Site Value Rating: A Radical New Solution to Transport Funding

Dave Wetzel

KEN LIVINGSTONE'S election as London's Mayor in May was a vote for action to improve public transport. The four pages of his manifesto devoted to transport included a major programme of improvements, including:

- plans for new fast, high quality bus routes from outer into inner London along dedicated and well-policed bus lanes serviced by imaginative park-and-ride schemes;
- making the case to the Government for a long-term investment programme to build two new tube lines – Cross-Rail and the Chelsea-Hackney line;
- extensive pedestrianisation, so that Londoners can walk across the city, north to south and east to west, on green pedestrian routes.

The manifesto also contained some big new ideas about how to pay for improvements. The Mayor suggested that the tube could be financed by a public bond and funded by a mixture of fares revenue and taxation. More generally, if adopted after consultation, congestion charging could start to provide a new income stream in the second half of the Mayor's four-year term.

Londoners should not expect dramatic overnight changes. The government's £3.2 billion, three-year settlement for transport in London is 'back-loaded', with most of the money available only in years two and three, and over £100 million of it has to be spent on meeting the cost overrun of the Jubilee Line Extension.

With a successful economy and high levels of employment swelling tax revenues, and a general election on the horizon, you might have expected the government to have provided more money from the public purse. Instead, it seems hell-bent on a tube privatisation designed to compel the passenger to make a big contribution to the costs of the service, capital and revenue. No other major city is able to fund its metro in this way, and we already have some of the highest fares in the world.

Under this system, the people using public transport are subsidising car users and landowners: the latter benefit in different ways from the former's use of buses and trains; hardly socially progressive. There must be a better way of doing things. And of course there is – a radical new solution: Site Value Rating.

Throughout history, transport and communications have played a key role in decisions about where people decide to settle. Think of how many cities have been established along rivers or on major trading routes. Many businesses rely on good transport connections for their goods. Understandably, most people prefer to live within a reasonable distance of the train station or bus stop. The prices in estate agents' windows reflect this preference.

Whenever someone builds a road or a railway line, it affects demand for the land and, therefore, the price. House prices near new stations rocketed when the Jubilee Line extension and Docklands Light Railway were built.

THE WINNERS have done nothing to earn the windfall increase in the value of their property. Site Value Rating would address this essential unfairness. The idea is straightforward: an assessment is made of the value of the land (excluding the buildings). A tax is then levied as a proportion of the valuation. Frequent revaluations would reflect changes in transport and communications: some land values would drop, many would rise. The revenue raised should be sufficient to reduce or even eliminate existing taxes.

The arguments in favour of Site Value Rating are compelling:

1. It is fair? Why should someone in Liverpool have to pay for a new suburban railway line into London; why should someone gaining direct financial benefit from the line not make a proper contribution to it?
2. It would raise more money for transport than can currently be afforded.
3. It would be relatively cheap to administer and hard to avoid.
4. It is tried and tested? A respected economist has demonstrated how such an approach could enable the city of New York to pay for its subway. Brisbane already pays for its infrastructure in this way.

Fair fares, fair taxes

Over the next few months, the debate on funding major investment in the tube is likely to intensify. Do we want the poor passenger to foot the whole bill, with fares already unacceptably high? Or should we be looking to a fairer system, where those who make windfall profits have to share those gains? I know which system I would prefer.

Dave Wetzel is Vice-Chair of Transport for London, and Chair of London Buses.

Printed by MFP Design & Print, Manchester, UK