

**Mega urban transport projects and
land-value capture: a ‘solution’ to
infrastructure funding and investment
in the UK**

“Let the Beneficiaries Pay”

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Professional Land Reform Group

www.plrg.org

Why me?

- 'map man'
- "Visualising Landvaluescape: developing the concept for Britain"
 - PhD thesis, now available at www.landvaluescape.org under "Recent Papers"
- Professional Land Reform Group – formed by Vice Chair Transport for London
- David C Lincoln Fellow of Land Value Taxation 2000-2003
www.lincoln.edu
- Adviser to Liberal Democrat Party + local councillor / lead member on planning
- 2013 Global Report on Human Settlements (Sustainable Urban Transport) assisted Harry Dimitriou with chapters on Spatial Planning & Governance + Institutions

Mission

Professional Land Reform Group

“To debate and develop ideas and policies on land use and tax reform, among professionals of all kinds, in order to promote land value capture to finance infrastructure and the fair and efficient use of all natural resources on a sustainable basis.”

Four Processes — and a policy

- How land value arises.
- How land information is made available
- How regional and local government finance policy has evolved
- How funding decisions about major infra projects are made
- An economically efficient and fair way to finance major infrastructure

How does Land Value arise?

- A ‘positive externality’ of the actions of labour & capital on land.
- Pigou (1920): environmental taxes are “the way to incorporate externalities into market prices”
“The Economics of Welfare”
- Every ‘where’ decision can cause land value changes
- Value ‘overspill’ (windfall gain) recycled by a ‘Location Benefit Levy’

What happens with new public infrastructure

- Immediate value transfer to site owners (over wide area) when decision to invest is announced
- Short-term blight affects property occupiers and transport users
- Secondary investment decisions
- Further value uplift over long term
- Complex network effects (esp. with mega-transport)
- Wider economy benefits

Landlords grow rich in their sleep without working, risking or economizing. The increase in the value of land, arising as it does from the efforts of an entire community, should belong to the community and not to the individual who might hold title.

John Stuart Mill

Political Economy (1848), Book V, Chap. 2, Sec. 5

The Big Question with Transport Infra Finance

- How to associate cause and effect?
 - Multiple actions
 - Complex networks
 - Dynamic over space and time
 - Culturally dependent?
 - Benefits (tax) and disbenefits (compensation)
 - Legal constraints: 'hope value'
- Information Infrastructure required
- Land + tax + information = POLITICS!

Revealing the 'landvaluescape'

- Monitoring property transactions
- Maintaining land information
 - Ownership
 - 'highest and best' land use
 - Value
 - Capital improved
 - Site rental
- Hedonic price regression
- Value mapping

Value Maps: Lucas County Ohio experience with AREIS

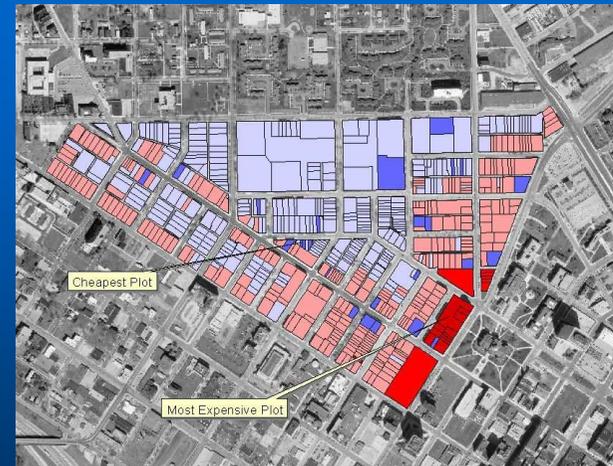
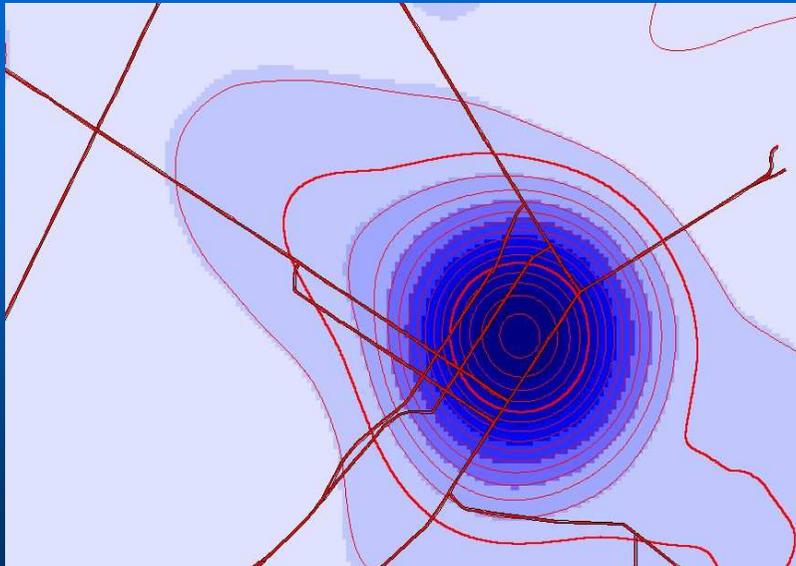
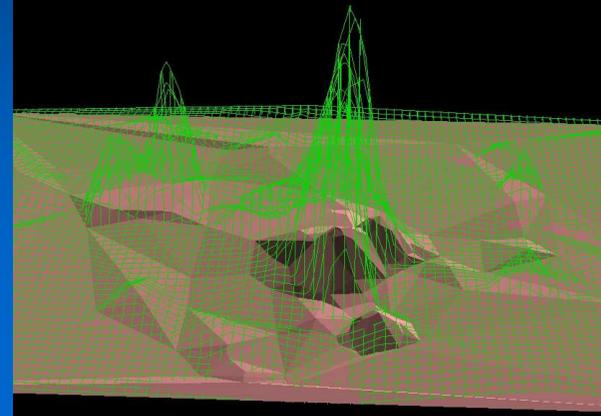
“We were able to clean up much errant data just by having the public view parcel information. Also this data has great economic value to the city and region. It provides the opportunity for the successful development of the land and buildings in the county.” (Jerry German, Chief Assessor & Auditor, Lucas County, Ohio)

“When my on-line map-based property database goes down, the lights on my switchboard go up.”

AREIS contents (for \$10 on CD)

- 200,000 properties
- Entire transaction history
- Type of construction
- Area, storeys, use, ownership
- Contours and road network
- Aerial photos
- Assessed value (land, buildings)
- Annual update on CD

Land value maps in Lucas County

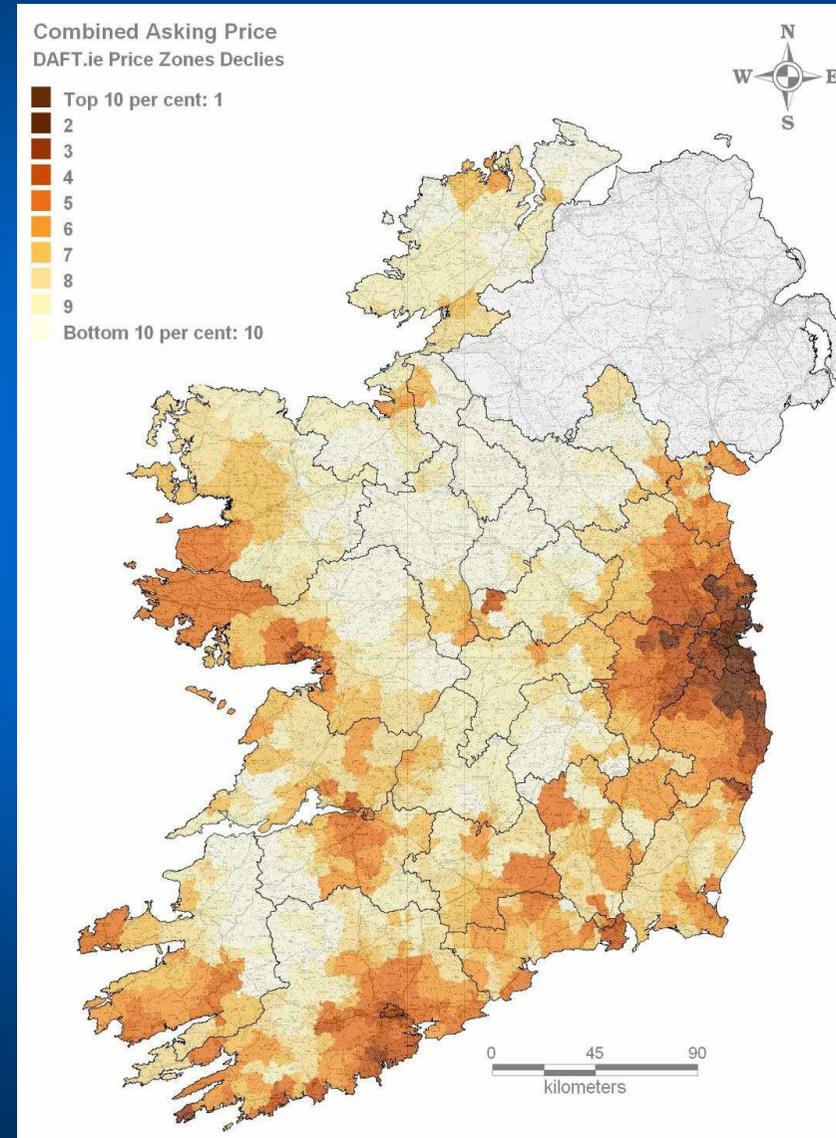


My UK Value Mapping PhD findings

- “...the policy and institutional environment is not yet conducive to the necessary property tax or land information market reforms. A business case for Value Maps exists but remains hard to convert into effective demand for products.”
- “The unique position of Britain as a developed nation with neither a ‘cadastre’ nor a comprehensive ad valorem property tax ... business case is largely dependent on market-led initiatives in spatial information ... collection and integration.”
- “Significant business benefits would result from a fundamental re-engineering of property market information processes but the policy drivers are diffuse.”
- “Climate change is most likely to be the driver that triggers a British Value Mapping programme.”

Ireland value mapped 2011

Source: Identify Consulting analysis, using Daft.ie datasets and with the assistance of the National Institute of Regional & Spatial Analysis, NUI Maynooth



How UK local & property taxes have evolved

- Local government finance
 - Set in UK legislation (since 16???)
 - Exported across Commonwealth
 - Minor variations in Scotland, Wales since 2000
 - Levied on occupiers (no land ownership register)
 - ‘Rates’ until 1989 > no revaluation for 17 yrs > “Poll Tax”>
 - Rapid reform 1991-2
 - Council tax
 - ‘bands’ based on ‘drive-by’ valuations
 - No revaluation (except Wales 2007)
 - Set locally but...
 - Relative cost of bands highly regressive (5%-0.15%)
 - Caps, floors & ceilings – highly controlled nationally
 - Uniform Business Rates (to be partially localised)
 - ‘developer contributions’ (since 1995) S106 >> CIL
- Stamp Duty Land Tax

'Property tax' is two taxes

“a mixture of the best of all taxes (the land value tax) and of a rather bad tax, that on buildings” William Vickrey.

- Tax on building value
 - Not 'green'
- Tax on land value
 - green
- Capital or rental value?
- How to use market transaction data for property / land taxes?
- Transaction taxes or *ad valorem*

Failed attempts at 'land tax'

- Town & Country Planning Act 1947
 - Nationalised development rights
- Land Commission Act 1967
 - Betterment Levy (40%)
- Community Land Act 1975
- Development Land Tax Act 1976
- 'planning gain' (DoE Circular 1983)
- Planning & Compensation Act 1991
 - 'Section 106' planning obligations
- Stamp Duty Land Tax (2003)

Local Government land value capture under “New Labour”

- Urban Task Force 1998-9
 - Vacant Land Tax + “more research into split-rate tax of Pennsylvania”
- Lincoln Fellowship in LVT 1999-2003
 - Preparing for ‘Smart Tax’ in Britain www.lincolninst.edu
- BIDs legislation 2001-2
 - Con / Lib Dems wanted owners to pay
- Balance of Funding Review 2003
- Oxfordshire LVT Trial 2003-5
- Whitstable ‘Mark 3’ 2003-?
- Lyons Inquiry – report 2007
- Planning Gain Supplement >> Community Infrastructure Levy

'Smart' Tax shift: buildings to land

(Hartzok)

Green Party of America / Pennsylvania campaigner

- Encourages building upkeep
- Stimulates new construction where needed
 - 1% shift of tax rate (buildings>>land) = 16% increase 'A Markov Chain Monte Carlo analysis of the effect of two-rate property taxes on construction' (Nic Tideman & Florenz Plassmann), *Journal of Urban Economics* 47, March 2000, 216-47.
- Keeps land prices affordable
- Discourages sprawl by encouraging good site use in already developed areas
- Revitalises inner cities
- Helps fund necessary infrastructure sooner

Green Tax Shift Catch Phrases

Alanna Hartzok: Earth Rights Institute www.earthrights.net
author of 2008 book: The Earth Belongs to Everyone

- *“polluter pays”*
- *“tax waste, not work”*
- *“tax bads, not goods”* *“increasing taxes on environmentally damaging activities while simultaneously reducing them on beneficial economic activities”* A Green Tax Shift for Vermont Dec 2009
- *“pay for what you take, not what you make”*

Barker on Land Value Taxation

Report on housing land supply for HM Treasury 2004

- 4.14 LVT “would require ... a national land ownership and value register to be created ... regular valuations would be needed ... there are arguments for a more comprehensive land registry in any case.”
- 4.22 “The combination of a potentially wide tax base and the fact that land is physically fixed ... point to LVT as a good method for raising revenue ... without distorting behaviour ...recapturing for the public purse part of the uplift in land values that can occur as a result of public investment.”

'Deadweight Losses' = 10%+ of GDP

The Effect of Taxation on the Market Price
and the Quantity of Goods Produced by the Economy

1. The price that must be paid by purchasers is increased.
2. The incentive/reward/return to suppliers is reduced.
3. The viable quantity of goods and services in the market is reduced.

These represent a loss to the economy

- They do not arise because of taxation as such, but because of the way in which the tax is levied, i.e. on production and the active factors of production (labour and capital), rather than the passive factor - land.

Pamphlet: *Deadweight Losses and how to avoid them* (David Triggs, Henry George Foundation of Great Britain) www.henrygeorgefoundation.org

*So the question is, which are the least bad taxes? In my opinion **the least bad tax is the property tax on the unimproved value of land**, the Henry George argument of many, many years ago.*

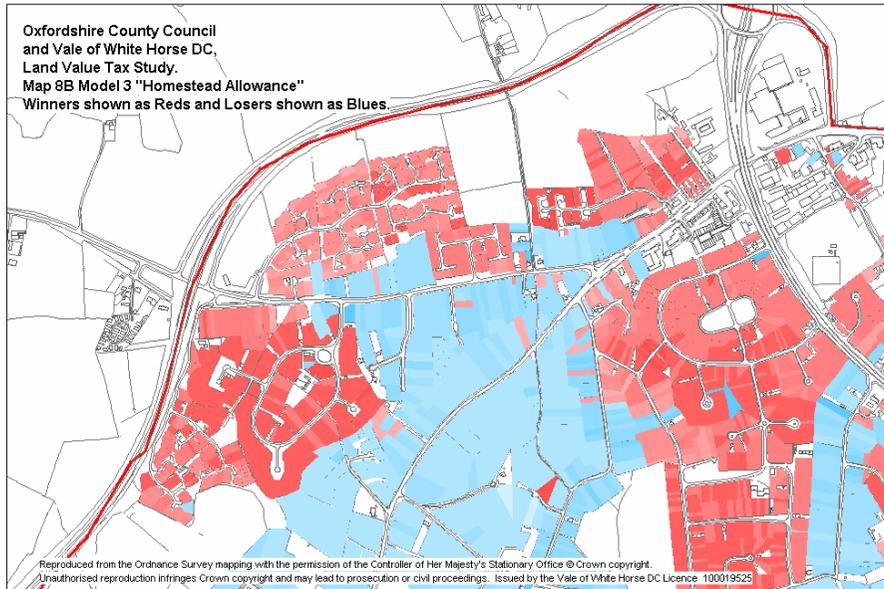
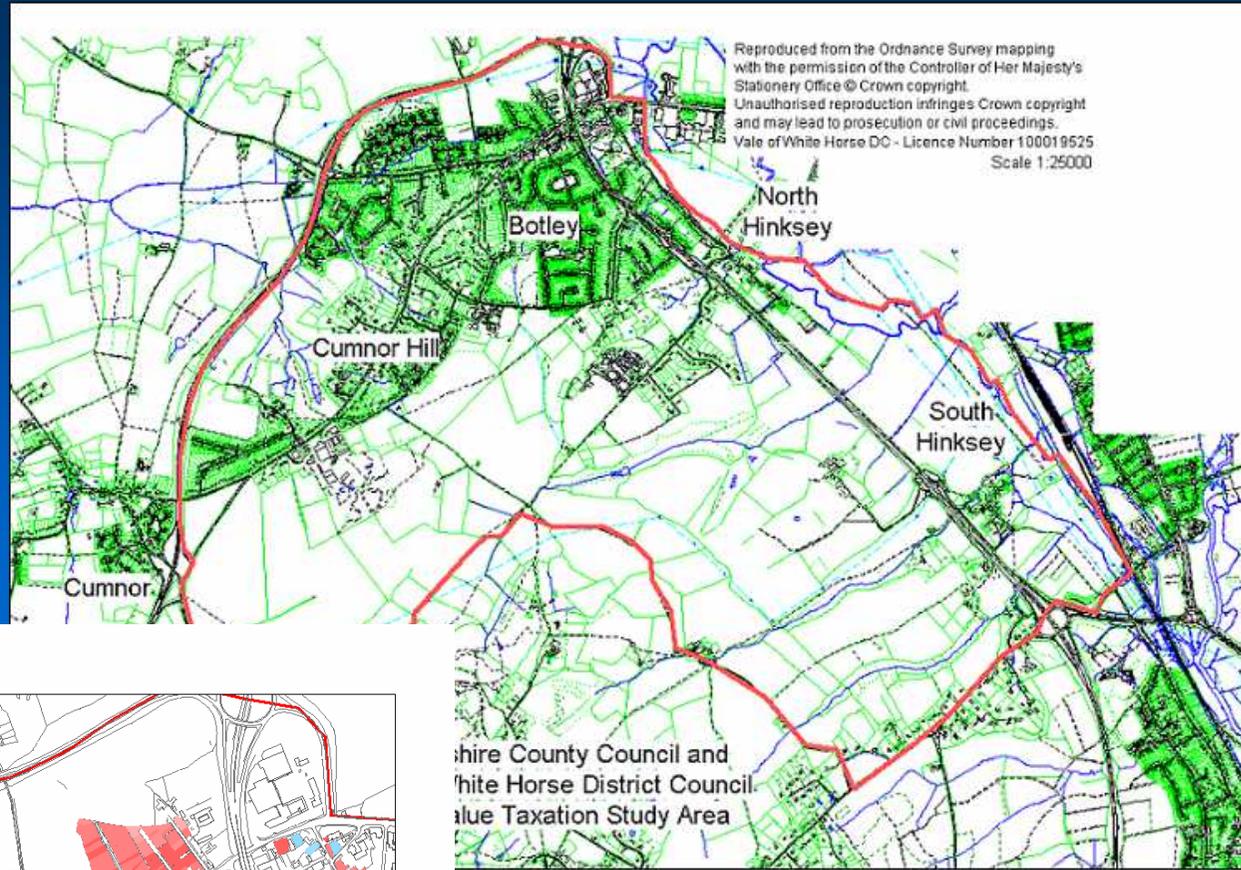
Milton Friedman

Professor of Economics, University of Chicago, speaking in 1978

Oxfordshire LVT study

- *“Valuations based on the undeveloped value of land present no special problems to a professional valuer”.*
- *“The increasing availability of well-developed GIS systems and other IT developments have the potential to make all property tax administration and land use planning easier and cheaper.”*
- Single rate of LVT on all land, with ‘homestead allowance’ for owner-occupiers (=Band B CT) - $\frac{3}{4}$ of all residents and businesses would pay less local property tax.
- Report at <http://www.lincolnst.edu/pubs/pub-detail.asp?id=1109>

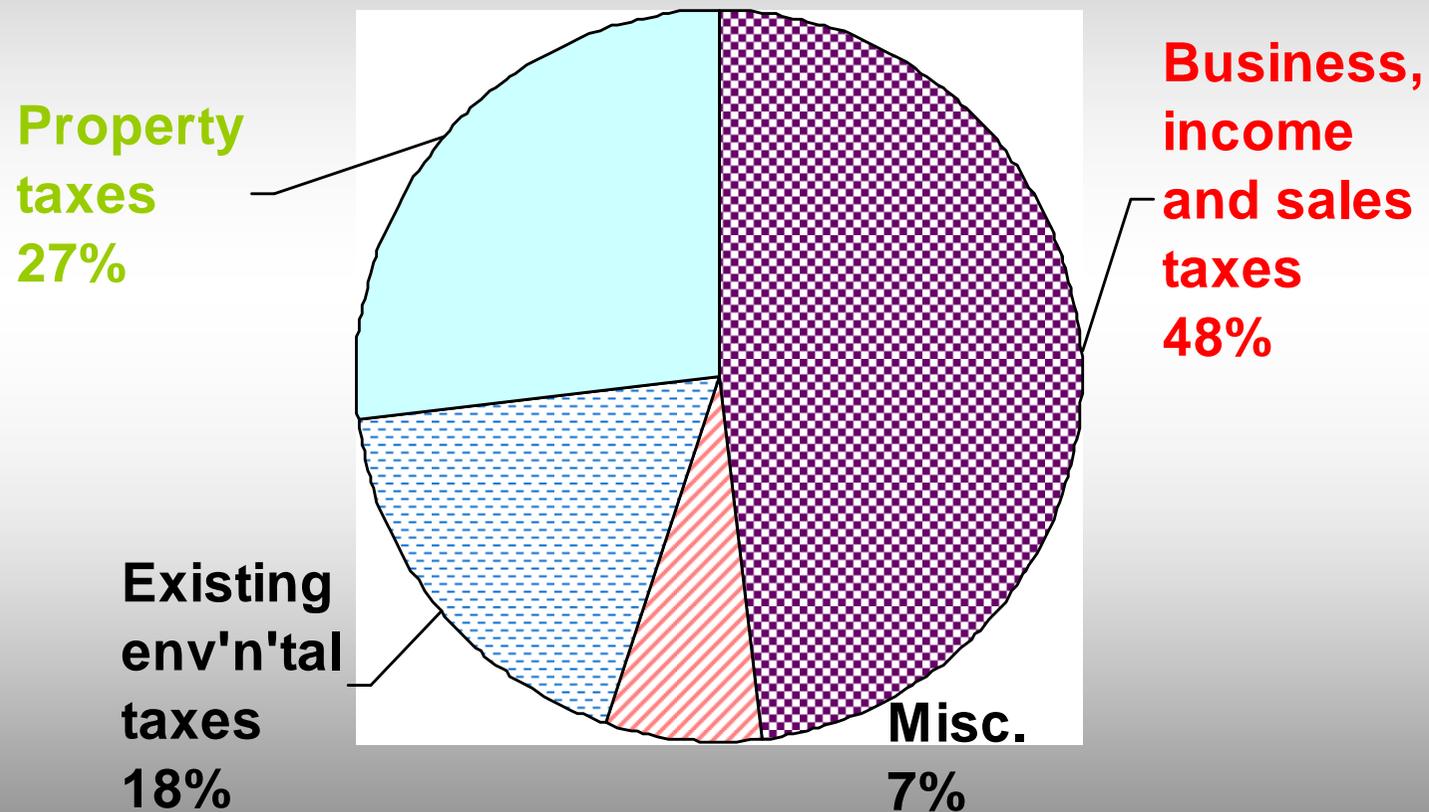
Trial area



Winners / losers

Pacific Northwest America

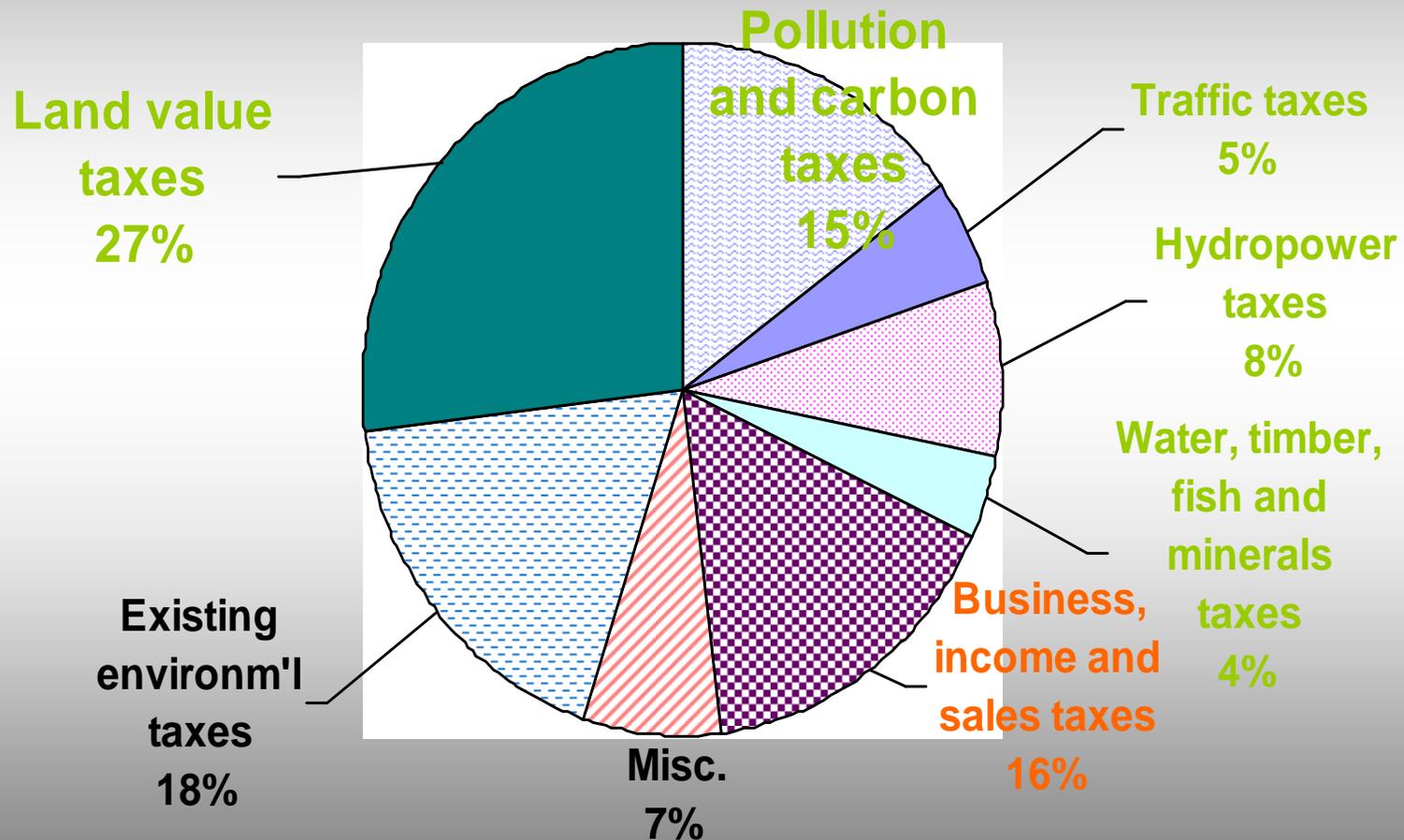
Actual (1996)



Source: Alan Thein Durning & Yoram Bauman, *Tax Shift* (Northwest Environment Watch, 1998)

Pacific Northwest America

Tax Shift Scenario



Source: Alan Thein Durning & Yoram Bauman, *Tax Shift* (Northwest Environment Watch, 1998)

Other LVT studies 1997-2010

- **Whitstable Study Mk3**
 - Hector Wilks 1963/4 (Rating & Valuation Association), 1973/4 (Land Institute)
 - 2003- Kingston University researchers Greg McGill & Frances Plimmer: “An Examination into the Effects of Land Value Taxation in the UK : An Update of the Whitstable Case Studies.”
<http://www.lincolninst.edu/pubs/pub-detail.asp?id=922>
- **JLE studies (Don Riley: “Taken for a Ride” 2001)**
 - Chestertons
 - Weatheralls
 - Lincoln / Kingston Uni / HGF
<http://www.lincolninst.edu/pubs/pub-detail.asp?id=906>
- **Croydon Tramlink (RICS / ODPM / TfL)**
- **My Lincoln Fellowship (2000-2002)**
 - “Blueprint for the Smart Tax in Britain
- **RICS – funding London’s Transport Needs (2003)**

RICS: Funding London's Transport Needs

by GVA Grimley (2003)

- 10/15 'innovative' funding methods use property / land values
- LVT among 'most effective' but highest cost to implement
- The most effective of 'recurring' property-based methods – by far
- £450m/yr extra for Central London transport projects alone
- However 'best seen as a replacement to other taxes, not an addition'

Lincoln Fellowship findings (2003):

- **national land valuation** could cost no more than the existing periodic valuations for property taxes, over the valuation cycle
- **LVT could replace all local property taxes** in under 10 years
- **Business managers** overwhelmingly prefer LVT to UBR – and support Pilot Smart BIDs
- **Value maps** help make any property tax transparent and ought to be Government funded as part of *e-government*
- **VOA's IT system** ought not to be replaced until LVT has been researched fully, including pilots

Global perspective on property tax reform

- *“seldom easy, usually difficult technically, and often not too rewarding in either revenue or political terms”* (World Bank 2002)
- Millennium Development Goal 7: *“Integrate the principles of sustainable development into country policies and programmes; reverse loss of environmental resources”*
- *“LVT is the appropriate instrument for the urgent fight against global inequity and poverty”* UN-HABITAT

International picture

- big international variation - most OECD countries raise more locally, but very different systems.
 - Sweden: c.80% local
 - France: c.65% local
 - Italy: c.45% local
 - UK: c.25% local
 - Netherlands: c.20% local

(Figures provided by OECD. 'Local' includes sub-national tax and non-tax (e.g. fees and charges) revenue).

RICS project on Property Taxes (2010)

- **Volterra / Edge P&D**
- **‘An Examination of Options for Property Tax Reform in UK’**
- **Sustainability ‘not part of the brief’**
- **Maxims:**
 - **Simplicity**
 - **Stability**
 - **Market efficiency**
- **6/8 countries studied have land taxes**
- **‘if a land tax were to be introduced, better and more timely data would be required’**

Property Tax reform requires Geodata modernisation:-

- Land register
 - Ownership
 - ‘highest and best’ use
 - Value
- Price transparency
- Data sharing among public bodies
- Zoning
- Internalise cost of changing datasets
- Low (zero?) cost at point of use
- Location Strategy
- Trading Fund business model

Political parties on LVT (2010)

- Labour
 - Tax Commission 2001 classed LVT as Environmental Tax
 - ‘Labour Representation Committee’ (9 MPs) supported LVT in 2005
 - Cooperative Party Manifesto (8/09) supports LVT as national tax
- Conservative
 - Bow Group 2006 proposal ‘Land Tax’
 - Nick Boles (now Planning Minister) *“would encourage property owners to develop brownfield sites and put rundown areas of inner cities back to good use” (2011)*
- Lib Dems
 - Conference ‘Green Tax Switch’ vote Sep 2006
 - Detailed proposals on LVT voted on Sep 2007
 - Community Planning Auctions
 - Vince Cable, Chris Huhne, Nick Clegg associated with ALTER
- Green Party
 - Supports LVT
 - Among top 5 campaign issues in Scotland 2004
 - Got “Site Value Tax” in Programme for Irish (coalition) Gov’t (9/09)
 - Caroline Lucas Private Members Bill on LVT Research

Coalition Proposals

- **Agreement states: (in “Communities & Local Government”)**
 - 1/27: “we will promote greater financial autonomy to local government and community groups. This will include a review of local government finance.”
 - 25/27: “We will provide incentives for local authorities to deliver sustainable development, including for new homes and businesses.”
- **White Paper “Local Growth” (29/10/10)**
 - **Tax Increment Financing:** ‘borrowing against future additional uplift within business rates base...to fund key infrastructure and other capital projects’.
 - **New Homes Bonus:** reversing disincentive to councils of ‘formula grant’ reducing as result of new homes >> ‘match fund additional council tax for each new home and property brought back into use, for each of six years after’
 - **Business Increase Bonus:** ‘reward those authorities where growth in the business rates yield exceeds a threshold by allowing them to keep the increase – up to a certain level – for six years’

Tax Increment Financing UK

- A definition:
 - *“A way for governments to take advantage of expected future property tax increments in order to finance the project(s) that will result in property values rising in a defined geographic area.”*
- Already in Scotland – but E&W?
 - Local Government Resource Review
- Many differences to US
- Is it public sector borrowing?
- Does it need legislation?
- “But For Test”
- Geography important

Mirrlees Review Proposals (IFS) 2011

- *“The economic case for taxing land itself is very strong ...[it] does not discourage any desirable activity”* (Ch.16 p.4)
- **Business Rates replaced by LVT**
 - on agricultural land too
 - <http://www.ifs.org.uk/mirrleesreview/design/ch16.pdf>
- Council tax replaced by “Housing Services Tax”
 - justified as “similar to VAT”
 - proportional to property values
- Road congestion tax
- “consistent price on carbon emissions”

Summary of unique advantages of Land/Site Value Tax

- Ensures finite resources are used optimally
- Provides funding stream for infrastructure investment: 'beneficiaries pay'
- Enables 'welfare negative' taxes (on wealth creation) to be reduced: rewarding work

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