Practical Politics No.88

We reproduce here a past issue of our journal.

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CONTENTION OVER THE UBR**

The revaluation for the Uniform Business Rate, effective 1st. April 2000, is well under way. One firm of surveyors is already predicting geographical swings; and the manufacturing and distribution sectors "could face between 20% and 80% increases in their rating assessment" (Anita Howarth1 "*EGI News*", 7th- April). "When considering rental offers for new leases and when negotiating rent reviews, occupiers should take into account the anticipated rate increases - " What was not said is that landowners will certainly be taking account of rate reductions!

Meanwhile, Parliament is processing the Non-domestic Rating (Valuation) Bill, 1999. This legislation corrects (or, some say, over-corrects) a Lands Tribunal decision in *Benjamin v Anston Properties*. Henceforth rundown buildings will be assessed as if they were in prime condition: "Landlords will only be given a discount if they can prove that it is uneconomic to repair a property" (Lucy Benyon, "*Property Week*", 19th. March). We are cynically amused at the uproar and indignation this is causing. We think buildings and other improvements should be de-rated entirely. All we want is to see the site value collected - all of it !

****UBR is the Uniform Business Rate on commercial properties with which the Thatcher government replaced the old UK Rating system that was levied on the notional rental value of all properties, including land and buildings, both commercial and domestic. These had got out of step with real rents and there had been few revaluations. The domestic properties first had a poll tax to replace rates, and later, after that was discredited, a "Council Tax" levied on the notional "value" of the property - approximately the purchase price at that time of inflated values - in five assessment value bands. The top band includes all properties over about £280,000 ($450,000) - some some of the most expensive houses, mansions, manors and castles.**

The UBR is currently assessed and collected by local government but is handed over to the central government for redistribution as grants to the local authorities. There is little connection between the assessment values of the commercial properties and the surrounding infrastructure that those properties enjoy, and none at all between the grants received and the UBR collected by the local authorities. Hence the evident need for some reform.

STILL GOING DOWN

"Japanese property prices fell for the eight [sic] straight year last year and at a faster rate than in previous years, according to the National Land Agency" ("*Property Week*", 1st. April). "Commercial values in Tokyo are now 75%

lower than their peak in 1991." Land was so overvalued in the long, speculative boom, that it still has some way to fall before sensible levels are reached and profitable economic activity can pick up again. World leaders and leading economists show no signs of learning the lesson, so another major land-induced slump must follow, say a decade into this brave new millennium starting on 1st. January 2001.

WHY NOT SELF-FINANCING DEVELOPMENT?

Improvements, public and private alike, add, overall, to the value of neighbouring land. The last of these examples points to a key policy change.

(i) **The Birmingham Northern Relief Road**, the country's first toll-motorway, "will link the M42 at Coleshill, Warwickshire, and the M6 at Cannock, in Staffordshire" (Lisa Pilkington, "*Estates Gazette*", 13th. February). An estate agent is sure it will "attract new business and developments along its length", and another attests it will "open up a raft of commercial sites along the M6. It could also make the Black Country and Northampton increasingly attractive to industrial and distribution occupiers". Users pay tolls, and landowners scoop up enhanced unearned values.

(ii) Landowners in **Andover**, Hampshire, will gain from the **Newbury by-pass**. "The A34 connects to the A303 and the M4" and, according to an agent, has created a carriageway from Portsmouth to Glasgow ("*Estates Gazette*", 27th. March). Andover is now "ripe for expansion". "Prior to the by-pass, it took three hours to go to Birmingham and back. Now there is a saving of 40 minutes each way."

(iii) "Ask any property professional in **Lincoln** to name the city's most significant event - at least, since the cathedral was consecrated in 1092 - and you will get the same reply: the opening of the university" (Adam Tinwonth, "*Estates Gazelle*", 13th. February). "The university's influence can . . . be measured through the town's cash registers . . . Future commercial growth . . . would be helped by . . . a direct rail link to London and an upgrade of the A46." A county council official confirms, "The A46 upgrade is due to be done in the 2001-2002 financial year. It will open up land for distribution use." Only three years to go, landowners !

(iv) At the close of an article on brownfield sites, land assembly, and compulsory purchase order procedures, Charles Fulford notes that "an enhanced land assembly programme will have knock-on implications for the public purse . . . This should, however, be put in context. The Commission for the New Towns . . . has been successful in generating longterm gains off the back of its land assembly programme. As land is assembled, cleaned up (where necessary) and infrastructure put in place, **the enhanced development values** can be used to offset the initial costs" ("*Estates Gazette*", 9th. January). For earlier comment on the CNT, please see our Issue No.67. It is our view that full LVT, correctly implemented, will of itself ensure proper redevelopment. Crucially, the close relationship of improvements to land value applies to all land value, not just to patchwork increments.

THE PRINCIPALITY OF WALES

According to the British Relocation Directory 1999, "Infrastructure and transport improvements are ongoing . . . In the south, moves continue to improve the M4 westwards . . . while in the north a three-year PFI project is planned to extend A55 improvements through Anglesey and connecting Holyhead. This year also sees the opening of the £15m European Raifreight terminal at Wentloog, east of Cardiff. Assisted areas in Wales already benefit from regional selective assistance - the grant allocation for 1998-99 being set at £61.3m", on top of which there is funding from the taxpayer via the EU in Brussels.

Two specific examples show how locational and infrastructural advantages are trumpeted as attractions. Newport County Borough Council vaunts "that Newport is probably the most 'business accessible' town in the U.K. It is strategically placed between Cardiff . . . and Bristol, both less than 15 miles away. Business is served by two high-speed bridge links over the River Severn to the markets of London, the south-east of England and Europe . . . The M4 provides direct link to London Heathrow Airport . . . and Cardiff Airport is only 30 minutes away." Rhondda Cynon Taff County Borough Council "has Government Assisted Area Status, attracting some of the highest levels of grant assistance available in the UK mainland", in addition to which the area "benefits from excellent roads, rail, sea and air services, enabling hassle-free access to all parts of the UK, Europe, and beyond. London is within two and a half hours' driving time along the M4 motorway, while the A465 Heads of the Valleys road leads directly to the M50 and M5 motorways serving the Midlands and north of England." None of this is bad news for those who hold land in Wales, especially as they were responsible for none of it - nor is it only in the towns that the impact is felt: "Average agricultural land prices have been rising since 1995 and by early 1998 they were over 50 per cent higher than at the end of 1994 (Welsh Office, statistical release SDR 3/99, 3rd. February 1999).

Wales really should not have to advertise its undignified success at begging. Land values are lowest at the outer fringes, reflecting those regions geographical disadvantage as compared with the centre. Taxes like PAYE, VAT** and motor fuel duty take no account of this, and at the margin tip potential wealth creation in to unprofitability. With such taxes replaced by nation-wide collection of site values, however, the impost bears lightly at the fringes, and there is no need for compensatory churning of taxpayers money, first taken out of the economy and then ploughed back in as special assistance grants - a system that is hit-and-miss, open to abuse, expensive to run, and apt to create a regional dependency culture.

VAT = value-added taxes on all goods and services except rents, childrens clothes, books and magazines and certain medical supplies.

PAYE = "pay-as-you-earn", the (earned) income tax deducted by employers for the government from wages and salaries against personal assessment codes.

WATER

(i) The property industry has a stake in the protection of our coastal areas . . . The situation is getting worse. Yet the Ministry of Agriculture has slashed the grants for **sea defence** work. Local authorities that used to get 70% have to get by on 50%" (John Gummer, M.P., *Estates Gazettes*:). Central and local government fund defences against coastal erosion. The beneficiary is the one whose land is thus protected at public expense. Where is the justice in that? A correct revenue system would untax improvements and labour but would collect the site value of land. Thus any work done by a landholder to protect his property would be tax4ree and in the ordinary way the site value assessment would not rise. Alternatively, public money could be disbursed to construct defences, and the landholder would be assessed on the higher location value the land would now command. The present position is indeed disgraceful, but for reasons quite other than the one advanced in Mr. Gummer's special pleading.

(ii) In Issue No.75, we addressed the menace of **London's rising water table**. It has now been announced that the government will back "an ambitious plan to extract millions of gallons of water from underneath London to stop the capital flooding" (George Parker, "*Financial Times*", 27th. February). There will be extended pumping at existing boreholes. New wells will be sunk in the heart of the city and in outer London. The proposal, from Thames Water, involves pumping "15m gallons of groundwater a day, from 50 new boreholes" at a cost of about £lOm initially and about £2m a year thereafter". Who should pay for all this? As we said before, under a system of LVT, landholders would pay an annual charge in line with the value of the sites they occupied. Regular revaluations would take account of movements in land values, up or down. Under such a regime, the necessary works could be publicly funded. As things are, though there is no good reason why the citizenry at large should bail out (or bale out) lucky landholders who already exploit London's by no means inconsiderable location value for their own benefit or charge others for right of access to it.

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