PRACTICAL POLITICS

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Following the success of "The Council Tax" and "The Funding of Local Government", the latest Whitehall farce has been revealed by ODPM Productions Unlimited: "Local Government – What Local Government?"

Revaluation of domestic properties was long overdue, but fear of voter reaction led H.M. Government to set up a review of the Council Tax, possible modifications to it, and indeed other altogether different options, under the chairmanship of Sir Michael Lyons. This did not prevent the Government from seemingly short-circuiting the Inquiry by assuming an outcome favouring retention of the Council Tax and announcing that the revaluation would take place in 2006, conveniently well after the May 2005 General Election. Thus the Lyons report would join the Kate Barker report (on housing and related planning and funding issues) deep in the long dank grass.

The Government then got worried about the 2006 revaluation. The solution was to change the terms of the Lyons Inquiry, widening it to look at the way local government is organised. Then, at the end of September, the Government announced it was postponing Valuation Office Agency work on the Council Tax revaluation until after the next Election (which does not have to be held until 2010). The RICS promptly claimed that this was "allowing existing council tax bands to become increasingly irrelevant to the property market", thereby missing the point that that was the whole purpose of this cowardly exercise! With the passage of time, the general trend is for the price of the house itself to fall behind the rate of increase in the value of the land it stands on – a phenomenon seen most dramatically in the so-called housing "hot spots". This Government knows all about the land question but is afraid to tackle it squarely, for reasons that are difficult to fathom on purely intellectual and historical Labour Party grounds.

Now one hears that, notwithstanding the constitutional issues already awaiting attention (see our Issue No. 140), the Government is again to succumb to the urge to avoid matters of substance at all cost, and tinker instead with structures. Again, the conclusions of the Lyons Inquiry are being pre-empted. Where there are two tiers of local government (districts and counties), one or the other gets the chop, or some other merger arrangement takes place. Would it not perhaps first be appropriate to agree upon what local government is supposed to do and what powers it might be allowed?

H.M. Opposition is not in the best position to take advantage of the Government's tribulations. The current Council Tax is based on valuations reflecting the 1991 housing market, and was introduced by the Conservatives in hurried replacement of the Community Charge before the 1992 General Election (and held down by means of an increased grant, financed by raising VAT from 15% to 17½%). The Liberal Democrats are also caught on the hop, having run at the last Election on the policy of a local income tax, which proved a readily resistible attraction.

Among the three main parties the Council Tax has no real friends – but, at present, no effective enemies either. Citizens must expect a mishmash of compromise proposals. In evaluating them, it is as well to remember that, for all its faults, the Council Tax does collect annually some of the rental value of land in domestic use, just as the Uniform Business Rate does collect annually some of the rental value of land in commercial and industrial use. The words to reflect upon, are "annually" and "rental". Single hits on *increases* in *capital values* at the time of *grant of planning permission* (such as a planning gain supplement, schedule 106 or tariff agreements, or any other development land tax) are to be shunned, as, variously, deleterious in the short run, inconsequential thereafter, and minimal in their overall reach. There is no substitute for the taxation of land values, fully and properly implemented. At local level the policy is usually known as site value rating.

The solution to the Council Tax dilemma as presently perceived is to proceed to revaluation, but this time (i) avoiding capital values and banding; (ii) including all domestic properties plus all sites with planning permission for housing (unless there is demonstrably no market demand for housing in that location); (iii) ignoring the value of buildings and other developments on each site in turn, but taking all surrounding sites as being in their existing state of development; (iv) using the best available market evidence to produce a valuation roll based on assessment of site (only) annual rental values; (v) not neglecting to provide for frequent updating and revision.

Thereafter, (vi) all other land, whether or not currently included for the National Non-Domestic Rate (the UBR), can be incorporated by valuation or revaluation on a site value (only) basis; and (vii) the central government grants and equalisation payments provided from general taxation can be replaced by a precept on the site value of the deputed collecting authority, with concomitant abatement or replacement of existing national taxes.

THE UBR: SCOTLAND TO ALIGN?

Following the establishment of devolved government, the Scottish Executive set the country's UBR at a level above England's. At present, businesses in Scotland are paying 46.1p in the £ on their industrial and commercial properties, as against the 42.2p charged south of the border. “Based on current figures, it is believed that this move will cost the Scottish Executive in the region of £200m a year” (Niall Rankin, “Estates Gazette”, 22nd. October). “Speculation will mount over how this will affect local government finance”.

The decision appears to have been generally welcomed, although logic and experience surely suggest this is mistaken. Certain losers are the Executive, the local authorities, and whoever is going to have to fork out the missing £200 million. The winners will be the landlords. Apart from a tiny handful of benevolent, careless, or incompetent exceptions, landlords negotiate the maximum they are able to extract when granting or renewing leases. A lessee can afford only so much and still remain in profitable business. That ‘so much’ is a total figure, representing all his outgoings on a property, including of course his UBR payments. If these are lowered, the landlord knows he can ratchet the property rent up at the next round of lease negotiations. Conversely, if the level of UBR goes up, the landlord finds he is himself under pressure. There is ample experience, especially in England, to demonstrate the truth of this. Why is the Scottish Executive so ill advised?

Footnote: – The phenomenon of largesse to landlords appears again in the history of the SDLT (stamp duty land tax – nothing to do with site value, just a new name for stamp duty on transactions in property). “The 2003 Budget abolished stamp duty on property purchases in so-called ‘disadvantaged areas’…which gave a one-off boost of 0.5% to capital values” (Value and Income Trust Annual Report and Accounts 2004). “The industrial units in Norwich [benefited] to a small additional amount from inclusion as a ‘Disadvantaged Area for Stamp Duty’ purposes” (Chairman, Artesian Performer plc, in statement to shareholders, 2004). Does this surprise the Treasury? We may add here that the recent lull in the rise of house prices has followed the large increase in SDLT in the 2005 Budget. Although the buyer makes the actual payment, the cost has to be borne by the seller, because the buyer can afford an outlay of only so much in total. This is being recognised, in such coded remarks as “Sellers are realising they need to price their property realistically – otherwise, they will not achieve a sale.”

WHAT DEVELOPERS KNOW (and some others feign not to!)

“The excuse normally given by British officials for taxing work and enterprise but not land values is that it is impossible to separate out the elements in the cost of property that represent pure space from the return on bricks and mortar. Yet this distinction is made every day by developers” (Samuel Brittan, “Financial Times”, 15th. April).

LAND AND THE HEALTH OF AN ECONOMY

"High house prices are killing the economy. No wonder growth is sluggish when Britons have a collective £3 trillion of wealth tied up in unproductive assets – their homes – which could be better invested in wealth-creating activity" (Ross Clark, "The Times", 23rd. November). We agree, with one important caveat. The house itself is a man-made product, and *is* wealth. The ground it stands on was not man-made. The same house costs much the same to build (labour and materials) wherever it is erected. What makes the final cost so different is the location value, the value of the land. It is the lost wealth tied up in land purchase which constitutes the problem for the economy. The annual rental value of land can be assessed and collected to fund public revenue requirements, in place of existing taxes on wealth creation, trade, spending, and saving. That will boost the economy!

LAND, THE NEW BIG ISSUE

For 35 years, "Europe" has been the perpetual big issue, the origin of ructions within parties, governments, and cabinets. It still is. Alongside it ran the state of the economy – remember control of the commanding heights, the white heat of technology, monetarism, privatisation, and, now, whatever? When "Practical Politics" first appeared, there was a widely held pretence that land did not exist, or at any rate was without economic importance, and had rather gone out of fashion. It may have been the crash of '92 which began the process of re-evaluation. Officialdom remains in denial of course, but everything points to an awareness that land is, after all, the key factor, and that to neglect it is to ensure failure. Between neglect and the correct policy, however, lies a whole grey area. Before we get determined leadership to adopt and implement full LVT, we have to endure timid, part-understood suggestions of pecks at just part of it. This will not do. There is a limit to the amount of income tax that the country will stand; and taxes on goods and services that raise the cost of living are equally unwelcome and push up demands on the welfare budget. Privatisation receipts, offshore oil and gas revenues, and gold reserve sales have all been dissipated. The future does not seem as bright as once it did. Something must be done! LVT, anyone? This is a programme which can fit the appeal of all the parties. Who's first?

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