PRACTICAL POLITICS

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THE NATIONAL NON-DOMESTIC RATE ("NNDR") and related matters

The NNDR is a tax on commercial property used for industrial, office, retail, hotel, entertainment, and other non-domestic purposes, excepting agriculture and vacant land (which go untaxed). Rateable value has hitherto been calculated every five years, by the Valuation Office Agency ("VOA") in England, with the valuation process starting (for instance) in 2008, and, with time allowed to settle appeals, put in place for implementation in 2010 and running thereafter to 2015. The basis of the valuation is the annual rent which the property (land, building, and fixtures) could command if let on the open market in their existing condition (although other means of assessment are deployed instead in some instances). Each year, Government sets a 'multiplier' or 'poundage', properly known as the Uniform Business Rate ("UBR"), to be applied to the basic VOA property valuations (the increase is, by law, not to exceed the official rate of inflation). The UBR is collected by local authorities throughout the country and paid to the central government, which allocates it back to local government bodies on the basis of such factors as population and perceived need.

On top of all this, there is now small business rate relief ("SBRR"). If the rateable value of a property is less than £15,000, it qualifies for SBRR, providing the proprietor occupies only one business property in the U.K. or the rateable value of a second property is less than £2,200, or the sum of the rateable values of all the properties is less than £15,000. However, if the rateable value of a property is less than £5,000, it qualifies for 50% relief; but that relief decreases on a sliding scale as the rateable value increases between £5,000 and£9,999. If a property is empty, it is exempt from business rate if the rateable value is less than £15,000.

This arrangement has been altered this year. The life of the old system has been extended for two years, so that it is now to continue until 2017. As a result, the NNDR revaluation has also been deferred, and will not now start until 2015. This dual decision has important consequences for businesses. Current figures are based on calculations begun in 2008 at the height of the speculative land boom and are almost all well above to-day's depressed property values. This would not matter if all values were to have moved uniformly: to raise £450 from a £1,000 property requires a UBR of 45%, whilst raising the same sum from a NNDR revaluation to £600 calls for a

UBR of 75%. Of course values have not all moved uniformly! Some sectors have been hit harder than others and some parts of the country have been more severely affected than others. What has happened over the five years from 2008 means that the pain of the slump is, without the 2013 revaluation, going to hurt some businesses unfairly for two years longer, whilst others will benefit from not having to pay on, relatively speaking, increased valuations. It is hard to find an acceptable excuse for this. Provision of "a stable economic environment" and the desire to "protect local firms from soaring tax bills" are two such attempts, even though it has been admitted that "revaluations are revenue neutral overall" [a] and it is apparent to all that all firms are local to the area they are in, whether their bills would have soared or dropped! "The falls include 26 per cent in the Northeast, 20 per cent in the East Midlands, 21 per cent in Merseyside and 23 per cent in Yorkshire. Rents in London's West End have risen 26 per cent in the same period, meaning that shops in the most expensive part of the country will benefit from the delay" [b].

Our suggestion to the Government is to convert the NNDR/UBR to a charge on land value (location value only, ignoring all developments made in or on the site, but extending its scope to incorporate land that is currently exempt). Valuers can start at once, so as to be ready for the launch in 2017. They can then pass directly to a valuation of domestic land on the same basis, to replace the council tax.

Footnote 1: - Instead of a bold solution or even a routine revision to update the NNDR, the Government offered "relief from rates on newly built commercial property for 18 months after its completion...to encourage developers to press ahead with projects", but the scheme does not include refurbishments, even if major in character [c]. SBRR has been extended for another year. Measures like this will appeal to landlords. The Government might instead have considered outlawing upwards-only rent reviews (perhaps retrospectively as well). "Retail property values have fallen 30pc from the peak of the credit boom", and if high street landlords think that leases "are going to recover to 2007 values and beyond" they risk finding "there will be no renters left apart from charity shops, fast food outlets and a handful of brave independent entrepreneurs" [d].

Footnote 2: - A high court ruling last year "effectively legalised 'imaginative' empty rates avoidance tactics…The case involved the use of just 0.2% of the floorspace of a 140,000 sq ft shed [*i.e.* warehouse – ed.] ". The judge ruled that storing 16 pallets of documents for three months was "enough to trigger a six-month empty rates grace period once the files were removed". The ruling came as "a blow to the government, which is handing out around £1bn in empty property rate relief a year as a result of avoidance tactics" [e]. One of the many advantages of LVT is that the charge is payable regardless of the use (if any) to which the land is put.

Footnote 3: - "The value of a plot of land depends upon the supply of and demand for land of that exact type. Generally, the critical characteristics of most importance are locality, optimum permitted use, size, shape and position…It is clear to me that the field work involved in valuing site only is very much less than valuing site plus improvements…99 per cent of sites were valued without difficulty. The real problems arose on the remaining 1 per cent" [f].

LITTLE BITS on land value and the community

(i) London's Soho district is seeing "a surge in office-to-residential conversions, where existing offices have been deemed too old to be modernised for contemporary commercial use…The Crossrail project – a £15.9bn rail scheme through Greater London and beyond, due to open in 2018 – will have a major interchange at Tottenham Court Road, in Soho's northeastern corner…Thirdly, Soho's hitherto-distinctive retail offer has changed…Some locals believe the area has lost distinctiveness…However, residential analysts such as Ben Stroud…say the changes make Soho desirable for buyers, providing 'London's most attractive capital growth prospects in the coming years'…Estate agents now claim the certainty of a fast link to the City and Docklands – 13 minutes from Tottenham Court Road to Canary Wharf – will finally unlock Soho's residential potential" [g]. Location values seem certainly to be on the rise in Soho, but what role have its landowners, *purely in their capacity as holders of land*, played in all this? Neither they nor their predecessors in title ever made it in the first place; it is not their efforts which maintain its value nor will it be they or their successors who will determine its future course. Soho is a small part of the world, dependent on London, which in turn depends on its suburbs, on England's south-east quadrant, on the rest of the United Kingdom, and indeed on its relationship to the world at large. Nothing in ethics or economics justifies the private appropriation of the rental value of land.

(ii) The following three extracts from advertisements [h] illustrate neatly the significance of *location* in setting the value of a developed or re-developable property.

[The chq building, Dublin Docklands] "Unrivalled transport linkages – train, tram and bus termini less than 5 minutes walk. In the heart of the International Financial Services Centre within easy walking distance of Trinity College, The O_2 and O'Connell Street."

[Former warehouse, but now effectively just the land] "Ideally located opposite Plaistow underground station, London E13, with planning permission to build a block of 33 flats and 18 artist studios."

"Two outstanding development sites in Brighton city centre within 5 minutes walk of Brighton station and 0.5 miles from the seafront, released as part of City College's proposed relocation to a new facility on Pelham Street. Brighton has one of the highest concentrations of students in the UK, with two universities and numerous language and business schools. Site B considered to have potential for 125 residential flats. Vibrant residential area, with excellent local retail and leisure amenities."

What is being offered for sale is publicly created land value.

NODULES ON THE OCEAN FLOOR

"Sponsored by the Government, a company called UK Seabed Resources has won the first commercial exploration rights over a 58,000 square kilometre area of the Pacific. The licence was granted by the International Seabed Authority, the body governing mining outside territorial waters. Late this summer, the company will start to hunt for…polymetallic nodules, potato-sized rocks rich in minerals which are found on the seabed, some 4,000 metres under the Pacific waves…The hope is that, collected by a mechanical harvester, they will provide millions of tonnes of copper, nickel, cobalt and manganese, as well as rare earth minerals" [j]. Caution is appropriate, however, not least because earlier cost studies had suggested that it might well not be a commercial proposition. "No doubt the prospect of access to rare earths…looks particularly attractive". If we can have an international law of the sea, an agreement on space, and now one on nodules, why can we not have Government and Parliament taking a look at our own country and access to its land for all citizens on equal terms? It requires only a national land-rent charge (full LVT) in place, payment of which ensures the right to exclusive use of the land concerned. Proceeds from the charge cover public revenue needs and replace existing taxes.

[a] Brandon Lewis, M.P., "Daily Telegraph", 29th. October [b] Jim Pickard, "Financial Times", 17th. November [c] Graham Ruddick, "Daily Telegraph", 6th. December [d] Alex Brummer, "Daily Mail", 17th. January [e] Nick Whitten and Jess Harrold, "Estates Gazette", 30th. June [f] H. Mark Wilks, Valuer, in his Report on the pilot survey at Whitstable, 1964, published by the Rating and Valuation Association, and cited in "Practical Politics", Issue No. 11 (June 1990) [g] Graham Norwood, "Financial Times", 13th. April [h] All three taken from "Estates Gazette", 9th. March [j] Emma Rowley, "Daily Telegraph", 18th. March

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