

# ENQUIRY COMMITTEES AND LAND-VALUE RATING (1952-1976)

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There has been no attempt to legislate for SVR since 1938, when the LCC sought permission to apply the principle to London, but the Parliamentary Bill failed in the Commons. Nevertheless, there have been several enquiry committees which dealt with the subject. There were also two land valuations of Whitstable, Kent, which, in conjunction with extensive overseas experience, effectively demonstrated the practicability of raising local government finance exclusively from site values. (1)

## The Simes Committee

The first and most important of the enquiry committees was the Erskine Simes Committee (2), which reported in 1952. The Enquiry dealt exclusively with SVR, and its Report became treated as an authoritative source for subsequent enquiries. The Committee was appointed in 1947, and its terms of reference were:

"To consider and report on the practicability and desirability of meeting part of local expenditure by a separate assessment of site values, having regard to the provisions of the [1947] Town and Country Planning Act and other factors."

The Enquiry Committee took four and a half years to produce its Report, and was divided in its conclusions. Six members, comprising the majority, found that meeting any part of local expenditure by SVR, having regard to the Town and Country Planning Act, was neither practicable nor desirable. Three members dissented, and submitted a minority report.

The enquiry was cramped by the restriction imposed on the Committee that it was not to consider the possibility of any change to the provisions of the Town and Country Planning Act. It had to consider whether SVR could be fitted into this complex Act, with its wide-ranging restrictions on the use of land, its compensation to landowners and its charge for development permission.

Although the Committee acknowledged the force of much evidence in favour of SVR, it repeatedly came up against the instruction that it should have regard to the financial provision of the 1947 Act" which effectively nullified the value of this evidence. The minority report attempted, with much difficulty, to reconcile SVR with the 1947 Act, and indeed a case of a kind was made out. But with the practical difficulties involved, that case was hardly likely to seem wholly convincing.

Some excellent factual chapters on the background to the British rating system, and on the working of SVR abroad, were contained in the majority report. The testimony as to the workability of SVR, however, was of little value because the 1947 Act was largely incompatible

with SVR. Thus the Committee was able to say, "Insofar as we have been impressed by the historical case for the rating of site values, we are nevertheless of the opinion that the evidence from overseas is not relevant in the conditions of Britain today."

However, by no means all of the Committee's arguments against SVR were based on the difficulties engendered by the 1947 Town and Country Planning Act. On the question of who bears the rate or tax on land values, the Committee stated clearly that "it remains on the landlord". Despite this, the Committee cited an imaginary circumstance which purported to show that the site-value tax could be passed on to tenants in higher rents. A variation of this argument was used when the Committee made its objection to the rating of agricultural land. It was suggested that this would increase the price of food. Yet, conversely, after agricultural land was derated in 1923 and 1929, food did not become cheaper. Nor did derating benefit the tenant upon whom the rate was charged as occupier; the landlord raised his rent to absorb the rate relief. If agricultural land were rated today under a system of SVR, either the landowner would pay the charge directly, or the tenant, as initial payer, would deduct it from the rent.

The Committee expressed doubts whether SVR would be adequate to meet the financial needs of local government, estimating that the land value of the country would be only twenty to fifty percent of the orthodox valuation for rating. But an examination of the basis used for rating valuations reveals how such a low figure was estimated. The valuation was on land and buildings taken together in their existing use, with the building in its existing condition. Thus, the poorer the development the lower the valuation, with the real value of the land concealed in the composite value. Furthermore, under the rating system which existed at the time, vacant land and agricultural land, however valuable, were excluded from the valuation.

The Committee's view was finally confuted by the two valuations of Whitstable (3), conducted by independent bodies - the Rating and Valuation Association and the Land Institute respectively - a number of years after the report of the Simes Committee, which demonstrated that the value of the land alone was of the same order as the composite value produced under the established system of valuation.

Despite the examples given of the working of SVR in other countries, the Report argued that experience there had indicated that it is difficult to eliminate all improvements in the assessment of land values. As a consequence, the Report claimed, the rating of land values failed to achieve the desired purpose of raising revenue solely from the economic rent of land. We were invited to infer from this that because in some cases it is not possible to separate the value of land from the value of improvements with absolute perfection, we should keep the old system that disregards completely the vital difference between them. One may reflect that the "imperfections" which troubled the Simes Committee do not stand in the way of the many market transactions involving redevelopment of sites, where the value of land alone needs to be known.

### **Report of the Royal Institute of Public Administration**

In 1956, the R.I.P.A. produced a Report which examined possible new sources of local revenue (4). In the section dealing with SVR, the Report gave a fair account of its operation in other countries, stating that where it had been adopted it appeared to be successful.

The Report, however, introduced an important qualification, declaring that "with the single exception of Denmark, it is used in countries of extensive land areas and new urban development."

Returning to the theme a little later, it says:

"We accept the argument that site-value rating encourages the development of land. For that reason it is a useful tax, especially in an expanding country with a large area of land, but it is of less interest in a country like Great Britain."

The Danish exception itself invalidated the argument. There is, however, an even more fundamental objection. That Britain has a relatively small area of land makes it more, not less, necessary, to ensure that the land which is available for expansion is not left idle or underdeveloped, whilst making no contribution to the local services which help maintain and raise its value.

The Report agreed that SVR would tax the development value of land; but it claimed that this could be done equally successfully by taxing buildings as well, or by applying a capital gains tax. The purpose of SVR, however, is not to tax just development values; it is also to tax all existing land values (which are far greater and more significant), and to exempt buildings and other improvements.

The Study Group considered it was a fallacy to suppose that the landowner bore the whole burden of the site-value rate. The owner, it declared, will pass on to the occupier as much of the rate burden as the market forces of supply and demand will permit. The error of the Study Group's view turns on the fact that supply and demand between tenants and landowners for landed property would remain unaffected by the site-value tax. Thus, E.R.A.Seligman wrote, in *Shifting the Incidence of Taxation*:

"If land is taxed according to its pure rent, virtually all writers since Ricardo agree that the tax will fall wholly on the landowner, and that it cannot be shifted to any other person, whether tenant, farmer or consumer... the point is so universally accepted as to require no further discussion." [Richard G. Lipsey makes the same point in his standard textbook. *An Introduction to Positive Economics*, 5th edition, London, 1979, p.370: "The tax cannot be passed on to consumers."

### **Government Green Paper 1971**

As the Government of the day was considering proposals to reorganise local government, a Green Paper was published, discussing financial implications (5). It considered trends in local government expenditure, possible additional sources of revenue, improvements of the rating system, and the future system of control of government grants.

In considering additional (not alternative) sources of revenue, various options were examined, but none was specifically recommended. They included local income tax, sales tax, payroll tax, duties on motor fuel and vehicles, lotteries, and site value rating. In the examination of SVR, there was little evidence of original thinking, and the misconceptions of the Simes report were repeated without further consideration.

The Green Paper did not deny the main argument for SVR - that land values are created and sustained by the community generally, and by the expenditure of public money specifically. Ignoring the basic principles of SVR, though, it switched the argument to development values.

"It may be pointed out that capital gains tax may be paid on the development value of land when it is sold, and the Government have recently, when abolishing the Land Commission,

made it known that in their view this is the appropriate way for the community to share development value."

This sleight of hand, which substituted development value for all existing land values (including the potential value for development, if realisable), switched attention from the real purpose of the site-value tax to the capital gains tax. This was the same ploy as used in the R.I.P.A. Report. It also repeated the Simes and R.I.P.A arguments that SVR, while having relevance in under-developed countries, has little in a country like Britain, where "the need is to channel and organise development in the best possible way, rather than simply to encourage it." This ignores the fact that site values reflect planning decisions and there is no point in not encouraging it within this context.

That the present system discourages improvement of property has, said the Paper, "some validity"; but then it went on to say that, under a site-value tax, property will sometimes be taxed before the improvements are actually made. But to state that potential improvements are taxed when land values are taxed is to misunderstand the whole purpose of SVR. To suggest that only actual improvements, not potential improvements must be taxed, misses the point that under SVR the tax falls exclusively on land, in accordance with its optimum use within existing planning and other relevant law; buildings and other developments are exempt.

The Green Paper then argued that SVR would not tax the current income or resources of the taxpayer, only his prospective and potential resources. But the use or otherwise of a resource whose value is the result of the presence and activity of the community as a whole is the owner's own responsibility. He enjoys the benefits, whether he uses them or not. To make a tax contingent upon action by the taxpayer is contrary to the whole principle of taxing land values. This was the rock on which both the Development Charge of the Town and Country Planning Act and the Betterment Levies of the Land Commission Act foundered.

Other "objections" were advanced, based on illustrations which do not stand a moment's examination. They include a misrepresentation of the Whitstable Pilot Survey, conducted by the independent Rating and Valuation Association. The Green Paper argued that: "site value rating could price amenities out of existence. Under the rules adopted for that study, rates on the local golf course, for example, would have increased seventy-fold."

This "example" missed the crucial point that the owners had already applied for planning permission to develop the land. This - if granted - would have destroyed the golf course anyway. As it turned out, permission to develop was refused, and therefore the SVR would have been levied only on the restricted value of its permitted use.

Another objection advanced was that owners of land are less easily identified than occupiers, and collection and recovery would be more difficult. However, it has been a long-established principle that a charge upon a landowner may be payable by the easily-identified occupier, who would then be authorised to deduct it from his rent. This principle applied under the old Schedule A income tax on property owners. Nowadays, compulsory registration of title to land in England and Wales (it already exists in Scotland and Northern Ireland) is progressively overcoming this alleged difficulty, and legislation to accelerate such registration could in any case be brought in.

## **The Layfield Committee**

The Committee of Enquiry into Local Government Finance led by Mr (later Sir) Frank Layfield, Q.C., was set up in 1974, and presented its Report in 1976 (6). The Report recommended that the then-existing rating system should be retained, but that domestic dwellings should be assessed on capital or selling values in place of annual or letting values, because there was more evidence of the former than of the latter. It further recommended that agricultural land and buildings should be rated, and that a local income tax should be levied as an additional source of finance. The estimated cost of administration - then - was £100 millions a year. The Committee rejected a local fuel tax; taxes on profits of local businesses; a pay-roll tax; a share of national taxes; and site-value rating.

There was no new thinking in the Report. Most of the arguments had been well rehearsed over the years among politicians, professional bodies, journalists and interested parties. Above all, Layfield relied on the Simes Report, and ignored the subsequent repeal of the financial provisions of the Town and Country Planning Act 1947, which had vitiated the earlier study from the outset. All in all, the examination of SVR was dealt with in one paragraph in the body of the Report, although it was given four pages in the annexe. The real purpose of SVR was side-stepped:

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

However, the Committee concluded that the Development Land Tax took care of the taxation of development value - therefore "a local tax on site values loses its relevance". Like so many other studies, this missed the point that the object of SVR is to collect existing land values, as well as development values.

The Layfield Report went on to repeat other old fallacies from other Reports: the argument that a site-value tax could be shifted on to a tenants; that amenities would be priced out of existence; that the landowner would be taxed on a development he could not realise. There was an interesting twist to the "passing the tax on" argument. In commenting that landowners living outside the local authority area would be deprived of local votes, the Committee not only failed to notice that owners of developments who live elsewhere are also voteless, but effectively conceded that the owners of land do bear the site value duty themselves. Why else would an absentee want a local vote? It is not surprising that one critic described the Report as "the non-event of the year".

## **Conclusion**

During the period when these various enquiry committees have sat to consider site value rating, one or other of a succession of land reform Acts was in operation. These Acts were alleged either to inhibit the introduction of SVR, or already to be serving its main purpose. The confusion of a development tax with an ad valorem tax on all land values has persisted throughout. However, the financial provisions of these Acts have long been repealed, and therefore those objections to SVR which were based upon them are no longer relevant.

The two Whitstable valuations have shown that most of the other criticisms were unfounded. Despite conclusive evidence to the contrary, opponents of SVR continue to claim that the Whitstable site valuations would have "priced amenities out of existence", and to quote the Simes Report as though nothing had happened since.

## NOTES

- (1) See general bibliography (page 24) for references not cited in this article.
- (2) *The Rating of Site Values*. Report of the Committee of Enquiry. HMSO 1952.
- (3) *The Rating of Site Values*. Report of a pilot survey at Whitstable, Rating and Valuation Association, 1964. Update of the same by the Land Institute, 1974.
- (4) *New sources of local revenue*. Report of a Study group of the RIPA. George Allen & Unwin, 1956.
- (5) *The future shape of Local Government finance*. July 1971. HMSO.
- (6) *Local Government Finance 1976*. HMSO

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