PRACTICAL POLITICS

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WASTED TIME, WASTED OPPORTUNITY, WASTING NATION

Little that was new in this month's Budget was of any great moment or especially surprising. It was greeted by the Opposition, the Government's supporters, the media's experts, and the majority of the general public (who know the technique of 'left-hand pocket to right-hand pocket' well enough by now), with, respectively, ritual indignation, eager congratulation, earnest poking through the entrails, and scarcely ruffled resignation and boredom. Among the various measures, we cite the blocking of a loophole in the inheritance tax laws to catch 'aggressive avoidance' by use of dubious debts designed to reduce the value of a business or agricultural estate's assets; an annual tax on residential properties worth more than £2,000,000 held through a company structure (in four bands, starting at £15,000 p.a.), to catch people (though not trusts) who have concocted companies and registered them abroad; and personal allowances free of income tax rising to £9,440 next month and to £10,000 from April next year (still below what someone working full time on the statutory minimum wage will earn) but with a countervailing lowering of the start of the 40% band by £2,360 this April, thereby bringing over 5 million taxpayers within the higher-rate. There was nothing to cheer the savers, but that was scarcely surprising, given that our Government is the biggest debtor of all.

The Government announced two schemes, purportedly to stimulate housebuilding by helping potential buyers get on to or move up the housing ladder. We comment on these on our page 2. There was also the revealing announcement that the **public sector debt is now expected to start falling only after 2017-2018**. This Government took office before mid 2010, and now reckons it needs eight years to begin to reduce the debt! We know that the previous Government is, to put it kindly, far from blameless on this issue, but, really, the Coalition has wasted time and lost a great opportunity. Had it begun to introduce a measure to bring in LVT (a national land-rent charge) from the start, or even from the autumn of 2010, it could have had the policy up and operating by 2014 or 2015 at the latest, so that **by 2018 the country could have enjoyed three or four years of income from land values** and could by then have abated the more noxious of contemporary taxes. Even now, there is time before the next General Election in 2015 to set the wheels in motion. This is a Big Idea – surely not one beyond the capacity of Westminster and Whitehall to deliver? Valuers, now deprived of this year's scheduled UBR revaluation, would doubtless welcome the work!

HOUSING – a review of topics found in the Budget and elsewhere

(i) "A 'Help to Buy' scheme was unveiled [in the Budget] which will see the Government commit £3.5bn in shared equity loans for the purchase of new-build houses. It will also provide guarantees for £130bn of mortgages for families struggling to raise a deposit" [a]. The scheme comes in two parts. The loan scheme is "open to all homebuyers purchasing a new-build property up to the value of £600,000…Purchasers with a 5 per cent deposit will be able to borrow up to 20 per cent of the value of their property from the government…interest-free for the first five years, when buyers will pay an annual fee of 1.75 per cent of the loan, rising annually by retail price inflation, plus 1 per cent…The government will take a 20 per cent portion of the property's value – including any uplift – when the owner sells it or repays the loan". On the other hand, "The mortgage guarantee scheme [is] to back deals of up to 95 per cent loan-to-value" and "will apply to all property purchases, not just new builds…up to the value of £600,000…Lenders will have to pay the government a fee to receive the guarantee and they will have to take a 5 per cent share of any losses". Lenders could "look to recoup these costs from borrowers by higher rates or big arrangement fees" [b]. Was not one of the reasons for the collapse of Northern Rock in 2008 that it had pursued customers by offering high loan-to-value mortgages (125% in some cases)? The real problem is of course a lack of housebuilding, primarily on account of the high cost of land in the areas most people need or want to live.

(ii) "Lengthy planning pipelines, plus the fact that developable land prices keep going up because of artificial scarcity, generating automatic accounting profits, encourages land-banking and hoarding from developers" [c]. We think subsidies like the shared equity loans and the mortgage guarantee scheme (*vide* (i), above - ed.) will likewise largely find their way into higher land rents and prices. Certainly the housebuilder Bovis will be benefiting from improved mortgage availability. "It said about 10 per cent of its sales were [already] supported by the government's NewBuy scheme" and it is also "gaining from the Funding for Lending scheme…Bovis said a rise in profits would drive its aggressive land-buying push…The group has bought 10,000 plots with planning consent in the years since 2009, of which it has developed 6,000… Bovis and rivals such as Taylor Wimpey and Barratt are seeing profits and share prices soar as they sell homes built on land bought at knock-down prices after the financial crisis" [d]. These businesses find it attractive, and much easier, to make money from land dealing than from piling bricks on top of each other. We do not blame them personally for that. They do what our legislators allow, and indeed incite them to do. The impropriety that permits landholders to appropriate this stream of land rental value seems to raise no concern in academia either. The commentariat that dominates the media is no better. The public is being badly served by the elites. Meanwhile the nation is being sucked ever nearer the vortex swirling round the plug hole.

(iii) "Houses in London's 10 most expensive boroughs are now worth as much as the property markets of Wales, Scotland and Northern Ireland combined". The value of the housing stock in Northern Ireland "has fallen more than 50 per cent to £72bn…[which] is only slightly higher than that of the borough of Wandsworth". The property worth "of small rural districts close to the capital has outgrown that of the UK's largest cities. The total housing stock in Elmbridge, a Surrey borough popular with City workers, is worth more than the entire property value of Glasgow" [e]. Superficially, one might think that similar houses ought in general to command similar prices everywhere. Building costs (the cost of capital and the returns to labour both physical and mental) are not substantially different from place to place. However, Londoners (unless they live in good areas and own their own homes outright) are not, all things considered, particularly well off. The fact is, of course, that the wealth of London and the south-east is skimmed off in sky-high land rents and prices. The rental value of land is the differential, the equaliser which, special skills and experience apart, brings wages ('take home pay') to essentially the same sort of level everywhere. The public value that is land-rent must be collected to fund the public revenue requirements, and taxes taken off labour and capital. Are Westminster and Whitehall aware? The nation is being drawn inexorably towards the plug hole...

(iv) "According to a report by Lloyds TSB house prices in the post codes of the 30 **state schools** with the highest 2011 GCSE results in the country were £33,631 higher than average, or 12 per cent higher than prices in neighbouring locations…Overall, the typical price of a home in the postal districts of England's best state schools is £303,902, nearly a third higher than the average house price across England of £236,321…Regionally, the north west has the largest premium, with houses in postal districts of the top ten state schools trading at an average of 28 per cent…above the average house price in the county" [f]. This news is no surprise to us. It is simply a question of land/location value. We do, however, wonder what, if anything, the pupils in the economics classes are being taught about this phenomenon.

(v) "Property prices are projected to soar in Brentwood [with] the arrival of **Crossrail**. Consultancy firm GVA claimed the new train line's station at nearby Shenfield could see the value of homes in the Essex town increase by 19 per cent by 2021" [g]. Shenfield is to be the Crossrail terminal and Brentwood will be the penultimate station. Your editor lives a mile away from Shenfield station, and welcomes the prospect of a wholly unearned boost to the market price of his abode, all of which he knows stems not from the structure of his home (whose upkeep involves him in the usual running costs and frequent doses of re-investment) but from the enhanced location value of the plot on which it sits. He will spare a thought for the construction teams who will have laboured to bore the tunnels, install the platforms, lay down the tracks and signalling, build the carriages and depots, and direct the project;

and he will regret to note that the boost to his land value (and to that of so many others from west of London across the West End and City and out into Essex) will have been accompanied by income tax on the workforce's wages and savings, SDLT and council tax on their homes, customs duties and excise duties and VAT on their purchases, and everything else that unthinking governments strew across their path.

There is an as yet thin prospect that we might have to eat our words, or at least that word, "unthinking". There is a project to build a new high-speed railway line known as **HS2**, going initially from London to Birmingham then branching to the north-east (Leeds) and north-west (Manchester). A paper put out by the Department for Transport "made clear that a cost contribution would be expected from 'parties who would benefit directly from opportunities and development' of HS2. Businesses and developers could also be expected to contribute. 'It is fair and right that they work collaboratively with the Government on options to support the project financially. Depending on specific circumstances, this might involve the commitment of funds', the paper adds". The prospect of council tax payers in some areas having to contribute horrified some, although doubtless they will silently welcome an uplift in the selling price of their homes. The cities most likely to be asked "are those with high-speed stations, such as Manchester, Leeds, Nottingham, Sheffield and Derby" [h]. There is little to applaud in an untidy, timid, single hit at raising some spending money from land; but if it leads to a more thorough study and a systematic LVT outcome, HS2 will go down as a trailblazer.

SOMETHING THAT KEEPS GOING UP, DOWN ON THE FARM

"Farmland prices have risen by more than 50pc over the past five years, and 200pc over the past decade. Over the past 60 years prices have risen almost 11,500pc from just £54 per acre" [j]. Time to doff the CAP, eh?

[a] "Daily Telegraph", 21st. March [b] Tanya Powley, "Financial Times", 23rd. March [c] Allister Heath, "Daily Telegraph", 27th. February [d] Gill Plimmer and Mark Wembridge, "Financial Times", 19th. January [e] Ed Hammond, "Financial Times", 2nd. February [f] Amelia Brust, "City A.M.", 25th. January [g] Rob Virtue, "The Wharf", 24th. January [h] David Millward, "Daily Telegraph", 4th. February [j] Angela Monaghan, "Daily Telegraph", 4th. January

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