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22/9

The Rt Hon Cecil Parkinson MP  
Department of Transport  
2 Marsham Street  
LONDON  
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22 September 1989

Dear Secretary of State,

FORMULA RATING REVIEW: TRANSPORT INDUSTRIES

Thank you for your letter of 4 September setting out your thoughts on the proposed rateable values for the transport industries. I have also seen Norman Lamont's comments in his letter of 11 September to me and the replies from Peter Walker and James Douglas-Hamilton 29 August and 12 September respectively.

I note that you agree that the best method of fixing rateable values for the railway industries is to base these on a percentage of their turnover, but that you are concerned about the implications for the finances of these industries of any substantial rise in their rate bills. Although I understand your concern, I think that our objective must be to try to produce for 1990 for all the formula rated industries rateable values which are comparable to those which conventional rating by the Valuation Office would produce. Formula rating ought not to be used artificially to depress rateable values, as happened in the case of the rail industries at the last revaluation in the 1970s.

I agree, however, that we must consider fully the arguments put forward by the industries themselves. Since I wrote to Peter Walker on 2 August my officials have discussed with yours, the Valuation Office and the Railways Board the proposed rateable value for British Rail. The Board has identified a number of items of revenue which it claims should not be treated as part of its turnover for this purpose. We have accepted these claims to the extent that they seem to us to be justified. The effect is to reduce the level of turnover to which the percentage is applied to derive the rateable value. We have also thought further about the appropriate percentage to use, taking account of the latest information from the Valuation Office on the percentages which they are using in the current revaluation for other (non-formula rated) industries which are assessed by reference to their turnover. We have concluded that there is a case for reducing the percentage to be applied to British Rail's turnover from 10 to 9 percent. This latter figure is at the bottom of the range adopted by the Valuation Office.



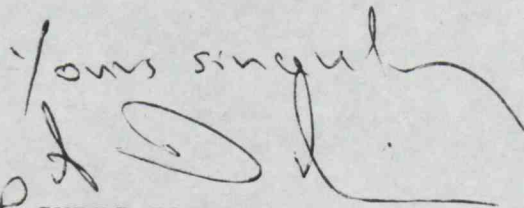
Taken together, these changes reduce the proposed rateable value of British Rail for England and Wales to £222m. I think that it would be very difficult to justify any lower figure in view of the Board's very large holdings of rateable property. While this revised proposal would still result in a significant rise in British Rail's rate bill, this would of course be phased in over a 3 year period.

My Department is looking again at the accounts of London underground, the Docklands Light Railway and the Tyne and Wear Metro to see whether any further allowances can be justified, and will then apply 9 per cent to their turnover to derive reduced rateable values for these undertakings. My officials will let yours see the results when they are available.

In the case of the ports industry, my officials have given yours a fuller explanation of the basis of our proposals and will be happy to discuss them further if you wish. I am clear that our proposals are realistic, and do no more than remove past underassessment, bringing statutory ports' rateable values more into line with those in the non-statutory sector. I believe that the industry itself realises that its rateable values are bound to increase substantially in real terms, although it may not fully accept the increases which I have proposed.

We need to make the formula rating orders in November, and before that must consult the industries at Board level, the local authorities and other ratepayers. As a first stage I would like, next week, to write to the chairman or representatives of the industries concerned setting out the proposals. These will include the revised figures for railways, but will be unchanged for ports. During the consultation period, I would be happy to receive representations from the industries, if they feel it necessary; discussions between our Departments can also continue. If the case for any further reductions in rateable value were to be substantiated, we would have time to revise the figure before making the order. I must say, however, that I believe what we are now proposing is reasonable.

I am copying this letter to the Prime Minister, Nicholas Ridley, Malcolm Rifkind, Peter Walker, Norman Lamont, John Wakeham and to Sir Robin Butler.

*Yours sincerely*  
  
PP  
CHRIS PATTEN

(Approved by the Secretary of State  
and Signed in his Absence)

Local Govt Rate.

