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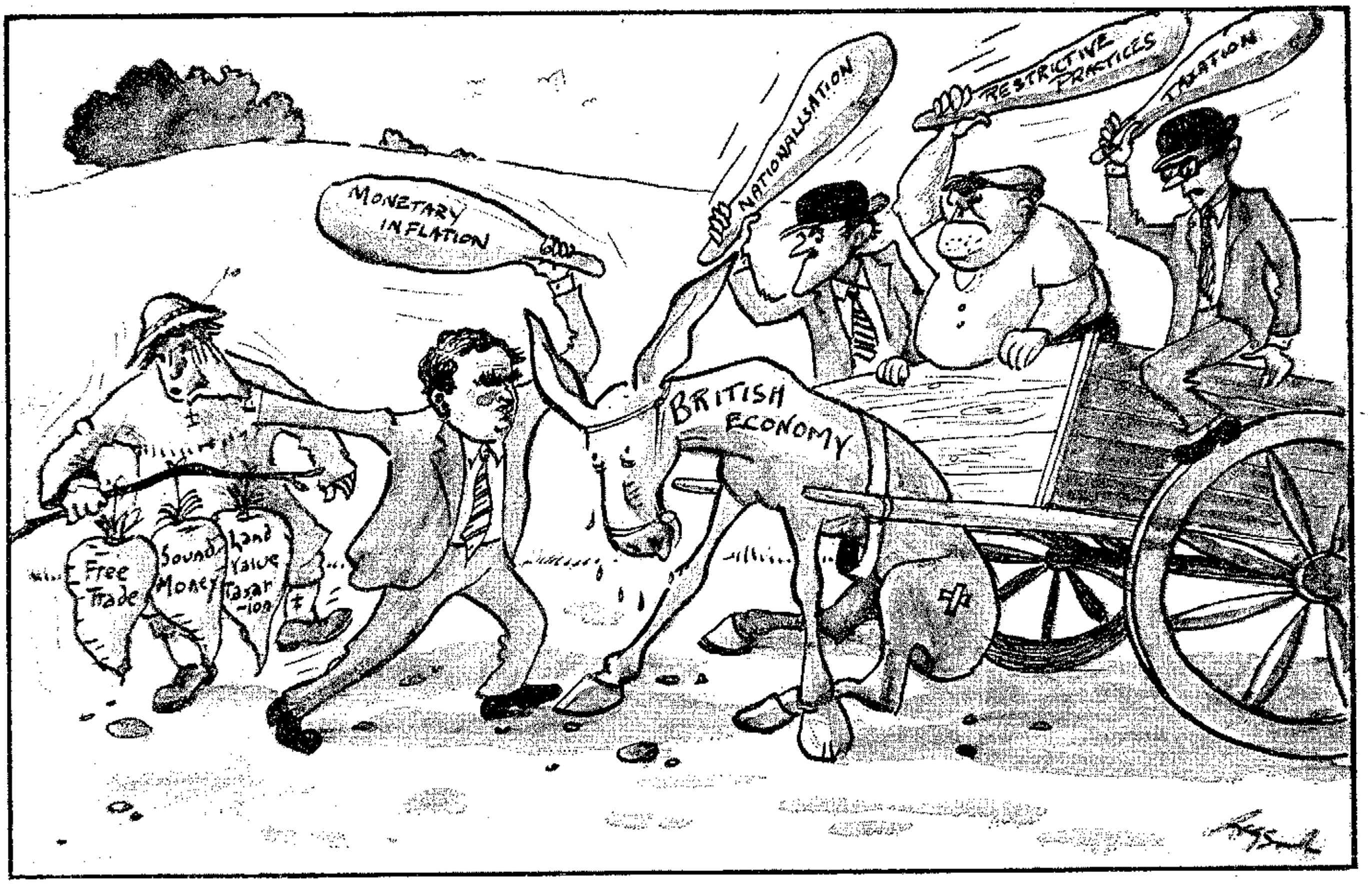

Layfield—A Damp Squib

"THE non-event of the year" is how one critic has described the report of the committee of enquiry into local government finance* set up two years ago. Certainly there are no revelations, new ideas or startling proposals in the Report. Most of the arguments in it have been bandied about for years among politicians, journalists and interested professional bodies and the only distinctive feature in this Report of 500 pages containing the cogitations of the sixteen-man committee led by Mr. Frank Layfield, Q.C., is the lack of any fundamental guiding principles as a basis for their conclusions.

Instead, it deals with conflicting principles and interests, all of which must be balanced or modified in some way so as to arrive at yet another compromise to be grafted on to the patchwork of local government legislation that is now on the statute book.

This is not to say that all the recommendations, if viewed within the context of present rating law, are without merit, as will be seen from the summary of conclusions printed on another page.

Our main concern, however, is to examine the reasons given by the committee for their rejection of site-value rating which are confined to one paragraph in the body of the Report but given four pages in the annex.

Evidence on the merits of site-value rating was submitted from at least five sources and while it was too much to hope that all the arguments advanced would prove persuasive, it was expected at least

* *Local Government Finance*, report of the Committee of Enquiry, published by H.M.S.O. £5.75.

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177 VAUXHALL BRIDGE ROAD, LONDON. S.W.1
TELEPHONE 01 834 4266

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Contents

that the case for site-value rating would be understood and that the committee's statements made about it and upon which they based their conclusions, would be accurate and clear.

The comments and criticism of the committee give the appearance of relying not upon independent thinking but upon previous reports that have rejected site-value rating.

Authority is sought from the Simes Committee's report despite the fact that its main arguments were torpedoed by the first Whitstable Valuation in 1962, and from the government Green Paper *The Future Shape of Local Government** which was universally condemned for its superficial treatment of all aspects of rating reform; largely, it was suspected, due to its being a scissors and paste job cribbed from a variety of selected sources.

In stating the arguments advanced in favour of site-value rating, the Report says:

"Finally there is the argument that the unrealised value of land is created by the community and not by the owner; site-value rating would enable the community to recover a share of the value."

This, of course, is not the argument for site-value rating at all, but almost word for word, the argument for the development land tax. Under site-value rating the rate or tax is not confined to "unrealised" values but covers all existing land values whether realised or not, provided they are legally realisable.

This blunder is not just a passing slip. It is repeated later:

"Whether site-value rating is an appropriate basis for promoting land use or taxing development gains is debatable."

Stating that the new Development Land Tax will take care of the taxation of development values

the Report continues:

"In these circumstances, a local

* See *Pros and Cons of Site-Value Rating*, a comment by Land & Liberty on the Green Paper. Land & Liberty Press 10p.

tax on site values loses its relevance."*

Does it indeed?

Quite apart from these considerations, the committee sees "powerful objections of principle and considerable practical difficulty" in site-value rating. The powerful objections of principle are not mentioned unless they are contained in the committee's "three tests" of site-value rating which are as follows:

(i) Whether the tax would foster accountability;

(ii) how firm the foundation of the tax would be for financing local services;

(iii) how readily the tax could be absorbed with full effect into the framework of local taxation.

Not only are moral principles—powerful ones—discreetly ignored, so also are economic principles as is evidenced by the statement that "insofar as the burden of the tax were passed on to tenants, the levy would be hidden in rents." But it is an economic axiom that a tax upon the pure rent of land cannot be shifted on to anyone else.

At one point, the committee seem to grasp the principle of site-value rating as is shown by the statement that the liability for the tax is based on the market rental of the site and that every single parcel of land would have to be valued. But then they say: "In its intention, site-value rating would tax those who would derive the potential benefit of development value."

Such conflicting statements can only cloud and confuse those not familiar with the principles of site-value rating.

One of the cardinal principles of site-value rating is that no site owner would be taxed upon a value he could not realise and this has been made clear in all literature on the subject and was stressed in the United Committee's evidence. A garden, a golf course or a parcel of agricultural land would be rated and taxed on the *value of that use only* if any superior use were forbidden by the planners.

Despite this logical and fair principle, an objection is raised against site-value rating that "It would be unfair to tax owners on the full potential site value in such circumstances," as though this were proposed.

The problems attendant upon resolving such matters, including other statutory limitations preventing a site owner from realising the full potentiality of his site, are among those considered as having considerable practical difficulty.

But let us take the criteria of the three tests of the committee and see how they have applied them to site-value rating and found it wanting.

(i) *Whether the tax would foster accountability.*

The argument here is that not all site owners live in the same local authority area as that in which their land is sited. Thus they would have no say through the local ballot box as to how their taxes were spent and on matters affecting their assessment.

But the present system, which the committee wish to retain, operates to a comparable extent against this principle in that business firms in a rateable area have no vote; only residents have. The rate on empty properties which belong to "absentee" landlords is also levied without regard for electoral representation.

If it is thought that this principle is an important one, then a change in the local electoral system is the answer.

Finally it must be stated that the accountability argument conflicts with the suggestion that the site tax would be "hidden in rents" in which case the absent site owner, making no contribution, can hardly have a claim to be represented!

(ii) *How firm the foundation of the tax would be for financing local services.*

The committee argues that site-value rating would not provide "a firm or predictable basis for authorities to finance local services." They consider that the present town planning system would preclude accurate valuations of permissible planning use. "Assessments of site values would

* The proposed Development Land Tax will have the exactly opposite effect to site-value rating—what is required is not land nationalisation through the Community Land Act, aided by the Development Land Tax but a free market aided by site-value rating.

Main Points in the Report of the Layfield Committee of Enquiry into Local Government.

Recommendations

- ★ **Existing rating system should be retained but modified to meet modern conditions.**
- ★ **Domestic dwellings should be assessed on capital or selling value in place of present annual or letting value because there is more evidence of the former and declining evidence of the latter through the fall in the number of lettings at market rents.**
- ★ **Agricultural land and buildings should be brought into the rating system.**
- ★ **A local income tax, to the order of £1,500 million per annum, should be levied as an additional source of income and as a means of strengthening local autonomy. Estimated cost of administration —£100 million a year.**
- ★ **The body which spends money should be responsible for raising it and councils should be responsible to their local electors for the money they raise.**
  Local income tax proposed would not necessarily lead to increase in overall tax level but would be used to reduce amount of Government grants and thus reduce national taxation.

Possible Further Sources

Tourist taxes, lotteries, vehicle excise tax.

Rejected

Local fuel tax; taxes on profits of local firms; payroll tax; local sales tax; prescribed share of national taxes; rating of site values.

NOTES:

1. **Sixty-five per cent of present local expenditure contributed by national government.**
2. **Three million employees of local government absorb almost half local authority costs in wages and salaries etc.**
3. **Four-and-a-half million ratepayers enjoy rate rebates or relief.**
4. **Vacant land makes no contribution to local revenues and it is not proposed to change this.**
5. **It is not proposed to change the system whereby the more run-down a property becomes the lower its assessment for rates.**
6. **The Government is not committed to the Layfield report and invites comments from interested parties, which should be submitted by November 30.**

often have to be based upon assumptions about the land use likely to be permitted." And why not? It would be up to the planning authorities to confirm or deny an assumed redevelopment use and this might well shake up the planners to the great advantage of everyone.* Indeed this would be an unintended bonus of site-value rating.

In any event, as Mr. Hector Wilks made clear in his valuation of Whitstable, the total hereditaments presenting problems were less than one per cent and of these, about 0.1 per cent presented substantial difficulties (not unresolvable) as to development potential. All the above evidence was before the committee.

The tax base, in short, would be no more unpredictable than that of the present system which has to cope with changes in buildings and improvements—indeed far less we consider.

Says the Report: "The intention of site-value rating is that the owner's liability for the tax is based on the market rental of the site." That is correct. But the Report adds, "This basis means first that the planning system has to be sufficiently detailed and explicit so as to identify for each parcel of land the nature of the permissible development." But it is nonsense to assume that every plot of land in the country has an economic and *marketable* development potential that would have to be ascertained.

(iii) *Practical considerations.*

These include the need for a complete register of land owners and land transactions (which is highly desirable and presents no practical problems as the Danish system testifies); the costs (unspecified) which are evidently not an effective argument against the committee's proposed income tax which is an *additional* cost not a substitute cost; and various other practical difficulties which are "formidable."

Apart from "accountability" which we have dealt with, there is nothing new in the objections catalogued and all have been answered in advance in the evidence supplied to the committee but have been ignored.

A re-hash of stock objections to site-value rating has been dished up again as though these objections have never been answered, leaving the reader of the Report, if not familiar with the subject, the impression that they are unanswerable.

Yet the committee itself would appear to have little faith in their own objections to site-value rating for, in the final paragraph they say:

"Before final decisions could be taken, a much more thoroughgoing practical study of the operation of site-value rating would be needed than the limited field studies carried out at Whitstable."

Their final comment is that the Community Land Act and the development land tax "effectively remove site-value rating from consideration." This is despite the fact that such legislation will affect only land ripe for development or redevelopment. Millions of properties will remain unaffected. Even so, it is estimated that the full implementation of the Community Land Act is unlikely to be realised until twenty or thirty years hence. Long before this, the Act will be repealed with or without the help of the Conservative Party (who have promised repeal) for, to borrow a phrase from the committee quoted earlier in another context, and to use it with more justification, this legislation inspires "powerful objections of principle and considerable practical difficulty." Formidable in fact.

* * *

THE following comments are taken from the editorial of *Country Life*, May 27:

"The average ratepayer's reaction when he learns that in order to find a more equitable way of financing local government it is proposed to employ 13,000 more civil servants and spend an extra £100 million a year, is likely to be one of horrified disbelief. Yet just such a proposal has been put forward by the Layfield Committee in its report, *Local Government Finance* (HMSO. £5.75), published recently. The Report recommends the introduction of local income tax levied on each resident's personal income. The object, to achieve more local accountability, has obvious merits, but the cost and complexity must surely make even a country as punch-drunk with bureaucracy as Britain think twice. How effective such a tax would be is debatable. One danger is that people with high incomes will move from expensively taxed to cheaply taxed areas. If adjustments are made to equalise disparities between different areas, then LIT will lose most of its point. The fact is that the taxpayer contributes substantially to local government expenditure, and whether he is worried about the finer points of the way in which it is collected is doubtful. What he is more concerned about is that the burden should be reduced.

"The Report devotes a great deal of space to the question of accountability, and says that many complaints were received by the Committee about local authority spending. Indeed, when it is realised that between 1952 and 1974 the number of local authority employees increased from 1.45 million to nearly 3 million, and that expenditure rose from £900 million in 1950 to the current figure of around £13,000 million, this is hardly surprising. The Report makes several sensible recommendations about monitoring staffing and expenditure, and it is to be hoped that the Government will take determined action to implement them.

"The Report recommends taking the capital value of buildings as a basis for the rating assessment instead of rental values. Site-value rating is rejected, although, since it is local authority services that largely create site values, it would seem a more logical basis for rating than building values. The Report also recommends the rating of agricultural land and buildings on the grounds that "we see no good reason . . . for discrimination in favour of agriculture." Provided that, as is suggested, this new burden on farmers is offset in some other way, there seems no reason for not removing this particular anomaly from the system.

"It is now up to the Government to make up its mind about the re-

* See *Planning, Housing and Land Values* (Ray Thomas) and *Administrative Implications of Site-Value Rating* (Peter Hudson) Land & Liberty Press 25p each.

commendations put forward. The Committee believes that the only way to sustain a vital local democracy is to enlarge the share of local taxation and make councillors more directly accountable to local electorates. But surely a more fundamental and better solution would be to return more responsibility directly to the public in general, with less rates and taxes and greater freedom of choice to the individual to spend his money as he pleases. The Welfare State should act as a safety-net and not as an overstuffed feather bed that suffocates all attempts at enterprise and self-determination."

* * *

EQUALLY incisive was the *East Anglian Daily Times* of May 15:

"Soon after the Labour Government came to office in March, 1974, there was a loud public outcry about the rates. Conservative local government reforms were just coming into effect, with disastrous results.

"The Cabinet had an awkward problem. It could not afford to act, partly because the Party had no official policy on rates, and partly because every available penny had been promised to the unions in the "social contract".

"Equally, it could not afford to do nothing, since it was hoping to win another General Election a few months later. It therefore followed the traditional course taken by all governments which find themselves in this sort of difficulty; it set up a special committee.

"Such a committee consists of a number of worthy and distinguished people, who meet irregularly to listen to speeches given by other worthy and distinguished people. When they have heard everything that anybody has to say, they summarise the proceedings, add their own recommendations, and present the whole thing to the Government.

"The Government then introduces whatever measures its own Party research staff has drawn up, and have been approved by its own Party members. Should these at any point happen to coincide with anything that the committee has proposed, it congratulates itself on having its ideas independently endorsed.

"The committee established to investigate rating was originally supposed to report by the end of 1974, so that the 1975 rates could be amended. Had such a target been achieved, it would have set a speed record; a two-year delay shows distinct evidence of haste.

"It is said that the main recommendation will be the introduction of a local income tax, involving an extra 12,000 bureaucrats and costing an extra £100 million. Such extravagance is obviously not justified, especially in the present economic climate.

"The natural reform would have been the introduction of land value rating; this would have been fair in itself, and would have had the useful side effect of encouraging development. Unfortunately, the cumbersome Community Land Bill seems to have made such a change too difficult.

"It is to be expected, then, that money will continue to be raised much as it is now. The bulk will come from the taxpayer, through Government grants, and the rest will be levied on property values.

"The key point that needs examination is how sharp and unexpected increases of the sort seen in 1974 and 1975 can be prevented. These caused untold suffering and distress to many people, particularly those on fixed incomes.

"Perhaps the Government should act by raising the Exchequer subsidy; perhaps the local authority should act by cutting its expenditures to the level its ratepayers can afford. As we have seen, neither of these things happened.

"The only possible alternative would be to insist that all major public expenditure should be approved by the ratepayers, by referendum. The householder would then, at least, know how far he was putting himself into debt, and be prepared when the bills were presented to him."

OPPOSITION'S LAND "POLICY"

THE latest attempt at an assault upon the land problem, the Community Land Act, commenced operation on April 6. Its fiscal ally, the Development Land Tax becomes functional on August 1. Both, in their own way, are potent pieces of socialist legislation yet little has been heard about them from the opposition, beyond general condemnation.

But in a recent speech to the British Property Federation, Timothy Raison, Conservative M.P. for Aylesbury, outlined his party's policy towards land. He recognised that the first essential was stability of legislation instead of the accustomed legislate/repeal double act of alternating Labour and Conservative governments, and established that his party, like the Labour party, regarded gains from betterment as rather different from other types of gain and thus a fit object of taxation.

The tax upon betterment should not, however, be too high, he said, otherwise it would become a deterrent to those who would otherwise bring their land forward for development. In Standing Committee, Mr. Raison pointed out, the Conservatives had proposed a 60 per cent rate of Development Land Tax instead of the Government's 80 per cent rising to 100 per cent. Hardly an alternative policy.

A better though weak alternative would have been a return to the last Conservative Government's proposed land hoarding charge, which, ineffectual though it might have been, at least had the merit of fining a particular kind of inactivity which deprived the community of the use of part of its natural resources instead of taxing the occasion of contemplated development.

On the Community Land Act itself, Conservatives can find themselves on far firmer and more familiar ground: the rejection of the underlying principle that public ownership is desirable for its own sake; the extravagant bureaucracy and the superfluity of the Act, since what needs to be done can be done via taxation.

This latter point is a good one and one which Conservatives could put to better effect if they would recognise that while the taxation of betterment does indeed have a disincentive effect upon development, as Mr. Raison acknowledged, the taxation of economic rent penalises only land misuse and *speculation,* the very element in the market which both Labour and Conservatives regard as distasteful and harmful.