Preparing for Land Value Taxation in Britain

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Abstract

This project centered on a ‘property tax stakeholder’ postal survey and meetings with experts to discover what obstacles were perceived to inhibit implementation of land value taxation (LVT) in Britain. The survey indicated strong underlying support for many principles of LVT: that it could assist urban renewal; it encourages improvements to property; and it is more just than present business rates. Overwhelming support exists for conducting pilots of LVT before any nationwide decision on its implementation. However, there is a need for tools to enable the land value concept to be visualized, and hence better understood, even by property professionals. The main conclusion is that detailed proposals for a pilot of split-rate LVT to replace the Uniform Business Rate need to be prepared before any serious debate about the merits of a ‘tax shift’ towards land values can occur.

About the Author

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Preparing for Land Value Taxation in Britain

Introduction

Context

This project came about because in 1999, after a period of some 25 years with little or no debate, land value taxation (LVT) had become a topic that was being recommended for study in the public arena in the United Kingdom (UK). The author, having had a lifelong interest in LVT, found himself heading a small organisation dedicated to the ideas of the greatest exponent of LVT, Henry George. The Lincoln Institute's new LVT Fellowship programme came at just the right time.

The most influential of those recommending further study of LVT in its various forms was international architect Richard Rogers, now a member of the British House of Lords. Lord Rogers was appointed by Deputy Prime Minister John Prescott in 1998 to prepare a report for Government on what policies might be adopted to engender urban renewal. In his June 1999 Urban Task Force report (Rogers et al), he said of the local version of LVT, known in Britain as Site Value Rating (SVR), "…experience overseas suggests that it may be time for a re-consideration. A mixed rating model could provide us with an alternative way forward. This is, however, a question for others to consider in more detail."

In the world's third most densely populated country, problems of urban renewal are bound to affect most aspects of political and economic life. Urban sprawl, sustainable public transport, levels of public spending and taxation generally and the growing cost of personal benefits, are all issues forming part of the context in which this project began and continues.

With a New Labour Government came a commitment to devolution. Scotland in particular was given a spur to rediscover old policy priorities, such as land reform and national variations in tax and property law. Initiatives begun in one part of the British Isles have a tendency to stimulate debate in other parts. Thus local government finance in England came into the picture.

All-party support for the modernisation of government processes had led in 1998 to a number of public sector initiatives to complete and integrate several land-based information systems throughout the UK (see Table 1). Most notable was a National Land Information Service (NLIS) for England & Wales.

Another team of British researchers had been funded by Lincoln Institute to explore the prospects and develop proposals for LVT in Britain. Connellan and Lichfield had recognized however that more work needed to be done before legislation could be drafted and that practitioners in property taxation would raise "certain technical objections" that would need to be addressed[1]. This project builds directly on their work, the main conclusion of which was that a 'split-rate' local property tax, such as is used in some Pennsylvania cities, would be the best first LVT option for Britain to adopt, as a gradual replacement to the Uniform Business Rate.

The Henry George Foundation of Great Britain (HGF) had, in October 1999, announced that it was creating a Progressive Forum (PF) to take forward a research agenda, involving all interested parties, in the field of resource rentals for revenue. This project became the first under the PF umbrella and was openly used to promote PF.

Aim: Research Questions

The aim of the project is to prepare the United Kingdom for the start of an implementation of LVT, by exploring real and perceived barriers to the idea and its application in all or some parts of the country and devising practical methods to overcome these. It was perceived from the outset as requiring at least three years to complete and likely to spawn more detailed studies of certain aspects. In particular, the active participation of property professions, key government agencies and policy makers at every level would be needed to complete the work.

Three research questions were posed for Stage 1 of the project:

1. How can land values be assessed consistently and fairly in the UK for purposes of a split-rate LVT?
2. What (besides the absence of an agreed basis for valuation) are the real and perceived obstacles to an LVT implementation in Britain, based on the Lichfield/Connellan proposals?
3. How can such obstacles be overcome?

Conduct of Study

Identifying Stakeholders

An initial list of organisations representing 'stakeholders' in local and property taxation was drawn up. From the outset, it was realised that unless additional resources could be attracted the range of stakeholders surveyed would be incomplete. However it was felt that, by a mixture of surveys and interviews, the aims of the first stage of the project could be achieved, so long as those involved were representative of the full spectrum of likely views. This sample of interest groups is listed in Table 2.

As soon as the Fellowship Award was announced in November 1999, these organisations were invited to participate in the project in the following ways:

a. Appoint an individual to be project point-of-contact;
b. Pilot the package of documents that would form part of the postal survey, as well as the survey form itself;

c. Assist with selection of a representative group of respondents to the postal survey and to invite to other meetings during the project;

d. Comment on various documents throughout the project.

A short background paper, sent with the initial letter, explained the context and emphasised that agreement with LVT was not required, merely acknowledgement that it was a subject worthy of study in the interests of all concerned. The paper aimed to be impartial. Despite this, two organisations declined to take part and others failed to respond to the invitation (see Table 2).

A meeting was called during early February, for this ‘pilot group’ to discuss the proposed conduct of the study with the investigating team. A first draft of the package of documents for the Stakeholder Survey was sent out in early December, as soon as members of the group has replied to the initial invitation to participate.

A researcher with a background in property valuation and management was recruited to assist with the project. Jacqueline Bent initially was assigned to just the valuation aspects but later took on a wider role when HGF’s Research Co-ordinator left.

The Stakeholder Survey

Target

The original proposal was for about 200 carefully selected stakeholders to be targeted with the survey, possibly using telephone or face-to-face methods for data collection. However it was decided that the initial survey should be postal, because the long-term benefits of a larger mailing outweighed the short-term ones of a more rigorously controlled sample of responses. The target of 200 responses was retained but a 5-7% overall response rate was anticipated, meaning that some 3-4,000 individual addresses needed to be identified.

Organisations which agreed early on to participate in the survey were the Forum of Private Business (FPB), Association for Geographic Information (AGI), Institute of Revenues, Rating & Valuation (IRRV) and Local Government Association (LGA) of England & Wales. Attempts were made a little late in the study to involve the British Property Federation (BPF). About a hundred other survey packs were sent out to assorted individuals, mainly local and national politicians and representatives of not-for-profit organisations.

FPB. ‘Small business’ in Britain has no legal definition but Government seems to treat companies with as many as 250 employees as small and medium enterprises (SMEs) . FPB members are mainly ‘micro businesses,’ employing less than ten people. FPB has about 25,000 members, a small proportion of the total number of such businesses. Some 3.5 million people work in—or are economically supported by—businesses with less than 100 employees. These are hit hardest by the present business rates. Margaret de Wolf, Rating Policy Officer of FPB, readily accepted that her members ought to be interested in LVT as an alternative.

AGI. All property taxes are geographical. AGI's members are in the business of supplying or using systems that incorporate geographical data. They come from a variety of industries and all sectors but would be expected to understand the LVT concept and have an interest in its possible implementation.

IRRV. Members of IRRV include those closest to operating certain key aspects of the present property tax system. They would be expected to have an interest in, knowledge of and views about LVT. IRRV's Head of Research, Moira Hepworth, is another David C Lincoln Fellow in LVT.

Local Government. LGA has a clear interest in anything that could replace the present local property taxes[2]: Council Tax and Uniform Business Rate (UBR). In Scotland, these taxes could be reformed by the new Scottish Parliament.

The use of addresses only meant that no telephone follow-up of non-respondents was possible. This increased the potential for bias in the results. However it decided early on that only an indication of the views of the overall property tax stakeholder population was being sought at this stage in the project: the scope and nature of views and not the quantitative definitive 'vote' on issues. Hence some bias would not preclude success in achieving the stated aims.

Content and Style

It was decided that rather than pose questions and ask for 'yes' or 'no' answers, a set of statements would be given. Respondents would be asked to grade their reaction to each statement, from 'strongly agree' to 'strongly disagree,' with 'don't know' answers grouped with 'no opinion' for simplicity.

An initial list was drawn up from various sources, attempting to cover every aspect of local and property taxation appropriate to the UK context described above. This list comprised 67 statements, some being quite similar, grouped into various topics such as 'Ethics & Fairness' and 'Macro-economics.' However, at the pilot group meeting in February it was quickly agreed that, for a postal survey of people with (in general) a low interest in the subject, a much shorter list was essential. It was also agreed that technical subjects such as valuation methods should be left out of the survey. The shorter and less technical the list, the greater the likely response, especially from non-professionals such as FPB members.

The survey package, it was agreed, needed to include a minimum of documents, all of them non-technical and brief.

a) A covering letter. If possible, this should come from a person within the recipients' profession or organisation and known to them. It would offer a small, appropriate inducement to respond quickly (a free booklet and/or free admission to upcoming PF events), feed-back if required and the default option of anonymity. The letter for each mailing was tailored to suit.

b) Leaflet about Progressive Forum. A secondary aim of the survey was to raise awareness of LVT and existence of a charity dedicated to pursuing research, in the hope that some respondents would join PF. The booklet *Shifting the Burden*, (Vickers, 1999,a) explaining why LVT was now a worthy and timely topic for research and debate, was offered to respondents. Also the main survey mailing was timed to be two weeks before a series of events to launch PF around the country.

c) Briefing paper on the project. This gave the essential background facts about LVT and the Fellowship and some quotations from recent publications and reports calling for research on LVT (LRPG 1999; Rogers et al, 1999). At the request of the Policy Officer of FPB, the version used for their mailing was only one page; the others received a two-page version.

d) Reply paid envelope.

e) The form itself. This was in two parts, each on one sheet of A4, colour-coded for each mailing:

> **(i) Analysis sheet**. This asked for nothing other than a reference number, that could identify an individual respondent. It requested certain information that enabled the respondent to be categorised (e.g. UK region of main workplace; a self-assessment of prior knowledge of LVT; profession) and had the 16 chosen Statements on one side of paper (see Appendix 1). The boxes for placing ticks for response were numbered above '1' to '5.'
>
> **(ii) Contact details sheet**. This included a printed return address to fit in the supplied window envelope, to make returning the form as easy as possible. There was also space for respondent's name, the reference number and all contact details (not obligatory, although a phone number was asked for, to enable the response to be validated).

After the pilot group had approved the list of statements, the form and the other documents, the survey package was piloted with about ten people selected by the AGI, IRRV and FPB themselves, before being printed for the main mailings. Minor changes were made, mainly to improve appearance not content.

PF headed paper was printed in time for the survey and used to distance HGF itself from the project, to remove a perceived potential barrier to some responses. With IRRV, whose members would be most immediately affected by introduction of LVT, it was felt HGF paper should not be used ('Henry George' is a name with negative associations for some property professionals). However all target groups except FPB were seen as potential PF members, so the PF notepaper was used to promote PF.

<u>Mailing Process</u>

Three mailings were conducted during March and early April. AGI's full UK membership of 1100 was mailed from their offices by HGF volunteers. IRRV selected a geographically balanced sample of 350 (roughly equal numbers of valuers, appeals experts and revenue professionals), also providing address labels for a mailing prepared by HGF volunteers at the IRRV offices. FPB staff carried out a similar mailing of 400 members from their Cheshire office, under professional supervision, with HGF as return address but a covering letter by Ms de Wolf.

LGA supplied HGF with address labels for some 500 leading members of their national committees (mainly elected local councillors but with some non-political salaried advisers). HGF selected only those on relevant committees, just under 300 in all. This only covered England & Wales. The Convention of Scottish Local Authorities (CoSLA) was unable to supply similar lists because of its different structure and aims.

For Scotland, after failing to obtain address lists from CoSLA as late as June, the Investigator used the 1999 Municipal Year Book to manually select at least two names of senior members or officials from each of the 28 Scottish Unitary local authorities, 110 names in all. These were sent a pack almost identical to the LGA one.

Survey Analysis

As the completed forms came back to HGF, each was given a unique serial number. The two pages were filed separately. If the respondent had indicated interest in the project or PF, this was noted on the address part of the form and these names were added to a 'PF Prospects' database for future mailings. Some respondents did not complete their address details but their responses were included in the analysis. All those who did complete a mailing address were sent a free booklet and details of upcoming PF events.

By early May, the return flow of completed forms was easing. With final numbers predicted to be only 150-200 and to reduce costs, a volunteer HGF member was employed to manually transfer responses onto graph paper, one sheet for each mailing. Although this made complex analysis initially more difficult, it was cost-effective for early overall results. The work took only about 30 man-hours plus four hours for the Investigator to check.

Manual totals for each category of respondent (AGI, IRRV, FPB, local government and 'miscellaneous') were transferred to an Excel spreadsheet for analysis. It was found that there was a significant short-fall of responses to some statements. It was assumed that a 'blank' response equated to a 'don't know' or '3' and the totals were adjusted accordingly.

By late June a clear picture was emerging from the responses. The author had in March offered a paper to the annual conference of AGI in late September, which was accepted and had to be submitted by mid-July. Provisional results of the survey were included in this paper. A more complete analysis followed a month after the Scottish local government mailing in early July, in time for the presentation of the AGI conference paper (Vickers 2000,g).

Land Valuation

Approach

It was felt that the proposals set out by valuation expert Owen Connellan, with his planning colleague Professor Nat Lichfield, were sufficiently complete to form the basis of discussion by others who ought to have knowledge and interest in technical aspects of LVT. Ms Bent therefore combined her induction to the subject with preparation of a draft paper *Proposals for National Land Valuation for Taxation*, which was ready to send to Connellan for comment in early April. The combination of experience of the Principle Investigator (UK land information data and systems) and Ms Bent (property valuation in general) plus their *lack* of experience in the specifics of LVT meant that they would be at least comparable in knowledge to the target readership of the paper: British rating practitioners.

The project allowed for six meetings with groups of experts around the country to discuss the draft paper. In addition, meetings with representatives of national organisations involved (potentially or actually) with aspects of land valuation were planned. Development of a definitive set of proposals would take place by a process of iteration during the year.

As It Happened

What happened was somewhat different, largely because of the lack of interest shown by the valuation profession. Despite two articles (in April and September) by this author (Vickers 2000a,b) in the IRRV journal *Insight*, a mailing to all known senior rating professionals (some 150 working within about 50 miles of the six chosen venues) of Ms Bent's draft paper resulted in only four people attending the three meetings (Liverpool, Bristol and Sheffield) convened[3] in England outside London to discuss valuation for LVT. A further meeting in Edinburgh was attended by five people. Lists of such experts had been supplied by the Rating Surveyors Association (RSA), the Valuation Office Agency (VOA) and one of the Scottish Boards of Assessors.

Meetings in London were held with: Her Majesty's Land Registry (HMLR), VOA and RSA in March; UK Government Department of Environment, Transport & Regions (DETR) Local Government Finance Division and also Royal Institution of Chartered Surveyors (RICS) Rating & Valuation Panel in April; BPF in June. Offers of meetings with the following organisations about valuation as well as wider aspects of LVT were either ignored or declined: (British Chambers of Commerce, British Retail Consortium, Federation of Small Businesses, Confederation of British Industry, Institute of Directors).

A number of interesting points were raised in meetings and correspondence with the above, some of which were addressed in writing but hardly any were resolved to mutual satisfaction. It soon became clear that unless and until it is regarded fairly widely as a serious prospect for practical implementation in some part of the UK, LVT will not generate significant interest among valuation practitioners or those affected by their work for a serious debate to occur.

There are numerous—often conflicting—misconceptions and prejudices about how it works and what its effects and costs would be. The Investigator and Assistant felt rather like a mixed doubles tennis pair, new to a tennis club, who can't find anyone to take them on!

At a public council meeting called by the London Borough of Hounslow in July (a group of councillors there who support LVT had obtained a debate on the subject), a leading member of the valuation profession, Brian Hardy, agreed with the Investigator that, until LVT was tried out in Britain, debate on the subject would not make progress[4]. This study from that point onwards focused on how to persuade politicians and their professional advisers that 'piloting LVT' was both advisable and possible, rather than developing a set of technical proposals that would never be discussed.

Perhaps the most significant development relating to valuation during the project so far has been the publication of the five-yearly review of VOA (2000). Whereas recent detailed reviews of the main function of VOA (property valuation for local government rating) were confined to relatively minor tinkering, this top-level study drew attention to several points that offer the prospect of a major re-engineering of VOA's processes and attitude towards exploiting its data for wider public and commercial use. These are briefly addressed later in this report but will need to be returned to in subsequent phases of this project.

Discussion and Analysis

General

Because of the low level of interest shown so far by the valuation profession, which is described above, Phases III (Analysis) and IV (Conclusion) of this Stage of the overall project departed from plan. More emphasis was given to the Stakeholder Survey and addressing the questions raised about how LVT could work in the UK; less emphasis to the development of proposals for a national land valuation for taxation.

Several significant events occurred during the year which influenced the course of the project. Most were totally outside the control of HGF; some were to an extent affected by this project and by others funded by the Lincoln Institute. A number of articles written for journals by the author during the year (Vickers 2000 a-f) were, in part, contributions to the debate surrounding these events. These events are described briefly below.

Concurrent Debate

Scottish Land and Tax Reform

Year 2000 saw the passage of the first of a series of pieces of legislation in the new Scottish Parliament affecting land reform. The debate surrounding this barely touched upon LVT and indeed could be said to have set back the prospects of introducing it, because the legal basis for such a tax—the Crown's feudal superiority in title to Scottish land—was weakened. Scottish landowners now appear to have absolute rights, subject only to planning laws and Sovereignty.

Nevertheless there have been two positive, linked attempts to focus debate in Scotland upon the potential for LVT to be used as a source of local government revenue:

a) The Scottish Executive's local government finance policy officials were asked in July to prepare a paper specifically on LVT, for which HGF was requested to submit evidence. Among the terms of reference of this paper was a requirement to consider *what* research on LVT, as a source of local government finance, would represent value for money to the Scottish people. HGF responded to officials with a detailed brief about the various Lincoln-funded projects on LVT. Advice was given to consider a pilot implementation in one area as a cost-effective part of the research programme.

The Executive's draft paper and its recommendations were considered by a committee of the Scottish Rating & Valuation Council (SRVC) on 30 October and passed to the SRVC Council itself. They were due to make their recommendations, which will be in the public domain, to the new Finance Minister of the Scottish Government in early 2001. At the time of writing, nothing is known about the outcome of the Executive's work. However the Government has undertaken to initiate a "comprehensive economic evaluation of the possible impact of moving in the longer term to a LVT basis" before the end of 2001.

b) The Scottish Parliament's Local Government Committee has initiated its own Inquiry into finance, which will begin in January 2001. A Liberal Democrat Member of the Committee, Donald Gorrie MSP, whose party is partner with Scottish Labour in the ruling coalition, has managed to ensure that LVT is in the Inquiry's terms of reference. Gorrie is personally a supporter of LVT, as is his Party (officially at least). HGF has felt it politic to leave Land Reform Scotland as the main channel of advice to the Inquiry.

The Scottish Land Reform Convention, a civic body that provides a forum for debate that broadly matches the 'upper house' of a bi-cameral legislature (but without any constitutional powers), has engaged with the Executive, Parliament and people of Scotland throughout the year. Many of its leading members support LVT but so far there has been little opportunity for them to initiate debate on the subject.

The Urban and Rural White Papers

Lord Rogers' Urban Task Force report (Rogers et al, 1999), set up to advise the UK Government how to assist urban renewal and reduce countryside sprawl, was supposed to lead within a year to two linked policy statements known as White Papers—precursors to legislative Bills—one each for urban and rural affairs. In fact it took nearly 18 months for the Urban and Rural White Papers to appear in November 2000 and both have been received with some disappointment. With a General Election almost certainly less than six months away, the Labour Government's main concern appears to have been to produce as few commitments as possible, especially if they involve tax.

Just as this Fellowship was a response to the positive signals from the UTF about the importance of fiscal measures as urban policy tools, so it was that the Town & Country

Planning Association (TCPA) was quick to set up an Inquiry, funded by the Joseph Rowntree Foundation (JRF), to investigate further the UTF fiscal proposals. TCPA was founded soon after the death of Henry George, to campaign for planned 'garden cities' and promote better town and country planning. JRF was also founded by a supporter of LVT, at about the same time. HGF contributed to a series of round-table discussions in September and October 1999, which resulted in a report *A Taxing Question* for TCPA published in July 2000 (Bate & Evans, 2000).

Although the authors of this report admitted that they had not felt that a detailed look at LVT was justified in their work, both of them showed considerable sympathy with the idea. As a result the last of their six recommendations was: "The Government should seriously examine the case for establishing a system of land value taxation in the longer term." They stated that LVT could prove to be the most effective fiscal policy to support the Government's urban objectives. Papers for the Lincoln Institute by Lichfield & Connellan (2000), and by this author in evidence to the UTF (Vickers 1999b), were cited as references.

At the launch of the report, TCPA's Chairman welcomed the efforts being made by HGF to set up PF as a focus for LVT research. It was said by a former senior civil servant at the launch that neither HGF nor Government should be in control of such a research programme, since both would be perceived as biased in favour of a particular outcome. This reinforced the author's view that PF could, by involving LVT sceptics and agnostics in its work, act as catalyst for independent research.

By the time the White Papers were published in mid-November (DETR, 2000a,b), Government had already to some extent closed off its options for radical reform of property taxation (see below), apparently without reference to the case for reform contained in the UTF's report. Although one official in the DETR central policy unit had expressed interest in research (such as this) on economic instruments that support Government's policy objectives, his colleagues reaffirmed that Ministers believe that present taxes operate well. The suggestion of using LVT pilots as 'action research' to establish whether it is, as claimed, such a benign economic instrument in terms of urban renewal (irrespective of its revenue raising potential) has been ignored when put specifically to Ministers.

At the first briefing by a Minister after publication of the Urban White Paper, Beverly Hughes MP (whose portfolio includes urban regeneration) admitted to the LGA on 27 November that the fiscal and other proposals it contains are not the last word from this Government. They were selected partly because they build on the success of existing pilots (such as Urban Renewal Corporations in Liverpool, East Manchester and Sheffield), partly because they are non-controversial and partly because of Treasury cash limits on the programme.

<u>Liverpool's Initiative</u>

In 1998, when the Liberal Democrat Party (Lib Dems) won control of Liverpool City Council from Labour, it was the first time for over 50 years that a major British city had an administration which (in theory at least) supported LVT. At that year's main September annual Federal conference of the Lib Dems, they reaffirmed in their economic policy (Liberal Democrats, 1998) a commitment to "shifting the burden of taxation off people and onto pollution and natural resource usage."[5] The following conference of the Lib Dems, in March 1999, approved a policy on local government finance for England & Wales (Liberal Democrats, 1999) that retained SVR "for the longer term." Six months later (by which time the Party had consolidated its majority in Liverpool and also taken control of Sheffield) Lib Dems Federal conference approved a new policy[6] that would allow individual councils to choose for themselves how to raise their revenue, within limits.

This allowed LVT campaigners within the Lib Dems to approach a leading supporter of SVR on Liverpool's ruling executive and suggest that his Council might ask to be allowed to pilot this new Party policy. A meeting of Lib Dem LVT supporters took place there in February 2000. A month later, after quite a heated debate in which Lib Dem opponents of SVR expressed the view that it was not suitable for all areas, SVR was reaffirmed at Federal Party conference as a key component[7] of Lib Dem policy for urban renewal (Liberal Democrats, 2000).

One of three English regional meetings to launch PF took place on 24 May in Liverpool City Council Municipal Buildings, chaired by a member of its Executive. At that meeting, the two council members present agreed to collaborate by placing a motion on the next full Council meeting agenda.[8]

So it was that on 14 June 2000 a motion was passed, Reason for Request of the motion to be considered being: "that the City has been adversely affected by derelict land and property [and] would benefit from considering a pilot scheme of SVR as a matter of urgency." The motion called upon the Chief Executive to write to the Minister for Local Government and the city's five Members of Parliament calling for "a fundamental change in the way tax is raised" and recognising "that ownership of large tracts of derelict land and property has a negative effect on the local economy." The Council's Labour opposition voted against the motion.

The Chief Executive received an acknowledgement to his letter, stating that the matter would be clarified in the autumn Urban White Paper. However no mention was made in the White Paper on LVT, SVR—or even the Vacant Land Tax called for by Lord Rogers. When asked at the LGA briefing to clarify how the White Paper affected Liverpool's request, the Minister said that she was still interested in what Liverpool was proposing to do. This falls short of an endorsement of Liverpool's initiative but does not close the door to it.

In a letter signed the same day to one of her own Party's MPs for Liverpool, which had supported the City Council initiative, Ms Hughes says:

> "The Government is keen to encourage development of brownfield sites in areas where that would bring regeneration benefits, but thinks LVT would be the wrong method. Although LVT would ensure that land held vacant incurs tax in the same

> way as land held in productive use, the attractiveness of such taxation depends on the reason why the land is vacant. If vacant derelict land normally happens because developers are holding onto the land and delaying development for speculative purposes, a tax on vacant land might be attractive. However, such a change would be counter-productive if the main barrier to re-development is either low demand and/or development being uneconomic because a site needs substantial clean-up costs before building can begin…. It seems to me that one of the causes of derelict land in Liverpool is likely to be low demand, and that there are sites in our major cities which need decontamination."

Liverpool stills wants to proceed with a pilot of SVR. The Investigator had meetings on 7 November with the city's Director of Finance (representing the Chief Executive) and Executive Member Cllr Chris Newby, whose portfolio includes several projects where improved ways of delivering services are being tried out.

In a two-page article in Liverpool's main daily newspaper 16 November, headlined "A Smart Way to Stop the Rot" on the day a second Stage of this Fellowship was awarded, Newby was quoted: "We're pleased to be given pilot status[9] and excited about the prospect of making a change to the tax system which will improve the city immeasurably. This is an example of progressive taxation which will appeal to a city which is trying to be radical in the way it does business."

Fabian Society Commission

On the day that the LGA held its briefing on the Urban White Paper, a report (Jacobs, 2000) was published that had been hailed in advance as the most significant opportunity in many years for supporters of LVT in Britain to make their case. The Fabian Society is Britain's oldest surviving think-tank and was founded by followers of Henry George, Sydney and Beatrice Webb. It is still influential in the Labour Party. In September 1998 it had appointed a Commission on Taxation and Citizenship under Professor Lord Plant, an eminent historian. The Commission was supposed to have reported within a year but actually took over two years.

At its launch Lord Plant had pointed to the fact that a tax on land is 'unevadable,' which has always made it an attractive option. The report's main author, Fabian General Secretary Michael Jacobs, had taken evidence to the Commission from HGF and others. Mssrs Connellan and Lichfield had appeared before some of the Commissioners to explain their proposals in early 1999.

In the event the Commission's report was disappointing to many supporters of LVT, since it failed to recommend that the tax be adopted, despite showing a good understanding of many of its benefits. The Executive Summary points to one reason why there is no recommendation to adopt LVT, although they had examined "a proposal to introduce LVT by splitting business rates into an owner's and occupier's component. Such a system has been introduced successfully elsewhere, but we are not persuaded that this would be compatible with the planning system in the UK."

In a very timely endorsement of this Investigator's approach, they go on to say: "To examine this further, however, we recommend establishment of pilot schemes in different local authority areas of two-tier business rates, to investigate their feasibility and effectiveness in the UK context."

The report contains a whole chapter on Taxing Land and believes that "land taxation is more sensibly viewed as a form of environmental taxation." There is another chapter on other forms of environmental taxation and Jacobs has expressed keen interest in working with the charity Friends of the Earth and HGF to link the case for LVT with other 'eco-tax' proposals.

<u>Reviews of the VOA and UBR</u>

Although the Investigator was aware from the time of his Fellowship bid that VOA was one of the original partners in the NLIS project and a key player in any British LVT implementation, he was unaware until this work started that there was a major review of VOA being conducted during 2000. The year also saw a review, initiated by DETR, of the way that the '2000 Revaluation' of businesses for the National Non-Domestic Rate (NNDR) had been conducted by VOA in recent years. DETR also published a Green Paper on local government finance, which included proposals for reform of NNDR (another name for UBR). These three linked initiatives of Government, mainly affecting only England and Wales, have a significant impact on the future course of this Fellowship and the prospects for LVT in Britain.

The VOA Review was triggered simply by the fact that VOA is an Executive Agency of the Inland Revenue and Parliament requires all such Agencies to be reviewed every five years. This was the second review of the VOA, which was created in 1991. It covered the five years up to 31 March 2000 and commenced on 2 November 1999. Publication was in late summer, not in time for this author's paper to the AGI annual conference (Vickers 2000g). A number of findings and recommendations in the report will need further investigation, involving those responsible for taking action within VOA and its client Government Departments. No indication of VOA's response to the report has been seen.

Perhaps the most significant conclusion in the report was that its information databases are "potentially, a prime marketable resource" but that "the VOA does not always keep its information databases consistent or up-to-date, or market them effectively." There is an implication that the entire information-rich business of VOA might need re-engineering if public interest and the return on taxpayer investment are to be maximised.

The review of the 2000 Revaluation for Business Rates was constrained by the conclusion of a Government White Paper on Modernising Local Government of 1998 (DETR, 1998) that there is no need to change the basic method of valuation for local property taxes. This view does not appear to have changed despite the revelation in the VOA Review that 74 per cent of valuations are appealed by business tax-payers, which results in erosion of between five and nine per cent of the anticipated revenue from UBR and a cost to the general taxpayer of £125 million administering and contesting appeals. This is more than four times the cost of the 2000 Revaluation itself and excludes costs incurred by businesses in agents' fees. Furthermore maintaining the valuation lists between each five-yearly revaluation is estimated to cost £250 million. So constrained were the terms of reference of the DETR review of the 2000 Revaluation that its conclusions are virtually irrelevant to this project (DETR 2000d). Nevertheless those who call for a truly radical review of business rates and their basis in valuation and property law believe this document contains plenty of evidence in support of such a view.

The Green Paper on local government finance (DETR, 2000c) was similarly constrained in scope, ruling out in advance any significant change in either the basis of valuation for *ad valorem* property taxes or in the methods of local government finance. Despite claiming to "want to broaden the debate about local government finance," the Deputy Prime Minister's introduction to the Paper specifically states that, on business rates and most other issues, Government "is clear what direction reform should take." Green Papers actively seek comments and are normally followed within a year or two with specific legislative proposals in White Papers: DETR expects to respond to comments received (deadline was 9 December 2000) with such a White Paper 'next year.' HGF's response was in line with the emerging conclusions from this study and predicated upon a pilot of SVR in Liverpool.

<u>Reforms in Wales and Northern Ireland</u>

In October 2000, after a year in which a Labour minority administration ruled the new Welsh Assembly, Wales followed Scotland in forming a coalition government between Labour and Lib Dems. Although Wales lacks the devolved tax varying powers of Scotland, an atmosphere has been created in which officials in Cardiff positively relish every opportunity to demonstrate their different approach to that of Whitehall. The Welsh Executive may, if Assembly approves, vary the manner in which the burden of its national UBR falls on certain categories of ratepayer—but not the manner of valuation or total tax take from businesses in Wales. But they can press for more powers and ask for the UK Government to consider new policies. The new Lib Dem junior minister for local government finance in Wales is a supporter of SVR. Just before he was given this portfolio, as a back-bench member of the Assembly he had written (to himself, as it turned out!) a response to the Welsh equivalent to the Green Paper discussed above, in which he called the replacement of UBR with SVR. This should at least add to the pressure on Whitehall to consider pilots of LVT.

Northern Ireland (NI) has a very different system of local property taxation to the current British UBR and Council Tax. The Community Charge—known more often as Poll Tax—was never introduced there in 1989/90, so nor were its replacements in 1993. A rating system survives that is almost identical to that which Poll Tax replaced across the Irish Sea. NI is also experiencing political change, since the first directly elected devolved Assembly was given executive powers following the 1998 Good Friday Agreement. A radical re-engineering of both the Land Registry of NI (Apsey, 2000) and the NI Valuation Office (McClure 2000) were announced in the past 18 months, with full political support. Compulsory first registration of land title will begin in mid-2001 and is due completion by 2007, several years ahead of England, Wales or Scotland. This will take NI's core land-ownership data set from the nineteenth to twenty-first century in one bound. VOA proposes to use mass valuation techniques for rating assessments, for the first time in the UK. Both systems are planned to have full public access. It appears that NI land information systems could leapfrog those on mainland Britain.

Global Tax Trends and Political Effects

Europe has seen significant developments in taxation in the past few years. The European Union has been pressing for greater tax harmonisation between member states and prevented UK from implementing a new round of targeted urban regeneration grants, on the grounds that they were anti-competitive. Three member states (UK, Germany and Italy) during 2000 auctioned licenses to exploit wavebands of the electro-magnetic spectrum (a form of revenue from the economic rent of a natural resource): the UK raised £21.5 billion from mobile phone companies for four 20-year leases, which was three times what market experts and the Treasury itself expected.

Commentators across the political spectrum continue to raise the prospect of what one called 'taxes based on geography'[10] as Governments seek to secure their revenue to pay for public services that underpin a quality of life which voters have come to expect. Consumer protests over tax levels, such as those over fuel taxes in much of Europe in autumn 2000, are more of a political threat now than labour disputes over wages.

It is not just the level of taxation but also its incidence and economic effects that are starting to be debated. HGF was told in October 2000 by Friends of the Earth—possibly the most politically influential environmental group in much of the developed world—that it has decided to make more clear than ever before its support for the principle of LVT. Alliances between anti-poverty campaigners and sustainable development think tanks such as HGF are likely to assist progress towards a balanced debate, informed by up-to-date research.

Questions Around the Smart Tax

This was the title given to a document[11] (Vickers 2000i.) produced in late October 2000 as a major part of the project, in answer to the second and third Research Questions. It incorporated the results and analysis of the Stakeholder Survey and discussion of most of the significant comments raised during the project up to that time. Its immediate purpose was to provide a focus for debate during and after the conference at which it was launched (see below).

Subtitled "A new look at issues surrounding the introduction of land-value based taxation for the UK," it set out in "an ordered and measured way" some of these perceived issues, which had not been done since Hudson (1975). It attempts to dispose of most of them and to point towards likely or possible solutions to those problems that are acknowledged to be more real than illusory. As a stand-alone publication, it does not reveal the sources of concerns raised during the project in private conversations and correspondence. Its intended readership includes but is not limited to experts in the field.

Issues are grouped into subject headings (Subsidiarity, Ethics, Valuation, Planning, Betterment & Compensation, Transition, Piloting, Technology), the scope of which are explained in an introductory chapter. Each section starts with a preamble, linking the following 'questions' to the findings of the Stakeholder Survey, which is described in detail in an appendix (similar to Appendix 1 to this paper). A second appendix very briefly sets out a possible scenario for initial pilots of LVT over the next ten years and includes an early version of Table 1 to this paper.

This report does not repeat most of that document. It concentrates on analysing in more detail the main issues (real as well as perceived), attributing some of the significant individuals and groups by whom they were raised and suggesting appropriate strategies for dealing with them. It also deals with issues that were raised by experts late in the study. But first to return to the event at which 'the book' was launched.

The Bournemouth Conference

The conference was planned from the outset as an opportunity to discuss the issues that had arisen during the project. It was also planned from early on as the first annual conference of PF. HGF's ruling Council decided in February to combine these elements of the programme with their AGM, which had been booked for a hotel in the resort of Bournemouth for the first weekend in November. The dates and venue were advertised in all correspondence relating to the project from the time of the Stakeholder Survey mailings in March.

In May agreement was obtained from the School of Economic Science (SES), another charity that promotes education in LVT and associated philosophy, to combine with them as joint organisers. A steering committee was formed to plan the event. To attract (it was hoped) some practitioners, a Friday afternoon start was suggested. However none of the committee felt able to attend a weekday event, not being themselves practitioners and having other paid duties. Therefore the weekend format was retained.

It was agreed early on by the steering committee that the aim of the conference would be to start to plan activities that might lead to legislation bringing in LVT. Such activities would include but not be limited to research. Such an aim seemed perfectly attuned to the aims of PF itself, as well as of this Lincoln Fellowship.

Two categories of attendee had to be catered for: people who knew about LVT and supported it but needed a better understanding of the practical problems that professionals would face in introducing it; and people who know little about LVT, were only moderately interested in it but whom it would be necessary sooner or later to impart a good understanding to, in order for any implementation to happen. The registration fee was kept low enough, it was hoped, to attract both categories. It was anticipated that about a third of the venue's capacity of 100 might be filled by the second or 'target' category, knowing that little difficulty would be experienced attracting the first 'captive' market. All of the substantial contribution from the Lincoln Fellowship budget was used to market the event among the 'target' audience.

To exploit the topical theme of urban renewal, a title was chosen: *Ground for Hope: The Smart Tax and Urban Renewal*. This was also intended to impart the message that there was a new approach to LVT, that it was 'smarter' than 'simple' SVR. Keynote speakers were chosen who would appeal to the target market: the Vice Chair of London's new transport executive (who happens to be a life-long LVT supporter); the chief executive of a London Borough (who is also a leading revenue administration expert); a professor of property taxation; and one of the leading campaigners for introducing the preferred model of LVT from Pennsylvania. All these speakers accepted the invitation without a fee. Their contributions were recorded on audiotape. Printed proceedings will be available in due course.

The core of the conference was to be a choice of two from four workshops on: valuation and property law; planning and urban economics; legislative and campaigning measures; and practical tax administration. For the target group, a tutorial on basic principles of LVT was offered as an alternative to one of the workshops. Workshop facilitators (two for each) were chosen who had reasonable knowledge of the theory of LVT and were experts in their profession.

Because it was supposed to be the basis for the workshops, all speakers and workshop facilitators were sent the draft of the book a month beforehand. Several fed back useful comments which were incorporated in the final text, which delegates collected upon registration. Although they were invited to read the book on the Friday evening before the Saturday afternoon workshops, few did so and there was little sign that the questions and answers in the book formed a significant part of the workshop discussions.

Timing the conference for a weekend appears to have deterred the target market, because the final attendance of some 80 people included almost nobody who was new to the subject and practising a relevant profession. There was no demand for the basic LVT tutorial. Nevertheless the feedback from the conference was very positive. The speakers were highly rated (workshops on the whole less so) and the aim was achieved. The steering committee met on the Sunday afternoon before dispersing and agreed an outline plan of action for PF: steering forward LVT research in Britain and engaging in other ways with current land and tax policy debates.

In the specific context of this project, the conference reinforced the Investigator's preliminary conclusions in the book. It helped him clarify his thoughts about how to deal with the main outstanding issues. These are discussed below.

The Real Questions

Market Evidence for Land Valuation

As expected, much of the expert discussion during the project has centred around the valuation process. Although very few valuers deny that a national land valuation could be done in only a few years[12], if the political will to apply resources to the task existed, there is extreme skepticism around several claims of LVT supporters:

- that it would involve less work than the present system;
- that it could reduce the level of appeals against assessment;
- that it would be understandable (and therefore acceptable) to taxpayers;
- that the UK planning system makes the work of valuers easier than it might otherwise be.

In short: "Why bother?"

The nub of the problem seems to be that valuers believe that property market transactions in bare land, which would be the 'bench marks' for wholesale appraisal of land values, are insufficient in number to provide evidence for assessments of other sites for tax purposes to be sustained upon appeal. Since there are so many appeals under the present system[13], it might appear that any new system would be better! This is one of those debates that cannot be resolved without further study, probably not without 'live' introduction of LVT for a significant area and period of time.

Not least amongst the problems is the innate conservatism of much of the valuation profession. Every profession is inclined to defend itself against pressure for radical change. Setting aside any suggestion that valuers might be inclined to support the political *status quo* and landlord interests, there is no reason to suppose that they are immune to the near universal tendency for a profession to believe that everyone but themselves needs to change. The present system provides a seemingly secure income for large numbers of surveyors and other property advisers. Changing it radically would, at a stroke, require most senior figures in the profession to re-think their whole approach to rating valuation. This would upset the hierarchy within and between organisations involved, giving a boost to research as against practice. Those at the highest level would have to admit that they might, after all, have been wrong in their advice to past governments.

Perhaps the most positive aspect of this project so far is that many senior rating surveyors accept that good advice on the practicalities of LVT cannot be given until and unless some of them have had a chance to experience it in British conditions. Some of the most skeptical, mainly those in academic circles, are beginning to think about how a pilot of LVT might be conducted in modern conditions.

Two fairly novel ideas (in British debates on LVT at any rate) seem to have been largely accepted. No serious objection to self-assessment has been raised, indeed self-assessment has recently become quite common in UK taxation and is now being discussed for accounting of leases in company balance sheets. And the lack of a cadastre defining land parcels with the precision expected by law in many countries is, it is realised, not a barrier to *sufficient* accuracy of measurement for the vast majority of land value assessments. As in other branches of surveying, measurement (of size and of value) need only be 'sufficiently accurate for the purpose': that purpose in this case being to clearly sustain assessments upon appeal.

Theory of Land Value

More fundamental than problems of quantifying land value fairly is the problem of conceiving that it even exists! Property professionals whose conversations are spattered with evidence that an understanding of land value effects is crucial to success in their working lives nevertheless perpetuate the myth that land value is 'hypothetical' or 'theoretical.'

The study has shown that there is a real difficulty for most people in conceiving of separate value for land and for 'improvements.' Almost entirely this is because there is no suitable language, nor any statutory framework, in which such a concept can be expressed effectively in a modern British context. It is as though what was once, in other cultures, an instinctive affinity with 'value' as a term applied to features in the natural world, has been air-brushed out of business language in a market driven economy. 'It can't be quantified, therefore it doesn't exist' or 'It doesn't (literally) count' conveniently excuse accountants and economists from making the separation between land and capital (Tideman, 2000).

Although most lay persons and many property professionals probably genuinely do not understand how or why land is a distinct phenomenon from capital, enough do for it to be reasonable to conclude that all could—if better tools for 'visualising landvaluescape' were developed. Imagine trying to explain weather forecasts without map displays and you have a similar situation. In the days before computer algorithms and mapping were applied to meteorology, people did not deny the existence of atmospheric phenomena just because they were very difficult to measure and depict. Nor should property professionals deny the socio-economic fact that land values change independently of the application of capital to particular sites, just because the tools for measuring and displaying land values are not yet developed.

Connellan & Lichfield (2000) adhere to the definition of land value used by Wilks (1974) in his valuation of Whitstable. No argument has been convincingly put that would require this to be amended prior to another similar exercise. Therefore it is quoted in full:

> "The annual site value of a land unit shall be the annual rent which the land comprising at that land unit might be expected to realise if it demised with vacant possession at the [appointed valuation date] in the open market by a willing lessor on a perpetually renewable tenure upon the [appointed valuation date assuming]
>
> (1) there were no buildings, erection or works on or under the land unit except existing roads adopted by a public authority and existing public utility services;
>
> (2) there were no encumbrances on the land save those registered under the Land Registration Act 1968;
>
> (3) all planning considerations relevant to the development value to be reflected in the annual site value having been taken into account;

(4) subject to (5) below there were not upon or in that land unit anything growing except grass, heather, gorse, sedge or other natural growth;

(5) in the case of agricultural land, the land was unimproved and in a state and condition such that, under the provision of the Agricultural Acts, neither claim or counter claim would arise upon a change of occupancy."

Tracing and Apportioning Ownership and Tax Dues

Although it has been admitted by officials of the relevant government agency for England & Wales that lack of a complete register of title or ownership of land is no barrier to the introduction of LVT, there remain some valid concerns about how *beneficial* ownership might be fairly apportioned. Much of the UK exhibits leasehold tenure and complex hierarchies of leases with overlapping periods of tenure and rights would make apportionment of the assessed LVT difficult.

Some experts have scoffed at the proposals of Connellan & Lichfield in this area, particularly that which requires the occupier to supply landlord details to local authorities (Dixon, 2000b). However, these have a respectable lineage (London County Council, 1938; Simes, 1952) and are analogous to procedures used in existing income tax (Schedule A) assessments (Connellan & Lichfield, 2000). However Dixon does not explain why these proposals would not work.

At worst they would, in a number of areas, involve a considerable amount of research and computation to derive individual tax bills for separate hereditaments. At best, there might on balance be a considerable reduction overall in such work, since for every area that has complexity there are quite possibly several areas where the landlord-tenant relationships are simple and collecting the tax will be administratively far more simple than is the case now. There are still, as Wilks noted in his second Whitstable study report (Wilks, 1974), far fewer landlords than tenants and therefore fewer bills to chase with LVT.

The possible benefits of LVT in this respect are diminished if it is to be introduced in a 'split-rate' form, as has been suggested. This is because the existing system would still need to be maintained, while a new one is brought in alongside. On the other hand, if the new system allows the rate bills under the old system to be reduced, that will reduce the likelihood of appeals, which account for a very large part of the cost to general taxpayers of the VOA (see above). Costs involved with maintaining the existing system would therefore 'waste away' and savings in appeal costs help pay for the cost of administering the LVT element of a split rate.

Contaminated and 'Unwanted' Land

Since the debate surrounding LVT, such as it is, is part of the urban renewal debate, the way LVT would operate where land is severely contaminated was bound to be highlighted. A significant proportion of brownfield (previously developed) land is said to be of such low—or even negative—value that it would not be possible to 'tax it into use' in the way that almost everyone admits LVT would incentivise other, non-contaminated land.

This shows a misunderstanding of how such land should be valued for LVT purposes. It also confuses the effect of contamination upon the site itself with the effect upon the surrounding neighbourhood. Assuming for the time being that an area, once such sites are decontaminated, has potential market value, then it is as a remediated or virgin site that each parcel ought to be assessed. The classic example is the area of the Millenium Dome at Greenwich, which was possibly the most contaminated site in London yet has now become a magnet for investment in the North Greenwich peninsula.

The vast majority of contaminated sites can be remediated at a one-off cost, whereas their annual rental value after remediation is a continuous revenue stream. The market value of such sites is a composite estimate of the (invariably positive) capitalised rent for a number of years in the future and the (negative and possibly larger) cost of decontamination. Decontamination is merely an extreme form of site preparation: a form of infrastructure investment for an area considerably larger than the sites needing remediation.

If the underlying rental value of a contaminated (or indeed any) site is insufficient to justify remediation for redevelopment, because there is no demand for a high value use, then the site will be zoned for a low value use and attract very little, if any, LVT in any case. If it is causing blight or more tangible harm to the wider area, then the costs of remediation will probably be offset by the positive effects which that would have upon the rental value and LVT levied upon those sites. This should form part of statutory Environmental Impact Assessments, although it rarely if ever does at present.

<u>“Don’t Frighten the Horses”</u>

There is no doubt that a sudden radical change in the basis of any tax that forms a significant proportion of public revenue will have profoundly disturbing effects. Much of the opposition to LVT has come about because even its advocates have failed to appreciate—or to emphasise sufficiently—that it would need to be introduced gradually. Since few British advocates of LVT have been active players in recent politics, they have not had to confront such practical issues as how to sell the idea to voters and politicians who need votes.

As Machiavelli recognised in “The Prince,” it is always easier to rouse the few who will clearly lose out as a result of a policy proposal than to gain the attention—let alone enthusiastic support—of the many who might gain from it. The task of LVT supporters is especially hard if those few are rich and influential already. Since the last real riots in Britain were over the Poll Tax, politicians are especially reluctant to express support for another tax could easily be made to appear to harm the finances of every person with a mortgage, a pension, an insurance policy or other financial interest in land ownership.

Throughout the study it has been necessary to state clearly that the aim is to establish how LVT could be introduced with minimum disturbance to financial markets. The fact that independent and highly respected bodies have been calling for research into LVT has been enormously helpful, as has the fact that discussion has been in the context of increasingly topical environmental issues and not part of more traditional party polemics. And of course it is not part of an argument for overall tax increase but for a tax *shift*.

While never ruling out the possible eventual adoption of LVT as one of the major sources of revenue at all levels of government, the project has concentrated on relatively minor initial stages. Partly this has been to avoid accusations of political motivation and to 'go with the flow' of opinion as far as possible. But genuinely there is perfect sense in taking such a complex process in small stages, so as to refine details of implementation.

<u>Short-term and Long-term Effects</u>

There are a host of understandable concerns about the effects of LVT. Because the property tax regime is only one of very many variables in the domain of urban and regional economics, it is very hard to prove that any one effect (good or bad) is attributable to LVT alone. For reasons given above, fear of adverse effects is a powerful brake to any radical change. This study used as much known experience and established theory of LVT as possible to predict and explain likely effects to stakeholders, as well as learning what they themselves perceived to be important. Among the feared drawbacks, which cannot be verified without pilots in a variety of areas, these were most commonly perceived:

1. Hardship to income-poor, asset-rich owners of land designated for higher value use;
2. 'Premature,' inappropriate development on sites where land assembly is difficult for various reasons;
3. Passing on the tax thereby displacing occupiers, especially small businesses occupying secondary sites in outdated property;
4. Over-development of towns and cities in already over-heated parts of the country;
5. Drastic fall in land prices, affecting institutional investors and mortgage holders.

Most of these effects, even if fears are justified, would only be short-lived. There is much less dispute over the claimed beneficial effects of LVT in the longer term. However getting to that long term involves dealing with the short term! The theoretical answers to these questions are given in *Questions around The Smart Tax* (Vickers 2000,i.) but are unlikely to change peoples' perceptions until they experience LVT for themselves in Britain.

<u>Local or National</u>

There are two dimensions to any property tax: coverage and assignment of revenues. The present debate in Britain is all about replacement of a property tax that is centrally imposed (on all business occupiers only), locally invoiced, centrally pooled and assigned to general local government expenditure. UBR is only 'local' in the sense that revenue from it is ear-marked to local government and its collection and administration is done by local authorities.

Other countries allow local government considerable discretion as to the tax base and/or rate at which property taxes are levied, as well as more detailed aspects of administration. There is a whole spectrum of options open to Britain. On LVT, Lichfield & Connellan confined their 2000 recommendations to a straight replacement of UBR by a split-rate property tax, avoiding the separate arguments over local variations and powers. In practice, with all major political parties in Britain committed to 'localising' the setting of business rates sooner or later and with devolution likely to spread the concept of diversity of tax raising powers in general, these wider arguments cannot be ignored for long.

In particular, the potential for a national LVT to contribute significantly to equalisation of wealth between regions and nations of the UK needs to be looked at. The minor Green and Liberal parties both support such a tax, which could be far less complex to administer, once an initial national land valuation was complete, than the present system of allocating grants to local authorities from the general tax pool, supplemented by various 'beauty contest' awards for particular zones and purposes.

The stakeholder survey showed little sign that people have started to think about LVT other than as a possible alternative local tax, either set centrally or locally. It also showed support for pilots, which can be seen as either trials for a national tax reform or the beginnings of full or partial subsidiarity in local property taxation.

Interim Conclusions

There are several strands of work which need to be pursued within the overall framework of this Lincoln Fellowship. One sub-set has been accepted as the subject of this Investigator's second stage award, now started, entitled *Preparing to Pilot LVT in Britain*. Although focused on Liverpool, this work does not exclude other locations in Britain from proceeding with pilot projects linked to this Stage 2 Lincoln Fellowship. Part of the infrastructure for LVT will be the development of a tool or tools, using GIS, for visualising landvaluescape. Finally there are proposals for particular varieties of LVT to suit certain areas and purposes.

Stage 2 Fellowship Proposals

Prior to the award of a second stage of funding for this Fellowship, a Study Tour had been scheduled for a group of British experts to visit three Pennsylvania split-rate cities to see what could be learned from their experience. The Stage 2 bid built on those plans but the award specifically excluded the costs of the tour itself. A major part of the funding however is to ensure that the tour results in a range of suitable educational materials: video, slide presentations, conference papers and a book.

Pennsylvania Study Tour

The need for a tour of Pennsylvania (Pa) arose from the specific mention in Lichfield & Connellan's report of January 2000 and the reference to 'mixed model' SVR in the UTF final report (Rogers, 1999). Plans began to be made as soon as it became clear that stakeholders in property tax overwhelmingly supported pilots of LVT before any national decision is made.

The Investigator noted early on that there is no recent example of an introduction of a 'pure' local form of LVT in a country that already has a well tried system of *ad valorem* property taxes. The local tax shift always seems to occur gradually, through a model such as the cities in Pa exhibit (Hartzok 1997). Hence the decision to recommend a split-rate in one or more local authorities as the first step towards a possible nation-wide implementation. This decision was endorsed by the Fabian Society the week after Lincoln Institute made the second stage Fellowship award (Jacobs, 2000).

Pennsylvania was chosen because it has cities with a nineteenth century industrial past and late twentieth century dereliction and decline, similar to much of urban Britain. Compared to South Africa and New Zealand, where there are also many cities with split-rate property taxes, it is closer and the change towards LVT is more recent. Finally there is a host organisation, with good contacts in the appropriate cities and able and willing to facilitate the Tour.

<u>Re-visiting Whitstable</u>

The only example of a pilot of LVT in modern Britain is that of Whitstable, visited by rating surveyor Hector Wilks in 1963 and again in 1973. Although only a trial valuation, which never got the chance to proceed as a real tax, it is felt that a study of the two Whitstable reports and related correspondence, especially during the deliberations of the Layfield Committee on local finance in 1975-6, would prove useful (Wilks, 1974 & 1975).

Technology, public attitudes to tax and local government, and the political landscape generally have moved on since then. Most significant, it is felt, is the widespread use of computers in government's property-related processes. Estimates of the work involved in valuing a local authority in modern conditions will be based on Whitstable, taking account of new technology.

<u>Denmark's Systems</u>

Denmark has had a local LVT for about 80 years. Wilks made several references to Danish practice in his reports. Since then, Denmark's level of LVT has reduced but computers have been fully utilised in its administration.

Although Denmark lacks any example of pilots, it is felt that a visit there to discuss the experience of LVT of a range of stakeholders would be a useful part of the preparation of plans to pilot LVT in Britain. This visit will take place, if possible, before that to Pa and after an initial review of Whitstable.

<u>Focus on Liverpool</u>

Since Liverpool has formally asked Government to be allowed to pilot SVR, this stage of the Fellowship will focus on the needs of that city. In HGF's response to the

Government's consultation on the financing of local authorities in England, a draft proposal was made (Appendix 2) that could possibly be incorporated in legislation to be brought before the next Parliament in less than two years. The main output from the Fellowship in 2001 will be a report for Liverpool City Council and DETR setting out in as much detail as possible the processes for and costs of implementing a pilot of a 'two-tier' business rate.

The report will also present the results of a stakeholder survey conducted in Liverpool by face-to-face methods. To establish whether the views of stakeholders correlate with the need for urban renewal, a control survey will be conducted in another local authority area with very low unemployment and a vibrant economy. The case for Liverpool will centre on its desire to use LVT as an economic instrument for urban renewal.

In many respects the work in stage two will mirror that in stage one. The main difference is that there is a much tighter geographic focus, with a link to a specific bid by a local authority to pilot LVT. However it is hoped that other local authorities and interest groups will wish to use the materials produced for Liverpool.

Seminars connected with the Fellowship will all take place in or near Liverpool, late in the year. As with stage one, the concluding conference will be in November. However experience indicates that a weekday venue will be better than a weekend.

Pilot and Transition

Very little further research or public education can be planned until pilots of LVT have been approved by government at the appropriate level in the UK. For England and Wales, that level is Whitehall, subject to enactment of necessary enabling legislation in Westminster. Conceivably a specialised form of LVT could be introduced to deal with transport infrastructure in London. Lack of enabling legislation is the primary obstacle throughout the UK but in Scotland and Northern Ireland devolved Parliament and Assembly respectively could take the necessary decision to adopt LVT or pilot it.

There are different likely medium term scenarios in each of the following four parts of the UK: English urban areas outside London (such as Liverpool); London; Scotland; and Northern Ireland. Wales will be influenced by both Scotland and England and Cardiff may, in the longer term, prove a fruitful legislative target for LVT. All these scenarios are somewhat optimistic and assume positive outcomes from every stage of research in the meantime.

Liverpool

Assuming that the second stage of this Fellowship produces a persuasive enough case for DETR to support Liverpool and allow one or more pilots of two-tier business rates to proceed, the first of these could be in operation by 2004/5. This assumes enabling legislation is in place by October 2002 and valuation for land-value based Landowners Rate (LoR) completed within 18 months.

This seems feasible if self-assessment is used and the new tax is confined to land not being used for residential or agricultural purposes. The HGF proposal (Appendix 2) based on Connellan / Lichfield, would see LoR bills initially addressed to tenants along with 'normal' business rate bills, unless there are from the outset no business rate-payers for the premises. In that case—and progressively for all sites—the LoR would be paid by landowners direct to the local authority. There should be no exemptions within the above categories of land during the pilots, which ought to run for five years before any review.

Depending on their local political wishes and the situation regarding their land information data (especially their local land and property gazetteers and land use databases) other councils could take advantage of the same enabling legislation that it is assumed Liverpool would exploit. HGF would hope to help arrange for one or two other pilots to run in parallel, one in a city where the datasets were fully completed and one in a city with a more vibrant economy from the outset.

DETR proposes to hold a conference in 2004 to review again the measures that it has set in motion following the Urban White Paper (DETR, 2000a). LVT is not one of these measures, so this Government (assuming it is re-elected) may not choose to include enabling legislation for LVT until, at the earliest, after that conference. It is hoped that, even if a Liverpool pilot cannot commence by then, valuation for LVT in Liverpool would have produced a complete technical and political case for it to do so soon thereafter.

<u>London</u>

The financing of London's transport system is the most critical issue facing the UK's capital city. The new Greater London Authority (GLA) will become responsible for running Transport for London (TfR), as the body succeeding London Transport is called, from April 2001.

So far this Fellowship has not specifically looked at London and its transport problems. However HGF is aware that several members of TfL's Board and of the GLA itself are interested in looking at LVT as a possible source of revenue. GLA already has limited powers to introduce charges for access to roads, which could be regarded as a form of LVT.

GLA and TfL should be encouraged to undertake research into the land-value effects of recent major transport infrastructure projects such as the Jubilee Line Extension. If it can be proved that a theoretical incremental LVT (levied on the value uplift due to a specific project) could more than pay for such projects, then it would be logical to seriously study whether GLA might be largely funded from LVT. This is how Brisbane, with similar functions, finances its city government.

LVT for London could replace the grant allocated from general UK taxation to GLA. This would however require acceptance by Treasury of the tax hypothecation principle which has hitherto not been favoured.

Scotland

Scotland could move very differently towards LVT than England. The commitment of its government to undertake research into the subject is unique in Western Europe, although it has still to be put to the test. As with the rest of the UK, there is no strong public or professional pressure for change. But with no serious prospect of a return to Conservative rule in Scotland and with no constitutional barrier to changing the method of local government finance for the whole country, it could be that Scotland—as a nation—becomes the pilot for LVT in Britain.

Northern Ireland

As with Scotland, it seems that there is no constitutional barrier to prevent the Assembly in Belfast from changing the way local government in Northern Ireland is funded. A reform of most of the land information data sets and processes is perhaps likely to be completed in the Province sooner than in any of the three nations of mainland Britain.

For this reason, it is important that LVT researchers engage with those working on changes to land registration, valuation and land use planning systems as soon as possible. There is a tradition of close and effective collaboration between different departments of government in Belfast, which is far less evident in London. On the other hand, there is no tradition of radical political reform or body of knowledge about LVT in the political domain. This could however be a blessing!

Visualising Landvaluescape

Perhaps the most important field for research relevant to LVT—not just in Britain but world-wide—is the development of tools with which property professionals, politicians and the public can be brought to understand the land rent phenomenon. If there is one single conclusion that has dominated this study so far it is that there is enormous potential for bringing together various expensively garnered publicly owned land-based British data sets, in order to enable what is happening in the economy over time and space to be represented as a changing 'land-value-scape.'

Visualising Landvaluescape is the name of a research project that the Investigator has been asked to lead by Kingston University School of Surveying. The Lincoln Institute has also asked that stage two of this Fellowship is used in part to help start the project. Depending on whether other resources can be levered in, over a period of between two to five years starting in late 2001 it is planned to develop the understanding of landvaluescape as a real phenomenon, then to develop GIS tools and applications in a variety of areas within the property industry that will demonstrate its utility (Vickers 2000, h).

LVT is not the main driver to this project. It is felt that urban planners and buyers and sellers of property and their advisers would find significant commercial benefits from such tools. But by making landvaluescape visible and enabling refinements in land value assessments to be made more transparent and accessible, it will become easier to overcome the conceptual and technical barriers that stand in the way of LVT.

Other Research Proposals

Although pilots of a local version of LVT are the most urgent of research priorities, other proposals deserve to be considered. Most could proceed in parallel to this Fellowship project.

<u>Lane Charging for Public Utility Contractors</u>

Others have recently suggested that congestion on roads, caused by closure of part of the carriageway to enable contractors to work on underground services or resurfacing, could be alleviated by giving an incentive to contractors to speed up such work. 'Lane charging' is already used by the UK Highways Agency on motorway maintenance contracts. The principle could be adopted for all roadworks, whereby contracts include a clause that requires the payment by lane-metre for every hour or day which part of a road is closed.

This is of course a form of resource rental: the contractor would be paying for exclusive access to the road surface. It would most probably lead to greater efficiency of working, for example by better co-ordination between different public utilities so that they carry out planned repairs to their plant at the same time.

Trials should be done in several areas over at least a few years if there is any doubt as to the efficacy of such a measure. The revenue ought to go to the local highway authority, not to Treasury. Charges could be related to traffic volumes.

<u>LVT and Conservation</u>

The use of 'Hedonic pricing' of land with conservation value ought to be tried out. Environmentalists have understandable doubts as to whether a 'landvaluescape' model—and LVT in general—works equally well in rural areas as it may do in urban areas. In Hedonic pricing an attempt is made to derive a 'non-development value' for land by asking environmental experts to estimate the cost of restoring or re-creating a site of equivalent conservation value in another place—or what they would accept as a cash compensation for the destruction of a site of such value.

It is not known whether the idea has yet been developed beyond pure theory. As an adjunct to land valuation for LVT, it appears to have a possible danger in that if tax rates were based on hedonic value LVT would no longer offer an incentive **not** to develop. Hedonic pricing therefore seems to be an alternative approach—not suitable alongside LVT.

If this proves correct, then LVT ought to be looked at in conjunction with the highly distorting European Union Common Agricultural Policy (CAP). Reform of CAP, long mooted in the EU, would offer an excellent opportunity for LVT to be used as a means of fiscal support to conservation-led land management policies.

Tax Increment Financing

TIF is an idea that has recently attracted interest in the UK, as a means of funding urban regeneration. The Urban White Paper (DETR 2000b) implies that official studies of its operation in the USA continues. HGF has strongly opposed it on the grounds that it is "increment for a few, excrement for the rest"!

Comparative studies are urgently needed to show how the effects of TIF compare with those of LVT in similar economic circumstances. These would have to be conducted in the USA, where TIF and LVT can both be observed. British researchers should be involved.

Town and Country Planning Acts

Widespread suspicion exists that LVT would sit uncomfortably alongside present planning laws in the UK. These fears need to be explored in a variety of environments, not just northern cities in England.

The Fabian Society recommendation for a range of local authority trials of 'two-tier' rates (their phrase) makes it imperative that such pilots are co-ordinated from a planning perspective. The introduction of split-rate would need to be at a high enough level to impact upon the development process (Jacobs 2000).

Plans for such a series of nation-wide pilots should be advanced as soon as Government has indicated that it supports the principle of trials expressed by the Fabians.

Property Law, Accounting Conventions and LVT

There is a need to look at how the various international models of property and accounting legislation treat real estate assets and rights. Some global convergence between valuation methods for different purposes seems inevitable and would seem to lead to less difficulty in reaching agreed assessments for LVT.

During 2000, the debate regarding use of Open Market Value (OMV) as opposed to Existing Use Value (EUV) in company accounts generated increased interest in the UK property press. The International Accounting Standards Board, which sets standards for companies based in the UK, decided that "the international equivalent of EUV would no longer be recognised and that all valuations should be on the basis of market value, the international equivalent of OMV." The implications for valuation of company real estate assets could be profound.

Linked to this is a change to the valuation of leases, proposed in 2000 by the International Standards Committee of accounting professions, known as 'G4+1.' Ms Bent carried out some work as part of this project, concluding that much more discussion was likely to be needed before agreement would be achieved by G4+1.

What is likely to follow from OMV, if adopted, is public—Boardroom and shareholder—exposure of the fact that land values vary independently of the values of structures and other fixed assets. This will give a great boost to GIS landvaluescape tools which could help assessors interpret current land values with greater accuracy than now.

Land economists and valuation surveyors need to work closely with the international accounting standards bodies, such as G4+1, to study the implications of convergence in these standards and the use of tools to assist accountants.

Dissemination

This section refers to Section D in the bid document, which set out how the results of the first stage of this Fellowship project would be disseminated.

HGF Web-site

The web-site www.HenryGeorgeUK.cjb.net was created in July 1999. Details of ongoing research projects were placed on a separate site www.progressiveforum.cjb.net in early 2000, where progress reports on this project were placed. The two sites are linked but the PF site is mainly for those interested in research on resource rentals, whereas the HGF site is for people who have a particular interest in 'Georgist' ideas.

Booklet

Entitled *Questions around The Smart Tax*, the story of how this was published as a separate unbound report for the conference in November 2000 and then on the PF web-site at www.smarttaxbook.cjb.net is given above. A copy was printed specially early to present to Lincoln Institute at the Symposium in October 2000.

Workshop at LGA Conference

It was discovered that a workshop would need to be booked a year ahead. It was not possible to arrange for a presence at the 2000 LGA Conference. However the author gave a paper at the AGI conference in September 2000 which was almost entirely about this project (Vickers, 2000g) at a well attended session on Sustainability. This conference also saw the formation of a Local Government Special Interest Group within AGI, which the author has joined.

Seminar

This became the first annual conference of PF at Bournemouth, described above. *Questions Around The Smart Tax* was launched at the conference and comments from attendees have been incorporated in this paper.

Professional Journals

There has been some success with publication of papers about the project. Journals of the Royal Town Planning Institute (RTPI) Southern Region, IRRV, International Property Tax Assessors & Administrators and RICS (web-site only) have either published or accepted for publication papers by the author on this subject. Other journals for a more general readership have also taken articles, including local weekly newspapers.

Endnotes

[1] Connellan & Lichfield (2000) page 44 "But no doubt certain technical problems will be raised by rating practitioners." The authors go on to cite RICS Guidance Note 5 on apportionment of valuation between land and buildings for accounting purposes. Convergence between valuation methods for accounting and for rating would make this relevant to LVT.

[2] Richard Harbord, a former President of IRRV and Managing Director of a London Borough, has served on a recent DETR Working Party looking at how to improve relations and mutual understanding between local businesses and local government. As DETR prepared its latest White paper on local finance (DETR 2000,c) he wrote of the present system of local property taxes: "We all understand that current system is unfair, arbitrary and inexplicable but otherwise, at the moment I cannot see anything wrong with it (Harbord 1999). Harbord wrote the foreword to *Questions around The Smart Tax* (Vickers 2000, i).

[3] Meetings were originally advertised for Cambridge, South Wales, Edinburgh, Belfast, Sheffield, Bristol and Liverpool, to be held in May & June. They depended on sponsorship from host organisations as well as an indication of interest from experts in rating valuation.

[4] Brian Hardy is senior rating expert with Jones Lang Lasalle, one of the top UK firms of property agents and is also a Council member of IRRV. The Hounslow meeting was not part of the Lincoln project but Hardy & Vickers were both invited to speak on the subject of local government finance.

[5] The wording in the pre-conference document was "We would shift taxation away from people and onto pollution and resource depletion." Amended wording was accepted without debate by the Party's Policy Committee.

[6] The motion "Choice for Revenue Raising" was not based on a Policy Paper but was a motion from Newbury Local Party. It called for governments at all levels in the UK to be allowed to decide for themselves how to raise the revenue needed, within limits sets by Parliament. It was passed almost unanimously.

[7] Paragraph 1.6.4 of Policy Paper 37: "Making the incentives of the fiscal system work to encourage development of vacant and derelict land within towns and cities, to penalise landowners who leave land in a derelict condition, is also a vital part of our regeneration strategy."

[8] Items 22 and 23 of the agenda for Liverpool City Council meeting 13 June 2000 refer. The motion was amended by the ruling Liberal Democrats during debate but retained the call for SVR.

[9] Cllr Newby was referring to the status of his Council's bid within this Lincoln Fellowship project, not to any status awarded by Government.

[10] Peter Kellner in the London Evening Standard 13 November 2000 under headline: "Why taxes in the future may be all a matter of geography."

[11] Although *Questions Around the smart Tax* was advertised in advance as a 'book,' it was decided to publish in-house as a loosely bound 67-page report. This was partly because it was thought that, following its initial limited publication in this form, a second edition later in this project might attract interest from an outside publisher. Such little interest had been generated in LVT that the expense of printing was thought not to be justified. Instead the document has been placed on the internet under www.smarttaxbook.cjb.net for comment and discussion. A few sales have been made in hard-copy and copies have been sent unsolicited to relevant organisations.

[12] At a meeting between the RICS Rating Panel Chair and members of the Lib Dems' LVT Campaign group (convened and recorded by this author) in March 1997, it was agreed that if a Government said it wished to introduce LVT the profession could do so within a single Parliament, given the resources.

[13] According to the latest review of the VOA (VOA, 2000), 74% of UBR assessments are appealed. Most are settled prior to Valuation Tribunal.

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Table 1: Government Geo-information Information Projects in UK

Acronym	Stands for	Coverage	Description in the context of LVT	Timescale
NLIS	National Land Information Service	England & Wales	Sponsored by Her Majesty's Land Registry (HMLR), an electronic property conveyancing system, linking solicitors to local authorities and other agencies. Envisaged as having many spin-off applications. For LVT could provide location, extent, ownership, price paid etc.	Bristol pilot 1998-2000. National hub contract awarded June 2000; full national trial 2002-3; full coverage due ? 2010.
DNF	Digital National Framework	Great Britain (E,W,S)	Fully structured, spatially referenced, up-to-date, thematically classified, consistent, seamless topographic information at the 'basic' surveyed scales. Uses OS largest scales, shows all buildings, land parcels etc. Foundation for other geographies (e.g. ownership/ use etc). Will provide a facility to derive closed polygons semi-automatically.	OS data re-engineering complete by spring 2001, available general users by Autumn. Separate themed data-sets available (e.g. buildings, roads) 2001.
NGDF	National Geo-spatial Data Framework	UK-wide	A comprehensive, structured depository of information about all UK geospatial data-sets. Part of UK Government 'Information Society' initiative (now *e-government*) drive, hosted by OS. 100% of potentially electronically deliverable services to be implemented by 2004	'Ask Giraffe' (a public 'front-end') launched on the internet mid-2000. Funded from 1999:
NLPG	National Land & Property Gazetteer	England Scotland & Wales	Central to NLIS, the nationally coordinated integration of local land and property gazetteers (LLPGs), consistent with DNF. Public-private partnership project, led by Intelligent Addressing. Uses British Standard 7666 for referencing all addressable properties. Substantial allocation of funds from Government's 'Invest to Save Budget.' Provides one-to-one link for any LVT application to all relevant graphic and non-graphic data-sets.	Main contract established 1999. 15% of 400+ local authorities 'in the system' by Sep 2000. Hub operation due to commence Feb 2001. Full national cover by 2004.
NSG	National Street Gazetteer	England Scotland & Wales	Pre-existed NLPG but conceived with it (under BS 7666). Mainly supports highway authority functions. Problems being experienced 'retro-fitting' some data sets to NLPG.	Completion before NLPG
NLUD	National Land Use Database	England & Wales	Vision: "to develop a consistent geographical record of land use at the national level which is kept up to date." First stage driver: the need to establish what vacant developable land for housing exists in urban areas. Inconsistent data collection between local authorities, now being verified. Links to DNF, NLPG and should force early creation of full parcel extents from DNF and extension of NLPG beyond merely postally addressable properties. LVT would use NLUD, could adapt it to include permissible use as well as actual.	First stage Previously Developed Land (PDL) project 'completed' 1998 (for Urban Task Force); currently being re-visited. Will start to disseminate DNF-structured PDL data late 2001.
SCOTLIS	Scottish Land Information System	Scotland	Somewhat different vision to NLIS. Plans not yet developed beyond Glasgow pilot. Invest to Save Budget funding awarded 1999. Applications envisaged include conveyancing, planning, land monitoring, property searches.	Not known.
NIGIS	Northern Ireland Geographic Information System	Northern Ireland	Similar vision to NLIS but dates back to 1980s, prior to internet. Did not involve Land Registry initially: was more to do with map sharing, not 'object oriented.' Will need re-think if parcel-based applications like LVT are to use it.	Not known.
Landweb	-	Northern Ireland	Business re-engineering project for Land Registry of Northern Ireland. Only rural land currently registered (not computerised). Vision: "to bring the property market from 18th to 21st century" (Absey). Could re-invigorate NIGIS. NI Valuation Office interested in linking to Landweb, which would make LVT more feasible.	Fully electronic land registration and conveyancing for all NI by 2006. Public access by 2003.

Table 2: Intended Pilot Group of Stakeholder Survey Participants

Only those in **bold** were **invited** to take part in the membership survey, others were involved in correspondence.

Organisation name	Relevant functions and representation
Department of the Environment, Transport & the Regions (DETR)	Transport & environment policy and direction of all local and regional government in England; representing central UK government
Royal Institution of Chartered Surveyors (RICS)	Advice to government on policy relating to the built environment; representing all property professionals.
Local Government Association (LGA)	All matters for which local government in England & Wales has responsibility devolved to it by UK Government (and Welsh Assembly); representing councils.
Forum of Private Business (FPB)	Surveys and representation of membership opinion (micro-businesses with usually less than ten employees).
Her Majesty's Land Registry (HMLR)	Registration of title to land in England & Wales; legal advice to HM Government on property law and markets.
Valuation Office Agency (VOA)	A branch of Inland Revenue responsible for land and property valuation for tax purposes and advice to public departments on land value matters.
Institute of Revenues Rating & Valuation (IRRV)	Professional body for those involved with assessment and administration of state benefits and property valuation and taxation in the UK.
Rating Surveyors Association (RSA)	Organisation for all professionals involved with rating and valuation in the UK.
Town & Country Planning Association (TCPA)	Non-profit association for all interested and/or active in town and country planning.
Association for Geographic Information (AGI)	Non-profit association promoting the use for public and commercial benefit of geographic information in computer systems.
Federation of Small Businesses (FSB)	Pressure group for small businesses in the UK
British Property Federation (BPF)	Promotes the interests of owners, users and developers of property in the UK.
Confederation of British Industry (CBI)	Represents manufacturing and service industry in the UK.
British Chambers of Commerce (BCC)	Represents local Chambers of Commerce throughout the UK, which include all sectors of business and all sizes of company (public and private).
British Retail Consortium (BRC)	Represents the interests of retail companies, mainly the larger national ones.

Appendix 1: Stakeholder Survey Findings

The Survey Form—Analysis sheet

According to whether you agree with each of the following statements, place a tick in one column to the right.

	'Statement' that could be made about some aspect of land value taxation:	**Agree strongly 1**	Agree slightly 2	Don't know 3	Disagree slightly 4	**Disagree strongly 5**
1	"No business should pay higher tax purely as a result of making improvements to its property."					
2	"Vacant and derelict land and buildings ought to be taxed on the full potential use of the site, according the Local Plan."					
3	"A property tax ought to primarily reflect the ability of the occupier to pay, rather than the value of the land."					
4	"Local councils should be allowed to introduce any new tax that they can persuade those affected locally to vote for in a referendum."					
5	"Land owners ought to pay a heavy tax on the 'windfall' profit they get from planning permission."					
6	"A one-off tax on property development is fairer than an annual tax on land values."					
7	"Owners of land and businesses that are blighted by development ought to be compensated by those who cause the blight."					
8	"Taxing land according to its market value, whether or not it was in use, would encourage urban renewal."					
9	"An annual tax based on land values would assist Sustainable Development."* (see below)					
10	"A land value tax would be passed on by land owners to occupiers, so that businesses might go elsewhere."					
11	"Unlike other taxes on production (wages, profits, etc.) LVT is really just a 'use charge'—for something that the community created, not the land owner."					
12	"LVT would need to be piloted in one or two areas first, before any decision could be made about the rest of the country."					
13	"LVT needs to be levied and redistributed centrally, to help the huge differences in tax base between local authority areas to be evened out."					
14	"If LVT works in other countries (like Denmark or Australia) then it ought to work here."					
15	"I don't believe government would use LVT to replace other taxes; it would just be yet another tax."					
16	"Land value maps should be part of a national land information service, bringing together data sets held by many public agencies."					

* Development that meets the needs of the present without compromising the ability of future generations to meet their own needs

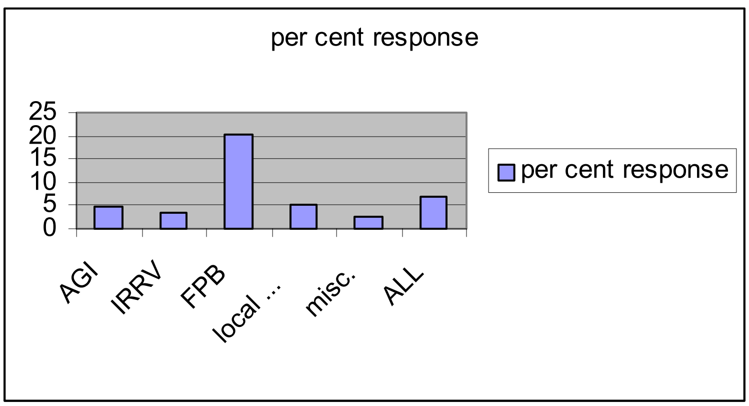
If you have any comments on LVT, please use the back of page 3 or a separate sheet to let me have them

Response

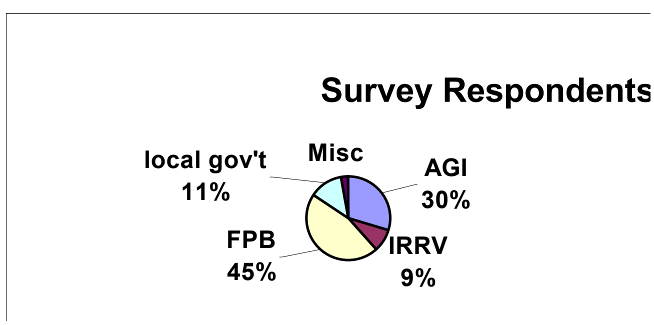
The survey findings, being based on a self-selecting sample of postal addressees from five sub-groups (AGI, IRRV, FPB, local government and 'miscellaneous') can only be regarded as indicative of the views of the British population as a whole. They focus on property professionals and business tax payers (small enterprises only).

Property professionals were asked what they thought their level of knowledge of LVT was (very good, good, fair, poor, very poor). IRRV respondents were on average 'fair'; AGI 'poor'; and others 'very poor.'

A total of 175 completed survey forms were returned. The percentage returned from each category and the proportion of the total from each is given first. The response from FPB was extremely high for such a survey, that from the other three main categories slightly disappointing.



The following pages show the per cent of respondents giving each answer to every statement in turn. A chart gives a column for the four main categories (AGI, IRRV, FPB, local government) and for the whole group. The shadings of the columns goes from 'strongly agree' at the bottom to 'strongly disagree' at the top. Agreement with statements does not always indicate support for LVT.



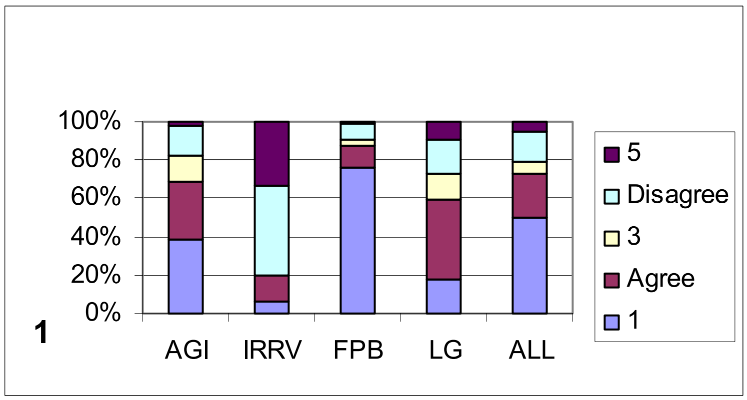
Statement 1

"No business should pay higher tax purely as a result of making improvements to its property."

The survey focused—as did the UTF—on UBR. One of the criticisms of UBR is that it penalises businesses for making improvements to their property, whether or not they own the freehold.

LVT can of course be applied to non-commercial land and property, in Britain as elsewhere. However there is currently little or no debate about similar reform of the domestic property tax in Britain (Council Tax), let alone the re-introduction of any tax on agricultural land holdings.

Rating practitioners tended to support the present system. All other categories of respondent agreed strongly with the statement and in doing so lent weight to one argument for LVT, which removes this disincentive to improve property. The overall result (over half strongly agreeing) may have been skewed by the overwhelming 77% of FPB responses.

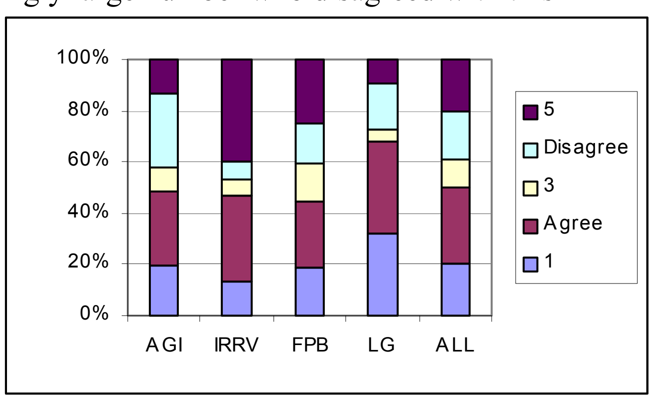


Statement 2

"Vacant and derelict land and buildings ought to be taxed on the full potential use of the site, according the Local Plan."

Vacant land and vacant buildings in Conservation Areas in the UK are fully exempt from UBR. Owners of other unoccupied commercial buildings pay no more than 50% of their UBR liability—and then only for a limited period after tenants depart.

It may be that the word 'full' was going too far in the opposite direction for some respondents, because there was a surprisingly large number who disagreed with this statement. However a clear overall majority agreed, indicating support for LVT, which makes no allowance for the lack of an income stream.



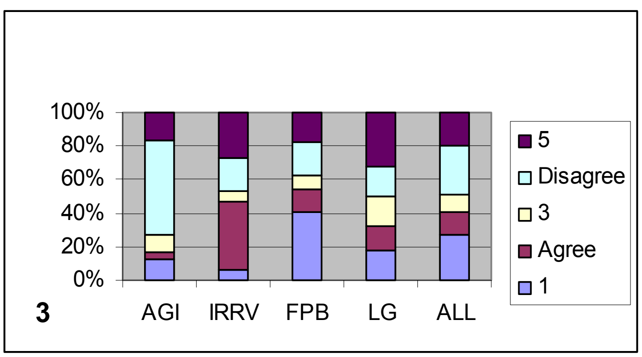
Rogers specifically called for a Vacant Land Tax and the debate on urban renewal has highlighted the perverse nature of exempting empty—so called 'brown' or previously developed—land from tax.

Reference to the 'Local Plan' assumes that every local authority has in place a democratically approved Development Plan covering at least all commercial and industrial land. Almost all do, some 30 years after it became a statutory requirement. This makes it fairly easy to deduce 'highest and best use' for most vacant sites. Where there is doubt, the benefit of that doubt would be given to the land owner and current use value would be the basis of assessment.

Statement 3

"A property tax ought to primarily reflect the ability of the occupier to pay, rather than the value of the land."

It is commonly said of taxation that 'progressive' means 'reflecting ability to pay.' It is then said that LVT is unfair because many land owners have no income from which to pay the tax. This ignores the fact that beneficiaries of other peoples' development or business enterprise (public or private) are given a **potential** income stream through the enhanced collateral value of any land they own nearby. If owners choose not to use that value (assuming the planning system allows them to do so) that does not mean they have no 'ability to pay' a tax based upon it.



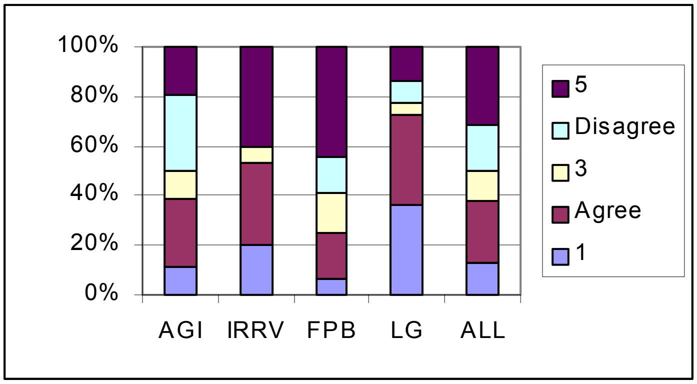
The more geo-spatially aware AGI members, in opposing this statement by more than four to one, seem to acknowledge that land has a value that **must** mean **it** can provide owners with the means to pay LVT. FPB members seem more attached to 'ability to pay': they clearly support this statement, over 40% doing so strongly. Maybe they thought that occupiers will end up paying LVT (see Statement 10). There is clearly some educating to be done on this subject.

Statement 4

"Local councils should be allowed to introduce any new tax that they can persuade those affected locally to vote for in a referendum."

The UK government gives almost no discretion to subsidiary governments to vary the nature of property taxes. Northern Ireland escaped Community Charge (Poll Tax) and continues with flat rating (similar to UBR) for all non-agricultural property: its new Assembly could change this. Scotland, post devolution, could also change **its** local government finance system, although it is currently the same as that of England & Wales. But the idea presented by this statement is alien to Britain, which has perhaps the most centralised revenue raising system of all Europe.

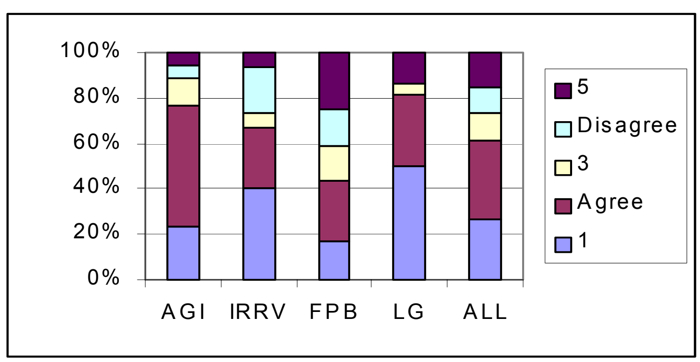
Not surprisingly therefore, a majority disagree with this—more than two to one in the case of businesses, which would have no vote in any local referendum. The wide discretion implied by the word 'any' might have swung many respondents against subsidiarity in revenue raising. However some might be surprised that as many as a quarter of businesses and over a third of all respondents supported the idea. The result here is by no means conclusive overall and the subject deserves further study.



Statement 5

"Land owners ought to pay a heavy tax on the 'windfall' profit they get from planning permission."

There have been three failed attempts by Labour governments in the past fifty years to levy a one-off tax on development, in order to recover 'betterment' value from land owners. There is still strong cross-party support for such a tax on development of 'green fields': a Green Field Development Tax (GFDT) was recently adopted as policy by the Liberal Democrat Party, which also supports (less enthusiastically) the replacement of UBR by Site Value Rating (SVR) "in the longer term." Rogers rejected GFDT as unworkable, like its predecessors, despite its superficial attractions. So did a report for the Town & Country Planning Association that looked at the Urban Task Force proposals in more detail a year later (Evans & Bate, 2000).

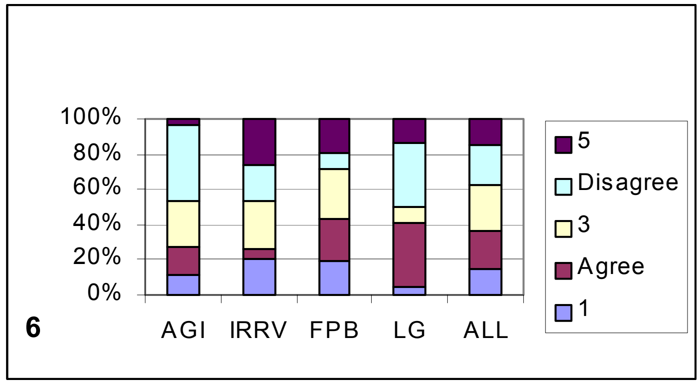


This statement highlights the fact that it is not the actual development that adds value to green fields so much as the award of planning permission, which is in the gift of elected representatives of the local community, advised by professional planners in the employ of local authorities. The response shows a clear majority support the ethical principle behind LVT, although the proportion of FPB respondents disagreeing with the statement is about the same as the proportion of all respondents who agree strongly with it.

Statement 6

"A one-off tax on property development is fairer than an annual tax on land values."

This statement is linked to the previous one but asks for preference to be stated as between a one-off tax on the development stage of the overall betterment process and an annual LVT. Over a quarter of respondents could give no opinion and there was an overall balance for and against between the remainder. Under 30% hold strong opinions either way. Only AGI members clearly support LVT more than its one-off cousin.

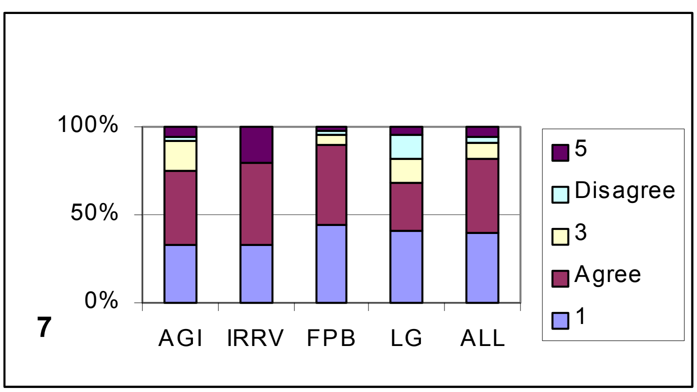


It could be concluded that the concept of 'fairness' is poorly understood in this context. Opposition to either form of land tax would not seem to be very strong.

Statement 7

"Owners of land and businesses that are blighted by development ought to be compensated by those who cause the blight."

One strong attraction of LVT is that it deals just as well with the 'worsenment' problem as with the betterment issue. Whatever the cause of blight (perceived or actual harm, willful misuse of neighbouring land, neglect or incompetent public decision-making), the owners of land which suffers a resulting decrease in value will see their tax bills reduce in line. No other means of redress approaches the efficiency and fairness—or 'smartness'—of LVT. This statement reflects the actual state of affairs which should follow a comprehensive Smart Tax implementation. Public authorities and the tax-paying public in general would carry the cost of development blight, at least until the planning process for a site causing it was complete.

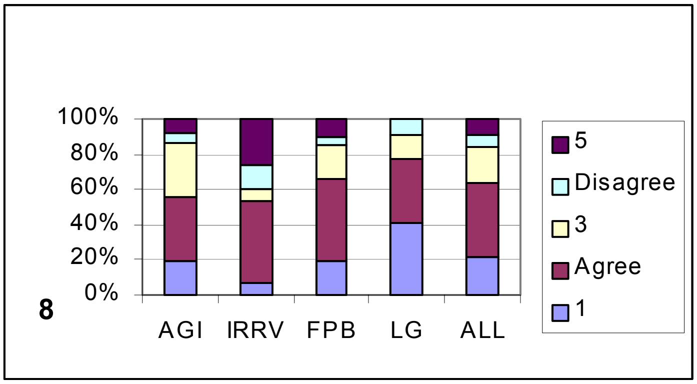


A very large majority of all types of respondent agree with this statement. FPB members support it by 20:1. Small businesses can be devastated by quite localised blight. Often the appeal process is so slow that by the time redress comes the business has folded.

Statement 8

"Taxing land according to its market value, whether or not it was in use, would encourage urban renewal."

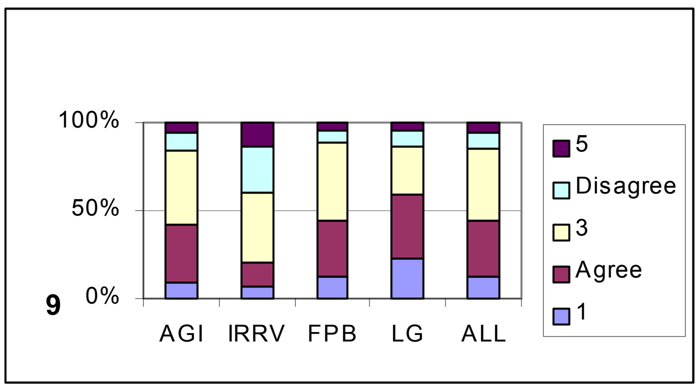
This statement tests whether people agree with the UTF that LVT could be an extremely effective economic instrument in support of urban policy objectives. Whilst a large number gave no opinion, more than four times as many were in agreement than were opposed. One in five respondents strongly agreed, yet nearly one in ten strongly disagree. It is likely that many people, echoing the words of a senior urban regeneration official in a large northern city, think: "It all makes perfect sense. But why haven't I heard of it before and if it's so good why aren't we doing it already?"



Statement 9

"An annual tax based on land values would assist Sustainable Development."

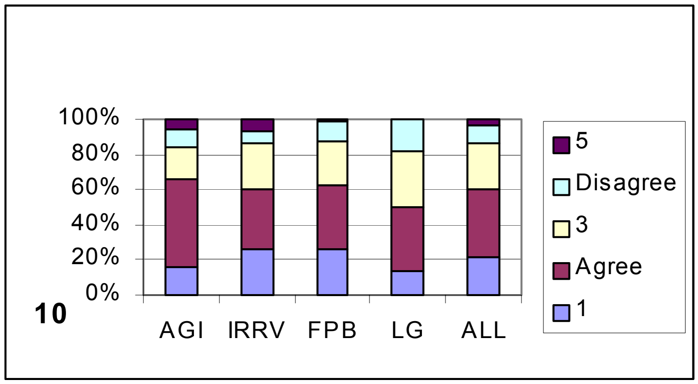
This statement is similar to the last but emphasises the vaguer but more holistic concept of 'sustainable development,' a definition of which was given on the survey form. Perhaps respondents disagreed with this definition or found it unhelpful, because more than 40% offered no opinion on the statement. However those agreeing with it outnumbered those disagreeing by more than three to one in all categories.



Statement 10

"A land value tax would be passed on by land owners to occupiers, so that businesses might go elsewhere."

The idea that LVT cannot be passed on by the land owner to the occupier is a difficult one to grasp, although most reputable economists agree. In a perfect market place (which the property market is not) all tenants would already be paying the full market rent. LVT increases the effective supply of sites, as owners of under-utilised sites seek sources of income to pay higher standing costs. In such conditions, an increase in rents demanded by landlords of tenants already paying the full market rent, in an attempt to pass on the tax, would result in many tenants moving to cheaper premises. The tax can only be passed on to the extent that rents are below market levels in the first place. When a tenant vacates premises, under LVT the owner still has to pay the whole tax—unlike under UBR.

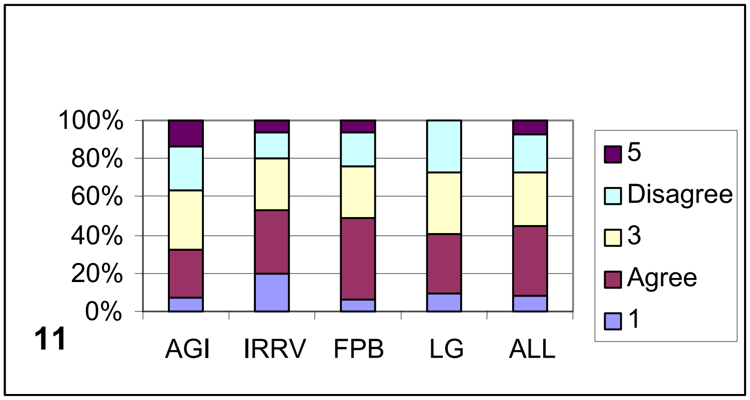


However a large majority (more than four to one) of respondents believe that LVT would be passed on, resulting in loss of trade to an area. What they perhaps do not realise is that 'elsewhere' might be just down the road! This is another aspect of LVT where education, preferably through the experience of a local UK pilot scheme, is needed before Smart Taxes are accepted.

Statement 11

"Unlike other taxes on production (wages, profits, etc.) LVT is really just a 'use charge'—for something that the community created, not the land owner."

This is another difficult economic concept. If a successful business were to be transported from a thriving community to a location with more distant suppliers and customers, no amount of application of labour or capital is going to maintain its profitability. It is the proximity of things (and especially people) which the land-owning 'entrepreneur' does nothing to create or sustain that gives land its value. That is also what makes Smart taxing ethically just and economically sensible. LVT, even at quite high levels, cannot remove productive resources from the wider economic system: the tax is taking the natural surplus wealth from landowners and restoring it to the community at large. It is largely a charge for access to the rest of the economy at a particular location.

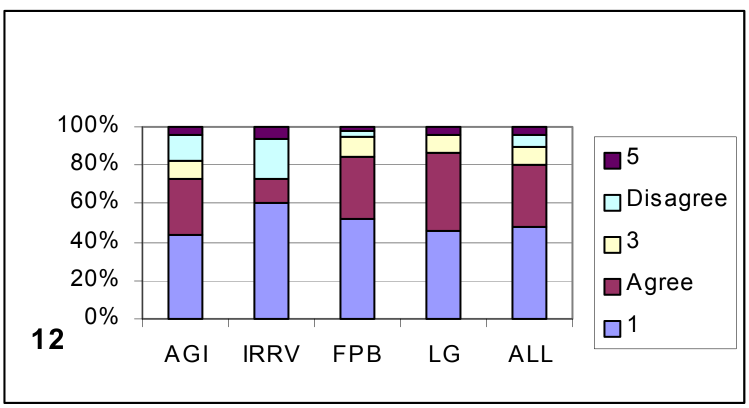


The survey showed, perhaps surprisingly, a good overall understanding of the concept. However fewer respondents showed strength of opinion either way than with any other statement. A clear majority support it, which ties in with the general support for 'eco-taxes.' Such taxes enable governments to reduce the burden of taxes on production (labour and capital). The auctioning of licenses for electro-magnetic wavelengths needed by mobile phone companies was taking place with considerable publicity at the time of this survey and may have influenced respondents.

Statement 12

"LVT would need to be piloted in one or two areas first, before any decision could be made about the rest of the country."

The briefing paper which accompanied the survey form gave a short history of the Pennsylvania 'split-rate' experience. It did not mention the other countries where Smart Taxes have grown in popularity as part of a permissive tax regime for local authorities.



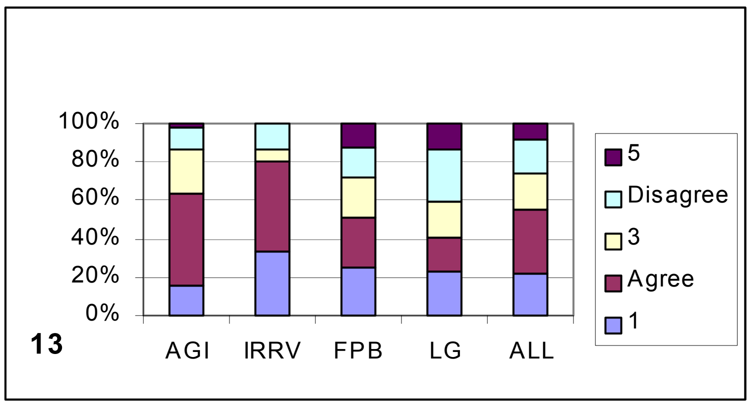
Support for pilots was expected. It is, after all, only common-sense that a radical reform of any complex administrative process should be tried out in a controlled way and in a diverse range of local areas before being implemented on a wide scale. The overwhelming degree of support for pilots was less expected: almost a half of all respondents were strongly in agreement. This number must have included many who in most respects are sceptical about the benefits and/or practicability of LVT.

Statement 13

"LVT needs to be levied and redistributed centrally, to help the huge differences in tax base between local authority areas to be evened out."

Although two minor British parties (Greens and Liberals) support a national LVT, most of the debate about Smart Taxes has historically been about its use as a form of revenue for local councils. It is possible to have a local **and** a national tax alongside each other, so long as there are limits set as to the proportion of annual land value that each tier of government can take.

Opposition to the local version of LVT, Site Value Rating (SVR) is largely caused by the fear that councils with an over-heated economy (and hence high land values) would have a much larger tax base than poorer councils. SVR could only help invigorate relatively poor parts of a particular local authority and perhaps give a marginal advantage to it over its near neighbours. It would do nothing to remove the North-South Divide and redistribute wealth nation-wide.



There seems to be agreement, judging by this survey, that a national LVT would be an effective and efficient tool for achieving redistribution of wealth **between** regions. Studies have shown that perhaps 25% of all UK's land value is in the cities of London and Westminster; 60% is in the south east of England. A national LVT, at a standard rate, would therefore raise a similar proportion of its revenue from these areas, while low-value regions would contribute much less. UBR has a similar effect already, while failing to have any of the local effects that both a national and a local LVT would have upon incentivising development of under-used land everywhere.

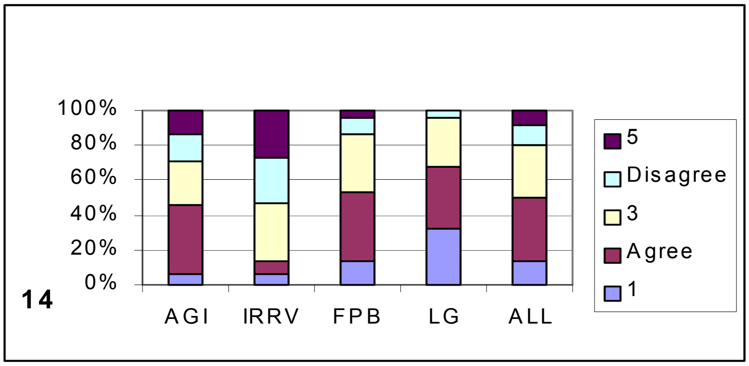
The only category of respondent disagreeing was local government. If there is a 'cake' to be shared, perhaps they want all of it!

Statement 14

"If LVT works in other countries (like Denmark or Australia) then it ought to work here."

This is, like statement 12, really just a matter of common-sense. The statement deliberately did not say LVT ought to work **now**.

It is often claimed that LVT is somehow only appropriate in developing countries. This ignores its survival in Denmark and its growing success in Pennsylvania. It is certainly easier to introduce a new tax in a 'new' country, where the policy 'canvas' on land and tax issues is clean and vested interests and professional conventions are less entrenched.



The reasons why a particular tax—or any other administrative process—exists in one country but not in another have little to do with what is technically possible or could 'work' in the context of other government policy objectives. They are far more to do with inertia: radical change requires an enormous collective effort on the part of a wide body of professions, from journalists to politicians to academics to administrators. 'Joined-up thinking' is extremely hard to do: joined-up action is even harder!

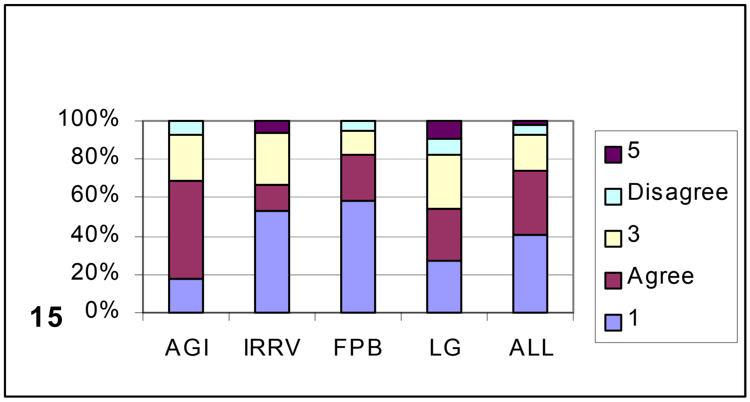
Half the survey's respondents believe LVT ought to work in Britain. But between a quarter and a third of all categories have no opinion, probably recognising that much more research is needed before a sensible response can be given. AGI respondents, who perhaps know more than the rest how dependent LVT would be upon availability of land-based information in usable form, are most cautious. They perhaps realise that new taxes cannot be introduced overnight, even if the political will exists to try.

Statement 15

"I don't believe government would use LVT to replace other taxes;
it would just be yet another tax."

The success of the Pennsylvania (PA) Smart Tax could largely be attributed to legislation requiring it to be introduced gradually, in a revenue neutral way (Hartzok, 1999). This makes it impossible to accuse local politicians of using it to increase the total tax take by stealth, as is done with so many other taxes. The 'smartness' of LVT is that the manner of its incidence, by triggering wealth-creating economic activity and deterring speculation, reduces the need for public expenditure in other areas (such as personal welfare 'benefits' and corporate welfare 'enterprise grants') and thus reduces overall revenue requirements.

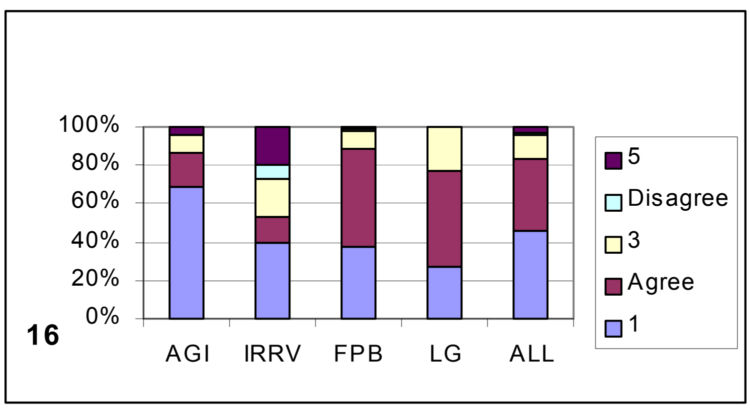
The survey showed how great is the cynicism felt towards politicians and how small is the understanding of how taxes act upon the economy. Almost nobody disagreed with this statement! Over 40% agreed strongly that LVT would be 'just another tax.' This underscores the need for public education on land economics and also the need to make the 'smart tax shift' seen to be clearly part of wider policy initiatives such as urban renewal, sustainable development and economic justice. The growth of taxpayer revolts over fuel taxes in Europe shows that governments which approach eco-tax reforms in a 'treasury-led' manner expose their whole economic and political strategy to risk of failure. Exchequers are almost bound to treat any tax as primarily just another way of raising money. Politicians need to have regard to the economic and social effects of particular taxes: tax assessors and administrators are there to advise on processes not policies.



Statement 16

"Land value maps ought to be part of a national land information service, bringing together data sets held by many public agencies."

This statement drew attention to the relevance of wider '*e-government*' initiatives which are now receiving considerable public and private sector funding and cross-party political support. All environmental policies (and many socio-economic policies too) depend upon availability of land-based information.



LVT will ride on the back of what are known as the 'N-initiatives' (see Table in Appendix 2), as an overwhelming majority of respondents realise: more agreed with this statement—and fewer disagreed—than with any other. Naturally the strongest agreement came from AGI members, who are specialists in the handling of geo-data and therefore know most about these projects.

Appendix 2

A proposal for a Supplementary Site-value Business Rate (or 'LoR')—submitted to the UK Government by HGF December 2000 (in response to DETR 2000c)

1. **General**. This is a proposal to allow local authorities to opt for a site-value based supplementary rate. Except where specified, the proposal follows that in Annex C to the Modernising Local Government Finance Green Paper (the Green Paper). The justification for this proposal is elsewhere: this document merely describes how it would work.

2. **Incidence**. The rate would be levied on the owners of all sites (land parcels) within a particular local authority area that were not being *used* for residential or agricultural purposes.[1] This could include all vacant sites, also partly occupied sites with realizable potential for use. If the ownership was not known, the rate bill would be served on the occupier, who would be obliged to pay the bill (deducting it in full from any rent paid to a landlord) and/or inform the rating authority as to whom rents were payable.

3. **Relationship to Uniform Business Rate**. The Supplementary Site-value Business Rate (or Landowner's Rate / LoR) would have no effect on the amounts paid by or to the local authority from the UBR national pool. These amounts can be calculated and would be fixed, irrespective of whether the Council (as rating authority) chose to opt for LoR or the Government's currently proposed method of raising its supplementary rate. Adoption of LoR would reduce the multiplier for UBR locally (to be known as Occupiers Rate / OcR) within that Council's area only, by an amount that could be set (if necessary) as a maximum discount by Government, in order to reduce claims of unfairness as between other businesses and those benefiting from lower rates through the local LoR. (see figure 1)

4. **Basis of site valuation**. The valuation for LoR purposes would be on the proven basis used in the 1931 Finance Act and London County Council Bill of 1938: the open market rental value of the site in *its* 'unimproved' state but with *surrounding* sites in their actual state.[2] This is how land-value tax (LVT) or site-value rate (SVR) is set in other countries (e.g. Australia, New Zealand, South Africa, Denmark, Pennsylvania USA). In effect, LoR would bring into the local business rate pool those sites that are currently unrated (being vacant) or exempt rates wholly or partly (empty or under-used buildings). The Valuation Office Agency (VOA) would be responsible for overall national consistency and standards of assessment. However, at least for the first valuation of currently unrated sites, owners would themselves be invited to assess their site's value, to speed up the process. This would be with the proviso that sites could be acquired by the local authority at a fixed multiplier (capitalised rental value) of the owner's assessed sale price and re-let or auctioned.

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[1] Agricultural land with planning permission or zoned for development **would** be subject to the new rate.
[2] Hector Wilks used this in his two studies of Whitstable in 1963 and 1973 (copies available from HGF).

5. **Cost of administration**. The cost of introducing and administering LoR would be met from revenues it raised locally. This includes any cost incurred by the local authority directly or indirectly, such as the use of the VOA to split the current rateable value of business premises into a business occupiers' component and a landowners' component, where self-assessment is impractical (e.g. multi-occupation commercial and retail sites). Costs incurred by owners would *not* be reimbursed by the rating authority, just as now. LoR would therefore have no public sector borrowing implications whatsoever, over and above those implied by the supplementary business rate proposals of the Government generally.

6. **Frequency of valuation**. It is likely that annual revaluation of sites would be possible and desirable. This could, as with other aspects of LoR, be subject to discussion and agreement under the Partnership Arrangements in each local authority area. Annual revaluation would however mean annual adjustment of the residual OcR multiplier, by agreement with local businesses and vote of full Council.

7. **Relationship between LoR and OcR/ Council Tax**. The rate of change of aggregate LoR and OcR local revenues from year to year (up or down) could be limited to 1 per cent of the notional UBR take, just as with the Government's standard supplementary rate proposals. In addition, the annual change in relative difference between local LoR and OcR could be limited to, say, 5 per cent a year. There could also be a link to Council Tax, to ensure reasonable parity between domestic, business and landowning ratepayers. Any extra revenue raised (directly or indirectly) as a result of the incentive effect of LoR could be retained locally, so long as the local authority's contribution to the national UBR pool (calculated from notional business rates) was paid fully. This would accord with Public Sector Agreement and Best Value principles.

8. **Limits on LoR**. The *initial* multiplier for LoR would be never less than—nor more than 5 per cent higher than—the national UBR multiplier. The maximum multiplier for LoR should be about 70 per cent of annual rental value: anything higher is likely to show diminishing returns in terms of its economic benefits to the community through stimulating construction and enterprise. Where similar systems operate in other countries, a ratio between LoR and OcR[3] in the range 3:1 to 6:1 operates satisfactorily. It would of course be possible, if Government wished to allow it, for OcR to be abolished altogether, with all UBR revenue raised from land values (LoR) only.[4]

9. **Publicly owned land**. Land owned by the local authority or other public body would be subject to LoR, just as public bodies as tenants pay UBR. A council that chose to use LoR would have to show the tax payable on land it owned as a charge to its LoR account. (In effect, public ownership of land represents an opportunity cost or rental

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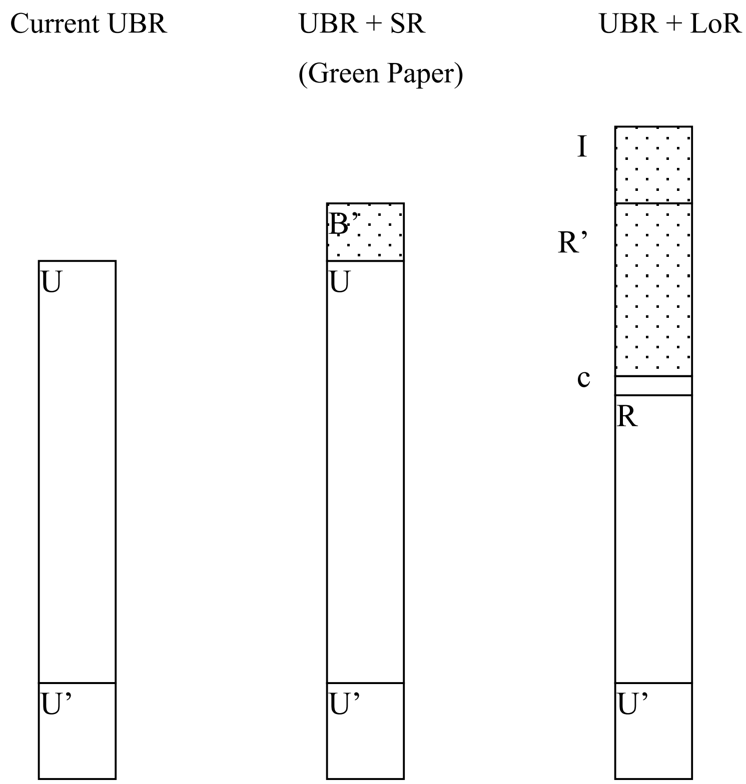
[3] The names 'Occupiers Rate' and Landowners Rate' are used nowhere else but there are similar schemes in New Zealand, Australia, South Africa and the USA.
[4] A 'pure' land-value only local tax is used in parts of all the above countries. A description of the range of such taxes in current use is in *Land-value Taxation around the World* Ed. R V Andelson, Robert Schalkenbach Foundation, New York (Edition 2,1997; 3rd edition now in production)

income foregone.) This would stimulate redevelopment and/or profitable use of council owned land as much as for land in other ownership.

10. **Exemptions**. In principle, there should be no exemptions on grounds of the nature of an *owner*, only on grounds of transitional hardship or *use*. Land assembly takes time and it might be necessary to allow one or two years between outline planning permission and incidence of the full LoR.

11. **Remediation costs**. Sites would be valued as though fully remediated and in a 'virgin' state. Costs of remediation could be met from the revenue raised by LoR, as an interest-free loan or credit allowance against LoR payable. Contamination, like existing buildings on a site designated for redevelopment, can be regarded as 'negative building value.' Dealing with remediation is a one-off cost, whereas LoR is a continuous revenue stream.

Figure 1: Illustration of Revenue Effects of LoR



[5] Notes: U is the theoretical contribution *from* an authority to the national UBR pool with multiplier M
(U + U') " " *to* " from "
B' is the product of a 5% supplementary rate (after 5 years of increase at max. 1% of M per year)
R is the revenue from the Occupier's component (OcR) of a two-tier business rate (a discounted UBR at local multiplier M'') after 5 years
R' is the revenue from the Landowner's component (LoR) of the two-tier business rate (at multiplier M') after 5 years
c is the cost of administering the two-tier business rate, paid for out of local revenue
I is the additional revenue raised by a two-tier business rate, resulting from the two 'incentive effects' of LoR on local economic activity: reduced UBR multiplier (rate rebate to occupiers); and tax on under-used land.
M' is always higher than M''
M'' is always lower than M
(M' – M'') can change each year by no more than 5% of M
(R + c + R') is always the same as (U + B')