Time for switch to site value system

● THE Great Rates Row in 1985 began in Scotland, where property owners were suddenly faced with the results of a new valuation of their properties: some increases – thanks to the escalation in prices over the past decade – were astronomical.

● The fault, however, lies with the way in which the property tax has been administered: not with the system itself. Governments have consistently deferred revaluations, to curry political favour with the voters.

● In this article, Dr. ROGER SANDILANDS (pictured left), an economics lecturer at Glasgow's Strathclyde University, demonstrates that reform of the rating system, rather than its abolition, is the sensible way forward.

THE EVER increasing burden of local rates is prompting a widespread demand for an alternative to the present system. It is therefore opportune briefly to review and compare the rating of property now in force with some methods, actual and proposed, of raising the revenues required by local authorities.

Under the present system of rating the assessor is required to estimate the annual rent at which premises could be let on a yearly tenancy in their existing condition. After certain minor adjustments, laid down by statute, this valuation forms the basis upon which rates are levied. This system has many defects, the foremost of which are:

(a) Vacant sites and unoccupied premises pay no rates.
(b) Poor property on valuable sites is under-assessed, since site values are largely ignored.
(c) Speculation in land is encouraged and its optimum development discouraged.
(d) Any structural improvement to property results in an increased valuation and an increased rate burden, which severely discourages improvement.
(e) The assessor's methods of valuation are never disclosed to ratepayer, any owner-occupier, who has had experience of the proceedings of a Valuation Appeal Committee, will be aware of the difficulties facing those who dare to challenge the assessor's valuation.

RAISING of revenue by means of a local income tax appears attractive as a method of making those most able to pay and many now making an indirect contribution bear the burden of local authority expenditure. However, closer examination shows this proposal to have many objections, some of which might be insurmountable. To be equitable taxes on income must be graduated by means of allowances and by differential rates on taxable income of varying amounts. Few income-tax payers would welcome another inquisition into their financial affairs, in addition to that demanded by the Inspector of Taxes. Collection would be complicated where the income of an individual, resident in the area of one local authority, was earned in that of another, or derived from properties situated in different areas. For industrial and commercial establishments, at present large contributors to revenues derived from rates, any income-based assessment would present problems.

Recently it has been suggested that the rating system should be abolished and the entire financial needs of local authorities met by Government grants. At present many local authorities, including Glasgow, receive substantial Government grants to augment their income from rates. Were the Government to finance all local authority expenditure, a much more extensive control of local authorities' policies and projects would inevitably be exercised by Government departments. Local communities should have the maximum possible oversight and control of how public money is provided and spent.

Local taxes upon commodities are imposed to augment rates in some parts of the United States of America. Such taxes, which fall upon people according to their consumption, place a relatively greater burden on those with low income.

THE MOST advantageous alternative to the present system is the rating of site values. Under this system rates would be levied on the unimproved annual value of each site on the basis of its optimum permitted use (e.g. a vacant site in an area scheduled under the Town Planning Acts as residential would be valued on that basis). Among the many merits of this system are the following:-

(a) The rating of site values exempts from rates all houses, shops, factories and other improvements made to land. Owners could extend, modify or rebuild their premises as they might desire, without increasing their valuation.
(b) All vacant and underdeveloped sites would pay rates on the assumption that they were fully developed. This would force vacant sites on to the market, thus reducing the price of land and so stimulating enterprise and development.
(c) The rating of site values is essentially a restoration to the community of a value which the community as a whole creates. Site values is due solely to the

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demand for land as it is a measure of the economic advantage to be derived from the possession of a site in a particular position.

A large volume of experience of this system has been accumulated over long periods in the USA, Australia, South Africa and New Zealand. This experience demonstrates that assessment of site values can be made more accurately and with less difficulty than those based upon the combined value of land and any improvements thereon.

In this country municipal agitation to amend the law governing local rating dates back to 1895, when Glasgow took the initiative and by 1906, had the support of 518 local authorities. In 1906 Glasgow Corporation promoted the Land Values (Scotland) Bill to permit a rate limited to 10% of the annual land value. This Bill passed through the House of Commons but not the Lords.

In 1908 the Bill was again passed in the House of Commons, but subsequently so mutilated by the House of Lords that the Government abandoned the Bill. A Bill, presented by the London County Council entitled The London Rating (Site Value) Bill, which provided, as a start, for a rate of 10% of the annual value, was defeated in the House of Commons in 1939 by 229 votes to 135 votes. The lead given by London County Council was followed by many other councils and, by 1947, 263 local authorities had affirmed their support for site value rating.

PROSPERITY AND THE 'KENT CONNECTION'

TO DETERMINE the practicability of raising local revenues from site values, a survey of the town of Whitstable in Kent (pop. 20,000) was sponsored by the Rating and Valuation Association carried out in 1963 by Mark Wilks & Co., who are professional valuers. The basis of the valuation was the market value of each site, having regard to the optimum permissible use of land as laid down by the town plan. In his report the Valuer stated:—

"The field work involved in valuing site only is very much less than valuing site plus improvements. When buildings are altered in any way no alteration takes place to the site value. Once the method is established and the evidence of market transactions passed to the valuer, the speed of work in the office is considerably greater than on the orthodox method".

In Whitstable 99% of the sites were valued without difficulty.

On 1 April 1963 the rateable value of Whitstable under the present system was £724,104 and the annual site value was estimated to be £642,254. The rate under the present system then was £0.55 per £1 so that a rate of £0.62 per £1 of annual site value under the site value rating would have produced the same revenue. But the incidence of payments would have been vastly different. Vacant sites now exempt from rates would have made a substantial contribution to the revenue, so that most properties would have paid less under site value rating than they did under the present system. This reduction would have been most marked in the case of residential property, where, in the majority of cases, the reduction would have amounted to about one third in the total amount of rates payable.

'No other system . . . provides so many benefits and holds such promise of prosperity'

Similarly, well-developed commercial properties in the centre of the town would have paid less, due to the unfairness of the existing method of assessment, which penalises new development. Some of the older shops and those on large sites would have paid more, but had they been developed in line with the true value of their sites, they would also have paid less under site value rating.

In 1973 the Land Institute Ltd. in their own words:

"Accepted an opportunity to undertake a second site valuation exercise in the town of Whitstable, Kent, believing that in this way it could add to the present limited knowledge of the practical results of this method of raising local revenue".

In their Report published in January is this statement:

"It appears to the Institute that the criterion referred to in the Paragraph 2.10 of the Green Paper (Cmnd 4741) is satisfied and that site value rating may make a significant contribution to meeting local expenditure and thus to reducing government grants".

The following figures illustrate the increases in land values which have been fairly general in this country during the decade 1963-1973.

The Total Rateable Value of Whitstable:

	1963 £	1973 £
On the present rating system	724,104	2,703,667
On site value rating system	642,254	3,369,589

From these figures it is evident that a change from the present system to site value rating in Whitstable, without alteration to the rate per £1, would produce an increase in revenue.

ECONOMIC reasoning and practical experience both demonstrate that a rate on site values is the best means of raising the revenue required by local authorities. It provides a true local revenue based on the degree to which the community, by its public and private enterprise, has made the locality desirable. Its source, annual site value, is created by the community at large and not by the owner of the site and is therefore the natural source from which the revenue required for social service should be derived. It exempts buildings and other improvements from rates, so encouraging building construction, industry and commerce and discouraging the holding of land out of use or under-developed. There is no other system for the provision of local government finance which provides so many benefits to society and holds such promise for prosperity.