PRIME MINISTER

FORMULA RATING REVIEW

Last month you expressed considerable concern about Chris Patten's proposals for industries whose rateable values are determined by statutory formula. This followed the results of a formula rating review. His earlier minutes, and your manuscript comments on them, are at Flags A and B. We duly minuted out your reactions.

Since then other interested colleagues have commented and they are all broadly content with Chris Patten's approach. He has now minuted you again (Flag C) with a further response. As you requested, this does now spell out the alternatives that were considered. But he concludes none of them were acceptable. In essence, he argues that his proposals are far from ideal - but they are the best available. He does, however, undertake that in the longer term strenuous efforts should be made to return these industries as far as possible to conventional assessment.

John Mills in the Policy Unit has provided comments at Flag D. He supports Chris Patten's arguments and recommends that, with reluctance, you should accept these given that there is no better alternative. But he also suggests you should urge the objective of a return to conventional rating in the context of the 1995 revaluation.

Reluctantly content now to proceed on that basis?

Yes - no alternative!

PRG.

PAUL GRAY
15 September 1989

SL2AXR

PRIME MINISTER 15 September 1989

FORMULA RATING REVIEW

Chris Patten has minuted you again in response to your concern about his formula rating proposals for industries such as BR, BT and British Gas which have large networks of ducts, pipes, or rails.

You expressed concern about

(i) the use of asset values to work out rateable values. You felt this was contrary to the Government's declared opposition to capital value rating.

(ii) the lack of a single formula to cover all the industries. (There are no relevant asset values available to railways and ports; and for these the calculation is being related to turnover).

The Problem

This has two main strands:

- the difficulty of bringing network-type assets within the scope of conventional valuation based on rental evidence;

- very unsatisfactory and inequitable existing arrangements.

The first of these has not to date been solved, although it remains Chris Patten's objective to try to rate them conventionally at the next revaluation in 1995.

The second meant that it was not possible simply to leave things as they were or just update the amounts now paid by a given percentage, without tackling the underlying imbalances.

When the current assessments were made in the 1970s they were essentially the result of horse-trading between the Government, the local authorities and the industries concerned. The starting-point was the actual amount of rates it was felt the industries ought to pay. This cosy arrangement mattered less perhaps when all the industries concerned were nationalised. But now many of them are privatised, and more objective arrangements are essential if the Government is to avoid challenge in the Courts.

Alternatives

Apart from a simple percentage uprating of the current values, which is ruled out for the reasons above, two others were considered (para 4 of Chris Patten's note).

- uprating values pro rata to turnover
- relating rates to measures of activity such as wages and costs.

Anything which referred back to the existing values was unsatisfactory, while the second was found to be unworkable. DOE, on advice from the Valuation Office, therefore fell back on to the asset value approach as the most realistic, and most defensible in terms of established principles of rating law.

For railways and ports, there is simply no realistic alternative but to use turnover. Chris Patten does however observe that this has been endorsed by the Courts in situations where rental evidence is working.

Conclusion

Chris Patten's proposals are not ideal, as he is the first to admit, but I believe he is right at this stage that there is no better alternative. There is a long history to formula rating and for the very specialised assets involved it does not seem too difficult, as a special case, to square use of net CCA asset value with the Government's position against capital value rating generally. The Chief Secretary endorses this view.

It is moreover quite clear that the existing systems must be changed in the context of privatised utilities. But it is also clear that the objective of attempting to bring the formula industries back into conventional rating which you have emphasised must be pursued, with the next revaluation in 1995 as the target.

Recommendation

- Accept, with reluctance, that at this stage there is no better alternative to Chris Patten's proposals.

- Agree that the objective of a return to conventional rating must be pursued, the target for this being the 1995 revaluation.

Louise Ashton

for

JOHN MILLS