MERITS OF SITE

**Memorandum submitted by the
of Land Value to the Royal C**

INTRODUCTION

This memorandum is concerned primarily with local government finance. The Royal Commission's terms of reference have been specifically drafted to facilitate a thorough investigation of authorities and boundaries in relation to existing functions. In giving evidence before the Commission, however, some interested parties have touched upon the question of finance. In addition, statements have been made that views on the financing of local government would be taken into some account by the Commission. This memorandum briefly examines some of the methods which are used elsewhere or have been suggested for raising money for local expenditure; it also puts forward for consideration the United Committee's favoured approach.

SUMMARY

Whatever the form of local government structure the Commission might propose, any substantial reorganisation would provide an excellent opportunity to put the financing of local government on a more equitable and efficient basis. The United Committee proposes that the main source of local and/or regional revenues should be an annual charge based on the unimproved or annual site rental value of all land excluding improvements, plant and buildings. Such a system of rating, the success of which has been well proved in other countries, offers considerable advantages over other methods of raising local revenues. These are set out briefly below. The two most important advantages which flow from Site Value Rating, however, advantages which are of overwhelming importance in today's predominantly urbanised society—are that the system has the twin merits of making land for development cheaper to buy while encouraging the optimum use of all land without penalising productive efforts or home-ownership. Moreover, Site Value Rating could provide a most valuable impetus to the proposed new town planning system.

THE NEED FOR RESEARCH

To date little academic work has been done on this vital subject in England. The Pilot Survey for Site Value Rating undertaken at Whitstable by the Rating and Valuation Association in 1964 provides a useful starting point. Other work is in hand both in this country and abroad, but there is an urgent need for a detailed land valuation survey of populous urban areas. This need was stressed in the Report of the Simes Committtee in 1952. Although much of that Committee's findings are no longer relevant to today's issues, the need for a large scale land valuation exercise is more pressing than ever. It is the United Committee's view that no major decision about the system of local government finance should be made without the benefit of such research.

REVENUE FOR LOCAL GOVERNMENT

The methods by which local government revenue may be provided can be grouped under the following broad headings:

(1) Specific charges for services rendered;
(2) Personal taxes such as poll tax or income tax;
(3) Taxes upon commodities, e.g., sales taxes;
(4) Taxes based upon immovable property, e.g., on the improved value of land or upon the unimproved value of land (site value);
(5) Subventions from the Central Government, the revenues of which may be derived from some or all of the foregoing sources.

It is proposed to deal briefly with each of the topics mentioned above and then, in more detail, to examine various matters relating to rates on land.

SPECIFIC CHARGES FOR SERVICES

Where local authorities are authorised to provide services such as the supply of gas, electricity and public transport, the usual practice is to make a charge for such services to the persons requiring them and such charges are generally based upon the cost, so as to reimburse the local authority for its expenditure.

This practice is founded upon sound economic principles. To supply such services at less than cost would involve the subsidising of some members of the community by the general body of ratepayers—a course which appears to have no economic or social justification, and which might have many unfair consequences. Moreover, to charge less than the full cost would be unfair discrimination against competitive suppliers of oil as a source of heat or power.

It is clear that many public services cannot be defrayed by means of specific charges. For example, the whole range of sanitary services such as the provision of main sewers, street cleansing and health services necessary for the protection and amenity of the whole population do not admit of specific charges because it is impossible to apportion the benefit accruing to each individual citizen.

There are other services which lie on the borderline between these extremes. The amount of water consumed by each household can be metered and can be charged for according to its cost. It is general practice to make such charges for industrial consumers. On the other hand, the supply of water for domestic purposes is often regarded as a necessary sanitary service, to be defrayed from rates. Although this view has considerable weight, it must also be remembered that a fixed charge which has no relation to consumption is apt to encourage carelessness and waste and so increase the total cost of the service.

A more detailed discussion of this point would, perhaps, hardly be appropriate.

PERSONAL TAXES

Proposals have been made from time to time for raising local revenue by means of an income tax. This idea is at first glance attractive as it is alleged to be a means

-VALUE RATING

United Committee for the Taxation
mmission on Local Government

of imposing the burden upon those best able to bear it. Closer examination shows that such a method has many inherent difficulties which cannot be overcome

In order that they should be tolerable, it is essential that taxes on income should be graduated by means of abatements and allowances and by differential rates on taxable incomes of various sizes. In practice, also, in order to obtain speedy collection and to prevent evasion, it is usual for deduction to be made at source from payments of rent, interest and wages or salaries. It is not desirable to subject citizens to another inquisition on their incomes beyond that already in force for raising central government revenues, nor is it likely that a separate local system of income tax with varying rates of tax and exemption could be instituted without giving rise to extreme opposition from all taxpayers.

Regard must also be had to the fact that the income of an individual who resides in one local government area may be earned in another or be derived from property situated in many areas. Indeed, when it a case of dividends paid by companies or interest on government bonds, it is virtually impossible to define in any equitable manner the place where the income arises, except by arbitrarily assigning it to the place at which the security is registered. The paradoxical results of this do not need to be elaborated.

The inevitable conclusion is that a local income tax bristles with difficulties. There is the bare possibility of adding a percentage to income tax levied by central government, but this would not be a genuine local tax and the problem of apportioning it to the local authorities would still be subject to the difficulties indicated above.

TAXES UPON COMMODITIES

Taxes upon commodities have at various times been levied for local government purposes. A celebrated example is the *octroi* levied by the French towns, which was in effect a local import duty on articles brought into the town. Such taxation is obviously a restraint of trade which would be most objectionable under modern conditions. It would also be a very regressive tax falling upon persons according to their consumption of staple commodities, food and drink, for example, unduly burdening those who were least well off. Such a tax would be added to the price of commodities at retail, and would add to the cost of living—a result which for many obvious reasons should be avoided.

A tax of similar character is a purchase tax on goods collected by the seller and added on to the price to the purchaser.

TAXES ON IMMOVABLE PROPERTY

Taxes based upon land have been levied from very early times, and in some form or other continue to provide in many countries an appreciable part of local government revenues.

The most primitive form of such taxation was that levied as a percentage of the gross produce of land, which as an endowment of the church (tithe) was levied in European countries for many centuries, and is still levied in Moslem countries for religious and state purposes. Being levied on the value of the gross produce of the land, such a tax is in essence a tax on commodities; it must be passed on by the occupier of the land to his customers, and it becomes a diffuse and inequitable tax increasing the cost of living and falling regressively on those who are worst off. On that account and because of the practical difficulties of assessment (which often result in the tax becoming a fixed and stereotyped charge) it has tended to fall out of use, and could not be recommended under modern conditions.

The next stage in the evolution of taxes on immovable property is where the assessment instead of being based upon gross output is levied on the net output, that is to say upon the rental value of the land including whatever buildings and other improvements there may be on it. This variant is certainly less oppressive, but it is still a regressive tax falling more severely upon those who are least well off.

Taxes based upon the combined value of land and the structures attached to it tend to discourage the best use and development of land. They relieve vacant and poorly developed sites at the expense of those that are well developed. So far as they fall on that part of the combined value which may be attributed to the buildings and improvements they tend to be shifted onto the tenants or occupiers of the land, or in the case of land used for industrial and commercial purposes to the purchasers of the goods manufactured or vended on the land. In this respect they are of the same nature as taxes on consumable commodities, for houses and other structures are in effect commodities (i.e., produced objects of use) although of longer life than most commodities, and the economic objections and disadvantages of levying taxes upon them are of a like nature.

RATES ON UNIMPROVED (OR SITE) VALUE

The final stage in the evolution of taxes upon immovable property are taxes levied upon the unimproved (or site value). Such a method of rating has many advantages, of which the following are the most salient:

(a) A rate on site value exempts houses and other buildings and improvements made to land.

(b) It therefore encourages the development or redevelopment of land as and when that becomes desirable.

(c) Conversely, it discourages the holding of valuable land idle or poorly developed, because the site is fully rated and not relieved by reason of lack of development.

(d) Thus, land becomes available for use at its natural value and not at the monopoly prices prevailing where the exemption of sites from the full burden of rates encourages speculation (holding for future accretions of value).

(e) As the site value is solely due to the demand for land (which has no cost of production) and as it is a measure of the economic advantages to be derived from the possession of a site in a particular position, a rate on site values is a restoration to the community in general of a value which the community as a whole creates.

In particular, site value exists because of the day to day activities of the community, both as individuals carrying on economic activities, and as a municipal body providing various services which are essential to the continued functioning and prosperity of the community; and site value is only maintained by the expectation that these activities, private and public, will continue in the future.

More will be said of rating on unimproved value (site value) later.

GRANTS FROM CENTRAL GOVERNMENT

The demand for subventions from central government revenues for relief of local rates is frequently made. Such a plan relieves the members of the council from the odium of increasing the rates or of justifying the expenditure which they propose to incur. Nevertheless the taxes which are levied to provide the subsidy have to be paid by someone, and if grants are distributed generally to local authorities, it is by no means easy to demonstrate that the ultimate burden is any better apportioned. Indeed, in so far as the central government revenues come from taxes which are less equitable in their incidence and less beneficial in their results, the average citizen may easily suffer from the subvention which is supposed to aid him.

Further, if the decision to spend is not made by those who have the responsibility of finding the money, there is a clear temptation to be less careful and economical in incurring expenditure than would otherwise be the case.

The task of evaluating the benefits to the community from any proposed expenditure is an onerous and difficult one. In many cases it is difficult to find an exact answer. Yet it is absolutely essential that the best attempt possible should be made to relate the benefit received to the expenditure incurred. If this is not done the resources available will not be laid out to the best advantage. Grants in aid of local expenditure divorce the responsibility for raising the money from that of spending it, and do not make for wise and economical administration.

The more money provided from central sources, the more the central authorities will desire to control local expenditure, yet in the nature of things they cannot have the continuous and detailed knowledge required. Thus there tends to arise an arbitrary and inefficient system of dual control.

The independence and efficiency of local government demand an independent source of local rate revenue. For the reasons already indicated it is impossible to find a better source of this than rates on the unimproved value of land (site value).

ADMINISTRATIVE CONSIDERATIONS

A large body of experience has been accumulated in the various countries in which local revenues are derived from rates on the unimproved (or site) value of land. This experience demonstrates that such rates can be levied more accurately and more economically than rates based upon the combined value of the land and the structure or improvements upon it. A few observations upon the more important points will now be made.

MAPPING

The subject matter to be valued requires to be defined with as much precision as possible. It is therefore most desirable that there should be adequate maps (or cadasters) showing each plot of land in separate ownership. If parts of such land are in different occupations it is desirable that the map should show each such part, except in the case of flats or multi-story buildings with more than one occupier, as in this case it is sufficient to value the site of the whole building. If necessary the value of such a site can be apportioned according to the rental value of the several units of occupation.

CAPITAL VALUE OR ANNUAL VALUE

The practice generally adopted has been to value sites on a capital basis, that is to say at the amount at which it is estimated a site would sell if there were no improvements upon it, but on the assumption that all the surrounding sites were in their existing condition at the valuation date.

To base the rate on the capital or selling value has one serious disadvantage. This is that the rate on site value diminishes the selling value of the site more or less proportionately to the capital value of an annuity equal to the annual amount of rate levied. Thus in a municipality which has been deriving revenue from a rate on site value, and where the rate is for example 5 per cent of the capital value, if the rate of interest used is 5 per cent, the selling value of the site is only half of what it would be if the site were not subject to a rate on site value. Or to put the matter in another way, in the case assumed the owner has to have a revenue of 10 per cent of the assessed capital unimproved value in order to retain 5 per cent for himself and pay 5 per cent to the municipality.

Therefore, although the amount which a tenant would be willing to pay in ground rent for the bare site remains constant, the selling value of the site diminishes *pro tanto* to the amount of rate on the site value collected. This gives the misleading impression, at first glance, that the amount of the tax base has diminished, which is one of the reasons why critics of site value rating allege that it will not provide sufficient revenue for local government expenses. It would be idle to suggest that site value or any other system of rating could provide revenue for every conceivable extravagance that a local authority could entertain. On the other hand, as wise public expenditure makes a locality more agreeable to live in or more convenient to work in, the tendency is for such expenditure to increase the value of land, and so provide an expanding tax base.

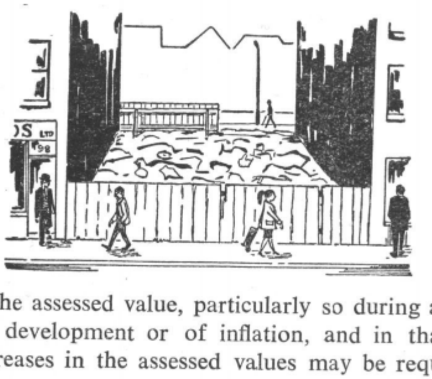
ANNUAL VALUE PREFERRED

For the reasons indicated in the foregoing section the considered opinion is stressed that it would be preferable to define site value for rating purposes as an annual value, that is to say, the amount of the yearly rent at which the site could be expected to let at the date of valuation assuming that the improvements on it did not exist and that the tenant had security by a long lease then granted (or otherwise) for the improvements necessary for the full development of the land permissible under the town planning restrictions applicable, and on the assumption that the obligation of paying the rate is imposed upon the lessor and not the lessee.

Recently the Rating and Valuation Association conducted a trial valuation of the town of Whitstable, Kent, on the basis of annual site value. Although the valuer in charge of this operation had no previous experience of making a valuation of site value for rating on the basis of either capital value or annual value, and although he was not in possession of the information which a valuation authority would have, he found no appreciable difficulty, and came to the conclusion that it was cheaper, easier, and quicker to value the site only than to value the combined value of land and structures.

FREQUENCY OF VALUATION

It is important that valuations should be made at short intervals. If this is not done, the actual values may far



outstrip the assessed value, particularly so during a period of rapid development or of inflation, and in that event large increases in the assessed values may be required to bring them to their true level. This in turn evokes complaints and criticism from the ratepayers.

Failure to keep the valuations near to the true value can be very unfair to some ratepayers; those in a rapidly developing district gain, while those in another district have to pay more than they should. This is also a reason why it is sometimes erroneously alleged that rates on site value are an insufficient source of revenue.

PUBLICITY

The valuations should be open to public inspection, so that any ratepayer may know the amount at which he and his neighbours are assessed. This is most essential in order to secure fairness and uniformity in the assessment.

It is indeed desirable that public opinion should be brought into play at an earlier stage in the valuation process. Modern scientific methods of valuation of site value rest upon accurate knowledge of the shape and situation of the plot to be valued and, especially in the case of urban land, upon the establishment of unit values for each street. The unit values are usually the value per foot frontage of a strip of normal depth. The unit values will be established by the valuers' knowledge of current local transactions in land, and he will often find it convenient to consult valuers, estate agents and others concerned in such transactions. The unit values should be published preferably in the form of a land value map, i.e., a map showing for each street the unit value of a foot of frontage of normal depth at the mid-point of the street, or occasionally if there is a sharp gradient of value at several points in the street. Once the unit values are established the work of valuation can proceed largely upon the basis of the cadaster or plan showing the boundaries of each plot to be valued, due allowance being made for irregularities of plot shape, corner influence, rear access, or other factors affecting a particular plot. Tables of computation have been evolved in the light of practical experience which facilitate this process.

Site valuation is in its nature much more simple than valuation of land together with the improvements thereon. Two adjacent sites of equal size and configuration will (except for corner influence or other special reasons) be normally of the same value, but these sites with improvements may differ greatly in value, and to obtain detailed and accurate information of the state of improvement of each site involves a very great amount of additional labour.

Valuations of the land combined with the improvements should, therefore, not be made for purposes of local taxation. The only occasions when such valuations are properly required is when land is being acquired for public purposes.

COLLECTION OF THE RATE

The rate on site values should ultimately be paid by the person or persons who enjoy the site value. As a measure of convenience it may be collected from the occupier of the land who may be a tenant or sub-tenant.

In that event the occupier should be entitled to deduct from his rent a sum equal to the site value rate, if the rent he pays is equal to or greater than the assessed annual site value. If the rent he pays is less, then he is to that extent in enjoyment of part of the site value and should be empowered to deduct from his rent a sum calculated upon it at the rate at which the site value rate is assessed.

The rate until paid should be a first charge on the land taking priority over all other estates or interests. Under efficient administration the costs of collection should be low, and bad debts should be negligible.

EXEMPTIONS FROM RATING

The practice of granting exemption from rating to land owned by charitable or other bodies is not uncommon. It is submitted that such land should not be exempted from valuation. The ratepayers are entitled to know or be able to calculate the amount of the benefit which they are subscribing in higher rates.

The subsidy so granted is arbitrary, depending upon the amount and value of land held by the exempted body, and is totally unrelated to what its needs and deserts may be. A better plan is not to exempt any land from liability to rates, but if it is desirable that the ratepayers should subsidize some activity on grounds of its public utility, then the local authority should be empowered to make a direct grant of such an amount as it may think is proper in the circumstances of each individual case, having regard to the funds available to the body from other sources and the need for and value of its work. Only in this way can adequate control be exercised.

TOWN AND COUNTRY PLANNING

An adequate valuation of sites is an indispensable prerequisite of town and country planning. It provides vital information of the values which the market has put upon the land involved. It enables reasonably accurate estimates to be made of the cost of imposing restrictions on development, or of the cost of acquisition of land required for road widening or other public purposes including redevelopment where it is necessary that this should be undertaken by the planning authority. Where land is acquired for public purposes the valuation provides a means of measuring the compensation to be paid, and if the valuations are made fairly frequently, it should not be open to the owner to argue successfully that any very substantial increase in value has since accrued.

CONCLUSION

Economic reasoning and practical experience have both demonstrated that a rate on site values is the best means of raising the tax revenue required by local authorities.

It provides a true local revenue based upon the degree to which the community by its public and private activities has made the locality desirable to live in. It is a source of revenue which is unearned by the individual owner but is earned by the community.

It enables buildings and other structures made to land to be exempted from rates and so encourages land development. Conversely it discourages the holding of land undeveloped or badly developed, and also encourages industry and commerce and home ownership.

No other system of local taxation can be found which provides all these advantages.

CITY COLUMN

Michael D. K. Turner

IN DECIDING which companies to mention each month I have two considerations in mind. The first is to covet excellence wherever it is to be found, and the second is to hope that readers will in time acquire a better judgement than I have. If this happens I will feel that I have done a good job

Pursuing the theme of excellence, we come to the accounts of *Ashanti Goldfields Corporation Limited.* There may be one or two veterans from the Ashanti Wars left in the Royal Hospital at Chelsea who know a good deal about this part of the world but to the rest of us the name only suggests a part of Ghana. The corporation is headed by Major General Sir Edward Spears. As a gold mining company the accounts include the highly technical Consulting Engineer's Report. The Chairman's statement for this company is published separately and those who are writing to the Company Registrar should ask for both documents. In his statement Sir Edward mentions the commonsense considerations that guide the affairs of this company. He also tells us that 76 per cent of the profits are absorbed in local taxes and that the company has been severely penalised by the 1965 Finance Act. We also learn that gold is being sold on the free market.

An item we have yet to see in these or any other accounts is the breakdown in income between returns to land and the interest on the capital deployed. We might then get some picture of the proportion of tax that represents land rent if only in a rough and ready way.

At the time of writing the shares stand at 13s. and have their attractions.

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My second choice this month is another overseas company *Algoma Central Railway*. The report gives a map of Ontario Province and the Great Lakes region of Canada, and from this we can see just where it operates. The head office is at Sault Sainte Marie and the company operates only a fraction of the mileage of Canadian Pacific or Canadian National Railways. Why then mention it at all? It is an interesting company for several reasons. In the first place it makes a profit, and one could make a long list of railways around the world that do not. It achieves this through the constant exercise of financial discipline, because this produces one long training