Site Value Rating and Planning

Extract from a memorandum by The Land Institute to Mr. George Dobry, Q.C., on his Interim Report, *Review of the Development Control System.*

IF IT IS CONSIDERED to be economically, politically and socially desirable that one important element in the nation's tax structure should be related to land values, which in turn reflect the comparative wealth of regions (or smaller administrative units) and is responsive to rapid changes there, then site-value rating would appear to provide a means of achieving this.

The growth of communities depends on the availability of public services of all kinds; roads, sewerage, education, police, public health, refuse disposal, housing and many others. Public expenditure has to be financed and on an equitable basis. Since community growth helps create, sustain and then increase land values it would seem to be logical to tax those values to secure the necessary finance. Values will rise and fall through numerous causes. Site-value rating would, if it so desired, speedily reflect those changes. In this way the equitable distribution of social costs will be assured.

The significant differences between an efficient land-value tax and the existing rating system are:

(i) Site-value rating is based on ownership whereas it is occupational value which governs liability at present.

(ii) Only land is taxed. Buildings and structures are disregarded with site-value rating. Land and building values are assessed under the present rating system.

(iii) The present system is based on existing use values. Site-value rating is based on the full realisable value of land, so this will include development value as well as existing use value.

(iv) Vacant land, undeveloped land and underdeveloped land values are not covered by the present system. Under site-value rating they would be covered.

One quite vital difference has been reserved for special comment and it is the contrasting effect of planning so far as the present rating system and the site-value system are concerned. In so far as planning policy and decisions affect existing use value in the shape of "market" rents planning decisions are relevant to the present rating system. But not beyond that. So far as site-value rating is concerned planning policy and decisions are crucial, because they influence values so decisively, inevitably and logically. Planning policy and land-value taxation would be quite inseparable. Indeed it could be argued that land-value taxation would be most economically and efficiently administered where planning itself is fully effective. But where the planning system has gaps it would simply impose a greater burden on valuers who have to appraise the effect on land values of whatever positive planning evidence is available.

The flexibility of a tax which can so swiftly reflect the changing development values of sites, localities, districts, counties and regions through the evidence of market forces, including the influence of planning, might well be a valuable instrument in social planning. A planning decision to designate an inner city area as residential would be reflected in values for taxation purposes. Conversely, evidence of planning policies affecting undeveloped land would influence its value for taxation purposes as well as for sale and future development. The true value of planning policy and decisions would gradually be absorbed into values for tax purposes.

If planning and the land tax element of the nation's tax structure can be considered as directly related then in an ideal situation planning policy and decisions would influence values to a point where reasonably accurate forecasts could be made of tax consequences. That is to say for specific land units, area value totals and so on. Flowing from that any systems of tax equalisation and grant distribution could be more accurately tailored so that areas of low value could be brought up to an average level, thus underwriting reasonably uniform standards of local services. If regional economic planning is also brought into consideration it would be fair to say that physical planning, regional planning, local government finance and rate support grants could be linked for the better consideration of their interaction and total effect.

Site-value rating would give planners some hope that where, from a planning standpoint, it is thought right that particular land should be developed then at least an unwilling owner would face a continuing tax burden which might eventually discourage holding on to vacant land. When vacant land is developed the full benefit of that development is assured because the site value will not, in most cases, be affected because the development potential will have been taken into account for some period prior to development.

Site-value rating makes it dearer to hold land but cheaper to buy it. With a continuing year to year tax in operation acquiring authorities might find the market less subject to fluctuation and, therefore, leave them free to create a programme of acquisition rather than set about urgently creating a land bank. Their interest charges on capital borrowings would be less. The continuing shortage of land in Britain will ensure that planning decisions will have a great influence on land values and land prices. It is only when there is an abundance of land that planning will cease to have that influence; a remote prospect. Site-value rating will provide a pool of evidence of up-to-date values which could be very useful when it comes to compensation settlements arising on planning restrictions.

It might prove to be the case that a non-conforming user with poor buildings but valuable land will be induced to move because of a higher tax on potential realisable value rather than existing use value under the present rating system.

Planning policy will have to be more positive and firm, and planning inertia abandoned, or else developers, aware that square footage of accommodation will not influence their tax liability, will seek higher density development. Planners will have to be decisive about the optimum developments to be allowed and firmly apply sanctions in cases of default. For this reason it is essential that planning policies should be carefully drafted to avoid developers abandoning one area, where standards are higher and strictly applied, for another which is more lax and with lower standards. Increasingly, to achieve the maximum results there will be a trend towards regionalising planning control.

The assembling of splinter sites for more effective planning, servicing, designing and so on will be less arduous if hitherto unwilling owners face a yearly tax on their vacant sites.

Were site-value rating to be in operation the planners' land-use maps and the valuers' land-value maps would each be vital to the other.

It could be that public irritation about rating and ignorance or mistrust of planning will give way to an almost familiarity and warm acceptance of both if they can be made demonstrably more efficient and purposeful, seen to be closely linked and producing predictable results.

Some interesting statistics contained in *Economic Trends** show the present movement of land prices and the noticeable difference between regions. In the second half of 1973 land prices in England and Wales showed an increase of only £111 per average building plot. The increase in the first half of 1973 was £604 and for the second half of 1972 it was £790. Falling land prices for dwellings may well be accompanied by rising prices for commercial and industrial land so that with fairly regular valuation list revisions owners of dwellings will benefit. The movements between regions and groups of property may serve to emphasise the importance of comparative land values and the pattern for rate equalisation purposes. Link regional economic policy with planning policy plus rate equalisation and a more realistic, beneficial result will emerge. Physical planning policy will be the decisive factor. It could be settled in relation to regional economic policy. The results would reflect local financial need and a soundly based equalisation of resources could be prepared. The benefits of a fully operative physical planning system are incalculable. A big investment in it will produce equally big rewards.

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The Same Thing Only Different

WHEN is plant not plant, and can it be both at the same time for different purposes?

The House of Lords in *Inland Revenue Commissioners* v *Barclay, Curle & Co. Ltd.* (1969), held that for revenue purposes the whole of a dry dock, including the walls and floor, was "plant", and that the owners were therefore entitled to initial allowance on the capital expenditure incurred.

Following this decision, an enterprising company sought to have its three dry docks exempted from rating on the grounds that the whole dry dock, including the walls and floors previously held rateable, were "plant" within the meaning of section 21 (1) of the General Rate Act 1967 and therefore exempt from rate liability.

The company lost its case in the Lands Tribunal, and appealed. The Court of Appeal, in a unanimous decision (Manchester Marine Ltd. v Duckworth (V.O.) (1973) dismissed the appeal. Giving judgement, Lord Denning said that rating law was different from revenue law. The word "plant" had the same meaning in each, but the subject matter to which it was applied was different. For revenue purposes the whole of the dock — floor and walls as well as gates and pumps etc — was a functional entity, but in rating cases it was legitimate to consider the subject matter piecemeal. The dock gates and pumps etc. were clearly plant, but the walls and floor clearly would not be plant; they were the housing or setting within which the plant was operated, and rateable accordingly.