

Submission to the APPG on Council Housing from the Labour Land Campaign

The Labour Land Campaign (<https://www.labourland.org/>) was created in 1983 by a group of people concerned with the future of our planet. It campaigns within the UK labour movement for the collection of land rent for public benefit.

This is our response to the question **What do you think we need to do to secure a new generation of good-quality council homes?**

IT'S ALL ABOUT LAND

- 70% of UK land is owned by 1% (*Who Owns Britain*, Kevin Cahill, 2000).
- Over 60% of UK wealth is land value (<https://www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/bulletins/nationalbalancesheet/2018>).
- The land market is dysfunctional - it allocates land neither fairly nor efficiently - and is the cause of the housing crisis.

What is Land?

The early economists described the three factors of production as land, labour and capital. In economic terms it is simplest to consider land as the surface of the planet, although it actually encompasses all natural flora, fauna and minerals, plus external forces beyond the planet. Land is not just 'dry land' - it is in effect the Environment and our lives are entirely dependent on it.

Unlike the other factors of production, land cannot be re/produced (Mark Twain: "*Buy land, they're not making it anymore*").

Land value is derived from its natural attributes (soil fertility, scenery, landscape), local facilities (infrastructure, transport, shops, entertainment) and statutory permitted use.

Land was written out of the textbooks before the neo-liberal era (*The Corruption of Economics*, Mason Gaffney, 1994). Keynes ignored land and it is not considered as significant in macroeconomics. Economists today tend to conflate land with capital.

Land and Housing

Most of the price of most UK homes is land value - Location, Location, Location - thus the amount left over to spend on the building is unavoidably squeezed. Buildings wear out and need constant maintenance, unlike land. As a result the UK has some of the smallest, poorest quality, energy-inefficient housing stock in the developed world. The fabric of most UK homes is worth less than £50,000. And in the world's sixth richest country many have no home at all.

It may seem strange that residential land, which unless in the private rental sector does not generate an income, has the highest value. This may be explained by how the tax system treats land according to its three main uses: agriculture, business and residential.

- Agricultural land is untaxed and, conversely, currently attracts a subsidy based on acreage (the EU Common Agricultural Policy) whether used or not.
- Business rates are set by central government, at roughly 50% of rental value.

- Council tax rates are set by local authorities, based on house values hastily assessed by various private agents in 1990, where the occupant of the lowest value home pays one third of the tax paid by the occupant of the highest value home. This highly regressive scheme sees the owner of a £135 million mansion in Mayfair paying £1,824.10 a year whilst the tenant of a bedsit in Weymouth pays £1,451.78. [It should be noted that residential properties owned by companies rather than individuals are subject to an innovative additional tax: the Annual Tax on Enveloped Dwellings (ATED) which requires self-declaration and self-assessment.]

What this reveals is the inverse relationship between property price and property tax, whilst farm prices are higher than they would be without the subsidy.

Before 1990 both domestic and non-domestic rates were billed to the property owner. Business rates and council tax are not actually property taxes. Placing the burden on occupants rather than owners retains the purpose of the short-lived Community Charge - correctly branded the Poll Tax as it was based on the number of adult heads (polls) in a household - a charge for services provided by the local authority.

History of Land Value Tax in UK

Land Value Tax (LVT) was first proposed by US social campaigner Henry George in his seminal work *Progress and Poverty: An Inquiry into the Cause of Industrial Depressions and of Increase of Want with Increase of Wealth: The Remedy* (1879). The book became a best-seller - second to the Bible.

The game of Monopoly was based on the Landlords Game which was invented by Lizzie Magie, a follower of George, to show the benefits of LVT. It had two sets of rules, one which advantaged landlords (like Monopoly) and the other where players paid LVT and no one went to jail.

In the UK in the early 20th century LVT became the main economic policy of the Liberal and Labour parties. It was part of the 1909 Lloyd George 'People's Budget' that was blocked by the (Land)Lords and resulted in the passing of the Parliament Acts which prevent the Lords blocking finance bills. LVT was in all Labour Party manifestos until 1945.

In 1931 a Labour finance bill which included LVT was enacted. But shortly after, in the throes of the Great Depression, PM Ramsay MacDonald was persuaded to hand power to a Tory-dominated government of national unity. In 1939 Herbert Morrison introduced the London Rating (Site Values) Bill - local LVT - but Labour did not have a majority and it was defeated. The Tories eventually repealed the 1931 Finance Act and LVT was never implemented.

Herbert Morrison was responsible for the revolutionary 1945 manifesto which brought Labour to power after World War II, but it did not include LVT. Perhaps this was because it was associated with MacDonald and his Chancellor Philip Snowden, by then considered as traitors.

Labour's alternative was the Development Charge, introduced as part of the 1947 Town and Country Planning Act. This was the first of several attempts to capture the uplift in land value when a higher change of use is granted. They all failed for reasons explained here:

https://www.labourland.org/downloads/papers/Vic_Blundell_DLT.pdf. But the faulty principle is maintained in Section 106 Agreements and the Community Infrastructure Levy. Taxes imposed on developers discourage development and encourage corruption in local government.

In 2017 there were a few Labour Land Campaign members in the leader's team and that was the next time LVT appeared in a Labour manifesto: "*We will initiate a review into reforming council tax and business rates and consider new options such as a land value tax, to ensure local government has sustainable funding for the long term.*" The manifesto was leaked early which gave the Tories time to produce a narrative about the effects of LVT on homeowners which the Times, Mail, Express, Telegraph, Sun and Daily Star duly presented on their front pages the week and weekend

before the election. Thousands of leaflets about Labour's scary 'Garden Tax' were pushed through letterboxes.

Tory Party researchers had discovered a 2015 paper on the Labour Land Campaign website (<https://www.labourland.org/wp-content/uploads/2015/09/JonesWilcoxLVTpaperFinal-V2.pdf>) which described a strategy for introducing LVT. It clearly showed that it was endorsed neither by the Labour Party nor even the Campaign and was designed to make it affordable for homeowners and unlikely to cause massive house price deflation. A complaint was made to the Independent Press Standards Office which resulted in retractions eventually appearing in those papers. This may have played a part in Labour narrowly losing that election.

Do not expect to see LVT in any manifesto this year. However, there are indications in a report earlier this year by the Northern Powerhouse Partnership (NPP), led by George Osborne, that the Tories would use a devolved LVT to fund local authorities in the unlikely event of their remaining in power (<https://www.northernpowerhousepartnership.co.uk/publications/fiscal-devolution-a-blueprint-for-devolving-tax/>).

What Is Land Value Tax?

LVT is simply an annual tax on the value of land: all land is valued, a rate or rates applied and bills sent to landowners.

The ownership of over 85% of UK landed property is already recorded at the Land Registry. Registration is compulsory when a transaction occurs. It may be presumed that most unregistered land consists of large rural estates owned by trusts which conveniently never die and are passed down through the generations free of Inheritance Tax.

It would be easy to legislate for completion of the Land Registry within a short period, but the ownership of rural land is known at least to Defra, which pays them the subsidy. The occupants of business and residential land are known by the local authorities which send them business rate and council tax bills. If necessary, as an interim measure, LVT bills could be sent to occupants with permission to deduct the LVT from rent.

It is a myth that land is difficult to value because sales of bare land are rarer than for land with buildings. It is common in the rest of the world for land to be valued separately from buildings for tax purposes. In the US, the staff required for assessing land values is about one tenth of those needed for assessing buildings, and the number of appeals against land valuations is a small fraction of those involving building valuations.

The VOA (Valuation Office Agency) have in fact published land value assessments for each local authority in England for 2017 (<https://www.gov.uk/government/publications/land-value-estimates-for-policy-appraisal-2017/land-value-estimates-for-policy-appraisal-2017-guidelines-for-use>), updated in 2019. One wonders which policy this referred to - perhaps it is related to the NPP report referenced above.

Regular reassessment is essential to prevent the system falling into disrepute. Sudden big increases in tax bills for even a few are toxic with the voting public. This is why the superior Domestic Rating System was abandoned and one of the reasons why council tax is so disdained. The decision to delay the 2015 revaluation of business premises by 2 years caused major problems at a time when relative values were moving, especially in the retail sector.

Pittsburgh, Pennsylvania was the largest local authority to adopt a split-rate system in 1913 (where sites and buildings are valued and taxed at different rates), but it was abandoned after a long-delayed and poorly executed revaluation in 2001.

Australia has a land tax and assesses land values every two years using modern digital tools. Annual revaluation is optimal for the implementation of LVT.

The main purpose of LVT is to correct the dysfunctional land market. In addition it could raise considerable revenue and has the potential to fund all local government expenditure. However, with the vast disparity between land values in different regions, a form of redistribution would be essential, as envisaged by the NPP.

Land cannot be hidden (in a tax haven) so LVT is unavoidable. Also, given the extreme concentration of landownership and land wealth, it is the perfect wealth tax.

Delivering Council Houses - New and Second-hand

In classical economics the returns to (income from) the factors of production are: wages for labour, profit/interest for capital and rent for land. LVT is in effect the rent of land. At a (unlikely) 100% rate land would exchange hands for nothing, but at any rate, if the new property tax bill is higher than the previous bill the purchase price of that land will decrease.

Businesses locate where they get the most benefit from location, so LVT is inherently affordable. LVT would benefit businesses that require heavy investment in buildings like retail, but it can be presumed would not in general affect the commercial land market. Most business rent their premises and landlords will adjust rents to cover the extra cost (renting property is a business like any other).

LVT taxes unused land the same as land used for its permitted purpose. It will reduce the demand for land for speculative or long-term investment purposes (developers' land banks, for instance). The only reason to own land would be to use it. House builders will develop as quickly as they can rather than eke out building to maximise profit. It would be an opportunity for smaller and self-builders to push out the big developers who have dominated the market for so long and enjoyed oligopoly profits.

The biggest effect of LVT would be on the price of residential land. This is because housing costs are a major item in the average household budget - the greater the LVT liability the less would be available for a mortgage.

Local authorities would be able to buy cheap land for new council houses. It would be better if local authorities funded the infrastructure for new developments using future increased LVT revenue as collateral for loans (preferably interest-free from central government) rather than rely on receipts from Section 106 Agreements and the Infrastructure Levy. It would give them, not the big developers, control over the planning process.

But new-builds of any type are only a small part of the housing stock and council houses are urgently needed now.

The fairest way to introduce LVT would be to set a high rate for owners of all income-generating land, or land which could potentially generate an income like a second home, and a lower rate for those who only own the house they live in. A scheme would have to be devised to protect ordinary homeowners in expensive areas like London from huge increases in their taxes - it is not their fault how the housing market has developed. Initially the rate for principal homes could be set so that in each local authority the average homeowner paid the same LVT as council tax.

The main effect would be on the private rented sector. Landlords are major beneficiaries of the current tax system. As businesses they should pay business rates yet they only pay the much lower council tax if they choose, because it is the occupant who is liable. Student accommodation is a particular scam as it incurs no council tax liability and landlords just pocket the discount.

A landlord will always charge as much as the market will bear and cannot pass on the tax to tenants in rent just because their costs increase, but landlords might try it on at first by increasing rents by more than what their tenants were paying in council tax. There would need to be legislation to prevent this, otherwise we could see families thrown out of their homes before the market adjusted.

It could be expected that many, perhaps most, landlords would want or have to sell their properties. More supply means lower prices. This might enable some tenants to become homeowners, but it would also enable local authorities to buy up the excess housing stock with sitting tenants. Central government could offer them interest-free loans to do this as it would provide councils with a secure extra revenue stream in rents, like before the mass sell-off of council houses.

With less spent on land more can be spent on buildings, which is especially important with regard to increasing the energy efficiency of homes. New buildings, including council houses, could and should be built to Passivhaus standard.

Other Benefits of LVT

LVT requires the Land Registry to become a full cadastre of UK land. It could also include extra data, such as whether the property is a principal home and assessed values. It is a basic right of citizens to know about their land and who owns it.

Agricultural land is low value, but removal of the subsidy and imposition of LVT would reduce land prices still further. This is a good thing. LVT would stop the likes of billionaire James Dyson buying up half of Lincolnshire in order to pass on some of his wealth tax-free to his children. Instead, a generation of enthusiastic young farmers might be able to own their own business. At the moment tenant farmers pay the equivalent of LVT to the landlord. A better system of subsidy than the current one based on acreage will be needed to reduce our dangerous dependency on food imports.

As land is the prime collateral for bank loans, lower house prices would spoil their profitable mortgage business - time to roll back the years when only mutuals and local authorities gave mortgages. Banks would have to get to know their clients in order to extract profit from business loans. The power of the finance sector to wreck the economy with its trickery might be curbed.

All-Party Parliamentary Group for Land Value Capture

The Labour Land Campaign is a founding member of the Coalition for Economic Justice (CEJ), an umbrella group for UK organisations supporting LVT. The CEJ was responsible for creating the APPG for Land Value Capture where we lobby for the introduction of LVT. We kindly ask that members of the APPG for Council Housing consider joining the APPG for Land Value Capture.

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