PRACTICAL POLITICS

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CHARGING FOR WATER AND SEWERAGE SERVICES

Since the establishment of the Northern Ireland Executive, systems for charging for water and sewerage services supplied to domestic consumers and for agricultural irrigation and other commercial purposes, have been prepared but not yet implemented. In the Republic of Ireland, domestic consumers have also been receiving their water without direct out-of-pocket payment, but rumours have been going the rounds that the Dublin government is deliberating on bringing in charges to help in financing the latest IMF requirements on servicing its loans to the Republic.

Rain is a free gift of Nature. It may fall in a lake or river, or filter through to be trapped in a natural aquifer. So far there is no case for private appropriation of value, for nothing has been man-made. The landholder whose land captures the rainfall has no right to the value of that water, except in so far as he may be incurring cost in tending the lake or river bank or performing some similar duties which involve his labour or provision of capital. The value of water as rainfall is, in the terminology of political economy, land value, and belongs by natural justice to the community as a whole. Pipes, machinery, and equipment manufactured to draw and treat the water, and deliver it via water-mains to the commercial user or domestic consumer, do, however, involve the intervention of human labour and man-made capital. The difference in value between the water in the lake, river, or aquifer, and the water at the tap goes by rights to remunerate the labour and capital employed and should bear no tax.

In the case of piped water there is, of course, the minor complication that it is a monopoly or near-monopoly undertaking which will probably be either a regulated private company or a public utility; but this merely means that there is a price to the customer set by administrative fiat instead of in the open market. If consumers are not charged for water, remuneration of the labour and capital involved in taking the water to them has to be paid for – no doubt largely by those same consumers, but indirectly, from general taxation. *Mutatis mutandis*, the position regarding sewerage is the same. There is no such thing as free disposal. The question is: who pays, or (perhaps more to the point) is payment to be made directly or indirectly?

Fortunately, LVT offers a viable solution. The availability of a supply of clean, safe running water to a street and the houses in it, and the provision of facilities to remove, treat, and dispose of sewage, undoubtedly add value to the location served. Properties without access to these services have the problem of providing for themselves in some other approved manner. The site value assessment takes the absence or availability of utilities like water and sewerage into account anyway; and the fact that they are free (if, indeed, they are to remain so) to those able to benefit from them, is similarly built into the valuation and shows up as a further differential over an otherwise similar location lacking these services.

LOCATION - some variations on a theme

(i) Next year should see the start of the development of Dunsbury Hill Farm, "a 48-acre site beside one of Hampshire's major arterial routes, the A3M...between Havant and Waterlooville...[to be] billed as 'the new business gateway to the Solent'...The trigger for developing the land...was the completion of the Hindhead road tunnel, 27 miles up the A3 in Surrey" [a]. The 1.14 mile tunnel cost £371m. It is known that landowners gain from improvements made by their neighbours, public and private, but it is useful to be reminded how distance can bring enchantment to the local view too. In this case, the landowner is a local authority which has had it in its keeping for forty years.

(ii) Self-builders more often than not have to look for land which has already been developed (known as brown land). The ideal plot will be one that has not been contaminated, but will be occupied by a dilapidated house or bungalow which can be pulled down and the site cleared. "That the land has established residential use means that it is relatively easy to obtain planning permission for a replacement home...Alternatively, you can look for a property with a large garden, which could be sub-divided to create space for an extra home." What might the land cost? "As a rule of thumb...between a third and a half of the value of the completed property" [b]. Of course, the house our self-builder puts up will cost much the same wherever erected; but the land cost will vary according to the locational advantages the site offers.

(iii) The importance of Moreton-in-Marsh to to-day's property market "lies in its position and distance from London, marking what estate agents call 'the Cotswolds dividing point'. The hills, towns and villages that make up the Cotswolds stretch 25 miles by 90 miles across western England, with those parts closest to London some 60 miles away...What gives parts of the area an added attraction – and a hefty premium on property values – is that they are within reasonable commuting distance from the capital...by direct trains to Paddington station, used by hardy commuters prepared to travel 90 minutes each way...Farther north or west into the Cotswolds and a daily commute to the capital is less attractive...The 4,000 residents of Moreton ...therefore find themselves at a financial dividing point" [c].

(iv) The big defect in land reform legislation in Scotland (and on community-right-to-buy in particular) has been that its focus is on rural land, where land values are almost invariably low. Thus who owns what percentage of land acreage misses a key fact that most of the nation’s value is to be found in the big conurbations. Who, given the option, would rather accept as a gift an acre of land in central Edinburgh over an acre in Elgin, let alone an acre on Eigg? Land owes its value to the advantages bestowed on it by Nature and, usually more specifically, to the presence and activities of the population as a whole.

(v) "Dairy Crest is selling its Nine Elms milk depot [in London] for £17.6 million...The site and an adjoining small industrial estate will be turned into tower blocks containing 194 homes by the group redeveloping Battersea power station...With doorstep milk deliveries continuing to decline...Dairy Crest has been gradually selling off its former depots. Nine Elms, it said, was an exceptionally valuable site and will make it a profit of £15 million" [d]. Mmm! We calculate the average cost of the land alone at £90,722 per apartment.

(vi) In ultra-posh north-west London, on The Bishops Avenue (nicknamed Billionaires Row), there are some 15 unoccupied and dilapidated mansions "worth as much as £350 million. The super-rich who own them are confident that even if they leave the properties to rot they will still get a tremendous return on their investment when they sell up, because of increasing land values...Renovation costs on houses left empty for more than two years are eligible for a reduced VAT rate of just five per cent compared to the normal 20 per cent. In addition, if these gargantuan, wrecked properties are demolished, and a new home constructed on the site, building costs are not subject to VAT" [e].

(vii) "In practice 20 per cent VAT would not affect house prices, which are set by market conditions and the availability of credit. The VAT would be treated by housebuilders as an additional cost of development, like bricks, tiles, labour and local infrastructure improvements. They would cover it by reducing the amount they pay for land...As VAT on new-build would largely fall on landowners it would have the beneficial effect of taxing economic rent. The tax could easily be made revenue-neutral by reducing taxes elsewhere" [f]. The Land Value Taxation Campaign agrees that all taxes come eventually from the rental value of land [g]. It also agrees that LVT is a replacement duty, not a supplementary tax. Actually, LVT is something of a misnomer for the policy, which is no more than collection of an annual land-rent charge.

Footnote:- **Housing bedevilled by tinkering, muddle, contradiction**

"Successive governments have done everything they can to push house prices up – with super-low interest rates, tax breaks for buy-to-let, Help to Buy and so on. That's why, measured by interest burden, UK house prices have rarely been more affordable. But on measures of earnings they have rarely been so high...The threat of higher property taxes pushes down house prices because buyers mentally capitalise the tax. They...subtract that lump sum from the price they are willing to pay for the house and its attached burden to-day." There is already a kind of mansion tax called the Annual Tax on Enveloped Dwellings, known as Ated, "charged annually on houses bought inside companies to avoid stamp duty...From £3m-£5m it is £15,000. By £20m it is £150,000 a year. That's real money...Ated is to be charged on houses worth £500,000 or more from 2016" [h]. Call all that a housing policy?

PARTY TIME

Last year the Liberal Democrats approved a programme to bring in LVT to replace the council tax, the national non-domestic rate (the UBR), stamp duty (the SDLT) and other property taxes. Curiously (or maybe typically) they still decided to promote the mad mansion tax. This year, "The Liberal Democrats have used their party conference to pledge to build 10 garden cities, including up to five along the re-opened Oxford - Cambridge rail link. Up to 50,000 new homes would be built along the new line...with express stations and high-frequency connections used as incentives to expand existing towns" [j]. We hope the delegates underlined the benefits to their new towns policy of having LVT on hand to facilitate first the construction of the new towns and then the civic life of the eventual inhabitants. We note, sadly, that that pesky mansion tax is still in place - why tax developments?

It took a Conservative M.P., Charles Walker, campaigning in the recent Rochester and Strood by-election, to top that. His words of wisdom to the electorate? "The danger is if you vote UKIP [United Kingdom Independence Party] the value of your house will go down" [k]. In the event, UKIP captured the seat. What interests us here, however, is that the warning ought more properly to have been directed at the value of the land upon which the house is set. The public was being told that the social standing of the constituency, of the neighbourhood, would suffer: the site, the location would become less desirable. That, to say the least, is problematical. Furthermore, it is not at all obvious that the house would itself lose value. Were this clownish declaration to result in a clearer understanding of the distinction between land (which came free, long, long before man evolved) and man-made wealth, the orator might go down in history as having revolutionised the science of political economy for the 21st. century.

[a] Paul Strohm, "Estates Gazette", 15th. November [b] Ross Clark, "Daily Mail", 5th. September [c] Graham Norwood, "Financial Times", 12th. October 2013 [d] Nick Goodway, "London Evening Standard", 31st. January [e] Steve Bird, "Daily Mail", 13th. February [f] Henry Brougham, letter in "Financial Times", 1st. February [g] See, for instance, "Practical Politics", Issue No. 206, at page 12 and in top three paragraphs on page 13 [h] Merryn Somerset Webb, "Financial Times", 25th. October [j] "Estates Gazette", 11th. October [k] Matthew Holehouse, "Daily Telegraph", 18th. November

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