

CONFIDENTIAL



Prime Minister

Mr Patten does not answer the question of what other formulae were considered. The method chosen seems consistent with conventional rating assessment procedures, but cannot (and has not been) applied to all industries. Are you content with the approach.

PRIME MINISTER

FORMULA RATING REVIEW

I have seen the letter of 9 August from your private secretary to mine recording your doubts about the approach which I have proposed to setting cumulo rateable values for the formula rated industries for 1990. I am sorry that it was not sufficiently clear how this fits into established principles of rating valuation.

Under conventional rating assessment the Courts have accepted that where no rental evidence is available the valuer may use various methods to fix a rateable value, one of which is the "contractor's test". Over 14% of the current aggregate rateable value in England and Wales and a rather higher proportion in Scotland is attributable to properties valued in this way. The method gives a proxy for rental value by decapitalising the depreciated cost of the property and applying various allowances. You will recall that we decided earlier this year to prescribe the decapitalisation rate which valuers have to use at 6%. We have used the same approach for the formula rated industries, starting from the net CCA asset values in their 1987/88 accounts, and taking the advice of the Valuation Office on the allowances to be applied. Variations between the industries in the resulting figures reflect the importance of rateable property in their business.

There is no doubt that this approach is more objective than the way in which cumulo values have been derived in the past, when Governments often simply split the difference between the demands of local authorities and the industries' offers. CCA asset values are not of course available for all the industries and we have had to fall back on determining the rateable value as a percentage of turnover for railways and ports. This is inherently less satisfactory because rates are not a turnover tax and there is a large element of judgement in the percentage of receipts to be used in order to reflect the industry's holding of property; my

In other words we have no consistent formulae. I have adopted 2 unsatisfactory ones - one based on asset values (which we oppose on other projects) and the other on turnover - which means the more use you make of your property the more you pay. What other formulae were considered? Renton since postage?

B. De P. B

CAS 23/8

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Department has taken the advice of the Valuation Office on this question.

The rise in the value attributable to Mercury, which you queried, is more apparent than real. The old figure reflects the extent of their network in 1988 when they were just starting to operate; our new figure reflects the much wider network that will be in operation in the 1990s. It would be phased in over the next few years as Mercury's business grows.

Since writing to Peter Walker we have accepted that the CEGB's decision to write down its CCA asset value in its 1987/88 accounts by £3.2bn ought to be taken into account in its rateable value. We have also adjusted the values of the Area Boards to reflect later information. The overall effect is to reduce the electricity industry's proposed rateable value by about £150m. The revised figures are given in the attached table.

I am copying this minute to Peter Walker, Malcolm Rifkind, Norman Lamont, Nicholas Ridley, Cecil Parkinson, John Wakeham and to Sir Robin Butler.

A handwritten signature in blue ink, appearing to be "C P".

C P

22 August 1989

## FORMULA RATED INDUSTRIES : PROPOSED 1990 RATEABLE VALUES &amp; CHANGES FROM 1973 VALUES

	PROPOSED 1990 RV £M	1973 RV £M	UPLIFT 1990 ÷ 1973	% REAL CHANGE OVER AVERAGE 7.7 UPLIFT	% CHANGE POUNDAGE	NOTES
BRITISH GAS	535.0	62.8	8.5	+10	-7	
WATER AUTHORITIES						
ANGLIAN	40.7	4.0	10.2	+32	-3	
NORTHUMBRIAN	11.9	1.7	7.0	-9	-22	
NORTH-WEST	61.8	8.2	7.5	-3	-15	
SEVERN-TRENT	50.0	6.5	7.7	0	-10	
SOUTHERN	12.3	2.1	5.9	-23	+7	
SOUTH-WEST	15.2	1.5	10.1	+31	-5	
THAMES	52.2	10.5	5.0	-35	+9	
WELSH	31.4	2.9	10.8	+40	-13	
WESSEX	7.2	1.1	6.5	-16	-12	
YORKSHIRE	38.6	5.2	7.4	-4	-24	
TOTAL	321.2	43.7	7.4	-4	-9	
WATER COMPANIES (TOTAL)	88.8	12.7	7.0	-11	-6	ESTIMATED AVERAGE FOR 28 COMPANIES
ELECTRICITY						
CEGB	1,087	95.7	11.4	+48	-3	POUNDAGE EFFECTS CALCULATED FOR 1986/87
DISTRIBUTION						
LONDON	44.0	13.5	3.3	-57	+15	
SOUTH EASTERN	33.3	6.6	5.0	-35	+17	
SOUTHERN	48.6	8.1	6.0	-22	+9	
SOUTH WESTERN	30.9	3.9	7.9	+3	0	
EASTERN	56.0	9.4	6.0	-22	+5	
EAST MIDLANDS	39.9	8.0	5.0	-35	-5	
MIDLANDS	47.4	9.5	5.0	-35	+3	
SOUTH WALES	19.8	4.5	4.4	-43	-3	
MANWEB	27.9	5.8	4.8	-36	-15	
YORKSHIRE	46.0	9.5	4.8	-36	-20	
NORTH EASTERN	29.2	5.9	4.9	-36	-19	
NORTH WESTERN	41.5	10.6	3.9	-49	-14	
TOTAL	1,551	191.4	8.1	+5	-3	TOTALS MAY NOT SUM DUE TO ROUNDING
BRITISH TELECOM	292.9	30.9	9.4	+22	-4	
MERCURY	14.0	0.7	20.0	+159	N/A	NEW AND GROWING INDUSTRY. 1973 LIST RV NOT COMPARABLE WITH PRESENT POSITION
PORTS INDUSTRY	40.6	3.7	11.0	+43	-2	FIGURES RELATE TO 1987/88 DATA FOR SAMPLE OF 46 PORTS
BRITISH RAIL	299.2	17.9	16.7	+117	0	
LONDON UNDERGROUND	46.6	3.5	13.5	+75	0	CURRENTLY INCLUDES DOCKLANDS LR
DOCKLANDS LR	0.8					
TYNE & WEAR METRO	1.8	0.2	9.0	+17	-26	
BRITISH WATERWAYS	0.32	0.27	-	-	0	1986/87 RV QUOTED. SUBSTANTIALLY LESS PROPERTY INCLUDED IN 1990 CUMULO