responsible departments would keep them up to date by incorporating in the databases all major changes and would make available for public inspection information on the rateable values of all properties in their estates.

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- (d) The VO(E&W) would be responsible for:
- i. giving guidance to the Departments concerned on the preparation of the databases and ensuring consistency and compatibility between them; and
 - ii. deriving on its own responsibility rating valuations from the data in the databases, while making due allowance for the fact that none of their valuations for Crown properties would be subject to reductions on appeal;
 - iii. making available to Departments on request existing use capital valuations (which could be obtained at reduced costs, where derived alongside rating valuations).

Departments would be free to supplement these valuations when necessary by obtaining valuations in alternative or development use from outside valuers or VO(E&W) or their own valuers (if they have them). They should not however build up in-house valuation capabilities where these do not exist already.

- (e) The Treasury would establish a working party, including the VO(E&W), CCTA, and the departments responsible for the databases, to produce a more detailed specification for developing the databases on a consistent basis, with information technology. This work should cover in addition the requirements identified in the review of accounting for capital assets initiated by the Treasury with respect to both property and other capital assets. The working party should also consider the financial implications of the changes proposed, including those identified in paragraphs 54-56, and should commission studies by outside consultants as necessary.
- (f) In accordance with existing practice on the civil estate, but in contrast with that on the defence and prisons estates, occupying departments should bear as part of their public expenditure the cost of contributions in lieu of rates on

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their properties. The task of collecting these contributions in lieu, and apportioning them in the case of jointly occupied buildings, should be undertaken by the departments responsible for each of the main estates (see (b) above) - MOD, DH, the Home Office and Property Holdings - and paid over to DOE or the Welsh Office, who would then make single payments to individual local authorities in accordance with the new non-domestic rating system. Transitional arrangements will be needed for 1990-91.

14. This approach should ensure that, so far as possible, the calculation of rateable values for contribution in lieu purposes is done in an economical fashion, on the basis of information also available for use in the management of Government property. The existing responsibilities of RGPD would be transferred to other departments as described above.

15. In the medium term, there may be a case for considering the abolition of Crown exemption from rating, and thus of the system of contributions in lieu. The Government would then pay non-domestic rates in exactly the same way as the private sector. Further study of the legal, policy and administrative implications would however be necessary before a decision could be taken on this point. For the present, we simply note the possible removal of Crown exemption as an option which might be considered in advance of the next revaluation in 1995.

16. Recommendation 1

We recommend that, subject to further investigation of the financial and technical implications, the valuation of Government property should in future be organised as follows.

- (a) A single property database should be established for each of the Government's main estates. In each case, the database should include information on the rental values of all properties occupied by the Crown in each estate, and data on the existing use capital values and (whenever available) alternative use values of all properties where the freehold (or a long leasehold) is held by the Crown.

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- (b) These databases should be compiled wherever possible on the basis of information already gathered by departments, including data held by RGPD.
- (c) The VO(E&W) should be responsible for
- giving guidance to departments concerned on the preparation of the databases, and for ensuring consistency and compatibility between them;
 - deriving on its own responsibility rating valuations from the data in the databases;
 - making available to departments existing use capital valuations.

Departments would be free to supplement these valuations as necessary and appropriate, but should not create new in-house valuation capabilities where these do not already exist.

- (d) A working party should be set up, chaired by the Treasury and including the VO, CCTA and departments responsible for the databases, to draw up a more detailed specification for the databases. The working party should cover in addition the recommendations from the separate exercise on accounting for capital assets generally and should consider the cost and other financial implications of the proposed changes.
- (e) Departments should bear as part of their public expenditure the cost of contributions in lieu of rates on their properties, wherever this is not the case at present. The task of collecting contributions in lieu should be undertaken by the departments responsible for each of the main estates.
- (f) These arrangements should also apply in Scotland, where the VO would have the same responsibilities in this respect as in England and Wales. The territorial departments would be responsible for maintaining databases for NHS and prison estates as appropriate. Future arrangements for Northern Ireland, Gibraltar and the Isle of Man would need to be the subject of further detailed consideration.

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Action to reduce demand

17. If demand for valuation services continues to exceed supply there will be a limit on the ability of Ministers to pursue policies requiring such services. This will be the case unless steps are taken to reduce demand in some areas so that higher priority can be given to more important tasks. We have noted two particular areas where there may be scope for reducing the demand currently put on Government valuation services.

18. First, the VO(E&W) and the VO(S) currently undertake considerable amounts of work for local authorities and their tenants.

19. Some of this work is undertaken as a specific statutory duty. For example, the VO(E&W) provides an arbitration service for aggrieved tenants under the "right to buy" policy. Under separate legislation, the VO(S) provides a single determination where tenants wish to buy their own homes. If any change were contemplated in responsibility for these services, changes in primary legislation would be necessary. We would not, in practice, suggest that any change should be made in responsibility for these particular services; no change in legislation will therefore be necessary on this account. There may, however, be some statutory services for which a change in responsibility could be contemplated, particularly in other instances where the statutory position in Scotland differs from that in England and Wales. Legislation would then need to be amended accordingly. We suggest that this point be looked at alongside the other considerations set out in paragraphs 20-21 below.

20. For the bulk of the valuation work undertaken for local authorities in England and Wales, there would be no statutory obstacle to a transfer of responsibilities. The bulk of valuation work for local authorities in Scotland, by contrast, is statutory, in particular work related to the "right to buy" programme.

21. It would in principle be possible to reduce and even eliminate non-statutory work over time, as well as charging on an appropriate basis for work done. The arguments in favour of this are:

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- i. it is in keeping with the Government's broad approach to eschew areas of work which can equally be undertaken by the private sector; and
- ii. at a time of overall shortage in valuers, the only sensible course is to concentrate resources on high priority areas such as rating and tax assessments as against low priority areas such as the bulk of local authority work. The Valuation Office's recent two years Management Plan, endorsed by the Financial Secretary, envisaged this ranking of priorities.

22. The counter-arguments are that:

- i. The existence of this professionally attractive work helps the Valuation Office with the difficult task of recruiting and retaining valuers.
- ii. It provides the Valuation Office with valuable market information which enables Government valuers to do other parts of their work more effectively.
- iii. The savings in valuers from reducing these functions may be offset, in whole or in part, by additional employment of valuers in the private sector, leaving the overall imbalance of supply and demand for Government valuers unchanged or even aggravated.
- iv. The savings in central government expenditure from reducing this work may be offset by equal or larger increases in local authority expenditure.

23. A second area where some reduction in the demands on Government valuers might be achieved is rating assessments. These currently represent nearly half of the work of all Government valuers and estate surveyors. The present system may not be as administratively efficient, or as straightforward for business ratepayers - particularly small businesses - to understand, as it could be. The Chancellor has already agreed with the Environment

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Secretary that some aspects of rating valuation practice should be reviewed, including the periodic 'big-bang' revaluations and appeal procedures. Ministers have separately agreed to introduce full cost charging for planning permission appeals.

24. Recommendation 2:

- (a) VO(E&W) should give low priority to tasks for local authorities and others which it is under no obligation to perform (as already provided in the VO(E&W) Management Plan approved by the then Financial Secretary). Low priority should also be given to work for local authorities in Scotland, where this conflicts with more important priorities.
- (b) Over the medium term, there will be a choice between withdrawing from the bulk of this work or continuing to undertake it on an appropriate basis of charging where the resources are available to do so and cannot be transferred to other, hard-pressed regions. This choice should be further reviewed when the plan expires in two years' time.
- (c) It would also be appropriate to consider at that time, if not before, the extent of services which the Government is under a statutory obligation to perform for local authorities.
- (d) DOE, VO(E&W) and others concerned should jointly review all aspects of rating valuation practice in the United Kingdom, drawing on international experience, to examine whether a simpler system of business property taxation and appeals, less demanding in terms of valuers' time, could be devised.

25. In considering the scope for reducing the demand on Government valuation services by adjusting priorities it will be important to bear in mind the underlying aim of improving the balance of supply and demand for these services. Within the profession, much of the work that we suggest might be reviewed is regarded as rewarding. If the Government ceases to employ valuers on these tasks, there is a danger that some may decide to leave Government service, unless the alternative work that they are

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offered is satisfying. The transfer of this work to the private sector may also prompt private firms to seek to recruit experienced valuers at higher rates of pay than prevail in the public sector. These considerations should also be borne in mind when further work is undertaken on the recommendations below, particularly those on contracting out, charging and untying.

Contracting-out

26. Nearly all Government valuation and estate surveying work is currently undertaken in-house by Government employees, with the remainder contracted out to the private sector. We believe that much work must be retained in-house:

- (a) to provide confidential policy advice;
- (b) if private sector practitioners are employed to a substantial extent, to provide the necessary oversight of them;
- (c) in some work for the Inland Revenue, where taxpayers would not wish confidential information about their personal circumstances (in particular other than about the land and property being valued) to be passed outside the department;
- (d) elsewhere, whenever it is cheaper to do the work in-house; and where the private sector is not willing to take it on.

27. In principle, valuations for rating and other valuations for tax assessments which depend only on information about the land or property could be contracted out. We do not see any overriding need for confidentiality in this area, though consistency is clearly crucial. Information on land and property values is fairly readily available to the general public, notably from estate agents; indeed, rating valuations are statutorily open for public inspection. Similar work is contracted out in some other countries. It does not however seem realistic to contemplate such a major change (for which public opinion may anyway not be prepared) at this critical stage in the introduction of a new system of non-domestic rating.

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28. A further consideration is that, given the relative pay rates in public and private sectors and economies of scale, contracting out rating and other valuations for tax purposes would be costly, unless the difference was made up by significant improvements in efficiency.

29. Recommendation 3: We recommend that:

- a. the main work on rates, other taxes, policy advice and oversight of valuation systems and applications, representing about 65 per cent of the existing workload, should continue to be done in-house;
- b. although the Government's valuation services are likely over much if not most of the field to be well placed to provide the best value for money, the remaining 35 per cent of the workload, including work for local authorities, provision of estate management services, compensation work and advice to farmers, should be considered for market testing and contracting out, bearing in mind any need for legislative cover. Private sector firms should be employed whenever they have specialist knowledge not available in the public sector or they are cheaper or better able to respond flexibly to peaks in work.

30. In practice, it may be that relatively little of this work will be suitable for contracting out, apart from areas where specialist advice is needed and to meet peaks. The evidence we have seen about cost suggests that the private sector is rarely cheaper, and is often considerably more expensive, than in-house employment of valuers and estate surveyors. But the relative costs need to be properly tested with the help of professional advisers.

Charging

31. At present, some Government valuation and estate surveying services are charged for. But others are not. The coverage of charging is patchy, and perhaps owes more to history than logic. There are strong arguments for charging to be extended to encourage the demanders and suppliers (if different) of valuation

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and estate surveying services to come together to streamline procedures and review demands. It should however be noted that the introduction of charging for services provided to local authorities may imply a net increase in measured public expenditure, as VAT becomes payable.

32. Recommendation 4: Valuation and estate surveying services provided by one Government department to another department, to other bodies in the public sector, or to the private sector should be charged for. We recommend that officials be instructed to bring forward as soon as practicable concrete proposals for a simple system of universal charging for valuation services, both within central government and between central government and others (including work for local authorities). Subject to any legislative requirements, this system should extend to those services which are provided as a statutory duty.

Untying

33. The full benefits of charging will follow only where the department demanding a valuation or estate surveying service is untied from any particular source of supply. Many departments are already untied for some purposes.

34. Recommendation 5: Departments should be untied for the 35% of work which the private sector could undertake. They should not, however, set up new in-house valuation services where these do not already exist.

35. Departments will need soon to consider market testing for services for which they are untied.

Future organisation

36. There are broadly two extreme models on which the Government could base the future organisation of those valuers and estate surveyors, and supporting staff, it decides to employ in-house:

- (a) option A: a single specialist organisation would supply the services of Government valuers and estate surveyors to all Government departments needing such services;

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- (b) option B: each department needing Government specialists to support its departmental policy and management objectives would employ them itself.

37. As at present, a mixture of these paradigms could be adopted. In one sense, the present organisation of Government valuers and estate surveyors is close to option A, because a single specialist organisation, the VO, has around three-quarters of the professional staff employed by Government departments. In another sense, the present organisation is close to B, because just four or five Government departments demand the great bulk of services, and all but one of them already employs a substantial number of professional staff.

38. The detailed report sets out nine possible models on which the organisation of Government valuation and estate surveying services could be based. They range from broadly the status quo, through modest and larger changes towards either of the extreme options A and B described above. Arguments for moving in either direction depend primarily on the weight given to:

- (a) fostering professionalism among Government valuers and estate surveyors;
- (b) providing a career structure for them;
- (c) clarifying accountability;
- (d) disseminating objectives through clear chains of command;
- (e) co-location of professional advice with policy functions;
- (f) co-location of work using common information or techniques (notably rating and other capital taxes);
- (g) economies of scale through flexibility in the deployment of staff;
- (h) economies of scale, and quality of service improvements, through using common information for different purposes.

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39. Broadly, points (a), (b), (f), (g) and (h) might suggest further development of the VO into an even larger organisation, whereas (c), (d) and (e) might suggest devolving additional responsibility to departments. Economies of scale support the brigading of valuation work in a single organisation, as do the arguments for co-location of work which uses common information, such as rating and capital tax assessments.

40. In practice we believe that all the main desiderata listed in paragraph 38 can in large part be simultaneously achieved by combining retention of broadly the existing deployment of valuers with the introduction of universal charging for valuation services, together with substantial market-testing, as recommended above. Universal charging and market testing, by transferring financial responsibility to Departments such as DOE/WO/SO and DTp, will help to clarify objectives, responsibility and accountability, without losing the advantages in terms of economy, feasibility, co-location of rating and other capital tax work, professionalism and career structure. We believe that a way ahead on these lines should combine the advantages of both of the 'extreme' models A and B described above.

41. A further consideration which points to this way ahead is that the present would be a particularly bad time to impose major organisational change and upheaval on the Government's valuation services. It would be particularly disruptive to make major changes in the organisation of VO(E&W), which is heavily engaged in the revaluation of business rating. VO(E&W) will also be heavily committed to work flowing from the revaluation in the early 1990s. PSA, too, is about to undergo radical changes, and MOD have only just assumed responsibility for estate surveying services for the defence estate. These arguments reinforce the case for retaining broadly the existing deployment of valuers, subject to the significant changes implied by earlier sections of this report, including transfer of the Treasury's present responsibility for some aspects of the valuation of Government property to VO(E&W) and departments responsible for major estates. In addition, we recommend below a review of the case for transferring responsibility for Scottish rating assessments from local authorities to central Government.

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42. If the way ahead sketched above is accepted, we would see a prima facie case for considering the VO and the MOD's valuation services for Executive Agency status.

43. Recommendation 6: We recommend that the existing deployment of Government valuers should be retained, apart from the limited but significant organisational changes implied by other recommendations of this report. The Departments concerned should however be invited to consider whether the Government's main teams of valuers, in particular those in the Valuation Office and the Ministry of Defence, should be made into, or form part of, Executive Agencies and what the financial regimes of such Agencies should be.

Scotland

44. Many of the arguments about organisational arrangements described above also apply to the provision of valuation services in Scotland. There are, however, important differences in the organisation of valuation services in Scotland, compared to England and Wales. In particular, responsibility for rating assessments in Scotland rests with local authorities, rather than with the VO(S).

45. We have considered in principle the case for transferring responsibility for rating assessments in Scotland from local authorities to Central Government. The main arguments for such a transfer are:

- such a transfer should make it easier to complete Ministers' agreed objective of harmonisation of business rating between England and Wales and Scotland (where at present there are 10 different groups of valuers);
- it may be possible to realise economies in the provision of Scottish rating assessments under alternative arrangements;

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- it may also be possible to reduce the number of professionally qualified staff required for this task, under alternative arrangements: this could help to reduce the national shortage of valuers.

46. The arguments against such a transfer include:

- There could be high transitional costs in moving from a system based on separate arrangements, including different computer systems, for each region to one comparable to that which exists south of the border.
- It would increase civil service manpower while reducing that of local authorities (it is not at present possible to estimate numbers precisely).
- It is unlikely to be possible to make such a transfer until the early 1990s, given the need to complete the 1990 revaluation and to ensure that resulting appeals are handled properly; a transfer is therefore unlikely to be of immediate assistance in the achievement of either harmonisation or the reduction of national staff shortages.

47. It should be noted that Scottish Assessors are responsible for other important functions besides rating assessments. In particular, they are Community Charge Registration Officers in each Region and Electoral Registration Officers. It would be necessary to consider whether the Assessors' offices, as presently constituted, would continue to be viable if the rating assessment function were removed from them.

48. In considering any organisational changes, Ministers would also no doubt wish to consider any political implications these might have, in particular for the nature of relations between central and local government.

49. In the light of this Ministers may wish to consider whether further work should be set in hand to examine in greater depth the implications of, and the arguments for and against, a transfer of responsibility for this function. If further work is to be

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undertaken we suggest that it should be completed by June 1990, given the need to allow for the demands which work on the 1990 revaluation will place both on Departments and on valuers during the next 6 months or so. This timetable will also allow us to take stock of progress made in the 1990 revaluation in the harmonisation of non-domestic rating North and South of the Border. Harmonisation has already been the subject of discussions between the VO(E&W) and the Scottish Assessors' Association over the past 3 years.

50. Recommendation 7: There should be an early study of the case for retaining responsibility for rating assessments in Scotland in the hands of local authorities or transferring this responsibility to central Government. This study should have regard to Ministers' agreed policy of harmonising business rates throughout Great Britain and should examine the financial, legislative and other implications. An initial report should be prepared by the end of June 1990. The Scottish Office should lead this study in collaboration with the other departments concerned.

Priorities

51. There is scope for a more coordinated setting of priorities for Government valuation and estate surveying services, especially where staff numbers are below complement. Specialist organisations need to set management priorities within the organisation. Under a more devolved model, priorities contribute to decisions about allocating resources between departments. With a mixture both are needed.

52. Recommendation 8: For as long as present organisational arrangements continue, a Valuation Services Advisory Committee of officials representing the users and providers of valuation and estate surveying services should meet at least once a year, ahead of the public expenditure Survey, to review demands and priorities. The Committee, chaired by a senior Treasury official, would be a development of the steering group for this Review. Where necessary, the Committee would consider the options that might be presented to Ministers, if there were competing demands for the resources of Government valuation services.

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Timetable

53. We envisage the following timetable for implementing the bulk of our recommendations:

December 1989 - first meeting of the Advisory Committee.

From April 1990 onwards- recommendations on untying, market testing implemented so far as possible.

End-May 1990 - working party on preparation of databases to submit its report.

June 1990 - Working party on responsibility for rating assessments in Scotland to submit its report.

December 1990 - report of the review of rating valuation practice, ahead of consultation and legislation if necessary in the 1991-92 or 1992-93 Session.

April 1991 - Recommendations on charging and untying implemented in full. VO assume responsibility for assessment of contributions in lieu of rates payment. Departments responsible for the various Government estates assume the Treasury's responsibilities for collecting departmental payments of contributions in lieu. Similar arrangements to be devised for Wales.

The timing of any transfer of responsibility for Scottish rating assessments, should that be agreed, would need to be considered further by the Inland Revenue in consultation with the Scottish Office.

Expenditure implications

54. With the increasing attention now being paid to capital asset valuation and management, we would not expect to see any net reduction in public expenditure on valuation services over the years ahead. We would however expect the changes discussed within Report to yield useful savings overall compared with what would otherwise happen.

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55. We see the main areas of savings as:

- i. better management of the Government's Estates, supported by better management information;
- ii. more efficient use of valuation services following the introduction of charging and untying;
- iii. savings from the proposed review of rating valuation practice;
- iv. streamlined procedures for calculating Government contributions in lieu of rates and the avoidance of duplication in this area between management and rating valuation work;
- v. possible streamlining of rating valuation work in Scotland.

56. The main costs would be:

- i. design and development of an IT property database together with more systematic and comprehensive formulation of rental and existing use capital values of all Crown freehold properties;
- ii. some additions to capital and running costs associated with the new procedures, notably charging (which may involve extra payments of VAT by public sector bodies);
- iii. a transitional cost if Ministers decide in due course that rating valuation work should be transferred from rating authorities in Scotland.

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