PRACTICAL POLITICS

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TALES FROM FIVE TOWNS

"The smaller industrial towns of Wellingborough, **Corby** and **Kettering** in the north and east" of Northamptonshire "are all witnessing an increase in office stock" (Daniel Cunningham, "Estates Gazette", 23rd. July 2005). "Transport links with London provide these towns with an advantage – especially **Wellingborough**, which has a regular train service to the capital. This is unlike Northampton, where agents say the train service is about as reliable as the east Midlands' weather."

Of greater concern to **Northampton** "as a regional office hub", however, is rivalry from **Milton Keynes** across the border in Buckinghamshire. "The lack of a mainline railway station leaves Northampton looking a bit more provincial than Milton Keynes". It seems there are no plans to undertake improvement of the Northampton to London rail link in the foreseeable future. Office rents are already higher in Milton Keynes than in Northampton. Building costs will be about the same, so it is the benefit of locational advantage that accounts for the difference in Milton Keynes. This underlines the powerlessness of Northampton landowners to affect their own land values. They just have to remain content with what they already absorb so effortlessly, and await some distant injection of outside capital and other people's work.

KILLING BY CONDITIONS

"South Cambridgeshire District Council, which controls a doughnut of land around the city centre, plans to have more than 32,000 houses built over the next 10 years" (Nadia Elghamry, "Estates Gazette", 10th. September). "But for private developers, half of all development land will have to accommodate affordable housing. That could mean developers achieve zero value from half of all residential land…Some developers will seek commercial uses for land, *while others will play the waiting game and leave sites empty*" [our italics – ed.]. This affordable housing condition will be on top of planning gain supplements and other development taxes, consideration of which follows, on our middle pages.

First, we must make a correction. It is not developers but landholders who will take the hit and apply the brakes. No one, from development company chief to general labourer, will work for less than the going wage rate; nor will a banker or anyone else lend for less than the going rate of interest. Any penalty imposed must fall on landowners, who can afford to hang on and await at least a partial change of mind. The way to have homes or anything else built at acceptable prices, is to introduce LVT to bring more land forward, while taking taxes off wealth creation.

THE PLANNING GAIN PANTOMIME, or BARKERING UP THE WRONG TREE

The Town and Country Planning Act, 1947, brought in a betterment charge on the increase in the value of land where this derived from a grant of planning permission. For reasons summarised in our Issue No. 49, the financial provisions failed and were later repealed. The Land Commission Act, 1967, was a second attempt at capturing betterment, and likewise failed. A third attempt took the combined guise of the Community Land Act, 1975, and the Development Land Tax Act, 1976, but was essentially a re-run of previous failures and met the same fate.

The Town and Country Planning Act, 1990, addressed planning gain through what became known as Section 106 Agreements. These began modestly with requirements to contribute to or put in infrastructural developments necessitated by or associated with the proposed development, but later broadened to include demands for provision of amenities more and more remote from the specific application. In Milton Keynes, a scheme has been elaborated for payment of a set "infrastructure tariff" (or, more scathingly, a "roof tax") to be paid by developers on building work undertaken. There is also stamp duty, recently remodelled as the SDLT (stamp duty land tax) and applied as a transaction tax when real estate changes hands. The latest wheeze, born of the Kate Barker Report, is the Planning Gain Supplement (PGS) which has all the makings of yet another development tax, although rumour has it that it will come in at a lower percentage than the 1947, 1967, and 1975-76 attempts. So, the horsemen of the Inland Revenue apocalypse ride on development chargers named One-O-Six, Tariff, SDLT, and Barker's PGS.

These and the earlier failed development taxes share certain easily observable characteristics.

(a) A planning gain supplement (or similar) is, by definition, largely irrelevant at the margins where land value is low and development mostly hard to come by.

(b) Development taxes are avoidable. Landowners with highly valuable land who foresee big tax demands can sit back, not go for planning consent, and simply withhold their land from the market until there is a government prepared to drop the measure. The tax hit can raise money for the chancellor only where it leaves really big money in private hands – in other words only if largely ineffective.

(c) Development taxes tend to reduce the supply of land in what is already a monopoly market. Up goes the price of all such land as does become available, which in turn further inhibits development – not presumably the objective!

(d) The tax hits only price increases attributable to grant of planning permission, and only on the occasion of the grant of the consent. Development land accounts in total for less than 5 per cent of all land.

(e) Thus, development taxes ignore all increases in land value arising from events other than grants of planning permission – such as additional economic activity, movements of population, or new infrastructural projects.

(f) Development taxes ignore all land value, pre-existing and on-going, not affected by a development application. They also ignore all land value already attaching to a site at the time planning permission is sought for a development on it. Development taxes thus miss most of the land value of the United Kingdom!

(g) Development taxes are a “one-off” charge, levied as a single “hit” on an increase in price (capital value increment) at grant of planning permission.

(h) Development taxes lose thereby the opportunity to collect annual revenues. Why dismiss the chance to collect the increases in land values which will be created by the activities of future generations?

None of these development taxes or planning gains taxes enjoys the advantages of LVT. A land value tax is just that: it is not any old tax related to land, and certainly not a tax on developments made on land – it is a duty that falls on the annual rental location (or site) value of land. It collects the rent which each land parcel could command if let annually on a perpetually renewable lease. Each site is valued in turn, disregarding any developments made in or on it but taking all neighbouring land as being in its existing state of use and development. The resultant revenue progressively replaces existing taxes. Accept no substitutes! Only LVT will do!

WHAT EVERYONE AGREES?

“Everyone agrees that when there is an increase in value on land there has to be a collection of some of that value by government, and that should be then used to enable the delivery of the infrastructure needed for expansion” (David Higgins, formerly of English Partnerships, now of the Olympics Delivery Authority, cited by Jim Pickard, “Financial Times”, 31st. December). Mr. Higgins is reported in the context of planning gain, and is said not to be fond of Section 106 but to favour the infrastructure tariff/roof tax and to be putting his weight behind the PGS.

In fact not everyone agrees. Many may, but others will be receptive to the evidence, and will marvel at the Gadarene rush to repeat past failures. We, of course, do not agree at all. There is a barely perceived truth behind the Higgins statement, but the understanding is incomplete. Why only development land? Why only at the point of granting planning approval? Why only on the *increase* in land value? Why only on *some* of that value?

Part of the trouble may be that Mr. Higgins and his like believe that planning authorities *create* land value. That is mistaken. All they can do is *release* pent-up land value, by allowing demand to express itself. Even then, nothing will be built if there is no demand – who wants a dozen 50-storey office blocks in a wilderness? Land value – *all* land value – is a people value, brought into being and sustained by people, where they choose to live, work, and take their recreation. Logically and in simple justice, it has to be collected for the public revenue. What is private is the work of minds and hands, and taxes should be removed from it.

SOUTHEND-ON-SEA and a lesson in the making

"The world's longest pleasure pier may look battered and burned following a recent fire…but millions are to be spent restoring Southend's mile-long tourist attraction to its former glory…The town is now on the up, bolstered by economic initiatives including revamping the shopping centre and seafront" (Simon Midgley, "Mail On Sunday", 23rd. October). "Southend is today an increasingly important dormitory town for commuters working in the capital. Attracted by cheaper housing, frequent and relatively quick train services, miles of sandy beaches and easy access to the countryside…Londoners are moving to this densely populated Essex town overlooking the Thames estuary. As well as being designated the cultural and educational hub of the Government's ambitious Thames Gateway regeneration initiative, it is also home to a new Essex University satellite campus."

Until the coming of the railways, when "Southend grew into London's largest seaside resort", South End had been a hamlet dependent on "fishing, agriculture and oysters." It is easy to forecast what the present century will bring. What is the inevitable consequence of population movement to an Essex seaside town already described as "densely populated"? Will the "cheaper housing" remain so? It is surely an act of supererogation to assist the reader's response by recording that the article refers to a detached 1930s house on the eastern outskirts of the town, which changed hands in 2001 for £127,000 and has since doubled in value. Where people move, land value moves. Furthermore, how much of the benefit of that Thames Gateway initiative cash will find its way in to land value and thence to the bank accounts of lucky landholders?

Why do our masters persist in throwing money and money's worth away like this? Is it any surprise there is nothing left in the kitty for the truly needy, for public services, and – yes – for elimination of poverty too. Surely someone on the look-out for how to redistribute wealth might be inclined to take notice?

ADVICE FOR THE LAND INVESTOR

"The key factor is location. The most valued land is adjacent to existing residential/developed land with good amenities, as it might gain planning permission. A plot in the middle of nowhere is unlikely ever to be developed" (as explained to Monica Porter by Anthony Butlin, "Financial Times", 26th. November).

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