

A Blueprint for Smart Tax in Britain

Abstract

In this third and final year of a research project to help prepare Great Britain for land value taxation (LVT), work focused on an inner city area of Liverpool and plans to introduce Business Improvement Districts (BIDs) in England and Wales. The aim was to produce a 'blueprint' for the city council to adapt the Government's BID proposals into a pilot implementation of LVT.

A commercial property valuer produced site valuations for some sixty land parcels and these were combined with information about business rating in the area. A Tax Effect Demonstrator (TED) was created from these data and tested on business representatives and regeneration experts in the city, in presentations which also used a specially produced ten-minute video about LVT and BIDs. Telephone surveys of the business community in Liverpool city centre were also conducted on the subject.

The city council maintained its support for 'Smart BIDs' and was given a costed business plan with recommendations to use self-assessment and reserve powers of compulsory purchase of sites in a prospective BID. The plan was to be presented to Government, with a request for permission to implement it as part of a national LVT trial, at a conference in the city in November 2003.

Unfortunately the Government failed to allow BIDs to impose a levy on property owners, so that they will only be able to use persuasion and contract law to secure funds from land values. Nevertheless the study concluded that BIDs could form the basis of a national LVT trial, which could commence but not be completed without further primary legislation, unlikely for at least three years.

The study has also enabled indicative costs for a first national land valuation to be estimated. Converting British property taxes (council tax and non-domestic rates) to LVT need not result in any net increase in tax administration costs, if the tax reform is carefully planned as part of the creation of a modern national land management system. Most of the costs would fall to other *e-government* projects to which Government is already committed.

Findings include the following:

- A national (England & Wales) land valuation could cost no more than the existing periodic valuations for property taxes, over the valuation cycle.
- LVT could be phased in, as a full replacement to local property taxes nation-wide, while the 2003 (non-domestic) and 2006 (council tax) valuations and taxes based on them are phased out, over less than ten years starting with trials as part of the pilot BIDs in several cities. The changeover could be cost-neutral in administration terms.

- Business managers overwhelmingly prefer Smart Tax to Business Rates, which they do not understand, and are particularly eager to see it being piloted in BIDs, where they do not believe a voluntary system of owner payments can work.
- TED should be widely used to help make property taxes transparent, irrespective of any tax reform. The Government should fund development of TED, as part of *e-government*.
- The Valuation Office Agency's replacement IT system should not be specified until further research has been carried out relating to the need for a parcel-based national land management system and fundamental reform of property taxes.

About the Author

Tony Vickers is a chartered geomaticist who has worked with geo-spatial data mainly in public sector organisations for over 30 years. After 14 years in British Military Survey, he set up an independent consultancy Modern Maps and became involved with local politics. He was a founder member of the Association for Geographic Information in 1989 and serves on its Corporate Affairs Committee. He holds a masters degree in information systems. Between 1998 and 2002 he was Chief Executive of the Henry George Foundation of Great Britain (HGF).

He is currently a part-time postgraduate researcher at Kingston University, lecturing and writing for various journals about his work studying the practical and political aspects of how to introduce and administer property taxes with the aid of 'landvaluescape' mapping.

Contact information:

c/o Modern Maps

62 Craven Road

Newbury

Berkshire

RG14 5NJ

United Kingdom

Telephone/fax: +44 (0)1635 230046

e-mail: tonyvickers@cix.co.uk

www.landvaluescape.org

Acknowledgements

Without the Lincoln Institute's support to the author through this Fellowship, the work could not have been undertaken and Britain would undoubtedly be less aware of the potential of LVT to solve many problems of the new century.

The author also acknowledges support from the Henry George Foundation of Great Britain. Valuable feedback on preliminary findings was given by a group of experts meeting on 25 October 2002 in London but most of all he wishes to acknowledge the enthusiasm and perseverance of Jon Egan and staff of October Communications and the many key figures in Liverpool City Council, Liverpool Vision and the Chamber of Commerce and Industry who gave of their time to help complete this study.

Directors of Clark Scott Harden, commercial property consultants, Mark Thurstain-Goodwin of Geofutures Ltd, Cllr Chris Newby, Ian Mason of Arden Chambers and Bronek Kram all made various key professional contributions. Professor Sarah Sayce, Munir Morad and Owen Connellan, PhD tutors at Kingston University gave invaluable advice but the responsibility for bringing this project into something approaching a coherent and convincing report dealing with the several outstanding research questions was that of the author alone.

Table of Contents

Introduction	1
Background	1
Aim: Research Questions	2
Conduct of Study	3
Trial Valuation	3
Creation of Tax Effect Demonstrator	4
Legislative Studies and Debate	4
Public Education	6
Valuation Issues	8
Methodology for Land Valuation in BIDs	8
Valuation Issues Arising from the Trial Area	12
Cost of a National Land Valuation	14
Data and GIS Issues	17
Background Data	17
Land and Property Data	21
TED as a Smart Tax Tool	26
British BIDs and LVT	27
Smarter BIDs in Parliament	28
Politics, British Law and LVT	32
The Smart Way Forward for British BIDs	37
A Liverpool Smart BID Blueprint	41
Defining the BID Area	42
Site Schedule	42

Site Valuation	43
Creating TED	44
Timings	44
Conclusion: Prospects for LVT in Britain	45
Answers to Research Questions	45
General Conclusions	48
Recommendations for Further Study	51
Dissemination	53
Endnotes	56
Bibliography and References	58
Glossary of Terms	63
Appendices	67
Appendix 1: Liverpool City Centre Maps	67
Appendix 2: Trial Area Valuation Methodology	71
Appendix 3: Landvaluescape Outline Demonstration	74
Appendix 4: Report on Legal Considerations	76
Addendum: Excerpt from Finance Act 1931	81
Appendix 5: Report on the BIDs section of the Draft Local Government Bill	84
Appendix 6: Notes of Colloquium on LVT, October 25, 2002	89
Appendix 7: Questionnaire Used for 2003 Liverpool Smart Tax Survey	96
Appendix 8: Promotional Leaflet on Smart BIDs	98
Appendix 9: Liverpool Smart BIDs Draft Schedule of Activities	100

A Blueprint for Smart Tax in Britain

Introduction

Background

This is the third and final report of a three-year David C Lincoln Fellowship in Land Value Taxation (LVT) awarded to the author while he was Chief Executive of the Henry George Foundation of Great Britain (HGF). The first stage report was entitled Preparing for LVT in Britain (Vickers 2000a), because that was the overall aim at the beginning of the study. The second report Preparing to Pilot LVT in Britain (Vickers 2002) took forward the main conclusion of the first year: that LVT needed to be piloted before any decision could be made about nation-wide implementation. In particular the experience of cities in Pennsylvania that have had split-rate partial LVT was analysed and lessons for Britain were drawn. A possible scenario for pilots leading to full LVT was set out.

The second and third Fellowships focused on Liverpool because it was the only city in Britain that had formally expressed a wish to be allowed to trial LVT, as a policy for urban renewal. Developments in the city since its Council voted on the issue in June 2000 were covered in the second report, as was a survey of 100 Liverpool business owners' attitudes to property taxes.

Research has had to deal mainly with perceptions about LVT in Britain rather than reality, because it is not yet possible to produce evidence for a native audience about the policy's effects in Britain. Perceptions on the part of those who pay the existing property based business rates have been broadly positive. From the professionals who would have to administer LVT there has been a much more sceptical response.

In this final stage of the study, initially called "A Trial Land Valuation of Liverpool", the results of a trial valuation of a small but complex area of inner city Liverpool were incorporated into a Tax Effect Demonstrator (TED). The trial area was imagined as a Business Improvement District (BID) with powers to vary the level and base of property taxes. This coincided with the preparation and introduction by the UK Government of legislation to enable BIDs to be established in towns and cities of England & Wales. The debate about funding of BIDs had concentrated on the differences between property taxes in America and the UK and the course of this research was greatly influenced by the way this debate progressed.

The title of this report has been changed because this study has involved more than just land valuation. The term "Smart Tax" comes from North America, where some supporters of LVT point to the fact that it is a source of public revenue that also acts as a benign economic instrument. Unlike most other taxes, it does not reduce the earnings of active factors of production. By enabling governments to reduce other taxes that do inhibit productive work, LVT encourages economic activity and deters speculation in a finite resource – land. "Smart Tax" has also been used by the research team in documents

and media for general consumption, to distinguish it from other forms of “land tax” that are being increasingly written about in the UK but which act in a different way to LVT, by taxing transactions and events involving property.

Aim: Research Questions

The aim of Stage 3 of the Fellowship was to complete all preparations necessary for Liverpool to be able to make a decision (assuming UK legislation allowed) to introduce one or more BIDs funded largely from LVT, so-called ‘Smart BIDs’. Because any local council’s ability to implement LVT depends upon legislation, this ‘blueprint’ for Smart BIDs would also be offered to the Governments in Westminster and Edinburgh. More detail as to the cost, timescale and legislative action needed to proceed towards nationwide LVT was needed by decision makers than was in earlier reports.

1. How might LVT sit alongside other policies for urban renewal?
2. What legislation is needed to allow LVT to be piloted in England & Wales?
3. What resources are needed to develop and operate processes involved with LVT?
4. To what extent should a pilot LVT project be required to finance itself from extension of the local tax base to vacant and under-used land?
5. How can local and national public understanding of the workings of LVT best be reinforced in the design and implementation of pilots?
6. How can LVT pilots be ‘controlled’ in experimental terms to account for extraneous factors in the validation of their results?

Conduct of Study

Trial Valuation

An area had been chosen in late 2001 for the trial valuation. By the time the grant for this Stage of the project was awarded, information about land ownerships in the area had been obtained from the city council. The London Road area (part of postcode sector L3) was next to the main railway station in Liverpool and contained many types of urban land use, with considerable dereliction as well as new housing, retail, commercial and leisure developments. But because an important part of the study involved having a local business community that wished to become a Smart BID, it was felt necessary to ensure that London Road people showed sufficient support for the idea. Otherwise the trial valuation would not progress to become a pilot for LVT and the effort would be wasted.

Valuation was held up while the city council and chamber of commerce decided whether another area would be better. This delay is explained below and in Appendix 1 (Liverpool city centre maps). In mid-June 2002 valuation of London Road area commenced. In the meantime, in February 2002 Robert Ashton-Kane, a Director of Clark Scott-Harden property consultants (CSH) and the valuer who had accompanied the author on a study tour of Pennsylvania in March 2001 (Vickers 2002), attended a one-day seminar at Lincoln Institute discussing the valuation techniques adopted in the U.S.. He also had discussions with the City Assessor of Bridgport CT, Ted Gwartney, a notable authority on land valuation.

Because of the complexity of the area, there was no scope for employing non-specialists in the valuation, as had been envisaged originally. It was essential to obtain the clearest possible understanding of the proposed uses for each of some sixty sites identified by the city council in their site schedule. The valuer had several meetings with city planners and senior staff at the city's regeneration company Liverpool Vision, which is responsible for facilitating redevelopment in the central city areas on behalf of local and central government.

Because of difficulties obtaining information about some sites and the limited budget of this research project, the trial area was slightly reduced in size. Even so, the site valuations took more time to finalise than expected, because of uncertainty about future 'highest and best' use. The methodology for valuation was quite unlike that used for the current UK property tax, known as Uniform Business Rates (UBR) or National Non-Domestic Rates (NDR) but was similar to that used by UK developers and is described in the valuer's words at Appendix 2. It was decided that no purpose would be served by formally asking the official Liverpool District Valuer (DV) to comment on the site assessments or the methodology, since the process was so unlike that with which he would be familiar and his opinions would have no statutory function.

A full Report & Valuation was prepared to support the final assessments for each site (Clark Scott-Harden 2002). The CSH report is too bulky to form part of this Working Paper but copies have been supplied to Liverpool City Council (LCC) and to Lincoln

Institute and it may be loaned from the author. The report includes certain information of a confidential nature at the time it was written, as well as caveats as to the basis and resultant reliability of each valuation. The trial had no official support from Government and was therefore unable to benefit from access to market transaction and rental information held by the DV and Inland Revenue Valuation Office Agency (VOA).

Because of the focus on BIDs in this final phase of the project, no attempt was made by the valuer to extrapolate from the trial area of 10.43 hectares to produce estimates of potential city-wide tax yield or cost of making a city-wide land valuation. The valuer was merely able to derive a 'per site' and 'per hectare' guide price for professional site assessments in similar mixed-use areas that might become BIDs. These were respectively £75 and £1,000.

Creation of Tax Effect Demonstrator

Using the Lucas County Ohio AREIS¹ data as a model, Mark Thurstain-Goodwin of Geofutures Ltd was retained as geo-spatial data analyst for the project. The task assigned to him was to develop a prototype tool for prospective BID Partnerships, with which to demonstrate the effect on property owners' and occupiers' tax liabilities of different mixtures of tax on the land and building elements of property tax assessments. This was set out in some detail by the Project Manager in a document Outline Demonstration (Appendix 3), which was modified somewhat during the course of the study as data and other issues arose (see below).

In particular, the requirement to create a three dimensional (3D) 'landvaluescape' model and images was dropped from the BIDs TED. Because British BIDs are likely to be little larger than one (perhaps two) square kilometres in size and not to use computer aided mass assessment (CAMA) techniques for the foreseeable future, neither the valuers nor the BID Partnerships that might use TED will need this type of image. TED was developed using ESRI's ArcView software, as was AREIS (Ward et al 2002). This allows for 3D modeling, so that TED can be modified in future if 3D is required. 3D images of downtown Toledo were developed by Geofutures from AREIS data for certain technical audiences but project funds earmarked for GIS had instead to be used to deal with unexpectedly severe data quality issues, described below.

It had been intended to deploy the prototype TED to study team members for their comments as non-specialists in geographic information systems (GIS). However it was not possible to do this, because none of the team other than the author and Geofutures possessed the necessary software to use TED. However a simplified version of TED, with just the basic functionality, was developed for AREIS and for the Liverpool trial area. Together with a Powerpoint presentation on Smart BIDs and electronic copies of certain briefing papers about this study, this version of TED can be supplied on CD-ROM.

Legislative Studies and Debate

A London-based barrister specialising in English housing and local finance law, Ian Mason of Arden Chambers, was employed to produce a report on the legislative steps

needed to enable LVT to be introduced. At around the time of his interim report (Appendix 4), the UK Government published a draft Local Government Bill which contained provision for BIDs, taking forward proposals in a White Paper of 2001 (DTLR 2001a).

The study team was already aware of strong support for the main principle of LVT among British advocates of BIDs who had studied American experience. The recommendation of Mason to “*compile a report of the principal features of the legislation necessary to enable a pilot scheme for the collection of a land value tax to be implemented in the UK*” was qualified by the words: “*to be linked where appropriate to current legislation and legislative proposals*”. It was decided to totally focus the remainder of this research on how to link LVT to the Government’s draft BIDs legislation. An analysis of the BIDs section of the draft Bill (Part 4) was produced by Mason. The result is at Appendix 5 and was offered in October 2002 to those involved in negotiations with Government to improve the BID funding provisions.

The substantive issues around BIDs funding and their implications for LVT pilots are discussed later in this paper. Much of the author’s time during the latter half of 2002 and early 2003 was spent engaging with this debate through various conferences and publications, using Mason’s second report and other products of this research. It was apparent early on that, although there was a widely shared diagnosis of the problem, it was not usual for LVT to be seen as the answer. After several private meetings with others involved in trying to improve on the BIDs legislation, it was agreed that supporters of LVT should merely play a supporting role, because some key organisations that were part of the wider campaign would regard LVT as ‘a step too far’. Hence documents prepared by the author for use by that campaign did not get distributed as widely as might have been hoped.

An attempt was made to secure follow-up funding for TED on the back of the BIDs legislation. Under the Government’s Special Grants Programme (SGP) for initiatives by the non-profit sector that support its urban renewal policies, the author applied for a grant of some \$30,000 to develop the TED prototype. Significantly this application cleared the first hurdle, being approved as a project that would help promote more equal distribution of wealth. However the second stage application, consisting of a three year costed programme identifying matching sources of non-government funding, failed to secure a formal grant offer for 2003/4 by the deadline of end January 2003.

At around the time that prospects for SGP success looked good, in October 2002 the author together with his replacement as Chief Executive of HGF (Peter Gibb) attended a meeting with officials responsible for the BIDs legislation. This resulted from correspondence earlier in the year with the Labour MP for the Liverpool trial area, Louise Ellman. A copy of the Stage 2 Working Paper was presented to officials, together with the Mason report on the draft Bill. The following day, a presentation on Smart BIDs was given to a major conference at the Greater London Authority offices. The next day a Colloquium on LVT for ten invited experts in aspects of property taxation was held, hosted by international consultants KPMG, the edited record of which is at Appendix 6. This record was made on condition that the anonymity of participants in the Colloquium,

in respect of individual opinions expressed, was protected. Many of the points made have a considerable bearing on this study (although few were new and most were dealt with in Vickers 2000b) and the record structures them in a logical way. The full report of the Colloquium is only available to participants (Whelan 2003a).

The Local Government Bill, as expected, was in the Queens Speech of November 2002, virtually unchanged in its BIDs proposals. The timing of the concluding tasks in this study were greatly influenced by the progress of the BIDs legislation, once it was known that a potentially powerful coalition² of commercial property interests was behind a campaign to amend it (Central London Partnership 2002). It was felt that forcing the completion of this project by the planned date (end 2002) would be less fruitful than waiting and basing conclusions, recommendations and at least some of the public education in Liverpool on the nascent Act. The outcome of the Bill's passage through Parliament was expected to be clear by April 2003, although in the event it only completed its passage through both Houses in late July.

British local and regional government is overwhelmingly funded from central grants, as was described in Vickers (2002). Early in 2003, the Office of the Deputy Prime Minister (ODPM) which is responsible for this, announced it would shortly set up a Balance of Funding Review to look into its implications and alternatives to the present system. The published terms of reference (ODPM 2003a) do not make clear whether LVT will be considered. However an official who had already been assigned to work on the Review was at the meeting in October 2002 with his colleagues who work on BIDs and he said then that the Review would be wide-ranging and not exclude other forms of tax besides those currently used. In a presentation at the Local Government Association (LGA) in July 2003, the minister responsible for the Study included the bullet point "New Local Taxes" among his slides (Raynsford, 2003).

Public Education

This strand of the project was intended to test the efficacy of Value Maps and other visual aids as public education tools for LVT in Britain, as well as explore the attitudes of local business 'stakeholders' in property tax towards its reform and BIDs' funding. It suffered from the uncertainty surrounding the BIDs legislation. The target audience and readership - ordinary members of provincial chambers of commerce, especially in Liverpool - were in 'lets wait and see' mode. Liverpool had decided that its first BID would be in an area unsuited to LVT and the second tranche BIDs in the city had not been defined before this report had to be completed. A presentation to the city council's Regeneration Initiatives Management Team in November 2002 helped catalyse thinking about BIDs funding locally but even these public officials were not sufficiently inspired - nor empowered legally - to act on the recommendation to work up plans for Smart BIDs.

The study team plan was to complete the video on LVT that had been begun as part of Stage 2 with footage of Pennsylvania, then collaborate with Liverpool Chamber of Commerce and Industry (LCCI) in marketing the Smart BIDs idea and conducting a series of Focus Groups about it. These would use a short briefing paper and postal questionnaire on BIDs in general and LVT, as part of the LCCI mailshot. A local public

relations company October Communications, whose Director Jon Egan had excellent links with all interested parties, was engaged to manage this series of activities in conjunction with the city council's 'champion' on LVT, Cllr Chris Newby.

Unfortunately the original Pennsylvania footage was found in May 2002 to be useless, because the sound was inaudible. The City Controller's office in Philadelphia obtained new footage, including a recorded interview with the Controller himself, Jonathan Saidel, enthusing about LVT. Apart from a short section of Philadelphia street scenes, most of the video was shot in Liverpool and used a range of other material, including stills from TED, to accompany a script written by the author. Entitled "Smart BIDs for Britain" and produced by Bronek Kram, it was shown in draft form to two small gatherings of business people in November and January, attended by the author, before being finalised for general release in February 2003. This final version was shown to two further Liverpool focus groups in April, with the author deliberately not present.

Meanwhile it was found from the small number of returns of the postal questionnaire completed by February that interest in Smart BIDs was insufficient either to use the answers statistically or to muster attendees to Focus Groups. Whilst the first two attempts were not entirely without value and helped the study team to refine their 'act', it was agreed that a more 'user led' and proactive approach to these events and the survey was needed. Local neighbourhood business groups helped publicise further meetings and provide refreshments for attendees as an incentive. As for the questionnaire (see Appendix 7), to supplement the 48 returns by post it was decided to use telephone interviewing to obtain a larger and more statistically robust set of answers. A representative sample of 200 city centre businesses were contacted, 152 of these selected and phoned by trained telephone survey researchers in March & April (October Communications 2003).

At two Focus Groups in April 2003 Egan and Newby showed the video and a Powerpoint presentation prior to audio-taped discussions on Smart BIDs among gatherings of those who would shortly (within a few years) be likely participants in real BIDs in Liverpool. The Smart BIDs CD-ROM and video were also offered to other local authorities where it was known that Smart BIDs were under active consideration. These included Oxfordshire, Newbury in Berkshire and Shrewsbury, county town of Shropshire. However none of these councils were involved with any of 22 pilot BIDs benefiting from a Government grant to help establish best practice in British BIDs, which the Association of Town Centre Management (ATCM) is coordinating (ATCM 2003).

The full report of the public education strand of this research is published separately by October Communications (2003) but extracts are included below. The final activity planned was a Workshop, forming part of a major conference on regeneration, organised by Liverpool Vision in conjunction with ODPM. This has been postponed several times but is currently scheduled for November 2003 and will become the UK launch of this Working Paper and its associated research products.

Two new strands of LVT research have been started during the past year as a direct result of this Fellowship's efforts to make the subject more accessible. One of the team that

visited Pennsylvania during Stage 2 in early 2001, chartered planner and surveyor Greg McGill, has joined with one of Britain's leading experts on rating valuation, Dr Frances Plimmer, in undertaking a third study of site values in Whitstable. McGill and Plimmer were awarded a David C Lincoln Fellowship in 2002. The first two Whitstable studies were covered in Vickers (2002) and this study will develop the use of GIS by professionals and as a public education tool, in ways which were not possible when the earlier studies were undertaken. On the political front, Liverpool's initiative has spread south to Oxfordshire, where the county council and one of the district councils late in 2002 voted funds to enable a study of LVT to commence in part of one the most prosperous areas of England.

Valuation Issues

This section of the paper draws upon the valuer's report (Clark Scott-Harden 2002), referring to its paragraph numbers (as 'n.n') but offers the independent opinions of the author, who is not a valuer. It also includes references back to the previous Lincoln Working Papers (Vickers 2000a and Vickers 2002) which contained discussion of the same issues and, in the latter case, an edited contribution by the valuer used in the trial here discussed.

There are two types of issue, which inter-relate but for the sake of logical discussion are dealt with separately. The first is the appropriateness of the methodology, in the light of the purpose of the exercise and the stage which the UK LVT debate has reached. To a considerable degree, the issues that are grouped in this category are philosophical rather than technical but they also link to the section on legislation for BIDs. They are issues that would not arise at all if Government possessed the will to introduce LVT in the first place

The second type of issue relates to the nature of the area that was valued: its mixture of current and planned uses; the regeneration policies being applied to it; its position in relation to the city centre; and the point in the redevelopment cycle at which it was found. All these issues are covered, in his own words, by the valuer Ashton-Kane. As with other 'issues' around LVT which commonly feature in sceptical statements, until there are UK pilots of the tax nothing can be proven.

Finally this section addresses Research Question 3 to see if an estimate of the cost of a national land valuation for LVT can be derived from this trial and other evidence.

Methodology for Land Valuation in BIDs

Kane touches on two linked key points: the artificiality of the exercise (CSH 1.5), which:

“did not require us to draw any specific reference or conclusions as to the relationship between our valuations and the likely impact on the use of the same on the local taxation charges attributable to the various properties”;

and the absence of access to market information that would normally be available in a LVT jurisdiction (9.7). Property taxes are active economic instruments in the market, not merely means of raising revenue. The publication of tax assessments or 'rating lists' (in value map form or in a spreadsheet) by itself is an economic act that can influence perceptions of the prospects for an area. The absence of openness in property market information and - in the case of this exercise - even of indirect access to the statutory source of information on rents and sales "*necessary to produce accurate valuations*" (9.6) limits the accuracy of tax assessments. In this case the 'tax assessments' were merely a paper exercise and therefore could have no influence on the actions of owners or tenants whose properties were being valued. Their main purpose was to obtain figures to enter into a spreadsheet that would have some validity in the limited context of this study.

This approaches the heart of the problem. So long as politicians and property professionals attempt to use the existing British UBR/NDR system with its occupier-based valuations, economic and environmental problems caused by that system cannot be addressed. No amount of desk exercises in site valuation - what Gwartney has called "*pilots by demonstration, not application*", quoted in Whelan (2003a) and in Appendix 6 item 13 - can equate to pilots of LVT. There has to be a serious prospect of change in the way that property taxes are levied before any new valuation system upon which those taxes are to be based will be taken seriously.

However it is quite reasonable to expect technical and political problems with a UK implementation of LVT if neither the tax itself nor the valuation system associated with it are to be allowed trials. All kinds of policies are subjected to pilots or trials before being applied nation-wide, quite rightly. LVT is no different and the first part of the LVT process that needs to be tried out must be the valuation of an entire tax jurisdiction. The study by McGill and Plimmer of Whitstable, Kent that began in 2003 (another David C Lincoln Fellowship³) will be the first since Wilks (1964 & 1974) to carry out authority-wide land valuation in mainland Britain.

So long as Britain uses UBR/NDR, each component country in its entirety (England, Wales, Scotland) is its own tax jurisdiction to a great extent: Wales having only slight (but Scotland almost total) legal discretion over local taxation matters. BIDs will change this, to an extent that current legislation is about to confirm, for application from 2005 in England and Wales⁴. More is said about the issues around this legislation in a later section of this paper but it would appear that there is nothing to stop a local BID Partnership voluntarily choosing additional sources of funding, such as a levy on landowners based on site values. The levy might be 'true' LVT or a simplified form more likely to secure landowners' support. There would be problems for BIDs imposing site value based charges, unsanctioned by the law, on unwilling owners. However if a sufficiently large majority of those liable for the levy voted for it then peer pressure on a few 'free riders' would be likely to have some effect. Naming publicly those who choose to be parasites on their neighbours might shame them into making a voluntary self-assessment and contribution.

Assuming this to be the case, there is then arguably sufficient justification for devising a valuation methodology for such Smart BIDs. Kane's methodology, although sound in the

ideal case of a Government backed nation-wide scheme of LVT, has drawbacks in the absence of access to DV/VOA-held market information. Pilot Smart BIDs lacking Government backing for their alternative to a levy on NDR would probably have to devise another valuation system in order to satisfy their members, who would have their minds concentrated by the prospect of receiving invoices. This surrogate valuation system could be replaced with a better one, once the principle of Smart BIDs or LVT received official backing. This may seem a tortuous method of beginning down the LVT path and there are certainly questions as to whether the effort would be worthwhile. These are addressed later. However at this stage it is assumed that the amount of revenue raised in this way and the impact of the tax shift as an economic instrument in the BID are judged locally to make the valuation exercise useful.

The spirit of BIDs is very much that rules should be devised from within and not imposed from above. BIDs are partnerships of consenting bodies and individuals aiming to achieve common goals for a shared geographic area and community. As the Prime Minister put it when first announcing Government's intention to introduce the legislation:

“Our approach will be based on consent and on partnership. Only where a majority of businesses agree with a proposal will councils be able to raise the extra revenue required to fund it. An improvement scheme will be proposed either by councils or businesses and agreed by both parties - with local businesses having a say.” (DTLR 2001b)

In this spirit, it should be possible to devise a valuation methodology for Smart BIDs by trials in a number of areas, using self-assessment by owners as much as possible. In every aspect of a BID, participants are learning from their own experiences and that of other BIDs (including those overseas).

It is therefore important not to freeze the initial Smart BID valuation method or its resulting assessments, in the way that NDR rating valuations are frozen for five years. This is especially so because, by their very nature as dynamic places where regeneration is intended to happen, BIDs are likely to experience rapid physical and economic change over their five-year lifetimes, leading to inequities in tax generally (but NDR in particular) greater than normal. As far as possible the valuation method used in Smart BIDs should attempt to correct these inequities. They can best do this by having an annual basis for valuation as well as for setting of the BID levy. This is common practice in overseas LVT jurisdictions: Sydney is even reported as considering a twice yearly valuation process for its Central Business District (CBD) (Tsai 2001).

Although the theory of LVT is based on the recovery of the rental value of sites, created by the community, for the community, it is normal for the valuation base in LVT jurisdictions worldwide to be a capital amount, the Market Value (MV) of the land alone. This is a hypothetical figure in almost every case in a BID (or any mature urban area) but can be arrived at by the Residual Method, as used by Kane. There are difficulties in arriving at a figure which would be sufficiently reliable or equitable for 'full' LVT in the first instance, which are covered in the CSH report. These difficulties are exaggerated for economically unstable BID areas, as compared to residential or other relatively stable

areas with little redevelopment activity. However what is sought initially for Smart BIDs is a set of site values that are acceptable to all (or at least the vast majority) of their owners as a basis for the levy that they are to be required to pay. This does not demand absolute accuracy in assessment so much as relative accuracy as between sites and sufficient openness in the manner of deriving assessments as to forestall appeals or non-payment.

The first payments of BID levy will be between one and two years after the start of the BID formation process. This should give sufficient time for BID partners, preferably with professional advice at their disposal and full access to relevant local authority records, to negotiate a set of acceptable site values. It is likely to be an iterative process, involving alternative scenarios for physical redevelopment in and near the BID as well as studies of the likely impact of BID operations as varied as provision of new bus services, CCTV or joint marketing. At each stage, as well as revisiting individual site assessments, it will be advantageous to model the impact of different mixes of UBR and LVT on the prospective tax liabilities of occupiers and owners (see next section). If owners are not happy with the accuracy of site value assessment by the time the first BID budget has to be set, then it may be necessary to reduce the initial LVT rate and revenue take so as to keep the perceived inequity to a minimum, thereby leaving more to be raised by UBR levy or other means. As the valuations improve, the LVT rate can be raised relative to the UBR BID levy.

The question often asked about LVT is: “How do you know the tax can yield enough revenue?” or its quantitative variant: “How much tax can be raised from LVT in this area?” This was quite deliberately omitted from this study’s research questions, although something akin to the second version was included in the terms of reference of the valuer. Wherever land values are positive, which is almost everywhere even in Liverpool, there is LVT revenue potential. Much of this is already being collected through a variety of other taxes, which act to depress land values in general – not just in the area concerned but wherever they are levied **for** that area - by having a dampening effect on economic activity. With the cost of valuing a particular area being a constant (once a method has been established and valuers trained to use it), the net yield from LVT after allowing for fixed costs of valuation and tax administration is a function of the tax rate. This is a political decision. Assuming the taxing jurisdiction is not seeking additional overall revenue but merely shifting the tax burden off other revenue sources, the answer to these questions becomes either: “Because existing tax revenues are sufficient and we are not proposing to increase them” or “Enough to replace most other taxes raised for this area”.

The more practical and short-term question is alluded to in Research Question 4: “Can (or should) a Smart BID be expected to pay for the cost of site valuation out of revenue raised thereby?” This study has brought us closer to being able to answer that. We now have a first estimate, based on actual professional experience, of what land valuation might cost in almost a ‘worst case’ area. But a BID is not intended by the Government to allow existing taxes to be shifted. It is not even intended (although it is not actually excluded either) to allow a major increase in expenditure (see below) but rather a modest *smorgasbord* of extra benefits for businesses. Only if a BID chooses to push against the

undefined upper limits of value-enhancing expenditure and also adopts a consensual self-assessing approach to site valuation could it expect LVT to be cost-effective.

The method adopted for land valuation in this study was the only one that could be adopted if the study was to produce a set of results that might work in TED and that would have some credibility within the valuation profession. But for a real pilot Smart BID, different criteria will apply and unless the legislation is dramatically improved to allow a real tax shift off UBR onto LVT, the cost of valuation may become a critical factor. In the drive to reduce costs of valuation, some innovative ideas involving self-assessment may emerge from pilot BIDs that choose not to use UBR. These may or may not assist an eventual nation-wide land valuation for LVT.

Although VOA is a partner in several relevant national GIS projects and shows signs that it is considering using GIS in the next NDR revaluation (VOA 2002), this is seen by them as not so much a tool for valuers as a means of explaining assessments to taxpayers. Lucas County uses GIS to improve assessments (Ward et al 2002) and it is envisaged that TED will be as much a tool for valuers as for other stakeholders in tax assessments. For this trial, the valuer did not use GIS to assist his work but other valuers have expressed interest in using it in future (Vickers & Plimmer 2002). However there is currently no GIS component in the training of UK valuers and almost no interest from rating professionals in particular in learning about the potential uses of GIS. A well publicised half-day seminar in London on the subject “GIS in Property Tax Assessment” held in July 2003, at which this author and the Chief Assessor of Lucas County both gave presentations, was not attended by a single UK rating practitioner or member of staff of VOA.

Valuation Issues Arising from the Trial Area

The London Road area of Liverpool was chosen largely because it seemed to exhibit most of the problems that need to be solved by valuers and tax administrators before LVT in Britain is generally accepted by politicians and professionals. If LVT can be shown to work in BIDs comprising such areas, it can probably work anywhere and everywhere.

Dynamic change characterises the aspiration, if not the reality, of most central and inner city areas. Several sites were being redeveloped as this valuation was being carried out, several others have schemes currently in preparation, others changed ownership or use or had been vacant for varying periods prior to this study. In some cases the opinion of Liverpool Vision as to likely future use of a site differed from that of the council’s planners, which differed again from what the valuer judged the market to expect. Uncertainty and risk accompany decision making by all market players in such areas. Although Liverpool is currently⁵ in a relatively healthy economic period (CSH 5.1), property investors are risk averse and valuations have a bias towards the pessimistic, even where ‘highest and best use’ (HABU) is supposed to be the basis of LVT. In a word, such conditions can be described as blight (statutory or generalised)⁶. They place many sites in this area near – and often on the wrong side of - what Kane calls “*a distinct ‘twilight’ belt*” (5.3), where:

“low property values are dissuading owners and occupiers from expending money on repair, refurbishment and redevelopment which, in turn, creates a poor impression of the general neighborhood, thereby depressing values still further” (5.7).

Accordingly the few sites where development has recently been completed and buildings are fully occupied at HABU may have site assessments that are closer to their true market value than those where the element of uncertainty is greater. The valuer has had to reflect this with pessimistic assessments. This seems to penalise enterprising development in a similar way to the UBR, albeit to a much smaller extent (assuming positive values for the blighted sites). The only cure to this is frequent reassessment: as decisions and physical changes are made relating to these sites, a better assessment will be possible. The incentive effect of LVT should speed up this process and aid the valuer in blighted areas more than elsewhere, by providing transaction-based evidence.⁷

But blight is exhibited to such an extent on some sites that, combined with unrealistic aspirations for the area on the part of planners, some sites actually show a negative site value. Clearly it would be perverse to operate LVT in such a way that negative site value resulted in negative tax payment (i.e. a rebate), so the tax treatment of these sites for this study was to give them a zero value. Zero or negative valuation sends a clear signal to the planning authority that politically motivated planning decisions have economic effects beyond the immediate site boundary. For example, towards the east of the trial area (see Appendix 1) there is a new mixed retail / residential development (site 49) that accurately reflects the way the property market is trying to work. Consequently it has one of the highest site values in the area and is helping to raise the value of those sites nearby that are designated for similar mixed use. On the other hand where some equally derelict sites are designated for light industry (e.g. site 54b), the valuer’s opinion of market value is such that no LVT revenue will be forthcoming from these sites and less than optimum revenue will come from even those sites that have profitable industrial occupation.

This does not necessarily mean that those sites have to be re-designated for a higher value use. However it does mean that the true cost of providing that type of employment opportunity in that part of Liverpool has to take account of lost tax revenues over an area that is larger than the sites themselves. And it means that only with external (taxpayer or charitable) investment can light industry be created here. The presumed political wish to provide blue-collar jobs close to the former council housing nearby runs counter to the way the property market is operating here. A better solution might be to provide mass transit that helps take one set of workers out to appropriate jobs towards the eastern edge of Liverpool, with another set of white-collar workers travelling in to office jobs nearby. Or it may be sensible to provide more student accommodation here, close to the university, or homes for young professionals at market prices.

This study did not aim to explore the Liverpool Unitary Plan but it was expected that the trial land valuation would reveal features in that Plan which require review. Frequent plan-led valuations inform the planners and politicians as much as the tax authorities (Hudson 1975). A revised Unitary Plan would trigger wholesale site reassessment but it would also be better informed by being formally linked to ongoing valuations for LVT.

Mention of residential accommodation leads to another issue affecting British BIDs and their funding. BIDs are by definition about business not about housing or improving residential communities. Yet increasingly people want to live in or near city centres and planners are actively seeking opportunities for 'live-work' developments. Even with large areas of surplus low-cost housing in the Merseyside area, housing is at a premium in this area, as in most prospective BIDs. Yet there is no provision for varying Council Tax (CT) in BIDs.

Because student accommodation is exempt from CT, there is an anomalous situation in areas like London Road which are close to a university. The Council has no incentive to make provision in its Plan for more student accommodation, because it will not increase its CT base. Yet property owners do have an incentive to provide student accommodation, largely because the tax exempt status of this category of housing makes it more profitable. Therefore the property market and site values near to the university - and the impact of any property based tax reform - will be distorted. Land converted from commercial use to student accommodation will result in the tax yield of the area falling unless remaining business occupiers make up the shortfall or the owners of these sites are required to pay LVT - which under the Government's BIDs proposals will not be possible.

Kane mentions Section 106 Agreements (Clark Scott-Harden 2002, 6.4), implying they have an effect on site valuations. Under UK planning law, planning authorities (councils) are entitled to impose conditions on developers when awarding planning approval. These so-called 'planning obligations' upon developers can vary greatly in nature and value: from cash contributions towards off-site highway improvements to a set percentage of new homes built being 'social' (i.e. low cost). All transactions in property that has development potential can be affected by this, because buyers have to discount for the capital cost of future planning conditions that will reduce their profit from developing the site.

Supporters of LVT usually say that planning obligations should be replaced, largely or totally, by the new tax. Otherwise there will be 'double taxation': the unearned increment of site value will be collected twice. If this was to become UK Government policy, it would affect valuations for LVT: without the prospect of double taxation (planning obligations plus LVT), the value of sites with development **potential** would rise relative to the value of sites that have **already** been developed. This issue is merely flagged up for future consideration and because it is widely claimed that the relationship between the UK planning system and LVT needs to be looked at: whilst not an insuperable barrier to tax reform, it is a major issue for valuers and planners alike. Meanwhile Kane was correct to take no account of possible Section 106 effects.

Cost of a National Land Valuation

Her Majesty's Land Registry (HMLR) estimates that there are 21 million legal land parcels in England & Wales (Ashwin, 2002), including mountain and moorland, forests, farmland and urban areas. The cost of valuing parcels varies: Kane estimates that inner city sites cost about £75 each; he has estimated that £20 per site will suffice for the

planned Oxfordshire trial of a mixed-use peri-urban area of some 3000 properties (Ashton-Kane 2003a). Farmland far from settlements can probably be valued at even lower cost per field/parcel, say £5.

These estimates are likely to fall as experience is gained by valuers in the very different skills that are involved compared with rating valuations, especially with the use of CAMA and GIS which can only come, by definition, with mass valuations of large areas. Northern Ireland may produce robust cost estimates for this even before this report is published, since CAMA is to be used for its next domestic revaluation (Valuation and Lands Agency 2002).

The cost of CT valuations is likely to fall from £40 per house (in 1992) to £20 per house at current prices, which are about double the hourly fee rate of 1992. It would therefore appear that a first experience of a new property valuation system can lead to a fourfold increase in productivity of valuers by the time a second valuation is needed. In the case of the first trial valuations for LVT, valuers will have to work without benefit of access to VOA/DV records. Such access, it is fair to assume, would make their work easier and reduce their costs. On the other hand, until the site valuations are exposed to the rigorous scrutiny of the property market and taxpayers that can only happen beyond a decision to allow pilots of Smart Tax, no estimate can be made of the cost of appeals and maintaining the valuation lists.

VOA's current Forward Plan (VOA 2002) highlights the benefits to its work of the increased availability of property market transaction information, through developments such as the Land Registration Act 2001 and National Land and Property Gazetteer (NLPG):-

“These changes to increase the efficiency and transparency of the underlying property markets will also help the VOA's work to modernise and demystify the valuation process.”

The 2002-2007 Forward Plan also promises to “investigate the options for CAMA for council tax” which is only likely to be feasible for the revaluation in England in 2007. However there is no attempt yet to put a figure on the cost savings, if any, from use of CAMA or other technical developments. Also a major re-engineering of VOA's internal IT systems is forecast within the next five years. This project ought to have reference to the possibility of a change in the property tax base and be designed with suitable flexibility.

Harrison & Keith (2002) for the Acacia project give figures of just under 24 million CT records and under 2 million NDR records. The Liverpool trial area had 62 sites and 179 hereditaments, which gives about three times as many commercial hereditaments as there are non-domestic urban land parcels.

For the National Land Use Database (NLUD) it has been estimated that at least five percent of urban land is derelict⁸, which means it is probably absent from both CT and NDR lists. There are no official publicly available figures for the proportions of domestic

and non-domestic urban land area or numbers of parcels, however housing is likely to account for at least four times as many sites as all other land uses. Assuming all derelict land to be equivalent to commercial sites, for site valuation purposes, this produces a national equivalent figure for the more expensive type of valuation of 600,000 sites. Assuming a further 2 million (of the 21 million) land parcels to be rural, that leaves 18.4 million domestic sites. This ignores the fact that there are many mixed-use sites, which will reduce the number of ‘domestic’ valuations.

Costs of an initial land valuation for the whole of England and Wales can therefore be estimated:

Domestic site valuation (LVT replacing CT):	18.4 million	x	£20	= £368m
Commercial site valuation (LVT replacing NDR):	0.6 million	x	£75	= £45m
Rural site valuation (just to be comprehensive):	2 million	x	£5	= £10m
<hr/>				
Total cost:	21 million parcels			£423 million

This figure is likely to be at the high end of a range of estimates that depend on a number of assumptions, such as the definition of ‘site value’ and the degree to which self-assessment is used. A figure as little as one third of this total might be possible.

The comparable costs of the revaluations for CT and NDR that VOA is undertaking now and over the next three years are estimated officially to be:

CT:	22m domestic properties “at least £100m” (Plimmer et al 2000) (say...)	£150m
NDR:	1.7m non-domestic hereditaments	£30m
<hr/>		
Total (excluding cost of appeals, maintenance and erosion)		£180m

It would therefore appear that a switch to LVT would cost about double the cost of the present property tax valuation, or some £200m+. However to make a fairer comparison it is necessary to look at the annualised cost of the valuation and appeals systems over a full cycle. As Plimmer et al (2000) put it: *“The nature of the landed property tax requires an accurate and up-to-date valuation list/roll.”*

VOA (2000) admits that NDR costs at least ten times as much, over a five year period between revaluations, as the face value of a revaluation. Between 1995 and 2000 VOA spent £125m defending appeals (75% of assessments are initially appealed). A further £300m was spent maintaining the lists through valuations of new or substantially changed hereditaments and about 5% of the revenue was ‘lost’ through erosion from appeals ‘won’ by appellants, equating to around £2bn in the fifth of the five years of the 1995 rating list or at least £3bn over the five-year period. So the total cost to VOA – or rather ODPM and taxpayers - not counting direct costs to the billing authorities administering the system or to appellants, is nearer £750m per year. VOA’s Forward Plan (VOA 2002) assumes only a 5% improvement in appeal rates for the 2005 list.

CT resulted in a 5% appeal rate in the first year after its 1992 introduction, for which estate agents acting for VOA were paid only about £1 per house (£20m overall) and was completed less than 18 months after the legislation was enacted (Plimmer et al 2000). £200m has been budgeted for the 2007 revaluation in England, which presumably allows much of the £100m extra, compared to the £100m total cost of the 1992 valuation (that includes VOA's costs in setting up the new system and dealing with appeals), to be spent on re-engineering the IT system to manage the data.

There is therefore a strong likelihood that introduction of LVT, accompanied by a winding out of CT and NDR and a 'rolling revaluation' of the new LVT lists, need therefore cost no more than continuing with the present systems. This could especially be true if self-assessment was used for initial LVT valuations, a process discussed in previous Fellowship reports by this author (Vickers 2000a and 2002). However there needs to be more research before a robust estimate of the cost of changing the property tax base can be made. The processes involved in property tax reform are extremely complex and hard to replicate across legislative and cultural barriers, most particularly regarding assessments (Bird & Slack 2002). A fair comparison can only be made after several years of operating CAMA and pilots of Smart Tax.

Data and GIS Issues

One of the novel features of this study was the attempt to use computer mapping as an aid to understanding the effects of property tax changes. This section discusses the issues that arose out of the attempt, some of which were peculiar to the trial area but most of which would probably have been found anywhere in the country. The issues are divided into three types: those concerning 'background' data that has no effect on the validity of the tax-related application; those data issues that are specific to this type of application; and issues concerning the merits of the TED application itself.

This study used data from a U.S. county as a prototype, then attempted to emulate with the Liverpool trial area what had seemed useful with the U.S. (AREIS – Toledo city, Lucas County, Ohio) data. In each case, the discussion focuses on the contrasts between the data sets and the issues for UK policy makers and practitioners.

In the U.S., the various background data sets are the responsibility of public bodies that, under the Constitution, are obliged to make information available to citizens at the cost of transfer. This means that there is little or no commercial gain to be made from sale, which makes acquiring the data an easier task in some ways than in Britain, where Government requires public bodies to maximise their income from data sales.

Background Data

In AREIS, the County Assessor / Auditor includes a number of data sets that help put the property value information in geographic context: aerial photography; street centre lines, a topographic height (digital elevation) model (DEM), school districts, census tracts and other administrative boundaries. The supplied AREIS Viewer software allows all these to

be shown without having any land parcel information active. In addition, zoning (planned land use) information can be displayed if the land parcel data layer is active.

This is indicative of the range of ways in which the authorities in Lucas County consider it useful for citizens to be able to analyse property values spatially in relation to other types of information. It is reasonable to suppose that a similar real estate information system for public use in Britain would require to be referenced against equivalent data sets here. However in this study little or no practical work was done to look at the linking of property values and background data, because until the issues around valuation are resolved this will only be of marginal theoretical interest. Some discussion of the theoretical issues follows, based on published documentation about the data products.

Ordnance Survey's MasterMap product is the only definitive British national topographic data-set allowing real world objects (RWO) to be addressed within a GIS. It already includes all topographic data (physical RWO that are on its basic scale maps), administrative boundaries (down to parish level) text 'features' and the entire national road network with road routing information (such as bridge heights and widths). Ortho-rectified, 32-bit colour, aerial imagery is being added (completion due by end 2004) and an 'ITN' (Integrated Transport Network) layer will include rail, canal and other transport systems alongside roads, in due course.

Local authorities in Britain obtain their data from Ordnance Survey (OS) through their Licence Agreement, negotiated centrally by local government's integral management consultancy, the Improvement and Development Agency (IDeA). Their OS licence provides for councils to receive and use MasterMap if they wish. LCC does not yet routinely use MasterMap, relying instead on the previous 'background map' product LandLine, which is not structured to allow features to be addressed.

There is no UK administrative equivalent to school districts, although local education authorities usually maintain school catchment area maps. Census enumeration districts are available from the Office of National Statistics (ONS). OS supplies a DEM as a separate product, based on the contours in its printed maps. OS AddressPoint (a separate product) can be supplied bundled in with MasterMap as its Address Layer, with a fixed link between the real-world building object and its postal address. MasterMap cannot yet handle properties that have no postal address. The issue of addressing properties is covered in the next section and the possibility of using other publicly available background data sets in LVT administration is briefly considered here.

MasterMap Topographic Layer

For this study, OS supplied free of charge a 'chunk' (their term⁹) of the topographic layer only of MasterMap, two kilometres square covering the trial area. The author agreed to report back to OS, through its Virtual Research university liaison department, on the efficacy of their products within TED, as a condition of being allowed the data free. LandLine was obtained through the Kingston University licence agreement with OS.

MasterMap was not a great deal more use than LandLine for this trial, apart from allowing map features in the trial area to be colour-coded on the background layer by area and not just by outline (see Appendix 1). CSH used LandLine in their report, with text included, and it was their map rather than the MasterMap layer in TED that proved useful in referencing specific locations by name, where that was needed. Both MasterMap and LandLine allow text features to be selectively edited (moved, deleted or re-formatted) but for the few pieces of text that were needed in TED it was easier to re-digitise a few words than to edit the base map. For a larger BID-sized area and with TED operators trained to use MasterMap (which the author was not), it would probably be worth spending time editing the background map to produce certain customised map products in TED presentations.

MasterMap RWO feature records include a Topographic Identifier (TOID), which allow users to access attributes of each unique object, either those in the original OS record or those associated to it by others. TOIDs were not used at all in this study but they would allow a background map to have ‘intelligence’ that is not there with LandLine. It might be worth looking at whether this intelligent map background (e.g. the ability to measure planimetric size of features, singly or in groups selected by type or area) might help the valuer devise ‘rule of thumb’ algorithms to help achieve rough assessments of property value within a property type, without on-site measurement or inspection. Buildings and other features that form part of certain land parcels are also described in the data in ways that might lend themselves to assist automated site assessments: e.g. ‘police house’ and ‘theatre’ are two of many defined sub-categories of ‘building’ in MasterMap taken from the OS RWO catalogue (OS, 2001). Knowing what sort of building is on a site could influence the property tax assessments of those properties and their neighbours.

As yet there has been little use of MasterMap by local government¹⁰ in ways that exploit its benefits. In a recent article in “GI News”, a GIS vendor explains why it may be some time before these benefits are either widely known or used (Holcroft 2003). Benefits “*come at a cost to the user in technical, resource and financial terms*”. Implementation issues for local councils and others include supply mechanisms, storage and processing and database maintenance. The product is very different and very much more expensive than LandLine. Whilst its features will undoubtedly be of particular benefit to LVT, this one application – or indeed any property tax related application – will not be sufficient to justify councils taking MasterMap. It would be best to assume that the costs of doing so will be borne centrally by each local authority and not charged internally to LVT implementation.

Roads and ITN

No use was made of road network information in this study because the trial area was too small. AREIS showed that it would be useful to select only some (or all) roads for certain map products in a TED. For example, if starting to use a GIS over a large unfamiliar area, by turning on the roads layer it is possible to immediately see where the high-value properties are likely to be: they will be near where major roads intersect or the density of the road network is greatest. The user can then zoom into those areas and subsequently switch off the roads if they are not required.

More sophisticated use of ITN might be possible by valuers trained in GIS in any future CAMA regime. There is a widely held view that distance from transport facilities is a factor influencing property value (Diaz, 1999 and Smith, 2001). If this was found empirically to be true and algorithms could be derived that stood up to testing, then they could be applied within a CAMA/GIS environment to the maintenance of site valuation assessments. This is however a subject for further research. Work is only just beginning in this area (e.g. Chen et al, 1998). This author is already involved in one such study in London (Mitchell and Vickers 2003).

Terrain Elevation Model

With such a small area it was not thought worthwhile including the OS DEM in the trial. The city council do not currently use this data set and the city is generally fairly flat. However studies such as Azar et al (1994) show that slope aspect and gradient appear to have an impact on property values. For areas with significant slopes or for larger scale studies of influences on UK property values, it might be worth considering looking at incorporating DEM in with property value data in a GIS analysis of factors affecting land values.

Aerial Photos

With the AREIS data, it was very useful to compare visually the incidence of zero building value with the aerial view of an area. Zero building value in a parcel record was assumed to mean the site was derelict, without usable buildings on it. Inspection of the air photo layer enabled a visual check on this assumption to be made, within the GIS and with no need for a site visit. Land parcels with zero building value were indeed generally devoid of buildings but it is impossible to tell from vertical air photography if a building is derelict. AREIS data is updated at least once a year: assuming that the currency of the air photos correlates with that of the property valuations, it is possible that the County Assessor uses air photography to update his real estate valuations.

A similar use can be envisaged for air photos in Britain and OS aims to re-fly the whole country every two years. With the 25-cm resolution available from the imagery that OS is using, it might be possible and even cost effective to use photos in more sophisticated ways than AREIS to assist with revaluations. Shadow length on the image could be converted to building height and, with footprint of building measured from photo or map, into total floor area of building.

Others have suggested an empirical relationship between the amount of green on imagery of urban areas and the property values in an area. When presenting his paper (Devereux *et al*, 2000) at the Association for Geographic Information (AGI) conference in 2000, Bernard Devereux admitted that it ought to be possible to use remotely sensed data from satellite or aerial photography in this way. The “Resolution-E” programme (Remote Sensing for Land Use, Transportation and the Environment), supported by the British National Space Centre (BNSC) and the UK’s Natural Environment Research Council (NERC), “*is examining some ways in which earth observation data and derived products can be used to support the planning process*”. It is possible for the amounts of certain

ranges of colour frequencies in digital images to be measured automatically and for this to be used in CAMA/GIS.

Census, Postal and Electoral Geography

No analysis was carried out in this study of the relationship between various available nation-wide geographic area-based data sets and property values. Researchers including the author are investigating the impact of a new transport facility in London on house prices (Mitchell & Vickers 2003), using post-code sectors as the most convenient and cheap level of aggregation.

The problem with these geographies is that they can change over time (e.g. Royal Mail changes postcodes and Electoral Commission changes ward boundaries) making comparisons between eras difficult or impossible. Nevertheless it might be worth studying the potential for using various ways of aggregating property value data against other data sets that are not of themselves related to property values. This would not be important for a TED within a previously defined BID, because that needs to identify individual tax-payers. But as part of the valuation process in any eventual nation-wide LVT system, the ability to display and analyse various ways of aggregating site values against other areal units would be useful.

In any eventual LVT system, the tax rates and yields might need to be calculated separately for each electoral area. The boundaries of BIDs might or might not follow boundaries found in one or other existing national data set. There is no reason to be constrained further in this way but for the purposes of choosing where to draw a BID boundary the ability to automatically clip the BID boundary options to one or more existing sets of reference boundaries could be useful.

Land and Property Data

The UK is seriously deficient in data related to units of property ownership, compared to almost all other developed (and many undeveloped) countries. A recent study (Cahill 2002) found that less is known about land ownership today in Britain than was known 150 years ago. This study was published within months of a new Land Registration Act being passed, which failed to introduce compulsory land registration for England & Wales. Land in Northern Ireland will be fully registered by 2007, using the latest GIS techniques. Scotland already has a complete Land Register but does not yet have it in map-based form suitable for a GIS.

This situation seriously limits the immediate prospects for LVT, since it means that there is no easy way to identify the extent of individual taxable entities – land parcels – for such a system. Steps are being taken to address the problem and these are described and discussed below. But first the detailed actions taken and issues that arose during the creation of a prototype TED in Liverpool are described.

With AREIS, there is a complete database of every land parcel in the jurisdiction (in this case a county), including a great deal of attribute information as well as a link to the

RWO records in the map. Attributes include: ownership, land and building value, floor area and year of construction of buildings, details of loans outstanding, previous owner and year of sale, actual use and occupier mailing address. AREIS is a comprehensive land management tool for the local authority.

Liverpool 2002

For Liverpool, it was known that Her Majesty's Land Registry (HMLR) did not hold complete land title records for the trial area. However the city council claimed to have this information and was itself the main landowner there and a sponsor of the project. Therefore for the purposes of the trial a spreadsheet was obtained from LCC and a map of the area marked up to show the boundaries of each parcel (see Appendix 1). This information was given to the valuer and the map was later given to Geofutures for the boundaries of parcels to be digitised as a separate layer using MasterMap as a guide.

The output from the CSH/Kane work was a value for each land parcel that equated to the 'Land Value' (LV) of the AREIS record: CSH were not being asked to provide a total value figure. The 'Building Value' (BV) used for this trial came from a completely different source, the VOA rating lists, which are notional rental values to occupiers of buildings (technically 'hereditaments' or rateable properties). In the U.S. both LV and BV are capital values derived from a single assessment process and Total Value (TV) is the sum of BV + LV.

Not only were the Liverpool values different in nature from the Lucas County (AREIS) ones, but the two sets of Liverpool data did not refer to the same physical entities or the same era or base date. LVs referred to land parcels, which (as in the U.S.) were sometimes groups of physically separate polygons with a common ownership record (e.g. the department store TJ Hughes on two London Road sites – 43a and 43b - separated by a side road). LVs were also as at July 2002, whereas the VOA rating list was that for June 2001. In at least one case (Maritime Housing's office development – site 1), the VOA list has no BV because the site was under development in 2001; by mid-2002 it was occupied.

BVs from the VOA were units of property **occupation** not of ownership: for some sites there were many BVs and for others there were none, because the site was vacant or had only residential property on it which does not appear in the NDR rating lists.

This highlights a further problem that does not occur in the U.S. or most other tax jurisdictions: the separation of tax records into different systems. The CT lists (also held by VOA) were not considered to be relevant to this study because it was about BIDs and there has been no suggestion that BIDs will be funded by residential property taxes.

At present the VOA does not use GIS and therefore has no need to geo-reference its records. But for this trial it was necessary to assign each 'BV' from the rating list to a particular site and LV record. The only means of doing this was by reference to the postal address, which includes one or more of street number, occupier name, street and postcode. It was expected that OS' AddressPoint product, which uses a geocode for each

record in the Royal Mail's Postcode Address File (PAF), would provide the means of linking the VOA rating list records to the trial area map.

In practice, it was found that there was a very poor match between AddressPoint and the address fields in the VOA rating lists. Nationwide studies (Harrison & Keith, 2002) have shown that the overall match between various addressing systems is better than ninety percent. In this area, the match was less than forty percent, which was a result of its transitional commercial nature and not unexpected. In effect every one of some 250 rating records (site values and VOA list) that fell within the trial area had to be interactively linked to its correct land parcel record. In most cases the mismatches were obvious, such as slight differences in spelling or street number (e.g. '42' for '42-50') which even a GIS operator not familiar with the area could resolve. However it highlighted the problem that arises when there is no national land and property management record system or cadastre.

As a result, AddressPoint was not used at all, although its records were left in TED to demonstrate the issue described above. AddressPoint, so long as it only contains properties that Royal Mail delivers mail to, will never become the sole basis of a national land management system. There are many land parcels that would be subject to LVT but never need postal addresses; many buildings that have no on-site mail delivery point; many that have numerous mail delivery points. LVT needs a system where each land parcel is automatically assigned a unique numeric and spatial reference or identifier.

The trial involved a considerable amount of time exploring these problems before the solution was arrived at: a solution which will have to be followed for any Smart BID or pilot of LVT prior to the implementation of a national land register. Land parcels have to be manually digitised using an existing background data-set as a guide. Parcel records can be associated with the spatial record during this process. Rating lists (NDR and/or CT) are then manually associated with the parcels, using address fields. The Liverpool trial area, likely to represent the worst case scenario, involved a cost of some £750 in workstation operator's time for 62 land parcels and 179 rating records (hereditaments).

Britain post-2005

The UK has an aspiration to create a National Land and Property Gazetteer (NLPG), as a key part of *e-government*. Local authorities that are responsible for street naming and numbering are required to complete Local Land & Property Gazetteers (LLPGs) by the end of 2005. The NLPG "*has an aspiration to contain maintained links with all local authorities*" in England & Wales by as early as September 2003, according to those managing it (Wood 2003).

The main driver seems to be the Local Authority Secure Electoral Register (LASER) project, which needs a definitive address list. LASER is an IDeA initiative and IDeA is also a member of the consortium of Government agencies looking beyond NLPG and LASER to envision 'Acacia'. Project Acacia (the word is taken from the often-used fictional street-name of Acacia Avenue, Anytown)

*“aims to promote the development and maintenance in the national interest of definitive national databanks of addresses, streets, non-addressable properties and **in due course property ownership and occupancy parcels** all linked together and held as a land and property layer within the framework of OS MasterMap so as to facilitate major economies, efficiencies, convenience and service improvements both in the public sector and throughout the economy”* (Harrison & Keith, 2002).

The foundation of Acacia as a database of “ownership and occupancy parcels” for England & Wales will be built through development of – and improved links between – three other projects in the government agencies that are responsible for land registration, valuation and property tax billing: HMLR, VOA and IDeA.

HMLR expects to complete the creation of ‘indicative’ digital land ownership parcels by March 2004 (Ashwin, 2002), based on OS MasterMap where the registers of title are not yet in existence. 6.1 million parcels were already digitised by Sep 2002, out of an estimated total of 21 million. These Index Maps create closed polygons from land parcels which, in the OS map, sometimes have no physical feature to demarcate part of their boundary (e.g. open-plan front gardens). HMLR undertook this work for its own internal purposes, as a digital map-based index to the digital land title records that, under the Land Registration Act 2001, have since become compulsory. However HMLR has always anticipated wider uses and a new post of Head of Registers Development has been created to manage completion of the process and exploitation of the database.

VOA’s targets are based around its five-yearly revaluations for business rates, the next one being due in 2005 but based on April 2003 levels of value. VOA is in discussions with the Local Government Information House (LGIH) aimed at maximising the use of GIS during the next revaluation after that (2010 using 2008 values) and for the CT revaluation due in 2006 (Reeves 2003). ValueBill is VOA’s IT project being piloted with six Billing Authorities (BAs) to test electronic interchange of information between BAs and VOA. The Government aims to have enabled electronic conveyancing of properties by 2006, for which VOA will need to have adopted NLPG as the standard for addressing in its NDR and CT databases.

IDeA uses its wholly owned subsidiary, the LGIH, and a partnership with the private sector company Intelligent Addressing to assist local councils in producing and maintaining their LLPGs. LGIH integrates these into a central hub that can be accessed by other agencies that need the NLPG. The target for completion of the NLPG is 2005 and 177 local authorities had completed their LLPGs by November 2002, according to the LASER newsletter. However according to Harrison & Keith (2002), widespread dissemination of the NLPG ‘first cut’ data has not yet taken place and there is some doubt as to whether the target date for completion of NLPG will be achieved.

HMLR has not yet been tasked with completing the Land Register but is planning on the assumption that it will be required to do so by 2010. It has no doubt that this is achievable, probably without significant increase in resources. However as at April 2003 no local authority had a complete register of land ownership in its area created by HMLR, whose priorities for registering land are being driven by internal targets only (Ashwin

2002). Incentives for voluntary registration of title, provided for in the Land Registration Act 2002, are beginning to have an effect. Most notably, landowners cannot use new powers to evict squatters unless their title is registered. Voluntary registration costs applicants a third less than compulsory registration. The Act also introduced fully electronic procedures for registration from 2005, such procedures having been fully tested already.

Given additional resources (either from general taxation or through higher fees) and new statutory powers, completion of a fully digitised, map-based land register could be achieved sooner than 2010, perhaps by 2006. Under section 5 of the 2002 Act, the Lord Chancellor can declare further 'events' relating to land that would trigger compulsory registration, without further primary legislation but not without appropriate consultation. Such an event could be the serving of notice that land is to be taxed, either nation-wide or for a particular area (e.g. in any BID choosing Smart Tax). Introduction of LVT would provide a trigger under the 2002 Act for all land title to be registered. With the VOA already committed to fortnightly electronic updates of the rating lists through ValueBill, it is possible that 'rolling rating lists' could be introduced soon after CT is revised in 2006 and before the 2010 NDR revaluation comes into effect. If Government wants LVT, we could have rolling land value registers too.

There is therefore the potential, within between three and seven years, for all the data needed for TED nation-wide to become available. Assuming the target dates for Acacia, NLPG, ValueBill, LASER and other e-government projects are achieved, the only extra costs involved in producing this data would be those relating to land valuation.

There is no need in land valuation to have an explicit link to land use planning systems, although this is highly desirable. As we have seen, a large part of the cost of land valuation is in establishing HABU for each site. This results from the uncertain nature of the UK planning system: the absence of strict land use zoning. Unlike AREIS, the Liverpool trial did not use zoning maps or any form of land use data. There is a nascent land use data set, the National Land Use Database (NLUD) but its future development is unclear. NLUD "*provides a framework for creating and maintaining a complete record of land use for every parcel of land in England*" (Harrison 1999) but there is no published plan or funding programme for it to achieve this. In any case, NLUD was never intended to record **proposed** land use but only actual land use. It does however already hold detailed records of most sites with development potential in urban areas, because the Government's highest priority for NLUD has been to help identify and manage previously developed land: so-called 'brown fields'. This could make it a useful layer in TED, for valuers and planners alike.

It would also seem desirable for planners to be able to access value maps when they review Local Plans: the use of value maps is the subject of this author's doctoral studies. Processes have long been set out for the UK (Hudson 1975) which avoid the need for a systematic valuation-planning link in LVT, but these involve a degree of extra cost and uncertainty in assessments for the UK in the foreseeable future. Section 17 of the Land Compensation Act 1961 provides for planners to certify likely HABU for market valuations of land required for compulsory purchase. A similar procedure could be set up

for LVT valuations, where HABU was not self-evident. Clearly Acacia has potential for including land use (actual and potential) attribution within its land parcel records but it seems unlikely that this will have happened before 2010 let alone 2005.

TED as a Smart Tax Tool

The issues that arose while attempting to use TED as a tool for educating prospective partners in Smart BIDs were of two types: technical and political. By ‘political’ is meant the fact that, in the absence of any widespread belief that LVT is imminent, few of those who would in a more favourable political climate be expected to have an interest in seeing TED could be persuaded to attend presentations using it. It was therefore very difficult to evaluate TED objectively.

The study team lacked access to hands-on GIS expertise, especially at the Liverpool end of the project. The author really needed someone within LCC’s GIS section or working locally to the trial area to create and maintain TED, also to act as demonstrator at Focus Groups and to other interested parties locally. LCC use MapInfo for their GIS but this software product does not have suitable functionality for the more advanced aspects of TED. Because LCC do not use ESRI’s ArcView and TED was built from ArcView extensions by Geofutures, it was not possible for LCC GIS staff to use TED and they had no justification to invest in ArcView. On the other hand, Mark Thurstain-Goodwin of Geofutures, although having the necessary skills, was based in London where his specialist spatial analysis expertise was in high demand. The project was unable to afford to pay for his time to be spent as mere TED demonstrator to a small, inexperienced and technically undemanding provincial audience.

Several presentations about TED were made to audiences in Liverpool and elsewhere during the study. More are planned for the near future. These were almost all in the form of images from ArcView captured and pasted into MS Powerpoint files. Unlike AREIS, which is a stand-alone purpose-made package of GIS software and data, TED currently requires the user to possess ArcView. The necessary files from AREIS have been copied onto a CD-ROM, together with the equivalent files for the Liverpool trial area. Geofutures created customised menu buttons for simulating BID creation and various tax-related functions such as are described in Appendix 3. The only evaluation of what Geofutures devised has been by this author, whereas it was intended that other members of the project team be exposed to TED as hands-on users.

Accessibility to TED and similar tools could be improved through ArcReader, the mapping equivalent of Acrobat Reader: a read-only free version of ArcView (Barr 2003). However it was not possible to acquire and use ArcReader in this study.

If the political environment had been more positive, it would have been worth the effort and expense of investing in more technical expertise and development of TED during the project time frame. As it was, it was felt that available resources should be spent at this stage in attempts to influence the BIDs legislation at national level. This could be done more effectively by using other tools besides TED itself: Powerpoint presentations based

on TED images, the Smart BIDs video, illustrated handouts (see Appendix 8) and articles for journals.

Therefore a major technical issue that the study exposed was the relative lack of expertise in CAMA techniques and GIS software in the UK, as compared to the U.S.¹¹.

Compounded with the cost of publicly held data and suitable software licences, this has been and will continue to be a barrier to the spread of Smart Tax ideas. Given the shortage of GIS specialists in the UK, those that there are will naturally work on applications for which there is a real and present need, rather than applications like this which are still speculative and not seen as likely to lead to financial rewards. In the absence of CAMA in Britain, it is unlikely that the prospects for TED will improve unless VOA decides that GIS can help achieve Right First Time NDR assessments.

British BIDs and LVT

Although written before the BIDs legislation completed its passage through Parliament, this section follows the attempt by a coalition of national organisations and existing voluntary BID-type bodies to persuade legislators to amend the Local Government Bill in ways that might enable LVT to be used. It summarises the issues discussed by Mason in Appendices 4 and 5 and by members of the coalition that campaigned for change. It also deals with certain legal and political issues to do with LVT generally that arose during Liverpool focus groups and in the telephone survey (Appendix 7), the Colloquium at KMPG (Appendix 6) and other meetings and correspondence during the final year of this study.

A diagrammatic illustration of how LVT in BIDs would work was included in the previous report for this Fellowship (Vickers 2002) but is updated here at Figure 1.

The first column shows the present situation for areas that might wish to become BIDs. Their only revenue source is NDR which goes into a national ‘pot’. What comes out of the pot back into the local area may be more – or less – than what is collected. In a prosperous area, businesses and local authorities lose up to ten percent of ‘their’ revenue; in a deprived area like Liverpool they receive back more than they contribute. The bottom part of all four columns in Figure 1 illustrates that, for basic NDR, this is unaffected by becoming a BID and raising a Levy. Businesses and local authorities have little interest in or control over the basic NDR.

Under the BIDs legislation, an extra amount of NDR is collected off some or all business ratepayers in the BID area: each BID decides who pays and how much. Unlike the basic NDR, all the revenue – no more, no less – is retained by the BA for the BID.

The British Property Federation (BPF) and its allies were hoping to change the legislation so that some of this extra revenue for the BID could be levied from property owners. This would have begun to relieve business occupiers of the tax burden or ‘deadweight’, a term explaining that through tax a business ‘loses’ twice, held down by the weight of tax: money paid in NDR is not available for investment in the business that might make business **and** property more valuable.

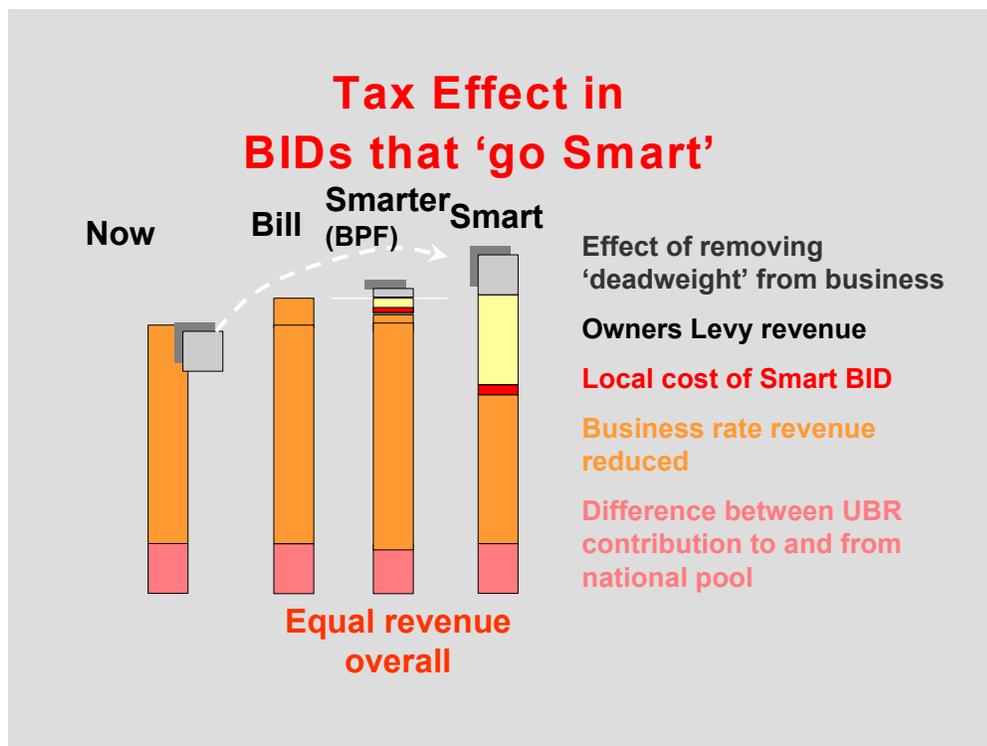


Figure 1 – Tax Effect in Smart BIDs

The amounts under the BPF proposals would have been very small, unless BIDs were also going to be allowed to rebate part of the basic NDR to business occupiers, as well as placing the whole tax burden of the BID onto owners, as the right-hand column shows. The small slice of money immediately above the basic NDR represents the cost of changing the system of raising revenue within each BID. Apart from the cost of undertaking valuations, which is proportional to the number of sites and not the operational budget of the BID, the cost of administering the BID funding system is fixed, hence the more ambitious the BID's projects the less significant will be the cost of changing the funding system.

The more tax shifting a BID attempts, the greater will be the effect of removing deadweight costs from businesses. This is shown by the top block of each column. This is money that does not enter the BID system but recycles between local businesses and their customers and suppliers instead of going into external bureaucracy.

Smarter BIDs in Parliament

With the agreement of key figures in the consortium of organisations seeking to introduce a mandatory owner funding option into the BIDs legislation, the author and his research team did not engage directly in the debate as it progressed through Parliament. This was because not all of those who support the flexibility in BID funding being sought in this Bill would have wished to see it as the 'Trojan Horse' for more general LVT which others did. Indeed many of those whose organisations were actively funding and supporting the BIDs amendments' campaign might have been horrified to find themselves in common cause with HGF and its allies.

Yet what was being sought falls far short of LVT. In particular the amendments do not appear to deal with wholly or partly vacant sites and empty buildings, although some work was done by agents of the consortium to look at how these might be brought into the ambit of a BID levy (Ashworth 2002). The amendments would have merely apportioned the BID levy, based on the current rating lists, between owners and occupiers in accordance with the terms of leases and other documentary evidence¹². The argument was that, since successful BID activities result in enhanced property values, then the BID levy ought to fall proportionately on those who benefit from such increased value.

Although this would need to be tested in law, it was suggested (and not so far disputed) that BIDs might choose to rebate part of the basic NDR for specified classes of business within their area (see Figure 1), as part of their management of the area. This would achieve a limited tax shift, as shown, with owners having to pick up the lost revenue.

The amendments tabled in Parliament at various stages by the Opposition parties did not exactly match those prepared by Mason (Appendix 5) but were similar in their purpose. They all attempted to deal with what was called “*a gaping hole in the legislation*” by Lord Jenkin of Roding when he spoke on 11 June 2003 in the Grand Committee debate. In moving Amendment No. 113, which simply inserted “*invest*” after “*work*” in the clause defining those who may benefit from being in a BID (Hansard 2003a), he said:

“Wisely, the legislation allows for much flexibility in, for instance, defining which occupiers should contribute, and allows for variation in the rate of the levy for different classes of occupier or for the exclusion of small businesses ...[but] there is no provision for owners who are not occupiers – lessors or freeholders – to be brought into the statutory scheme.” (Hansard 2003a Column GC113).

He drew attention to the fact that “*landowners have initiated and funded most of the voluntary BID-style arrangements to date*” (in Britain), that “*there is a broad consensus among organisations representing landlords and tenants and among bodies representing small businesses*” for the amendments and that “*in most cases, a BID scheme will simply not get off the ground unless it is promoted by the property owners and they are involved from the start*”. He pointed to the experience in the U.S., from where the Government had brought the idea of BIDs.

Trailing the debate, Dr Julie Grail, partnerships director of one of the organisations already running several voluntary BID-style schemes, the Central London Partnership’s “Circle Initiative”, said “*There won’t be enough funds with just occupiers to make the big changes.*” (Greig-Smith 2003) She added: “*It will be hard to secure long-term change because of the short duration of leases.*” Joining Grail at a debate among BIDs experts later that month was Liverpool’s City Centre Manager, Paul Rice. He had been involved in this research since it began and he facilitated a meeting in January at which Smart BIDs were explained to his colleagues in regeneration on LCC. At this June meeting, the experts were agreed that “*by far their greatest concern is that ... landowners will not have to pay the levy*” (Walker 2003a). Rice went on to say:

“There is a bizarre paradox, with the Government continuing to stress the ‘massive advantages’ that robust BID policies brought to the Bryant Park district of New York – and then importing a watered-down version. I fail to understand why we copy a model from elsewhere and then say: ‘We’re not going to do it the same way here.’”

One of the London Circle Initiative’s directors in the Holborn Business Partnership, Jacob Keene, added:

“There’s a bit of a fudge in the [government’s] guidance. First it says there will be no rent rises, but then it says one of the great things about BIDs is rising values.”

Other property market experts, including Robert Ashton-Kane of this study team, believe Government shows flawed logic and understanding of the property market and democratic principles, in the detailed guidelines drawn up for BIDs in parallel with the legislation. The January 2003 “BIDs Guidance working draft” (ODPM 2003b) is the latest version available. It says:

“If the ratepayers vote in favour of the BID proposal, then they will be liable for an additional BID levy on their rate bill at any time that the BID is in operation. For example, any new tenants which begin their leases during the BID’s duration, will be liable to pay the additional levy if the previous occupier was paying the additional levy. Similarly if an occupier moves out of a property and the property remains empty, the owner of the property will become liable for the rate bill and therefore liable for the BID levy after the first three months for which he receives 100% relief for his rates.”

Ashton-Kane (2003b) commented back to ODPM, via the author and CLP¹³:

“A tenant may vacate a property whilst there is still an unexpired residue of the lease (often seen in times of a depressed retail market). The tenant therefore remains the rateable occupier and is therefore obliged to continue payment of business rates, albeit with the benefit of empty property relief. If the property was vacant for more than 3 months prior to the interest reverting to the landlord, the landlord will not benefit from any of the 100% relief. However, if the building is an “industrial or storage hereditament” the 100% relief subsists for the entire period of its vacancy, as is the case with listed buildings, properties in the possession of liquidators or personal representatives of a deceased person.” (Ashton-Kane 2003b)

Therefore the situation will commonly arise, especially as the pattern of tenancies changes with the success of a BID, that a business occupier leaves the BID but retains an obligation to continue contributing to it through the Levy, on top of rent and rates (less statutory relief). The landlord whose property value is accruing may or may not benefit from some of that relief – but has no ethical right to do so, since his interest in and benefit from the BID remains, albeit without a vote in BID activities. The departing occupier however, by remaining on the rating list until his lease expires, presumably retains a vote in the BID he has left. His eventual successor on the rating list acquires his vote, too late to affect the remainder of the five-year life of the BID.

Meanwhile owners of some types of empty commercial property, although denied a vote, will be able to benefit fully from increased values throughout the BID period. This appears to include all newly built property, because the guidelines say:-

“Where a new property or development is constructed within the defined BID area, the ratepayers will not be liable for the BID levy. This is because the property did not exist when the BID vote was taken, and therefore those ratepayers are outside the legal definition of those liable to pay the levy. However, the BID may seek a voluntary financial contribution from the occupiers or the developers of new properties in the BID area. (ODPM 2003)

As Ashton-Kane says:

“This is manifestly iniquitous! ... The land upon which it is built was there and somebody must have owned it. This is again justification for property owners to be obliged to contribute.”

The equivalent situation does not arise with domestic local taxation. A new resident cannot avoid paying CT by saying he didn't live in the area – or his house was not built - when the last elections took place or the tax rate was last set! There seems to be no administrative or legal reason for this anomaly, since ‘property’ under English law is both land and buildings and not the specific hereditament that happens to have last been valued for tax on that site. If the list of those required to pay the BID Levy is defined geographically, as it surely needs to be – and will be soon under ValueBill for business rates in general – then adjustments to lists by both name of occupier and definition of rateable hereditament ought to be possible.

All these problems could be avoided if Government were to adopt the U.S.-style owner-based property tax. Some could have been avoided if the Opposition amendments had been incorporated in the Bill. In answer to the overwhelming volume and strength of criticisms on these points, all the Government could say was that *“any mandatory levy on property owners would be defined as a new tax”* (Hansard 2003b) and that this would *“be a significant change to the basis of our current local taxation system ... very difficult to justify for the sake of BIDs alone”*, in the words of Minister Lord Rooker in the final debate in the Lords on 16 July.

The importance of this research – and the weakness of the Government's case - appeared to be acknowledged by implication in another part of the same speech. Having rejected the amendments, Lord Rooker came to:

“the good news – in recognition of the concern expressed about the success of BIDs, and as a sign of our commitment to their success, we have given an undertaking to review business improvement districts over the next two to three years to ensure that property owners are effectively engaged in the whole process of setting up and administering a BID. If we see substantial evidence that BIDs are failing because property owners are not included on a mandatory basis, then we shall consider ways that that situation can be rectified.” (Hansard 2003b Column 920)

Clearly there is a belief in Government that including property owners in BIDs on a mandatory basis:

“... would, in the majority of cases, [not] warrant the very great amount of work involved in setting up a brand new tax on ownership, which this would be. ... The administrative burden on local authorities would increase if property owners were included in BIDs on a mandatory basis”

so that they ...

“are not prepared to commit to introducing an owner levy ... until we are convinced that there is an overwhelming need to do so and that it is possible to find a workable way to administer such a levy.” (Column 921)

The Minister went on to announce a three-stage review of BIDs, focusing on the role of property owners. Carried out by ODPM, the review will first examine in late 2004 how the 22 pilot BIDs have in fact engaged property owners. During 2005 ODPM will look at how BIDs outside the officially sponsored pilot scheme are evolving¹⁴. The rather vague third stage will: *“seek to measure the continuing involvement of property owners in BIDs once results from their initial investments are evident. That will happen throughout 2006.”*

The final debate on these ‘smarter’ funding amendments petered out with an interchange of views on what constitutes ‘a new tax’ and why, if an owner levy is one, the legal implications are so extraordinary. Baroness Hamwee, for the Liberal Democrats summarised the views of owners as: *“We want to be involved and we want to pay because in return we will get added value to our properties.”* (Hansard, 2003b, Column 922). As she had said in the previous debate: *“We do not often hear a clamour from people wishing to pay when that is not initially proposed.”* Her argument was that the levy looks rather unlike a tax when it is to be agreed upon – even requested - by most of those to be ‘taxed’, not imposed by a higher authority. It is more of a fee for membership of a club based on benefits received in return for membership. Although membership of a BID is by geography, not free choice, the benefits (or dis-benefits, if a BID fails in its aims) come with or without membership.

The Minister had quoted a letter from his colleague in which reference was made to international guidelines on government accounting standards *“which we are bound to follow by law”* and which define taxes as *“transactions that are essentially unrequited or not directly linked to a service received by an individual fee-payer.”* (Hansard 2003b Column 919). Under this definition, it is unclear why charges for parking meters, London’s Congestion Charge or a BID Levy on Owners should be regarded as taxes, since all payments are for a proportionate benefit.

Politics, British Law and LVT

It can be seen from the previous section that the **case** for owners to carry a larger and more equitable share of the burden of taxation, especially taxation to sustain urban

prosperity, has now been largely won in Parliament, on ethical and economic grounds. For the **vote** to be won, convincing arguments have still to be made, in order to change perceptions firstly of the administrative cost of introducing a new property tax and secondly of the (unspoken) political risk that all tax reform carries to some extent. And with owners themselves and the traditional party of property calling for some tax shift, the politics would appear to be the easier part.

This research has, through its surveys of property tax stakeholders, set out to inform the political debate on tax reform. This has hitherto been conducted on two levels, almost insulated from each other. On the one hand there are the property and tax profession experts, whose intimate knowledge of the current system inevitably biases their views towards ‘the devil they know’ (and earn their salaries from). These are the people to whom politicians and civil servants turn for advice, because the second set of players in the debate are in almost total ignorance. The general public, including almost all those who pay business rates, hardly ever conceive of the possibility of reform and have almost no understanding of the economics or mechanics of property taxation.

In the Colloquium on LVT, UK experts came to meet with an American counterpart. There was very little common ground between the leading UK rating and valuation practitioners (who recognised little or no need for radical reform) and the foreigner with his academic allies, who have compared British and overseas experiences and concluded reform is both necessary and possible. Almost the only area of agreement was that pilots of LVT are a necessary precursor to nation-wide reform (see appendix 6), with BIDs offering perhaps the best opportunity for LVT pilots. Few other perceived problems with LVT arose that have not been dealt with in previous Working Papers and reports, so the list will not be rehearsed again.

The Mason reports (Appendices 4 and 5) and the Parliamentary debates confirm that wholesale legal and administrative changes will be necessary for LVT to be widely adopted, although there remains a possibility that pilot Smart BIDs could proceed without primary legislation. Given leadership from within the property owning communities in several of the pilot BIDs, of which Liverpool is one - or in independent BIDs emerging from within strong Local Strategic Partnerships (LSPs)¹⁵ – it is possible that property owners and the local billing authorities could pilot the administrative changes on a voluntary basis. However this is very unlikely to happen without official Government backing.

This research has concentrated on the ‘lower’ level debate among victims of property taxes. Since the last Fellowship report was written in February 2002, several significant developments have occurred which improve the political environment for LVT. Some of these probably permeated the consciousness of even the least politically aware recipients of our third and final survey of the opinions of business managers (Appendix 7):

a. Continuing crisis over investment in public transport (especially rail) infrastructure, with the potential for using land values as a means of funding (Whelan 2003b);

- b. The successful introduction, in Central London, of the world's first Congestion Charge system, a form of LVT;
- c. A vote in favour of studying LVT by the Scottish Parliament and major success in the subsequent elections by the Green Party, which introduced the debate to Parliament and sustained it at a high level through the election to its advantage;
- d. Votes by two councils in Oxfordshire, and by Shropshire and Chesterfield in Derbyshire, to support Liverpool's efforts to pilot LVT and in the case of Oxfordshire to conduct its own trial (Godden, 2003);
- e. Discussion by Government of road-use pricing, using satellite technology to track vehicles' use of roads, with charges graduated according to place and time;
- f. Progress in Philadelphia and Virginia towards split-rate LVT, which Liverpool has been tracking with interest.

In this light, the survey of business managers and the three focus groups held in Liverpool city centre early in 2003 would be expected to confirm and perhaps strengthen the indications of support for LVT and Smart BIDs. This was indeed the case, as Table 1 and Appendix 7 show. The survey introduced a number of new Statements specifically about BIDs and Liverpool but also retained eight that had been put in both the previous surveys. Only those which appeared in all three are included in the table, with the answers for Newbury (control group for the second survey) also shown. All figures are percentages and to simplify the evidence the percent difference between all who agree and all who disagree is given. The full figures for the surveys are in Vickers (2000a, 2002) and Appendix 7 respectively.

Some interesting conclusions can be drawn. It should be remembered that only in the 2001 surveys was there face-to-face contact between researchers and respondents. Most of the 2003 respondents were contacted by phone and had a chance to clarify the statements, the remainder were a self-selecting sample who responded to a postal questionnaire, as were all the 2000 respondents. In 2000, about half those responding were specialists in property tax of one kind or other and only half were business owners. Table 1 does not show the level of apathy – or strength of feeling either way – which the full responses show by providing for “don't know” and “strongly” or “slightly” answers.

Further insights are provided from unsolicited comments made, of which only those from the 2003 Focus Groups are quoted here (and in Appendix 7). The special BID and Liverpool questions are especially relevant in this respect, because there was by now a widespread local awareness among the respondents and focus group attendees of the BID proposal for their city, which was likely to directly affect them. What was very evident was the pent-up frustration felt by the business community that their views and interests are not taken into account by those who decide either the type or level of local taxes that they are expected to pay. This is often seen by those decision makers as apathy and disengagement but is a natural consequence of the complete lack of contact between tax-setters (valuers, politicians and other officials) and tax-payers. BIDs will empower local

businesses politically in a way that has not been seen for a generation, since the end of the Business Vote. This will change the dynamics of local property tax politics and is universally welcomed, if our surveys are any guide and if BIDs themselves survive the problems that are outlined above.

Whatever the truth on the expense and complexity of “*fundamentally changing the tax system*” in BIDs, this survey belies the claim by Minister Chris Leslie at the 2002 annual conference of IRRV that “*our research has indicated that there is a strong demand to retain the existing national rate system*” (Miller 2002). It would be interesting to know more about this research and whether it is the ‘national’ aspect of it or the system itself, i.e. being based on occupiers not owners.

Table 1 – LVT Survey Comparisons

(% difference between ‘(strongly)agree’ and ‘(strongly) disagree’)

Qn	Statement in full (2003 Survey)	City Centre	L’pool 2001	Newb’y 2001	Britain 2000
6	Local authorities should have discretion to introduce a new or different system subject to the agreement of the majority of those expected to pay within the proposed BID. Any such system should be binding on all.	+34	-26	-44	-10
8	LVT should be piloted in a few BIDs before Government decides to introduce it nationwide.	+71	+74	+96	+69
10	Vacant or derelict land and buildings should be taxed on the full potential use of the site, according to the local development plan.	+44	+56	+32	+10
11	Land owners ought to pay a heavy tax on the windfall profit they get from planning permission.	+28	+3	-20	+35
12	A one-off tax on major property developments (such as the proposed Paradise St shopping scheme) is fairer than an annual tax on land values.	+17	+10	-22	-1
13	Taxing land according to its market value, whether or not it was in use, would encourage urban renewal.	+68	+67	+56	+49
14	A tax based on land values would encourage sustainable development.	+61	+48	+48	+29
15	A land value tax might be passed on by owners to occupiers so that businesses might go elsewhere.	+47	+34	+12	+47

Local Choice and Voluntary Payment

Although Q6 differed slightly from its equivalent in previous surveys, to be BID-specific, the remarkable turnaround in opinion is still hard to explain. Replacing the word ‘*tax*’ with ‘*system ... (of paying for a BID) binding on all*’, seems to show how negative a connotation the word ‘tax’ has. “*A system for funding*” is the same as “*a tax*”, which everyone surely knows is binding on all. The survey this time shows a ringing endorsement of the BID principle of flexibility and local choice through democratic “*agreement of the majority*” – a phrase which replaced “*vote for in a referendum*” in earlier surveys.

Qs 3 and 4, which were not in earlier surveys, deal with the issue of choice and requirement to pay in different ways, producing apparently conflicting answers. Despite the overwhelming endorsement of the “binding on all” part of Q6, an equally overwhelming majority of respondents seem in Q3 to support the Government’s proposal that “property owners’ contributions within the BID should only be voluntary”. It may be that they were saying that the idea of owners’ contributions was the “good idea”, not the voluntary aspect. It is not possible to know. In Q4 the “requirement to contribute”, which a clear majority of respondents oppose, refers to “all businesses” and not property owners. This may be an endorsement of the flexibility being given to BIDs to exempt small businesses or selected groups by rateable category, rather than support for an altogether voluntary funding system.

Pilots

The question now specifies that pilots would be in BIDs, which means that two points are now covered in one sentence. The mention of “Government” making the decision might be significant but the overwhelming majority of respondents continue to support the use of pilots to help guide a national decision on LVT and also appear to support using BIDs, which involve real tax-raising if that was ever in doubt from the previous versions of this Question.

Equity in Value Capture

Qs 10, 11 and 12 deal with issues of fairness as between different ways of capturing property value through taxes. Q10 is the closest to a direct statement about the justice and efficacy of LVT and again produced very clear support for it. The response to Q11 seems to lend support to the one-off type of land tax, of which the UK’s current planning obligations are a version, triggered by actual development rather than mere award of permission to develop. Clearly Liverpool respondents find it much easier to understand and identify with this type of tax than with the annual LVT, which is seen in Q12 to be less favoured. However the two types of tax need not be mutually exclusive. This subject was dealt with more fully in the first Working Paper of the series (Vickers 2000a).

Effects of LVT

Perceptions of the likely effects of LVT (Qs 13 & 14) are extremely positive, as they were in earlier surveys. The conclusion must be that there is little prospect that introduction of LVT would lose the votes of urban business leaders. Although Q15 appears to expose LVT’s weakness with business occupiers, a better understanding of how the commercial rental market works was evident from the Focus Groups, where the manager of a large shopping centre just outside the trial area pointed out that rent levels are determined by market forces: it would be difficult for owners to pass on increased tax when their liability to pay remains even when tenants leave (October Communications 2003).

BIDs and “Smart BIDs”

The novel feature of the 2003 survey was its focus on BIDs and in this respect it gave a ringing endorsement of the ‘Smart’ option of funding. The link between boldness in BID operations and innovative funding was seen. “*We need more than hanging baskets to improve this area*”, said a former valuer attending one of the focus groups. The ‘deadweight effect’ (see figure 1) was understood to be a way of getting better value for tax money through shifting tax off occupiers onto owners. Egan’s conclusions for this research are at October Communications 2003 and can be summarised as:

- poor understanding of how property taxes work;
- strong support for reform, to achieve transparency;
- attraction to the idea of Smart Tax (LVT) and making owners contribute to regeneration;
- strong support for the BIDs concept, provided they were business-led, well resourced and ambitious;
- scepticism as to whether a voluntary system for owners’ contributions would work;
- broad support for Smart BID pilots, choosing a variety of funding systems;
- support for the use of TED as an aid to prospective BIDs and taxpayers in general in understanding property taxes.

If LVT is to be introduced into Britain, Smart BID pilots offer a route that carries little or no political risk.

The Smart Way Forward for British BIDs

Before returning in the next section to the specific case of Liverpool, it is possible to sketch out a way in which BIDs could still be used as a way to pilot Smart Tax, despite the failure to amend the current legislation going through Parliament. This process will have to start on a voluntary basis, seeking consensus from interested parties at both the national level and in local areas where BIDs are in preparation. At every stage, Government should be kept informed and the active co-operation of ministers and officials in the executive arm, as well as members of Parliaments and Assemblies throughout the UK, should be sought. It is possible that other opportunities may arise during the next three years by which LVT could gain official backing and other forms of Smart Tax pilot be instigated. However the assumption in this section is that Smart BIDs will be the only means of piloting Smart Tax in Britain for the foreseeable future. The prospects for other opportunities arising will be briefly outlined later.

Using this Report

In disseminating this report (see Dissemination below), priority should be given to ensuring that those involved hitherto in preparing BIDs legislation and guidelines receive it first. A summary version needs to be prepared that is aimed specifically at “the BIDs community”. ATCM might be invited to sponsor a seminar on Smart BIDs or at least to

carry out a mailing to their members. This could be combined with the Liverpool Vision conference in November as the official launch of this report, assuming it can be published as a Lincoln Working Paper in time.

Canvass more Smart BIDs

Prospective Smart BIDs, additional to Liverpool, need to be sought where the voluntary method of involving property owners in funding BID activities seems to have a chance of success. In order to win Government support, it will be necessary to work with the grain of official thinking, which is that the cost of statute law to compel ‘free riders’ among owners to contribute is not justified. The view among BID supporters outside Government is that BIDs with ambition to make a real difference will be unable to persuade business occupiers (existing ratepayers) to contribute enough to pay for additional investment, unless owners put substantial sums in as well.

Suitable Smart BIDs will be those with a significant amount of vacant and under-used land and buildings, plus ambitions beyond superficial activities like more hanging baskets and hiring a security guard or two. They must also start with a high level of consensus between all sectors (local authorities, businesses and property owners) as to the purpose of their BID. Preferably their councils should have completed their LLPGs and have a robust corporate GIS. In general, the Liverpool Smart BID Blueprint (below) should apply to them, with little alteration. A desire to fund a transport-related or other capital-intensive project over the five-year BID life-cycle and to stretch the BIDs Guidelines to the limit would be desirable too.

Offer TED to ValueBill, Acacia and Pilot BIDs Projects

ValueBill and Acacia are two projects that involve all the key Government agencies whose data is needed for TED. There are clear benefits to BIDs, proved by this research using an early prototype TED, in having a means of identifying owners, occupiers, and actual and potential BID funding ‘winners and losers’. This is true even within the constraints of the present rating system and voluntary owner funding of BIDs.

The SGP bid indicated that TED could attract support from project partners, national and local. Much of the costs of developing TED and of piloting Smart Tax through BIDs could be shared by all BIDs (Smart or otherwise), because many functions of TED do not just work within a tax shift scenario. Bringing the benefits of GIS to BIDs and to rating in general does not require a commitment to LVT, although this study shows that LVT probably requires GIS (such as TED) if it is to become accepted as a policy goal. Pilot BIDs help develop GIS for LVT by reducing the extent of trials, by being part of a bottom-up policy initiative instead of the usual top-down imposition of change, and by having access to a diverse range of living laboratories where some degree of property tax variation is being tried.

Within the three-year time scale that Government has promised that it will review the success of BIDs in providing a role for owners, it ought to be possible for GIS – through extension of ValueBill pilots and developments in Acacia, as well as development of

TED – to become accepted. It will be surprising if Value Maps are not part of the toolkit of some BIDs by 2006.

Laboratories for Modern Property Valuation

If they can look beyond the short-term interests of their current members, the rating and valuation professions in particular have perhaps the most to gain in the long term. There is growing opposition among an asset-rich, income-poor electorate to any form of property tax. The LGA is suggesting to Government, in response to the Balance of Funding Review, that a Local Income Tax replacing CT (Wintour 2003) would be more popular and cheaper to administer than any property tax. There is scant evidence available to Government on the comparative costs of modern property tax valuation systems.

Ironically the lack of a statutory framework for varying the property tax base in BIDs could make experimentation with new ways of funding them easier. Where there is the local political will to use owner funding as well as (or even instead of) a BID Levy on some occupiers, each BID that decides to use it will be free to persuade its stakeholders to adopt any method of valuation that it wants. It can use TED as a GIS tool to educate those stakeholders and to experiment with different tax bases and frequencies of reassessment.

The biggest problem will be the very low level of awareness of GIS from which almost all members of the valuation profession in the UK start. BIDs present a commercial opportunity for commercial property valuers such as Ashton-Kane to shake the traditional conservatism of their colleagues by offering a new service attuned to the spirit of partnership and enterprise that BIDs represent. Academic institutions may be in a better position than commercial firms to assist BIDs with land valuation, since they have a clearer interest in supporting professional development through research. BIDs will be non-profit agencies, which fits the academic model better.

It may be that the ‘full service’ which was first tried out in this project proves too expensive for BIDs. At around £75 per site or £100,000 per typical BID, a full land valuation at the outset of a BID preparation period is unlikely to be approved in early budgets. A more likely scenario is that suggested for Liverpool below, in which owners and occupiers are invited to collaborate with a professional valuer in drawing up self-assessments for BID funding purposes. The kind of model prepared by Ashworth (2002) for the London First Task Force may fit with this: apportionment of existing rating list figures between occupiers and owners on a voluntary basis. Currently unrated properties could be subjected to Compulsory Purchase Order (CPO) valuation procedures under the Land Compensation Act, if only for assessment of a figure that owners can be invited to contribute to BID funds. Value Maps could prove useful in identifying sites and owners as targets for CPO treatment.

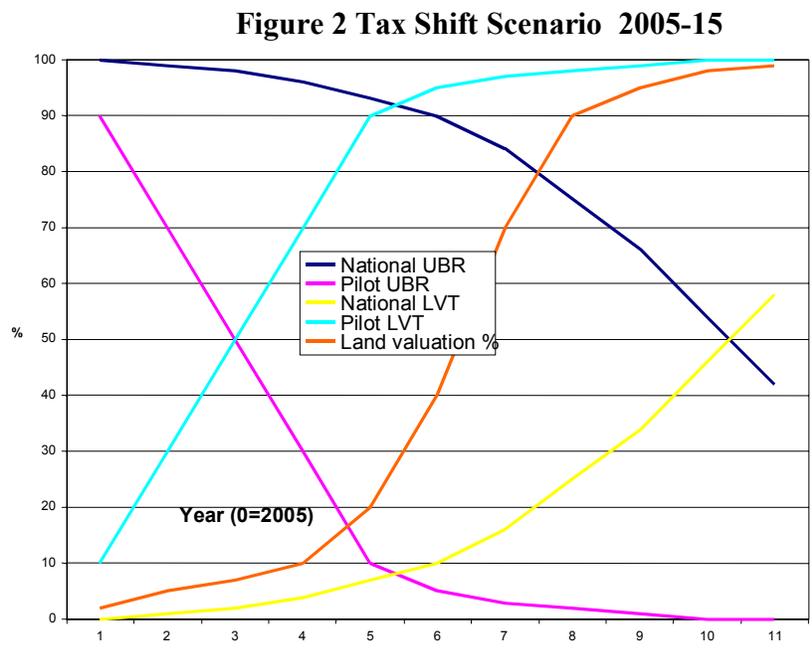
There will also be nothing to prevent BIDs from using voluntary contributions from owners, based on more frequent or self-assessed valuations of land and buildings. Although the statutory BID Levy on occupiers and the basic NDR will be based on the

2005 VOA list (updated for changes), the voluntary contributions and possible rebates could be varied each year according to fairer local rules drawn up by each BID Partnership, voted on by occupiers and – if possible – consented to by owners. Rolling revaluation for UK property taxation could be first tried out in Smart BIDs, outside any statutory framework.

The ‘Do Nothing’ Option

The predictions of many who sought to amend the BIDs legislation was that their failure would be followed by failure of British BIDs. This may yet be true. It is unclear whether government genuinely believes that property owners will prove beneficent, public spirited voluntary donors who will help transform urban centres or whether, more cynically or carelessly, they really never envisaged BIDs as being more than a very minor part of the overall urban regeneration scene: more hanging baskets and little else. Some see “*the tiny size of the levy*” (Walker 2003b) as “*the winning punch ... even if some people don’t believe in [BIDs] the cost is so low it’s not going to make any difference*”. Significantly the American interviewee in this article believed that BIDs’ funding must be compulsory but that administration costs must be kept to a minimum.

Failure to secure innovative funding for BIDs will most likely condemn them to the sidelines as a means of reforming the economic life of cities. It is hard to see how sufficient funding to make a real difference will come from either a Levy on UBR or voluntary owner contributions or a bit of both. Using GIS, strong civic and business leadership, partnerships within and between would-be Smart BIDs could make the case over three years for modern methods of valuation and owner funding to carry forward a few modest pilots towards Smart Tax in Britain. Figure 2 shows how this could happen diagrammatically.



Key dates.

2005: LASER introduced; NLPG live in all councils; Smart BIDs commence operations.

2006: Scottish Executive recommends UBR replaced by LVT; third (Lincoln-funded) Whitstable Study shows how LVT could work in Engnd.

2007: BIDs reviewed, legislation amended to allow LVT in BIDs; decision to replace UBR valuation in 2008 (for 2010) with national land valuation, phasing in LVT from 2010/11 nation-wide on all land.

2009 BIDs using LVT now cover most city and town centres; VOA installs new IT system based on land parcels.

2015 LVT fully replaces UBR and CT for local government.

A Liverpool Smart BID Blueprint

Despite the lack of statutory backing for Smart BID funding, it is still possible to secure some measure of ‘Smart funding’, i.e. revenue from land values, within a BID in Liverpool. A Smart BID is one that chooses to fund its activities largely from a levy on some or all property owners in its area, based on fair apportionment of rating valuations and on site valuations using proven statutory methods. A BID can, even under the legislation that will be enacted in 2003, in theory choose to set a very low Levy on business ratepayers. It can also rebate part of the basic NDR for classes of ratepayers that it chooses should benefit in this way. It can involve property owners in its governance (albeit without a vote) and invite financial contributions from any source. The main difference between what campaigners called for and what is to be available through BIDs legislation is that contributions from owners will have to be secured through contract negotiation outside of the statutory taxation framework.

This section sets out what needs to be done in the city, by LCC and its partners, to achieve a Pilot of LVT within a BID and use that to go on to develop plans for wider introduction of LVT to Britain. The possibility that LVT might achieve nation-wide implementation by another route is not considered here. Collaboration with other BIDs elsewhere in Britain and with national agencies to support them is considered here from a Liverpool perspective, not as part of a coherent programme to use Smart BIDs to pilot Smart Tax.

A draft Business Plan for Smart BIDs in Liverpool was submitted to LCC for consideration in April (Vickers, 2003). Appendix 9 is the unamended schedule of activities, with indicative prices, from that Plan. This section updates and summarises the Plan in narrative form, setting out the time frame and costs of implementing a first Smart BID.

The Plan assumes that no financial contribution, in cash or in kind, will come from Government specifically in support of Smart BIDs. However it does assume certain in-kind benefits from agencies involved with Project Acacia and from other Liverpool BID partners or their national umbrella bodies. This is based, in the former category, on the support that they have given to the author during this study; in the latter, on the resources they have expended on lobbying for property owners during the Bill’s passage this year. In neither category, do these organisations necessarily support LVT more widely but they have indicated support for Smart BIDs.

Liverpool’s central retail Gold Zone (see map Appendix 1) is already selected as one of 22 pilot BIDs. Although the city will learn much from its first BID about the standard procedures for setting up a BID, the focus there will probably not be on securing voluntary owners’ contributions but on pushing the occupiers’ BID Levy to the limit for a BID of this type. LCC’s resolve to pilot Smart Tax will have to look towards the next generation of BIDs to secure Smart funding. The BID discussed below is not the Gold Zone pilot. Estimates for the generic BID activities in Appendix 9 will need to be updated

as the Gold Zone BID - and other ATCM pilot BIDs - progress. This Blueprint does not elaborate on those activities but concentrates on what makes a Smart BID distinctive.

Defining the BID Area

The key to a successful Smart BID is selection of an area with the right match of needs, partners and redevelopment opportunities. A funding mechanism cannot create those opportunities by itself: they are created by the planning system and property owners. Smart Tax gives an incentive to exploit opportunities in a way that ensures that capital expenditure (public and private) on regeneration and infrastructure will be recovered and retained within the BID area sooner and to a greater extent than if the BID were funded solely from occupiers. It does this because owners take a longer view than occupiers, many of whom will be displaced by regeneration and who generally prefer minor enhancements and revenue activities to physical renewal and capital investment.

Therefore the recommendation to Liverpool (city council and its partners) is that a Smart BID area is defined that involves a relatively large amount of regeneration and other capital expenditure, in which most business and property owners would be likely to wish to work with LCC and Liverpool Vision on a coherent Plan with a natural five-year break point. Ownership and prospective regeneration outcomes should be known and agreed to in considerable detail before BID negotiations begin in earnest. The area is likely to be one which has mainly commercial, specialist retail and leisure uses (now and planned) with a significant amount of vacant but potentially high-value residential property. The necessity for CPO on a limited number of key sites need not be a barrier.

In size, a Smart BID probably needs to be at least 100 hectares (equivalent to a square kilometre) to generate sufficient revenue to justify the additional expenditure involved in setting up and administering novel funding procedures. The area should also be bounded by clear physical features that minimise the spillover of benefits from the BID to its surroundings – or the blighting of the BID by planning uncertainty in its hinterland. The Ropewalks area seems to fit the requirements well, and also has some (not all) stakeholders who support Smart Tax. But other areas may be equally suitable.

Site Schedule

A BID that only uses NDR to fund its activities will not need to identify extents or ownership of land parcels (sites). It will work off the rating lists held by the local authority, of which records represent rateable hereditaments. However use of owner contributions, voluntary or compulsory, will require knowledge of ownership and leasehold patterns. Because some of this information remains confidential, the local authority will have to collect and hold it on behalf of the BID.

Almost all the work in creating and maintaining the schedule can be set against other *e-government* projects: LLPG, LASER, Acacia, ValueBill. The last two of these are as yet not requirements of all local authorities but LCC has in its Corporate Plan a commitment to excel in GIS. Therefore the only effect of also committing to a Smart BID is to require priority to be given to the areas designated as Smart BIDs in the city-wide work

programme for the GIS Team. This research has shown that such areas can be extremely challenging but the work still has to be done and the wider benefits to regeneration planning of having this information should be sufficient justification for giving them priority.

For this reason, none of the cost involved in creating a site schedule for Smart BIDs should be charged to the BID project. In particular, work associated with the requirements of ValueBill should dramatically increase the rate of collection of NDR and any BID levy based on rating lists. This will directly benefit all BIDs and contribute significantly to development of a 'TED-type' GIS facility to help BID administrators and stakeholders. LCC should track the progress of ValueBill closely and join the project at the earliest opportunity.

Site Valuation

In the absence of legislation requiring owners to pay if BIDs choose to ask them, the DV will almost certainly not be involved in assessing site values. There may be some involvement of the DV in CPO valuations but most likely the prospective Smart BID will have to retain its own valuer and devise rules and procedures that endeavor to achieve consensus on relative and absolute assessments for all levies or voluntary contributions based on property value.

The first stage in this will be to invite 'open book' sharing of development aspirations by all owners in the BID. Failing that, Liverpool Vision and city planners should prepare and divulge a comprehensive planning brief for the whole area. A professional valuer trained in site valuation, which most commercial valuers are to a degree, should then prepare a schedule of HABU capital valuations for each site, in a draft Valuers Report that will be available for inspection by all stakeholders in the BID.

This Report may expose some sites with apparent negative value. These indicate need for review of the planning brief for the area, or for external funding to make HABU based on the brief viable for those sites. Otherwise there can be no contribution expected from owners of those sites towards the BID, at least at the outset. Nor can redevelopment of those sites be expected during the BID period. Negative or very low site values will make a Smart BID (or indeed any urban renewal) non-viable without external funding. The corollary is that external funding (capital investment from public funds) within or near a BID will invariably produce a value uplift for some or all sites. The BID funding system should recover that uplift by immediately calling for a commensurate contribution towards BID activities. NDR delays that contribution until the redeveloped site is occupied, meanwhile requiring blighted but occupied nearby sites to make up the funding gap.

A Smart BID therefore needs to have an iterative valuation process, with planners, developers, leaseholders and others all engaged as partners in both planning and valuation, informed by GIS tools owned by the BID. This process will be fairly intensive during the preparation of BID budget and levy setting negotiations. Without statutory

backing for levies on owners that are not also ratepayers, any contributions from owners will have to form part of bilateral contracts between owners and the BID.

Creating TED

Incorporating site values (SVs) is the least part of this task, although little can be done with TED until a draft Valuers Report has been produced with those values in it. It is essential that TED becomes part of LCC's GIS Section. Eventually the BID may appoint its own GIS person, who will work closely with LCC but be independent. NDR and SV records will become layers in the LCC Corporate GIS and TED will be just another application.

There is a problem for LCC in that its chosen software supplier does not have a product that currently has all the features needed for full TED functionality. Ward et al (2002) report that ESRI is the only major software supplier to combine spatial analysis with 3D display of land values. However there is sufficient functionality and expertise within LCC's GIS Section to be able to assess the need for further procurement of training and software.

As with the earlier data capture work, almost all the work in operating TED can be justified on other grounds. Direct charge-out of operator costs to a BID should not need to involve excessive sums or even real money. They can be part of LCC's in-kind contribution to the BID. However with a severe shortage of GIS skills it will be necessary to give high priority to BID-related tasks if the benefits of TED are to be fully felt by the BID partners.

Offsetting the cost of operating TED should be the significant interest in developing the tool that is apparent from the GI and property industries. Although the conversion of this interest from academic curiosity to commercial opportunity is held back by lack of a UK cadastre and lack of GIS skills among valuation practitioners, there may be sufficient in-kind contribution by way of free data, advice and software development support to make TED cost-neutral to Liverpool. It may even represent a business opportunity to LCC's business arm, which specialises in *e-government* advice. Or it could attract a private sector lead partner and develop through a PFI, like the National Land Information Service (NLIS).

Timings

The dates in Appendix 9 will need to slip by at least three months. With the delay in the BIDs Bill's passage, it will be difficult for the Liverpool Retail Gold Zone pilot BID to achieve 'live' operations by April 2005, impossible for a follow-on Smart BID to do so. The aim should be to follow the pilot by one year and to be operational by April 2006. For this it will be necessary to define the area by mid-2004 and complete an initial draft Valuers Report by the end of 2004. The sooner these activities can be completed, the quicker it will be possible to introduce realism into Smart BID negotiations.

Conclusion: Prospects for LVT in Britain

This section summarises the findings of the three years of research by the author and his team and also puts this into the context of other relevant events that have occurred since the second report in this series was written (Vickers 2002a). It is structured firstly as a set of answers to the research questions with which this final Fellowship started, secondly as an update to the nine interim conclusions in the last report.

Answers to Research Questions

Q1. How might LVT sit alongside other policies for urban renewal?

Although a few local Liverpool and national experts in urban renewal have continued to express the view that the UK planning system might make LVT extremely difficult to implement because HABU is imprecise, this issue is totally unproven. No rational argument against the use of Certificates of Development Potential (CDPs), which were described by Hudson (1975) and Vickers (2000a & b) has been set out. Meanwhile there has been a steady stream of articles on BIDs, which are one of the Government's chosen urban renewal tools, in favour of shifting their funding onto owners. In effect, the argument for using LVT in this limited way has undermined any case there might have been for saying that LVT is incompatible with planning laws.

The Liverpool surveys show that BID stakeholders overwhelmingly believe Smart Tax will help achieve sustainable urban renewal for their city. Nation-wide, the business community has serious doubts about the efficacy of a BID Levy on occupiers alone, using NDR. Other policies for urban renewal may or may not prove equally effective but are not wholly incompatible with LVT. The aim of LVT is to replace taxes on property transactions, such as Stamp Duty and developers' planning obligations, as well as business rates. Leaving these fiscal instruments in place will seriously limit the benefits of LVT. Those who support LVT should therefore continue to press for wider reforms of the tax system, much of which inhibits urban renewal. However until Smart Tax has proved its effectiveness to some degree in some places, it is unreasonable to expect taxes other than NDR to be alleviated.

Ignoring LVT as a tool for urban renewal is like a golfer insisting on playing golf without a putter. No matter how good the other clubs in the golf-bag and players' skills in using them, we will fail in the game of regeneration until and unless we provide our players with LVT. And regeneration is no game: it is about better and sufficient housing, successful enterprise and sustainable use of scarce land. The players in these fields of human activity, once they know about LVT, seem to want it very much.

Q2. What legislation is needed to allow LVT to be piloted in England & Wales?

An opportunity has been missed to begin using Smart Tax in BIDs. However the Government has left the door open to future legislation, if its proposals for voluntary owner funding prove to be unworkable. It has also set a time limit of three years in which

its BID proposals must work, by which time it ought to be possible to study in more detail the changes that are needed to allow Smart Tax to work in BIDs.

Although BID boundaries can be drawn quite widely, additional primary legislation will be needed to extend LVT outside BIDs, even for pilots such as that recently initiated as a desk study by Oxfordshire County Council. The conclusion reached here is that a separate valuation and appeals system will have to be set up, initially in parallel to the present VOA and Valuation Tribunals systems but eventually replacing or subsumed within those bodies. But the legislation to establish new bodies does not need to be enacted in order for the procedures to be tried out within BIDs, where the most complicated test cases are likely to occur.

The local authority that acts as Billing Authority for a Smart BID will be unable to collect through rate bills any contributions towards the BID's budget that come from sources other than ratepayers. A distinct, systematic, transparent, consensual system will have to be established by each Smart BID, using existing contract law. Local government finance law will not provide any sanction for non-payment unless there is further primary legislation. Pilot BIDs, the only laboratories for Smart funding, will have to resort to 'naming and shaming' non-payers or taking them to civil court,

Q3. What resources are needed to develop and operate processes involved with LVT?

A Smart BID of about one square kilometre should cost no more than about £100,000 to set up, over and above other costs associated with establishing a BID. Essential added resources include the services of a suitably qualified professional valuer (charging about £75 per site initially) and of a trained GIS specialist. However both these experts can provide valuable assistance to any BID, whatever source of funding it chooses, because changes to the nature and value of properties are bound to occur in all BIDs and should be monitored. For an ambitious BID Partnership, the extra resource needed to ensure effective Smart funding need not be prohibitive, if there is a significant area of land within the BID that currently produces little or no NDR revenue and the total capital investment envisaged is comparatively large.

It is very hard to be more precise about either the up-front cost of establishing a Smart BID or the extra financial rewards earned for its stakeholders over its five-year life. The most important ingredient will be Leadership: no expensive consultant can redeem a prospective Smart BID whose resolve is weak. Creating a successful BID will always require a far-sighted, determined and respected Champion, whose personal reward will be largely in the currency of civic pride earned.

This research has not looked in detail beyond Smart BIDs but the cost of a national land valuation is likely to be by far the greatest single component of nation-wide LVT implementation. It is too early to put a figure on this but there is no reason to suppose that it would be greater than the overall cost, over current revaluation cycles for CT and NDR, of the costs associated with those systems. Assuming NDR and CT are phased out as LVT is brought in, LVT could probably be introduced at no net cost to the Treasury if it

were planned as part of the implementation of UK's version of the European Union's Infrastructure for Spatial Information in Europe (INSPIRE) around 2008-2010.

Because the technical requirements of any Inland Revenue IT system for a property tax based on site values would be significantly different to those for modernised CT/NDR, the design of VOA's new IT system ought to either be deferred until after the next CT/NDR revaluations (2003-7) or specified so as to take account of a possible decision to incorporate CAMA and/or site valuations. If this is not done, then the cost of any eventual changeover could be much greater.

Q4. To what extent should a pilot LVT project be required to finance itself from extension of the local tax base to vacant and under-used land?

One of the criteria for choice of a Smart BID pilot area is that it has a significant number of sites that are currently vacant or under-used. For LVT to be proved administratively viable and economically effective, extension of the property tax base to include sites that are currently not taxed through NDR is essential. Even if there is no means of compelling owners of such property to pay, the budget for a Smart BID needs to show that its rate burden would shift from occupiers onto owners, from productive enterprise onto non-productive land. In that sense, any pilot LVT project (whether in a BID or not, desk-based or 'for real') needs to be able to finance itself entirely from extending the local tax base.

However no pilot of any fiscal policy that has potential nation-wide benefits ought to be required to finance its internal project costs entirely from revenue raised within the pilot area. Pilot projects are bound to cost more than 'final' projects. It is therefore unreasonable to expect all the financial risks of a national pilot project to be carried by local stakeholders. Hence every effort should be made to secure financial contributions or guarantees towards the cost of setting up and administering the 'smart' aspects of a Smart BID or other LVT pilot from national organisations. Government may not be the only potential source of funds but ought to take the lead in a cross-sector partnership to ensure pilots happen. A PFI model for Smart Tax is one possibility, similar to that adopted for implementing NLIS.

The larger the operational budget of a Smart BID and the larger the area involved in any LVT pilot, the smaller will be the proportion of total costs that is accounted for by administration generally. Therefore a pilot LVT project needs to be for the largest possible area and have the most ambitious operational plans for regeneration. This will increase the financial risk in absolute terms but reduce the ratio between potential returns on investment in the pilot project and irrecoverable project costs.

Q5. How can local and national public understanding of the workings of LVT best be reinforced in the design and implementation of pilots?

Although this project has so far focused on part of one of Britain's least prosperous cities, the public education strand of the research was aimed at a wider audience. As expected, it has been found that map-based graphic visual aids can greatly help improve

understanding of the working of property taxes. Well before a prototype TED was available for wider use, several local authorities were expressing interest in conducting LVT trials. This interest has come on more than one occasion from the GIS staff or IT-literate council members. This applies to the area showing most enthusiasm for an LVT trial at the time of writing, which is at the opposite end of the economic spectrum to Liverpool: Oxfordshire.

The package of educational aids developed through this research will enable the potential of Smart Tax as a fiscal instrument for urban renewal to be debated locally by stakeholders in local property taxes. TED and similar systems will be essential tools in the design and implementation of LVT pilots, from inception through selling the idea to operating the valuation, billing and planning systems.

The first pilots should be in areas where the local authorities have completed their LLPGs and have committed to being leaders in the field of GIS, especially in the use of Value Maps as a corporate planning and monitoring tool. With continuing support from overseas partners such as Lucas County, appropriate development of Value Maps will play a key part in improving understanding of land as an economic factor and property taxes generally.

Q6. How can LVT pilots be ‘controlled’ in experimental terms to account for extraneous factors in the validation of their results?

One advantage of using the pilot BIDs to pilot Smart Tax is that there will be a control group against which to measure the effectiveness of LVT. BIDs will all need to define a baseline level of service that they get through the life of the BID from their local authority and ATCM should also develop ways of objectively measuring the economic success of each BID and of the pilot programme as a whole. These devices will help control the performance of Smart BIDs relative to other BIDs.

However there is still in Britain no suitable statutorily collected, locally available nation-wide economic indicator, equivalent to the statistics on construction activity that appear to be gathered by municipalities in the U.S. and which are there used to analyse the relative performance of cities with and without Smart Tax. No further work has been done on this subject in this Fellowship.

General Conclusions

The interim findings (in **bold**) in the previous Fellowship report still stand, with little further qualification. Only where they have altered as a result of the final stage of this research are they changed below, by placing superceded parts in [] and adding supplementary text. By reference to Vickers (2002):

1. LVT should be seen as eventually a nation-wide tax in the UK, perhaps (but not necessarily) reserved to local government. Pilots will merely help develop and test the processes and stages necessary for a national implementation and prove that the benefits outweigh the costs.

The debate about using land value as a source of public revenue has intensified in Britain over the past year, more as a regional and national tax than as a replacement to any local taxes. There has been little mention of it replacing other taxes, rather it is seen as an additional tax which might cause less political difficulty to government - and economic harm to society - than other taxes. This is especially the case for London and the south east of England, where investment in transport infrastructure (such as CrossRail) to relieve congestion and make an Olympics 2012 bid look viable will require massive extra public revenue.

The essential role of pilots is generally acknowledged and the debate is about finding the right scale and rationale for them. This report therefore comes at the right time to inform public debate.

2. Pilots must be carefully chosen and designed, with initial flexibility but also with clarity of purpose and resolve. Political leaders must give adequate resources to enable careful monitoring of all pilots and set a sufficient time scale for them to be effective. There must be national and local champions for the policy, preferably in all parties.

There is less reason than ever before for a British Government to fear a political backlash if it decides to declare 'in principle' support for LVT. There are champions for it right across the political spectrum, although many in the key professions remain highly sceptical. It is quite realistic to expect the present Labour Government to announce a programme of pilots of some form of 'land tax' before the next General Election (in 2005/6), probably in connection with the funding of transport investment, preparation for Euro entry and/or regional government in England & Wales.

The fear of those who understand how such taxes work elsewhere is that Government here will again fail to appreciate the difference between LVT and other forms of land tax. Only for LVT is it necessary to undertake a national land valuation and the perception that this would be too expensive, and prone to challenge of site value assessments, remains strong. This can only be overcome by technical trials of all processes involved with LVT, including billing and hearing appeals. Pilots must therefore be more than desk exercises.

Politicians should realise that rating professionals, particularly senior practitioners, are likely to be biased towards the system they know. Every profession is conservative and resists change. But rating professionals should be aware of the threats to the system that provides their income: property taxes could easily be swept away entirely by public opposition to the inherently inequitable form that they, the rating professionals, happen to be wedded to here.

3. Legislation for pilots of LVT must include clauses preventing it from being used as a cover for overall tax increases. Areas with pilots must be ring-fenced from their neighbours. [Pilots should only involve replacement of UBR with LVT.]

An important part of selling LVT to the public must be to set out what the impact of not introducing it will be. It may be that an additional tax hypothecated to a particular form of investment, like transport infrastructure for south east England or a new north-south rail link, can be more easily justified than a replacement tax. However the introduction of LVT, even in pilots, should always be accompanied by some reduction in other taxes, of which UBR/NDR is the obvious one. Pilots of LVT could form part of a geographically limited but radical tax reform package that is made available for one of the devolved legislatures to impose, most likely the GLA. There is some value in not limiting such a pilot to commercial areas and perhaps extending it to residential property, even to other land uses where private unearned gain flows from investment by others.

4. [The Government's White Paper proposals for BIDs already indicate a need for devising Owners Levy assessment and payment methods. The IRRV, Local Government Association and British Chambers of Commerce must jointly prepare for this, while lobbying Government to allow for this Levy to be compulsory and for the power to vary (not merely add to) NDR within BIDs.]

This has been overtaken by events and is covered fully above. The general point still applies: that national agencies need to prepare for a situation in which BIDs fail because there is no way to tie in property owners. Meanwhile the voluntary owners' funding option should be made to work if at all possible. Others have begun to devise ways of doing this, while this research has concentrated on preparing for practical trials of Smart BIDs.

5. A new legal taxable entity of Beneficial Ownership of Land needs to be created before there can be LVT in the UK. Pilots of LVT should not be delayed while the full legal implications of LVT are investigated.

This still applies. A legal path towards pilots of LVT has been mapped out here. Smart BID pilots can follow the legislative 'rat run' of bilateral funding contracts, allowing the economics and valuation aspects to be tested. But such pilots can only have a very limited impact.

6. VOA could use pilots of LVT to devise appropriate land valuation methods [before] the 2005 [N]NDR revaluation[, which] could be the last of an occupier-based rating system. VOA should then, if the pilots are successful, move within ten years to a fully computerised rolling system of land valuation, integrated within the NLIS.

Although it is probably now too late to stop the 2005 NDR coming into effect, there is still time to stop future revaluations for CT and NDR having to be made. In particular, there should be no re-engineering of VOA IT systems until LVT trials, with full support of VOA itself, have been conducted. The requirements of a parcel-based property tax are very different from those of an occupier-based one. Yet other *e-government* initiatives, such as Acacia, NLUD and INSPIRE, are likely to make the land parcel rather than the hereditament the key building block of any future national land management system. The designers of VOA's new IT systems need to take account of that and might just as well

make provision for LVT. Meanwhile all these *e-government* projects are in need of renewed high-level support: a commitment to LVT could force the resolution of outstanding problems with NLPG and speed up the completion of land registers.

7. Implementation of LVT should be accompanied by removal of existing exemptions from UBR and Council Tax. Transitional exemptions may apply in hardship cases to individuals only, not to whole categories of land.

Nothing can be added to this and it remains important in any LVT implementation.

8. Local consultations in at least one city wishing to pilot LVT should begin as soon as possible, with a view to agreeing the extent and scope of the pilot (subject to Government approval). If the current Liverpool pilot land valuation proves viable, Smart Tax could be levied there [by 2005]. Pilots should be locally controlled but nationally co-ordinated and a nation-wide decision and implementation ought to be possible well before 2010.

Delay in the passage of the Local Government Bill may mean that no pilot BIDs are operating by May 2005 in any case. It will not now be possible to have legislation for Smart Tax in BIDs until at least 2006 but careful use of the voluntary owners' funding option could still enable a nation-wide decision on LVT by 2010, with implementation very soon afterwards. BIDs still offer the best prospects for bottom-up trials of LVT.

9. Pennsylvania's existing 'Smart Tax' cities can teach UK little about how to introduce LVT. Philadelphia's current experiences are relevant, especially for local politicians in Britain, but much more can be learned from Denmark about how LVT could operate as a nation-wide tax. Victoria, Australia should be visited because its LVT systems are undergoing modernisation and its laws closely resemble those of the UK.

Philadelphia should continue to be monitored by British researchers and politicians interested in Smart Tax pilots and BIDs.

Recommendations for Further Study

Several related research projects have already commenced as a result of this Fellowship. Others are in preparation and will require funding.

Land Valuation

Independent trials in a range of different kinds of local authority area need to be undertaken in order to confirm the estimates in this report of the cost of a national land valuation for LVT. The Whitstable study by Plimmer & McGill is already under way but will need at least one more year of funding. Whilst this has the benefit of being part of a series of three such studies of the same town, there need to be other studies done in the same time frame, perhaps by other methods. The Oxfordshire trial, as a local initiative

with political support and access to local authority records, could prove a crucial next step in this process.

Value Mapping & Public Education

Once there are more and larger areas in the UK of professionally assessed site values, from the Whitstable and Oxfordshire trials or elsewhere, these need to be incorporated into TED-type GIS and used for educating property tax stakeholders. The author's PhD studies at Kingston could provide an ideal laboratory for testing the efficacy of Value Maps among appropriate groups of British professionals. Specialist GIS expertise needs to be assigned to help develop TED: the author's role is in evaluating the results over the next two years. While the valuation data is being captured and assembled, the author plans to visit several countries that already use Value Maps and/or LVT to study the reasons for the authorities there to have adopted them and the means by which they assist property tax processes.

Engagement with National Land Information Projects

More needs to be learned about the prospects for using projects such as Acacia, ValueBill and INSPIRE to justify and help develop Value Maps and other aids to LVT. Joint research opportunities are emerging from these projects, which should be exploited by others more qualified in hands-on GIS. A national centre for research in land management information systems could be established at a university, such as Kingston, where the links between geomatics (spatial analysis) and real estate surveying (valuation) theory and practice can be studied in a British context.

There is an urgent need to engage with VOA and its main clients in Government – ODPM and the Welsh Office – to ensure that the planned re-engineering of internal VOA IT systems will not preclude implementation of wider national land management projects. The possible reform of property taxes to a parcel-based system such as LVT needs to be considered before any new VOA IT system specification is finalised. Lincoln Institute, with its contacts at VOA and IRRV, could play a part in facilitating research involving both overseas and UK property tax and GIS experts.

Remote Sensing: Auto-correlation of Imagery with Transport Network & Land Value Data

The potential for using satellite and air photograph imagery within CAMA/GIS should be investigated. This could be an international research project with wide applications for sustainable development. It could have relevance to the design of any modern national land valuation system. The theoretical links between transport, land use, land values and other spatial variables open up a huge area for research, with LVT being a potential financial 'lubricant' for a wide range of scientific and economic advances.

Smart BIDs as Action Research

Ultimately there can be no clear answers to the questions posed in this research until there is an actual, distinct shift of taxes in a part of Britain onto the land element of property and off other taxes that impinge on enterprise, labour and capital. The quickest way to provide answers to some of these questions is through Smart BIDs. The UK Government has been prepared to undertake pilots of other forms of tax recently and should now resolve to allow pilots of LVT – Smart BIDs – to proceed. There would be enough cities volunteering to be pilots, with a control group and national monitoring arrangements in place through the ATCM pilot BIDs.

Instead of offering discouraging advice to Government based on almost no evidence of possible higher costs, the rating profession should welcome the chance to assess new technology and become part of the solution to problems of urban dereliction, rather than being seen as part of those problems. IRRV and RICS should work with taxpayers' organisations on research to see if voluntary owner funding in British BIDs can be effective. If it proves ineffective and BIDs fail as a result, the experience could aid the design of trials of LVT, again to be seen as action research.

Dissemination

The potential for disseminating information about this research has diminished since the author ceased to be employed by HGF in April 2002 and later had to dissociate himself from PF. The draft of his first Fellowship report (Vickers 2000b) is still on the PF website and HGF intends to re-launch this site in September 2003 but has been unable to help the research team to exploit their work for the past year. HGF's newsletter *Progressive Forum*, in which progress reports had regularly appeared, ceased publication on the author's departure and its journal *Land & Liberty* last appeared as a quarterly in Summer 2002. It is set to be an annual report of the activities of HGF and its sister organisations, with an internet offshoot, which may offer opportunities for dissemination in the near future. However all the following measures to disseminate this work have therefore had to be undertaken – or planned for the future - without the valuable assistance from HGF which had been expected. HGF's Chief Executive and main office have been sent regular progress reports.

Website

The web-site www.landvaluescape.org.uk went live in September 2003 and contains links to all the author's works on the subject of LVT and Value Mapping, including those published by the Lincoln Institute. His research contacts have been e-mailed with the details.

The author has built up a list of contacts wishing to be kept informed of the Liverpool Smart Tax pilot and other developments in UK LVT. New contacts approach at the rate of about two per month. The latest is the Chief Executive of the Greater London Authority and enquiries are about evenly split between academics and local government executives or elected members.

Video

The video *Smart BIDs for Britain* has been shown to several audiences and was continuously played at a conference on funding transport from land values in April 2003 in London, during the intervals. It has been offered to a number of mailing lists but so far only three of the twenty copies made have been sold.

The possibility of using the video to raise interest among TV and film companies has been discussed with some members of HGF. A summary of this report will be sent with a flyer for the video to a number of media contacts.

Conferences & Seminars

Apart from presentations during 2002 in Liverpool which were integral to the research, the author or his assistant have held meetings with council officials interested in following LCC's initiative, in London, Shrewsbury, Oxford and Newbury. The only open conference at which this research project has featured on the programme since the last report was published was at London's City Hall in October 2002.

A seminar convened by AGI's new Property Special Interest Group on 1 July 2003 featured the author speaking alongside Jerry German of Lucas County Ohio – sent at Lincoln Institute expense – and technical experts on property tax from Denmark, Northern Ireland and LGIH. The proceedings of this seminar will be put on AGI's website at www.agi.org (for AGI members only).

Some fifty copies of a Smart BIDs promotional colour leaflet (Appendix 8) were distributed in an afternoon at the Government's Urban Summit on 1 November 2002, courtesy of Liverpool Vision, together with a four-page briefing on the project. Several interventions were made by the author at Summit workshops on the subject of Smart Tax in regeneration.

The conference with Liverpool Vision, originally scheduled for November 2002 and now due to be held in November 2003, will launch this report and seek partners for some of the follow-up research proposals herein. Separate discussions are taking place with members of PF regarding a possible conference within the next few months, specifically to maintain the level of interest in LVT among UK property tax stakeholders in the Balance of Funding agenda. HGF will again be invited to host such a conference and revive PF as a means of coordinating research efforts in the field, as was attempted in November 2000.

The Value Mapping strand of research will be promulgated through the new GI in Property Special Interest Group of AGI, which was formally set up in September 2003 at the AGI's annual conference in London. A conference on "GIS for a Global Property Market" is provisionally scheduled before the end of 2003. The author's GIS supervisor in his Kingston University PhD research project, Dr Munir Morad, has joined the SIG committee that will organise this event.

Invitations to speak at seminars and conferences have been received during recent weeks but have had to be declined owing to pressure of work. A renewed effort to engage with a number of professional and political bodies will be made in late 2003, when the publication of this report and the Landvaluescape website are announced.

Academia

The author has given one lecture on Green Taxes to Kingston University real estate undergraduates, at which this research was put in the context of commercial property valuation and taxation policy trends worldwide. To pay for his continuing PhD studies, it is intended that he will give regular lectures both to undergraduate and postgraduate/academic personnel at Kingston, which is increasingly seen as a UK centre of excellence in Value Mapping and modern methods of valuation.

Articles and Books

The manuscript of the Lincoln publication on LVT in Britain, which Owen Connellan is editing for a U.S. version and Professor Nathaniel Lichfield for a European readership, draws heavily on this author's Fellowship work. He also intends to submit a proposal for a publication on LVT by the Centre for Reform, a think tank close to the Liberal Democrat Party, along with another Liberal Democrat member, Lincoln Fellow Greg McGill. The aim would be to influence a review of the Party's taxation policy that is due to start in 2005, drawing on the experience of other countries which use LVT and also Value Maps. This publication will be an edited version of PhD work by both authors, whose PhDs in turn draw heavily on their Lincoln Fellowships in LVT.

Endnotes

- ¹ Auditor's Real Estate Information System (AREIS) is Lucas County Auditor's publicly available set of property tax data and background mapping, supplied on CD-ROM. The 2000 (Version 3.1) AREIS CD was supplied and selected data sets extracted into ArcView for this project.
- ² An Expert Panel was convened in late 2002 on which were represented the following organisations: Association of Town Centre Management (ATCM), British Council for Offices (BCO), British Property Federation (BPF), British Retail Consortium (BRC), Central London Partnership/The Circle Initiative, Corporation of London, London First, New West End Company, RICS London Region, Westminster City Council, Westminster Property Owners Association. Other organisations joined the campaign later and it met on 20 December 2002 to decide to appoint a professional lobbyist.
- ³ Announced in "Land Lines" January 2003 <http://www.lincolninst.edu/pubs/pub-detail.asp?id=728> : An examination into the Effects of Land Value Taxation in the United Kingdom: An Update of the Whitstable Case Studies" Frances Anne Plimmer and Greg S. McGill, College of Estate Management, Reading.
- ⁴ Scotland is not covered by the Local Government Bill currently in Parliament but the Scottish Executive has indicated it intends to introduce legislation into the Scottish Parliament on BIDs.
- ⁵ In June 2003, Liverpool was awarded the honour of being "European City of Culture 2008". Property prices immediately rose by about twenty percent.
- ⁶ The term 'blight' is defined, in both these categories, in a recent Government Green Paper (ODPM 2001) Chapter 4 "Compulsory Purchase and Compensation", in which proposals are made for changing the procedures for dealing with it. Most of the blight in the trial area was 'generalised blight', i.e. "*arising as a result of consideration of options during the planning process*".
- ⁷ The Land Compensation Act 1961 provides for a process of valuation similar to that for LVT. Section 5 states that the value shall be "as if sold on the open market by a willing vendor". Where a change of use might be involved, Section 17 of the Act provides for a "certificate of appropriate alternative development" to be obtained from the planning authority by either party to the compulsory purchase process. This is not unlike the Certificate of Development Potential (CDP) discussed in previous Lincoln Working Papers by Vickers (2000 & 2002). See also the definition of site value in the 1931 Finance Act, quoted here in the Addendum to Appendix 4.
- ⁸ NLUD's first estimate was that 2.8% (or 30,000 hectares) of all developed land in England is vacant or derelict land and buildings suitable for development (NLUD 1999). Later figures, released in September 2002, show twice this amount is available, 66,000 hectares (NLUD 2002). This ignores land and buildings that are under-used, for

which there may be rateable hereditaments on part of the land and buildings but not the whole site.

- ⁹ Each chunk includes all features that are wholly or partly within an area defined by grid squares.
- ¹⁰ By the end of Jan 2003, IDeA reported that 203 (out of over 500) local authorities were taking MasterMap.
- ¹¹ The author helped form a Special Interest Group (SIG) of the AGI for the property industry in early 2003. A seminar on GIS for Property Tax Assessment was held for the SIG on 1 July 2003 in London, at which Jerry German of Lucas County was a speaker. A grant from Lincoln Institute enabled him to travel to UK for this.
- ¹² Connellan and Lichfield (2000) in a previous Lincoln Working Paper, have also dealt with this.
- ¹³ Ashton-Kane e-mailed Vickers on 6 March 2003 and Vickers added his own comments, before e-mailing Dr Grail at Central London Partnership on 7 August, after the attempt to amend the BIDs legislation failed.
- ¹⁴ In this regard, it is worth noting that Walker (2003) reports that the expert panel he convened in June 2003 did not expect more than a handful (at most seven or eight) of such BIDs to exist by 2008! almost all of these were expected to be in major city centres and rich market towns, hardly a ringing endorsement of BIDs as a tool for urban renewal.
- ¹⁵ LSPs are now mandatory in all local authority areas, under the Local Government Act 2001. They bring together all sectors to prepare and monitor Community Plans covering all aspects of social and economic life. Their effectiveness has yet to be proven.

Bibliography & References

- Ashton-Kane R (2003a) CSH letter *Oxfordshire LVT Trial* (ref. RJA-K/jo/1190307015) to the author dated 22 July 2003.
- Ashton-Kane R (2003b) Comments inserted in copy of draft BIDs Guidance, e-mailed to author 6 March 2003.
- Ashwin B (2002) Telephone conversation 30 September 2002, recorded by the author.
- Ashworth S (2002) *Central London Partnership / London First BIDs Task Force: Potential Funding Mechanism*. A briefing paper for the Task Force. London: Denton Wilde Sapte
- ATCM (2003) *Business Improvement Districts: A BID Pilot Scheme from ATCM* (details of pilots at <http://www.ukbids.org/cat.asp?cat=129> accessed 6 August 2003)
- Azar T A, Ferreira J, Abed J, & Kazzaz T (1994) "Using GIS for Estimating the Spatial Distribution of Land Values in Metropolitan Beirut" in *URISA Journal* 1994 pp805-819
- Barr R (2003) "ESRI's ArcReader" in *GI News* January/February 2003 pp61-62
- Bird R M & Slack E (2002) "Land and Property Taxation Around the World: A Review" in *Journal of Property Tax Assessment & Administration* 7:3 pp31-80
- Cahill K (2001) *Who Owns Britain?* Edinburgh: Canongate
- Central London Partnership (2003) *Briefing Note: Delivering successful BIDs – A formal role for Property Owners* (prepared for Local Government Bill, Part 4 Business Improvement Districts by an Expert Panel, 16 January 2003)
- Chen H, Rufolo A M & Dueker K (1998) "Measuring the Impact of Light Rail Systems on Single Family Home Values: An Hedonic Approach with GIS Application", in *Transportation Research Record 1617* (TRB, National Research Council, Washington DC)
- Clark Scott-Harden (2002) *Report & Valuation in respect of Land at Liverpool 3, Liverpool, Merseyside for A J M Vickers*. (commissioned for this study)
- Connellan O & Lichfield N (2000) *Land Value Taxation in Britain for the benefit of the community: proposals for legislation and practice*. Boston, MA: Lincoln Institute of Land Policy
- DETR (2000b) *Our Towns and Cities: The Future: Delivering on Urban*

Renaissance. Cm 4911 Urban White Paper. London: The Stationery Office

Devereux B J, Devereux L S, Fuller R M, Smith P M & Wilkinson P J (2000) *Resolution-E: Exploiting Earth Observation Data for Environmental Impact Assessment in an Integrated GI Framework* in Proc 12 AGI Conference, T1, 13, 1-6.

Diaz R B (1999) *Impacts of Rail Transit on Property Values*. Proc of APTA 1999 Rapid Transit Conference.

DTLR (2001a) *Strong Local Leadership – Quality Public Services* Local Government White Paper. London: The Stationery Office

DTLR (2001b) *Blair unveils BIDs - a scheme to improve local quality of life*. DTLR News Release 2001/0234 dated 24 April 2001.

Edwards, A (2001). *HM Land Registry Quinquennial Review*, London: The Stationery Office.

Gloude-mans, R. J. (2001). "Key Issues in Land Valuation" (Paper for David C Lincoln Fellowships Symposium on LVT). Boston: Lincoln Institute for Land Policy

Godden M (2003) *Land Value Tax Project* Briefing paper for Oxfordshire County Council and Vale of White Horse District Council, 19 June 2003.

Greig-Smith H (2003) "Call to include landlords in an amended BIDs bill" in *Regeneration & Renewal* 13 June 2003 p.12

Gwartney E (1999) *Estimating Land Values* paper presented at conference Arden DE <http://www.henrygeorge/ted/htm> New York: Robert Schalkenbach Foundation

Hansard (2003a) House of Lords Grand Committee proceedings for 11 June 2003

Hansard (2003b) House of Lords proceedings for 16 July 2003

Harrison A & Keith G (2002) *An Assessment of the Suitability of the National Land and Property Gazetteer for Inclusion in the Initial Acacia List of Definitive National Addresses*, Report to the Acacia Chief Executive Officer Group 6 Sep 2002.

Harrison, A. R. (1999) "The National Land Use Database: from concept to implementation" Proceedings of AGI Conference 1999; London: AGI

Holcroft C (2003) "A practical approach to OS MasterMap" in *GI News* January/February 2003 pp34-37

Hudson P R (1975) *Administrative Implications of Site Value Rating* London:

Land & Liberty Press

Miller K (2002) "Looking for Value" in *Insight* November 2002 p. 12. London: IRRV.

Mitchell S & Vickers A J M (2003) *The Land Value Effect of the Jubilee Line Extension of the London Underground* (Working Paper in preparation for Lincoln Institute)

Müller, A. (2000). *Property Taxes and Valuation in Denmark*, paper for OECD seminar Vienna.

NLUD (1999) *Provisional results for previously developed land in England*. Government Statistical Service Information Bulletin 1999/501 dated 20 May 1999.

NLUD (2002) *Statistical Release* dated 12 September 2002, available at http://www.nlud.org.uk/STATS2/Bulletin_2001/stat_release.htm

October Communications (2003) *Liverpool Businesses LVT/Smart Tax Opinion Survey* report commissioned for this research, published August 2003.

ODPM (2001) *Compulsory Purchase and Compensation: The Government's Proposals for Change*. A 'daughter' consultation document associated with the Planning Green Paper, published 12 December 2001 and on-line at www.odpm.gov.uk/stellent/groups/odpm_planning/documents/pdf/odpm_plan_pdf_605835.pdf

ODPM (2003a) *Local Government Finance Balance of Funding Review Terms of Reference* (available at <http://www.local.dtlr.gov.uk/finance/balance/terms.htm> published 23 January 2003)

ODPM (2003b) *BIDs Guidance: A Working Draft* (published January 2003, available at http://www.ukbids.org/upload/public/files/1/ODPM_BIDs_Guidance.pdf)

OS (2001) *OS MasterMap real-world object catalogue v1.0 Nov 2001*
Southampton: Ordnance Survey

Plimmer F, McCluskey W J & Connellan O (2000) *Equity and Fairness within Ad Valorem Property Taxes*. Lincoln Institute of Land Policy Working Paper WP00FP1

Raynsford N (2003) *Balance of Funding Review* Powerpoint presentation given at Local Government Association Conference 2 July 2003, published at <http://www.local.dtlr.gov.uk/finance/balance/nick.ppt> by ODPM, London

Reeves J (2003) E-mail from VOA Data Manager on 18 March 2003

Rogers, Lord R et al (1999), *Towards an Urban Renaissance* Report of the Urban Task Force, London: E&F Spon

Smith J J (2001) *Does public transit raise site values around its stops enough to pay for itself (were the value captured)?* Bibliography published on-line at <http://www.vtppi.org/smith.htm>

Thurstain-Goodwin M & Vickers A J M (2002) *Visualising Landvaluescape without a Cadastre* paper for the XXII FIG International Congress. Copenhagen: FIG

Tsai C Y (2001) "Land Taxes in Taiwan: Problems, Impacts and Reforms" *Journal of Property Tax Assessment & Administration* 6:3 (81-108)

Valuation and Lands Agency (2002) *Corporate & Business Plan 2002/3-2004/5* available at <http://www.northernireland.gov.uk/vla/pdfs/vlacorpbus.pdf>

Vickers A J M (2000a), *Preparing for Land Value Taxation in Britain* Working Paper WP00AV1, Boston MA: Lincoln Institute of Land Policy

Vickers A J M (2000b) *Questions Around The Smart Tax*. (Available on-line at <http://www.progressiveforum.info/taxbook/index.htm>)

Vickers A J M (2001a) *Site Value Rating: Is It a Viable Alternative* unpublished paper presented at IRRV Scotland conference, Glasgow, September 5, 2001

Vickers A J M (2001b) *Unlocking Geospatial Economic Patterns* unpublished paper presented at GI2001 Conference, Belfast, November 2001

Vickers A J M (2002) *Preparing to Pilot Land Value Taxation in Britain* Working Paper WP02AV1, Boston MA: Lincoln Institute of Land Policy

Vickers A J M (2003) *Draft Business Case for Smart BIDs in Liverpool* Report submitted to Liverpool City Council 14 April 2003.

Vickers T & Plimmer F (2002) *GIS: What everyone in property should know* Paper presented at RICS seminar "GIS & Valuation" 1 November 2002.

VOA (2000) Report of the 2000 Review of the Activities of the Valuation Office Agency London: The Stationery Office

VOA (2002) *The Valuation Office Agency Forward Plan 2002-2007* www.voa.gov.uk

Walker B (2003a) "Pilot BIDs fear a crash landing" in *Regeneration & Renewal* 27 June 2003, pp 16-17.

Walker B (2003b) "A Relaxed BID for business benefit" in *Regeneration &*

Renewal January 2003 p. 15.

Ward R, Guilford J, Jones B, Pratt D, & German J (2002) "Piecing Together Location: Three Studies by the Lucas County R&D Section" (in *Assessment Journal* September/October 2002 pp21-53)

Whelan J (2003a) *Land Value Taxation: Notes of Colloquium, KPMG Offices 25 October 2002* (confidential record with comments attributed to participants).

Whelan J (2003b) *Funding London's Transport Needs* Report for RICS London Region and RICS Policy Unit by GVA Grimley, published 2 April 2003.

Wilks, H M (1964) *The Rating of Site Values: Report of a Pilot Survey at Whitstable*. London: Rating and Valuation Association

Wilks, H M (1974) *The Rating of Site Values: Update of Report of Pilot Survey at Whitstable*. London: Land Institute

Wintour P (2003) "Ministers ponder tax revolution for councils" in *Guardian* 6 August 2003.

Wood N (2003) Personal E-mail to author 7 March 2003 from People Information Programme Manager, Local Government Information House, The Improvement & Development Agency.

Glossary of Terms

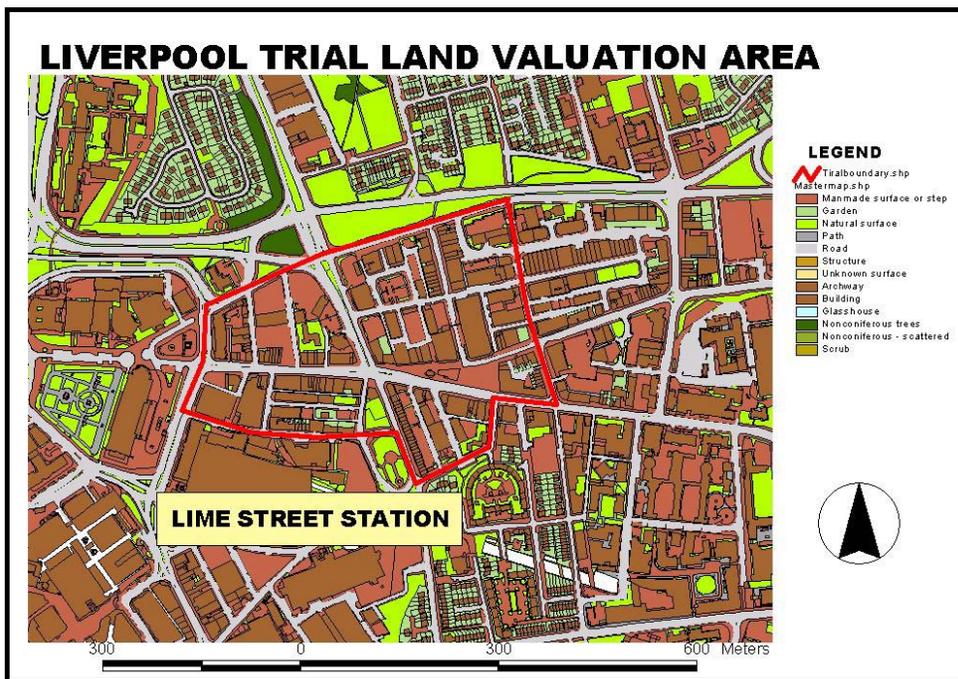
Acacia	A project involving HMLR, VOA, LGIH and their counterparts in UK, to promote the development and maintenance of definitive national datasets of addresses, streets, non-addressable properties and in due course property ownership and occupancy parcels in Britain.
AddressPoint	OS product that links postal addresses (from PAF) to its maps and is available separately or as part of MasterMap.
AGI	Association for Geographic Information, UK non-profit body for promoting better uses of map data.
AREIS	Auditor's Real Estate Information System, owned and operated by Lucas County, Ohio's Assessors Office. The model for TED.
ATCM	Association for Town Centre Management (of the UK), sponsoring the Pilot BIDs in England and Wales.
Balance of Funding Study	A joint ODPM / Treasury study, led by Minister at ODPM Nick Raynsford (hence "The Raynsford Study"), announced in January 2003, which is looking at the balance between central and local sources of funding local government in a fundamental way for the first time in over 25 years.
BID	Business Improvement District, a partnership between a local authority and a local business community that develops and takes forward a project which will benefit the trading environment and the public realm.
BPF	British Property Federation, representing owners, occupiers, investors, managers and those who trade in commercial real estate.
cadastre	A publicly held and maintained collection of records about the ownership, occupation and use of land, usually in map form. Cadastral surveyors measure land parcels rather than topographic features. The UK does not have a cadastre.
CAMA	Computer-aided mass assessment of property values for tax purposes.
CDP	Certificate of Development Potential, a device conceived for UK use in helping valuers arrive at HABU.
chunk (of data)	OS technical term for the unit in which MasterMap data is supplied, a chunk contains all RWO that fall wholly or partly within a national grid kilometre square.
CT	Council Tax, a hybrid between a property rate and a poll tax, which is the only locally controlled source of local government revenue in Britain and is levied only on residential property.
DEM	Digital Elevation Model, a computer generated three-dimensional representation of topography.

DTLR	Department of Transport, Local Government and the Regions. This UK Government Department was the successor to the Department of the Environment, Transport and Regions (DETR) and was itself replaced, as the Department with responsibility for local government finance and urban affairs, by ODPM in April 2002.
<i>e-government</i>	Electronic delivery of government services, comprising many connected projects, aimed at enabling all transactions between government and citizens to be conducted on-line. Most such transactions involve data with a locational element, hence GIS.
GIS	Geographic information system(s)
HABU	‘Highest and best use’ of land in accordance with national and planning regulations. For LVT, land should be assessed at HABU value.
hereditament	A rateable property or interest in property, each hereditament has a record in the rating lists.
HMLR	Her Majesty’s Land Registry, the custodian of registers of title to land in England & Wales and the sponsor of NLIS. The Government agency representing UK on INSPIRE, alongside OS.
IDeA	Improvement and Development Agency, providing management consultancy support to local government in England and Wales.
INSPIRE	Infrastructure for Spatial Information in Europe, a European Union project initiated in 2002 to look at integrating key national datasets in member countries, driven by environmental considerations.
IRRV	Institute of Revenues Rating and Valuation, the professional body for those working in local government finance, including valuers and most VOA staff.
land tax	Any method of raising public revenue from capturing the unearned increment of property (real estate) value can be called a ‘land tax’. There are many forms of land tax that act in quite different ways to LVT and which mostly do not require the separate valuation of land.
LandLine	OS product, predecessor to MasterMap, which does not recognise RWO as features but merely as points and lines.
LASER	Local Authorities Secure Electoral Register, a flagship <i>e-government</i> project linking citizens to their residential addresses.
LGA	Local Government Association, representing principal local authorities in England and Wales.
LGIH	Local Government Information House, a wholly owned subsidiary of IDeA, charged with being custodian to the NLPG and other local government datasets.
LLPG	Local Land and Property Gazetteer which, when combined with other forms of the NLPG

	others, forms the NLPG.
LSP	Local Strategic Partnership(s), created by the Local Government Act 2000, requiring local authorities to work within formal partnerships involving all sectors of the community within their area.
LVT (Land Value Taxation)	A method of raising public revenue by means of an annual tax on the rental value of land. When used by local government, it is usually called site value rating (SVR).
Market Value	The value that a property would fetch in open market conditions, assuming willing vendor and buyer.
MasterMap	Ordnance Survey's latest product, incorporating a wide range of datasets, including topography, imagery, administrative units, transport networks and – eventually - land parcels.
NDR	Non-Domestic Rate, so called because it is a property tax levied on commercial property only, in Great Britain. The same tax in Northern Ireland is levied on domestic property as well.
NLIS	National Land Information Service, a PFI project to create, maintain and deliver services from databases incorporating land information. Conveyancing of title to property is the first service to be delivered by NLIS, beginning in 2001.
NLPG	National Land & Property Gazetteer, an <i>e-government</i> project in Britain to create a single, central database of all land and buildings.
NLUD	National Land Use Database, a project aiming to be a framework for creating and maintaining a complete record of land use for every parcel of land in England. Currently it only holds information about previously developed urban 'brownfield' land.
ODPM	Office of the Deputy Prime Minister. Since April 2002, ODPM has been responsible for local government in England and for regional and urban policy.
OS	Ordnance Survey, the national mapping agency for Britain.
PAF	Postal Address File, owned by Royal Mail and containing all addresses to which post can be delivered.
PFI	Private Finance Initiative, sometimes known as a form of Partnership, whereby the financial risk of investment in public services is shared by government bodies with private sector partners, through long-term contracts and funding arrangements that often transfer fixed assets and control over them to private companies.
planning obligations	Financial or other contributions to local authorities that can be imposed on a developer at the time of granting planning permission.
Residual Method	A method of calculating land value, from Market Value and the cost of buildings on the property.

RICS	The Royal Institution of Chartered Surveyors, the professional body for all who work in land and property and use primarily British qualifications. RICS is consulted on all matters relating to land policy.
RWO	Real world object on an Ordnance Survey map, can include physical as well as non-physical objects.
Section 106 Agreement	A legal agreement by which a developer is required, as part of permission to develop a site, to make financial or other contributions to on- or off-site works, which are also known as ‘planning obligations’.
SGP	Special Grants Programme. A funding programme for voluntary and community organisations for projects in support of UK Government policy on urban renewal, administered by ODPM.
Smart funding	Any method of securing funds for government projects by using LVT principles.
Smart Tax	A name covering all forms of LVT.
split-rate (tax)	A form of LVT in which the total value of property (land and buildings) is split into a buildings-only and a land-only element and then different tax rates are set on each portion. Usually the tax rate on land value is higher. It can be a way of gradually introducing LVT, with the split-rate land:buildings increased until the tax on buildings is eliminated.
TED (Tax Effect Demonstrator)	A GIS designed to display Value Maps showing the effect of changes in type and level of property tax upon owners and occupiers.
TOID	Topographic identifier, a unique number assigned by OS to every RWO in MasterMap.
topographic	Of the physical landscape, not relating to legal or administrative features of geography. Not all RWO are topographic.
UBR	Uniform Business Rate: a property tax based on the notional rental value to an occupier of a hereditament. The Executive in each of England, Wales and Scotland set a uniform poundage rate every year for their whole country. UBR is sometimes called NNDR.
ValueBill	A project involving VOA, HMLR and LGIH, aimed at improving the rate of collection of NDR and CT and using NLPG and GIS.
Value Maps	Maps that portray property values.
VOA	Valuation Office Agency, a part of Inland Revenue and hence of UK Treasury. VOA’s main client is ODPM, for whom it maintains tax rolls for NDR and CT.

Appendix 1: Liverpool City Centre Maps

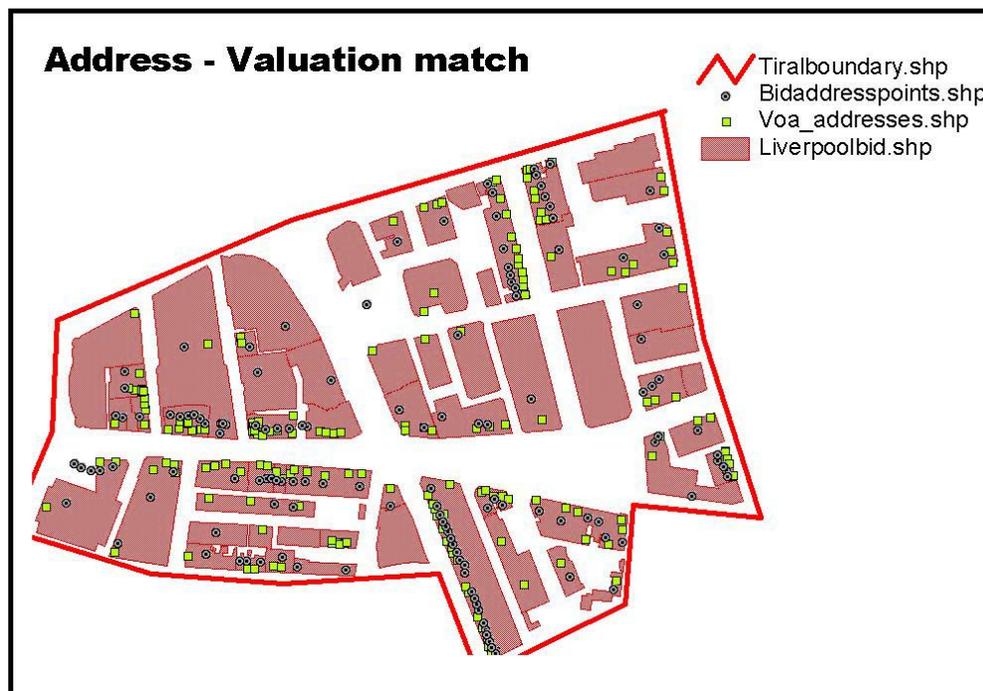


Slide taken from 'Powerpoint' presentation.

Background data is OS MasterMap, with text omitted. Graphic was created in ArcView.

This map of the trial area shows the land parcels that were valued (shaded pink, boundaries denoted by thin red lines), the OS AddressPoint records (black circles and dots) found to be within the trial area (solid red line) and VOA hereditament records digitised into TED by Geofutures for this research (green squares). It illustrates several problems caused by the data not being part of a coordinated cadastre:

- a. Some land parcel records are missing. One AddressPoint record (centre, near top) has no corresponding land parcel.
- b. Many land parcels contain several hereditaments and several postal addresses (AddressPoint records).
- c. Some postal addresses remain in AddressPoint after the building(s) they refer to have been demolished (a group at the west of the area).



Some valuation issues are illustrated in the Tax Effect Map slide from the Powerpoint demonstration below. The relative contributions of sites to the current property tax (NDR) base are shown here:

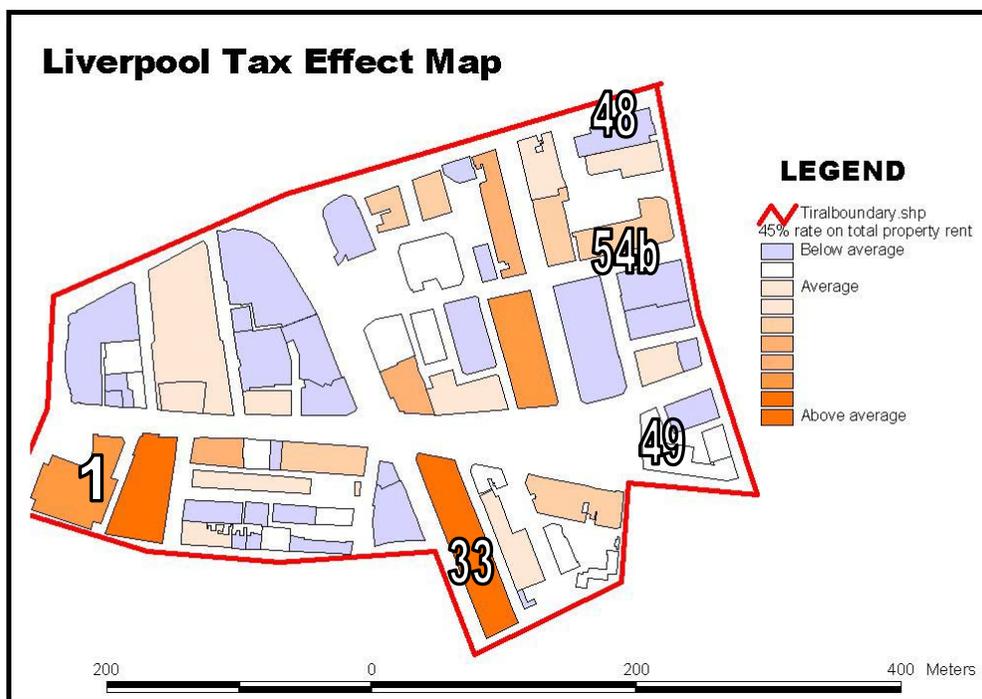
Site 1. This is a modern office block, with a high rateable value now but a much lower one according to the VOA list of Aug 2001 that was used for this research. Since then it has been redeveloped and will be contributing one of the largest amounts to the tax revenue of the area. It shows that TED and the underlying property tax assessments need to be kept up-to-date to maintain equity. If they had been, this would show similar over-contribution to...

Site 33. This is a terrace of ‘character’ under single ownership, with professional offices and ancillary commercial uses. It currently contributes a large amount through NDR to the tax revenue. Under LVT it would contribute proportionately far less, because other under-used sites would contribute more.

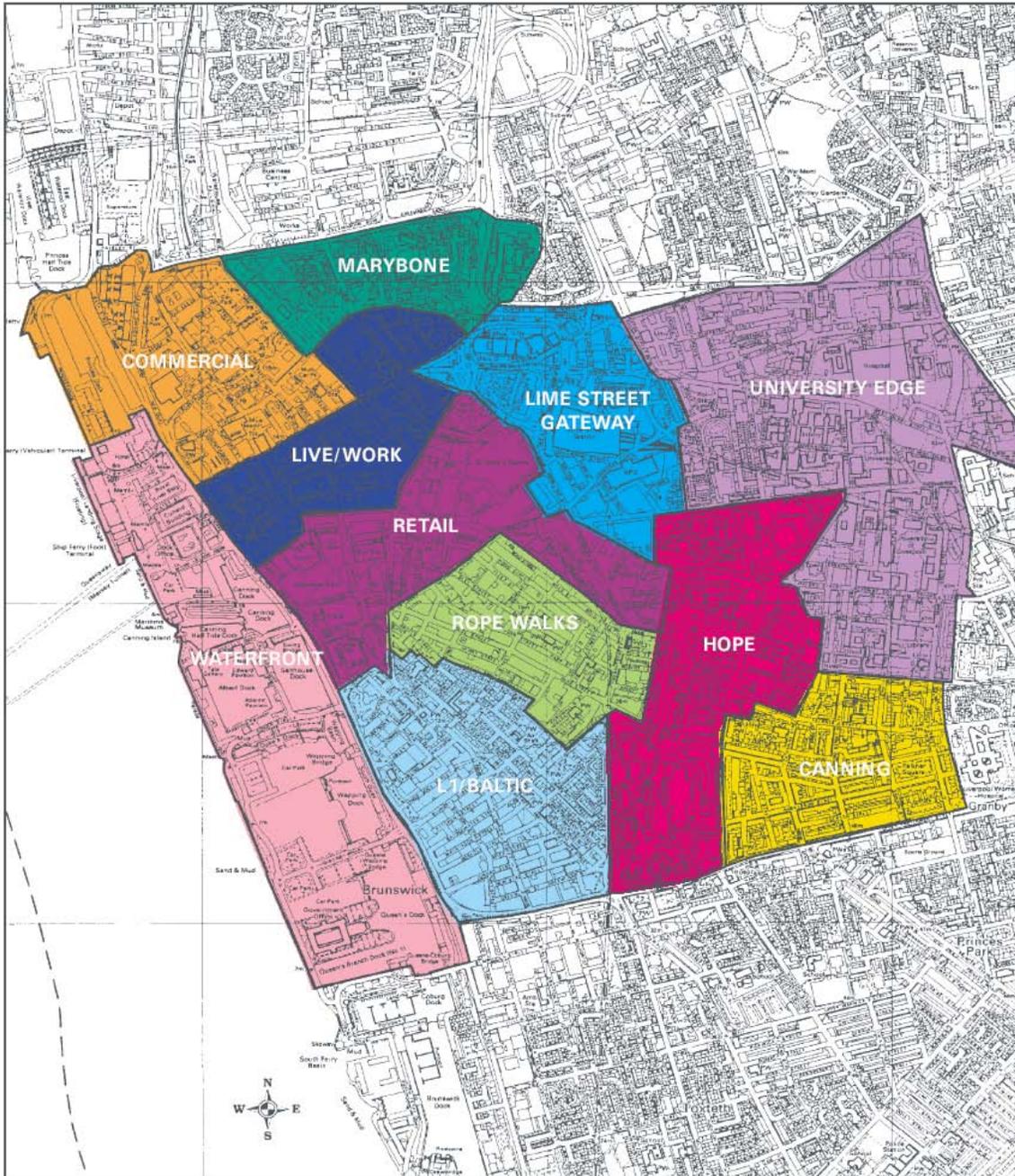
Site 49. This site has recently been developed for mixed retail and residential use. It contributes about average to the area’s NDR and its total contribution (including CT) would be little changed under LVT. On the other hand...

Site 54b. This under-used site has a fairly low rateable value and a low site value, because it is designated for light industry which will not make much profit here. Current occupiers contribute a fairly high proportion of the local tax revenue but if a higher value use was allowed and LVT introduced then this site would soon be developed, in order to earn revenue for its owner. An even worse case is...

Site 48. This is currently a surface car park, contributing very little to the tax base. Because it too is designated for light industry there is little chance of early re-development. It should be contributing much more under LVT and a sensible planned HABU.



The last map (following page) in this Appendix is from Liverpool Vision. It shows the City Centre Zones that are used by the regeneration company. Among these, the Ropewalks Zone seems to fit the criteria for a Smart BID best. The Retail zone is designated already as a pilot BID but is not suitable for a Smart BID largely because it has very little vacant or under-used land.



Scale: 1: 16,500

CITY CENTRE ZONES

This map is reproduced from Ordnance Survey Material with the permission of Ordnance Survey on behalf of the controller of Her Majesty's Stationary Office © Crown copyright. Unauthorised reproduction infringes Crown copyright and may lead to prosecution or civil proceedings.



The City of Liverpool
LA076228
2003

Appendix 2: Trial Area Valuation Methodology¹

Given that, particularly in the instances of city centre sites, there are seldom open market sales of vacant development sites, it is not practical to adopt the direct comparative method and an alternative approach must be adopted. It is a widely acknowledged practice that the valuation of development properties is carried out by adopting the “residual method”.

This approach is generally applicable to cleared sites to be developed with entirely new buildings or, as is relevant to much of the study area, the alteration of existing buildings to produce an improved product, i.e. refurbishment.

The basic premise of this approach is that:

	Proceeds of Sale of Completed Development
<i>Less</i>	Costs of Development and Profit
<i>Equals</i>	Surplus Available for Purchase of Opportunity

More specifically, the principle is that the price the purchaser pays for the development opportunity is the surplus available from the price paid after the costs of delivering the finished scheme including construction costs, fees, finance costs, marketing costs and the developer’s profit. When this methodology is broken down into its more detailed constituent parts, this shows the number of variables affecting the final result, evidencing the complexity of the approach which requires a good knowledge of not only the value, but the costs associated with the construction and delivery of the completed scheme.

In particular,

i) Proceeds of Sale

In the case of a development appraisal, as it necessitates predicting the proceeds of sale, this requires an initial valuation to determine the likely sale price of the completed development. In the case of properties such as those comprised within the study area, as these are a mixture of commercial and residential properties, two different approaches are required. In the instance of residential properties, there is evidence of capital transactions which enable a quasi-comparative approach to be adopted, by analyzing sales of comparable properties and deriving a unit value basis to apply to the planned finished units to derive a capital value for each. In the case of commercial properties, the usual approach would be to derive the rental value for each, again deduced by the application of values obtained from analysis of lettings of comparable properties. The resultant figure is then capitalized by applying a multiplier considered appropriate to reflect the likely

¹ by Robert Ashton-Kane FRICS IRRV, CSH Property Consultants

levels of risk and desired return on the investment required in the purchasing of the right to receive the rental income from the tenant, (i.e an “inverse annuity” approach)

ii) Costs of Sale

The major costs associated with the disposal of the finished development are invariably the marketing costs including the letting / selling agents’ fees, legal fees, advertising costs, promotional costs etc.

iii) Development Costs

There are three distinct sub-costs in this element, namely; a) site preparation costs, b) construction costs, and c) finance costs.

a) Seldom will a site be instantly ready for development without preparation works being undertaken. This can range from simple overburden clearance in preparation for excavating foundation trenches and sub-floor filling, to extensive contamination remediation works, sub-soil consolidation, piling, water removal etc. In addition, in the case of refurbishment, this can also necessitate the partial or entire demolition of existing buildings and the disposal of the resultant debris.

b) The estimate of the actual costs will ideally be derived by reference to a fully priced bill of quantities prepared by a Quantity Surveyor. However, as many initial development appraisals are a precursor to engaging such advisors, the valuation is invariably based on an estimate prepared by reference to the RICS Building Cost Index.

In addition, the fees associated with the involvement of consultants including architects, planning consultants quantity surveyors, project managers, engineers, M&E consultants etc need to be factored in.

c) The developer will need to make payments for the various elements of the scheme prior to receiving any income. This will need to be funded either from external lending institutions who will charge interest, or from the developer’s own finance reserves, in which case there will be the opportunity cost equivalent to the interest that would otherwise be derived from investing this money elsewhere. The cost of acquiring the land will be a “day 1” cost and the interest thereon will run from the date of the initial acquisition until the date the disposal proceeds are received, whereas the construction costs will be funded in tranches. Similarly, the principle borrowed may reduce in stages as each phase of the development is sold.

iv) Development Profits

The developer will wish to receive some form of “reward” for his entrepreneurial skills and this will be by way of building into the costs, an amount by way of payment as “profit”.

v) Surplus Available for Purchase of Opportunity

By this stage in the calculations, the net proceeds of sale have been determined which results in the calculation of the surplus available to fund the acquisition of development opportunity. This cost comprises 4 elements, namely the actual price to be paid for the land itself, the fees payable to the purchaser's professional and legal advisers, stamp duty and the interest payable (notionally or actually) on the sum needed to meet the costs of the foregoing.

In considering the valuation of land in isolation from land and buildings together, there are a number of issues that need to be taken into consideration before embarking on the mechanics of the valuation, in particular, physical issues such as site topography, load-bearing capacity of the sub-soil, drainage issues, existence of contamination, proximity to service connections etc. In addition there may be certain design criteria necessarily adopted either as a consequence of physical factors, eg piling of foundations due to poor loadbearing of subsoil or issues of site shape & layout, or political issues, such as planning conditions or highway matters. These items will all contribute to the ultimate costs of physically creating the finished product, yet will have little if any effect on the value of the completed development.

Similarly, the costs of producing the fabric of the building will vary by only a relatively small amount throughout different areas of the country, whereas the value of the completed development will be significantly different at specific locations even within a relatively small geographical area. Accordingly, one type of development might be financially viable in Manchester, whereas due to lower levels of value, the same development may not be feasible in Liverpool. Accordingly, if planning policy creates artificial requirements as to the types of development the local authority wishes to see carried out in a particular area, this can result in the most valuable use being prevented and the politically preferred use resulting in a negative land value – which logically will preclude the development taking place without artificial financial assistance.

Appendix 3: Landvaluescape Outline Demonstration

This is the task scenario or script for a demonstration of “Smart Tax” effect in a UK BID, by which the principal researcher instructed his GIS consultant in designing TED.

In the left-hand column is the scenario using Liverpool (OS) data, which Thurstain-Goodwin was asked to model. In the right-hand column is the equivalent using Lucas County AREIS data, which was used as the model for developing a UK equivalent facility. The middle column has been added for the project report and shows what this research was able to achieve with UK data. The full specification could have been achieved using AREIS data but there was no point in attempting it once it was realised that it could not yet be emulated here.

Step	Liverpool requirement	Liverpool achievement	Lucas County
1	Display Liverpool City Council area (using OS Meridian data)	Tested and found to be possible but not fully developed, as not a priority.	Display Lucas County (admin & roads only)
2	Zoom in to city centre (from Mersey to about 1 mile east)	Ditto	Zoom in to Toledo Downtown
3	Turn on OS MasterMap (parcels and buildings); turn off Meridian; keep names for reference – possibly use GetMapping air photos?	Ditto	Turn on air photos and parcels
4	Show attributes (owner, current use, site value, etc) of selected ‘parcels’ using ‘i’ tool (and table)	Achieved	Show land value (LV) & building value (BV) and areas of selected parcels
5	Define a BID area (part of trial valuation in London Road)	Achieved but demo defaults to whole area.	Define interactively any area near Downtown Toledo
6	Display current rating list values (from VOA via Focus ¹) in £ per <u>site</u> (aggregating hereditaments), then £ per sqm – vacant sites (no data) in yellow	Achieved	Display but map the ratio BV:LV, with zero BV (vacant sites) in yellow and high positive values in dark blue, low +ve in pale blue.
7	Zoom in to part of BID with concentration of yellow (vacant sites) – view air photos on top to prove vacancy	Air photos not integrated yet but known to be possible.	ditto; repeat with fully developed area (tall buildings) of dark blue

¹ Focus is the business name of Intelligent Addressing plc’s property data service. Focus supplies rating lists produced by VOA

Step	Liverpool requirement	Liverpool achievement	Lucas County
8	Calculate product (Yield = Y) of UBR within BID; then add 5% (supplementary rate yield)	Achieved	ditto using only sites with BV>0 (equates to UK UBR-payers)
9	Calculate 'value surface' for BID, using £/sqm of UBR and whole trial area – but clipping resulting surface at BID boundary – this could show more effectively how contributions to BID 'pot' vary. Layer tint in three colours: blue for >ve; red for <ve. (yellow for 0 UBR) – white areas within 1SD of mean	Not achieved because site values not collected beyond trial area.	ditto going beyond BID area for calculation but clipping at BID boundary
10	Display LVs 'raw' (from valuer's report) in £/sqm for each site – in table and on map, using blue for >ve; red for <ve	Not shown as £/sqm but a £/site, because site areas are not available.	ditto, ignoring BVs
11	Apportion Y between sites, based on LVs only (zero from UBR); display as % change in £/site (in table and view) by comparison with UBR: 'winners' in blue; 'losers' in red	Achieved	ditto – comparison with '8'
12	repeat with 'split-rate' (50% revenue from UBR; 50% from LVs); compare with '8', then with '11'	Achieved	ditto
13	calculate 'rates' that result from '12' (p/£)	Achieved	ditto
14	repeat with fixed rate of 5% on LVs, remainder of Y from UBR, show total revenue per site	Achieved	ditto
15	Produce 'landvaluescape' from '11' and "Smart BID Surface" from '14'	Not achieved	ditto

Appendix 4: Report On Legal Considerations¹

1. The allotted task is:
 - (a) to search specialist literature to compile lists, with explanatory notes, of likely areas of existing legislation that would need amending if LVT is introduced in Britain, and
 - (b) to compile a clause by clause report covering all English statute and common law that would appear to be affected by LVT, with recommendations for changes necessary to enable pilots under varying conditions and options for its implementation (to include any current legislative proposals).

This report deals with Part (a) of the allotted task.

CONSTITUTIONAL LAW

2. In this context it has to be understood that there is a significant difference between the status of UK local authorities and those in the United States. In the United States, power vests in the people and the Federal Government has certain specific powers allocated to it. All other powers are exercisable by the State or local legislature and this includes powers to raise revenue by local taxation. In the United Kingdom the position is almost exactly opposite. All power vests in the Queen in Parliament and is exercised by various authorities in accordance with the powers delegated to them by Parliament. Subordinate authorities, including local authorities, have only the powers given to them and no others.
3. The starting point for local authority powers is section 111(1) of the Local Government Act 1972 which confers a general power to *'do any thing ... which is calculated to facilitate, or is conducive or incidental to, the discharge of any of their functions'*. This general power is to qualified by section 111(3) which reads:

"A local authority shall not by virtue of this section raise money, whether by means of rates, precepts or borrowing, or lend money except in accordance with the enactments relating to those matters respectively".
4. This means that local authorities have no powers to raise revenues except in accordance with primary legislation. It follows that primary legislation in the form of an enabling act conferring the necessary powers will be necessary for even a pilot scheme to be implemented. While this presents a considerable hurdle, it has the advantage that all the necessary powers can be embodied in a single Act of Parliament. The vast array of affected legislation can simply continue in being subject to the provisions of the enabling act. This is common practice with all kinds of legislation.
5. In this context there are a number of things to note:
 - (a) Current local property taxes are the Uniform Business Rate and the Council Tax. In the collection of these, the local authority acts as an agent for central government although the precise manner in which this is done is different for each tax. CT is collected on the basis of a local assessment of the amount that needs to be raised to meet specific

¹ By Ian Mason LIB, Arden Chambers, submitted June 2002

requirements set by central government. This leaves it to the local authority to set the actual amount of tax paid by each householder. The UBR is set nationally, with very little discretion left to the local authority, which simply collects the tax and remits the proceeds to the Treasury, collecting in return a centrally set precept which aims to redistribute the proceeds of the tax from wealthier areas to poorer ones. Although there are proposals to allow local authorities to levy a supplementary rate at their own discretion, and to keep the proceeds for local expenditure, the amounts involved are negligible. If implemented, however, this proposal could provide a model for the kind of enabling legislation envisaged above.

- (b) It should also be noted that it is official government policy that there should be a uniform system of local government taxation for the UK as a whole. There are, however, significant exceptions to this in the devolution legislation, which again provides a precedent which may be useful.

PROPERTY LAW

6. The first thing to note in this context is that English property law does not distinguish between land and improvements to land. By section 205(1)(ix) (the definitions section) of the Law of Property Act 1925, 'land' includes

“land of any tenure, and mines and minerals, whether or not held apart from the surface, buildings or parts of buildings (whether the division is horizontal, vertical or made in any other way) and other corporeal hereditaments; also a manor, an advowson, and a rent or other incorporeal hereditament, and an easement, right, privilege, or benefit in, over or derived from land.”

'Corporeal hereditaments' include all the physical and tangible characteristics of the land, even extending to trees, flowers and plants. 'Incorporeal hereditaments' refer to certain intangible rights especially easements and rights of way which may belong to the owner of one piece of land but be exercisable over the land of another. As English lawyer Sir William Blackstone said, 'land' is 'a word of very extensive signification'.

7. This does not present an insuperable problem. For example, the Finance Act 1931 dealt with it by providing (section 11(1))² that:

“...the Commissioners of Inland Revenue ... shall ... cause to be ascertained ... the land value of every land unit, that is to say, the amount which the fee simple thereof with vacant possession might have been expected to realise upon a sale in the open market on the valuation date...”

It then goes on to detail various assumptions that the valuer has to make in arriving at his valuation and to exclude buildings, erections or other works of one kind or another as well as 'incumbrances' (such as leases etc.) which might otherwise affect the value of the freehold. In other words, rather than trying to re-define 'land', it simply tells the valuer what he is being asked to value.

² The section is set out in full in the Addendum to this Appendix.

Recommendation

8. It is recommended that the pilot scheme should ensure that it is very clear what precisely the valuer is expected to value so that in due course a workable description for legal purposes can be established.

REGISTRATION

9. The Land Registration Act 1925 requires any land transaction in England and Wales to be registered at the Land Registry. The register was introduced on a rolling basis which took until 1990 to complete. But much land never becomes the subject of a 'transaction' for the purposes of the Act. It is owned by trusts or corporations which do not die and therefore, unless the land is actually sold, does not attract the land registration provisions.
10. This creates two theoretical difficulties. The first is to ascertain who the owner of a particular parcel of land actually is. The second is to ascertain a description of a parcel of land within a particular ownership. How problematic this will be in practice remains to be seen. In particular, the prospect of land being sold at public auction in order to meet an unpaid land value tax is likely to flush out otherwise anonymous owners (although that may be considered a draconian provision if the level of the tax applied is relatively modest). However, there remains the problem of determining precisely what the relevant parcels are if they come to be sold.
11. This may have to depend on determining the boundaries of surrounding parcels and acting accordingly. For the purposes of a pilot scheme, it will be necessary simply to accomplish this by some sort of assessment by the valuer. Legislation for implementation of the scheme will require more detailed consideration.
12. There is no excuse for not dealing with this with considerable promptness – three years should be the absolute maximum time allowed to complete the land register, although there appears to be no practical reason why it should not be accomplished in less. It could perhaps be done by attaching a form to all income and corporation tax returns requiring all landowners to declare their freehold landholdings and whether or not their title is registered. Substantial penalties could be applied for failure to register before the next following tax return date.

Recommendation

13. Any legislation for the implementation of a land value based tax should be accompanied by, or include, legislation requiring the compulsory registration of all land titles in the UK

VALUATION

14. Land valuation is bound to be controversial and any legislation is bound to allow for appeals from the decisions of local valuers. To avoid costly litigation it will be necessary to establish a valuation authority with a final jurisdiction to make decisions. Since this is likely to require the development of a new expertise taking account of wholly new property law concepts (particularly the clear separation of land values from total property values) this should probably not be done within the existing system of Rent Assessment Panels and Lands

Tribunals. A new valuation authority will be necessary which will ultimately have to function as an appeals tribunal for all land valuations.

Recommendation

15. Early consideration should be given to the establishment, constitution and remit of a Land Valuation Tribunal to have final jurisdiction over all matters relating to land valuations for taxation purposes.

CRITICAL PATH

16. The following is an outline critical path to legislation for LVT in Britain.
 - (i) **(Year 1)** Carry out the pilot valuation to identify problems of identification and valuation of land parcels and land ownership.
 - (ii) **(Year 2)** Formulate and enact legislation to allow a pilot land value based local tax to be applied in selected local authority areas in England and Wales.
 - (iii) **(Year 2)** Formulate and enact legislation for compulsory registration of all unregistered land in the UK
 - (iv) **(Year 3-4)** Implement the pilot schemes and complete compulsory land register.
 - (v) **(Year 3-4)** Establish the Land Valuation Tribunal to deal with disputed valuations and related matters.
 - (vi) **(Year 4-5)** Formulate and enact legislation to allow for (or require) all local authorities in England and Wales to collect revenue by land value taxation.
 - (vii) **(Year 5-6)** Implement the legislation throughout England and Wales.

ADDITIONAL MATTERS

17. This report concentrates on the process of implementation of land value taxation as a means of raising local revenue. There are clear (theoretical) benefits to its use in this context. In particular, the application of the tax to all land, whether used or not, is expected to be considerable disincentive to holding land out of use for purely speculative purposes. The application of the tax to land and not to improvements is similarly likely to encourage (or at least not to discourage) landowners from improving their properties and making the best use of them. It is to be hoped that such changes would have significant regenerative effects in under-developed areas without being an active discouragement elsewhere.
18. It should not be forgotten that the real benefits of a land value based tax system can only be felt when revenue from that source begins to replace revenue from more regressive tax regimes – taxes that impinge most heavily at the margins of production where people are struggling most to make a living. Until this shift in the incidence of taxation begins to take effect the real benefits of the proposed system will not be felt.

FURTHER WORK

19. As indicated above, this report deals with Part (a) of the allotted task. Part (b) is as follows:

(b) to compile a clause by clause report covering all English statute and common law that would appear to be affected by LVT, with recommendations for changes necessary to enable pilots under varying conditions and options for its implementation (to include any current legislative proposals).

20. It will be clear from the above that such a 'clause by clause report' would have little relevance given a constitutional regime that would allow a new tax regime to be implemented *ab initio*. What is really required is to address the practical problems of legislating for implementation. It is therefore proposed that the task be amended as follows:

“to compile a report of the principal features of the legislation necessary to enable a pilot scheme for the collection of a land value tax to be implemented in the UK (to be linked where appropriate to current legislation and legislative proposals).”

21. If this is agreeable, I would be grateful for a timescale in which to complete this task.

Ian Mason
Arden Chambers
16 June 2002

Addendum to Appendix 4

FINANCE ACT 1931 (21 & 22 Geo.5.)

Part III

Land Value Tax

Charge of Tax

10. Subject to the provisions of this Part of this Act relating to exemptions, there shall, in respect of all land in Great Britain, be charged for the financial year ending the thirty-first day of March, nineteen hundred and thirty four, and for each subsequent financial year, a tax (to be called "land value tax" and hereinafter in this Part of this Act referred to as "the tax") at the rate of one penny for each pound of the land value of every land unit.

Ascertainment of Values

11. (1) Subject to the provisions of this section, the Commissioners of Inland Revenue (in this part of this Act referred to as "the Commissioners") shall, as soon as maybe after every valuation date, cause to be ascertained, as at that date, the land value of every land unit, that is to say, the amount which the fee simple thereof with vacant possession might have been expected to realize upon a sale in the open market on the valuation date upon the assumptions at that date –
 - (a) there were not upon or in the unit –
 - (i) any buildings, erections, or works, except roads, and except works executed for agricultural purposes, and except any buildings, erections, and works in so far as they are necessary for the reclamation of land or the protection thereof from flooding or for maintaining the stability of the unit;
 - (ii) anything growing on the unit except grass, and except any heather, gorse, sedge, or other natural growth, and, in the case of agricultural land, except also hedges and trees;
 - (b) The sale price had been computed without taking into account-
 - (i) the value of any minerals, as such, or the value of any wayleaves;
 - (ii) the felling value of any trees;
 - (iii) the value of any fishing or shooting rights;
 - (iv) The value of any tillages or manure, or of any improvements specified in paragraphs (20) to (27) of the First Schedule to the Agricultural Holdings Act 1923 ...
 - (c) The sale, save as hereinbefore in this section expressly provided, included all property and rights which, if the unit had been conveyed at the valuation date, would, by virtue of sub-section (1) of section sixty-two of the Law of Property Act, 1925, have been deemed to be included in the conveyance there being assumed no contrary intention expressed in the conveyance;

- (d) The unit was free of any incumbrance (not including any tithes, tithes rentcharge, or other payment in lieu of tithes) except any of the incumbrances mentioned in the first schedule to this Act.
- (2) Where at any valuation date any land unit comprises agricultural land, the Commissioners shall, in addition to ascertaining the land value of the unit, cause to be ascertained the cultivation value at that date of the agricultural land comprised therein, that is to say, what would have been the land value of agricultural land as ascertained in accordance with the last foregoing subsection if –
- (a) there had been a restriction imposed by law on the user of the agricultural land permanently prohibiting its use for any purposes other than agricultural purposes of the class or classes for which it was actually used at the valuation date; and
 - (b) it had not been assumed that there were not upon or in the unit any agricultural cottages or agricultural buildings used solely in connection with the agricultural purposes of the class or classes aforesaid.
- (3) Subject as hereinafter provided, every piece of land in separate occupation at the valuation date shall, for the purposes of this Part of this Act, be a land unit:
Provided that –
- (a) where two or more parts of a piece of land (being a piece of land in separate occupation) are at the valuation date in different ownership, every such part shall be a land unit, and any such parts shall be deemed to be in different ownership notwithstanding that they may be owned by the same person if those parts are vested in him for different estates or in different capacities:
 - (b) where any building is divided horizontally and the several divisions are at the valuation date in different separate occupations or in different ownership, none of the divisions shall be deemed to be a land unit, but the site of the building (with its curtilage) shall be a land unit, and this Part of this Act shall apply to every owner of a division as if he were an owner of that unit:
 - (b) where in the case of two or more pieces of land in different separate occupations but owned by the same owner the Commissioners are of opinion that a prudent vendor would sell pieces of land as one lot, the Commissioners may, if they think fit, treat those pieces of land as one land unit, and references in this Part of this Act to a land unit shall have effect accordingly.
- (4) The valuation of a land unit under this section shall be made upon the basis that all land not comprised in the unit (including any minerals or mineral wayleaves which are excluded from the unit by reason of their being in separate occupation or ownership) and everything thereon and therein (including circumstances preventing the obstruction of access of light and air to the unit) were the actual

circumstances at that date:

Provided that the value of a land unit shall not be deemed to be increased by reason of any other land unit being subject to any incumbrance from which that other unit would, under subsection (1) of this section, be deemed to be free for the purposes of the valuation thereof.

- (5) If the owner of a land unit furnishes to the Commissioners his estimate of the land value or of the cultivation value of the unit, the Commissioners shall consider it in making the valuation thereof.
- (6) Where the Commissioners are satisfied that at any valuation date any land unit is exempt from tax under the provisions of this Part of this Act relating to exemptions, the unit shall not be valued under this Part of this Act as at that valuation date, but if tax becomes chargeable in respect of any such land before the next subsequent valuation date, the Commissioners shall cause a valuation of the unit in respect of which tax has become chargeable to be made as at the date from which tax has become chargeable, and for the purposes of any such valuation the foregoing provisions of this section shall have effect as if references to that date were therein substituted for references to the valuation date.

Appendix 5: Report on the BIDS section of the Draft Local Government Bill¹.

1. The Draft Local Government Bill follows the White Paper “Strong Local Leadership – Quality Public Services” published in December 2001. There is a strong bias in the White Paper in favour of forging partnerships between local authorities, local businesses, the voluntary sector and local communities themselves. Much of what is proposed is intended to rationalize existing partnership arrangements and encourage new ones as well as strengthening the hand of local authorities and giving them more power to govern local affairs.

2. The BIDS proposals are an important part of this and are directed particularly at promoting partnership between authorities and local business. The Green Paper which preceded the White Paper proposed a supplementary rate for the purpose, but it appears that this was seen by many authorities primarily as a means of raising additional revenue and that the cost/benefit ratio when weighed against the problems and ‘burden’ of compulsory partnerships with business were not justified by the levels of revenue proposed. The Government therefore decided to abandon the supplementary rate and proceed with BIDS which “reflect more closely the business improvement districts which have worked so well in the United States”. The Government’s intention is to enable all district, borough and unitary councils to fund and take forward schemes that will benefit the local community, subject to the agreement of local ratepayers, and to give ratepayers more say in how their rates are used.

3. To this end it is proposed that all businesses covered by a BID will have a vote on whether or not it is introduced, and much of Part IV of the Draft Bill, which contains the BID provisions, is taken up with establishing the ground rules for voting. More on this below.

4. The scheme envisaged by the Draft Bill is to allow any billing authority to make “BID arrangements” for a “business improvement district” (c50(i)). BID arrangements are for the specific purpose of enabling projects specified in the arrangements to be carried out for the benefit of the business improvement district or those who live, work or carry on any activity in the district (c50(2)a). The projects are to be paid for, in whole or in part, by a BID levy imposed on the non-domestic ratepayers (NDRP’s), or a class of such ratepayers in the district (c50(2)b).

5. Clause 52(2) allows a number of persons other than NDRP’s to make financial contributions to the projects specified in the BID arrangements. These persons are

- (a) The billing authority itself;

¹ by Ian Mason LIB, Arden Chambers.

(b) A county council or parish council any part of whose area falls within the BID;

(c) any person authorised or required to do so in accordance with the arrangements.

6. Before examining the implications of this it should be understood that the Government's idea is to provide only the bare bones of the BID system by primary legislation. The Draft Bill is not prescriptive, merely empowering, and deliberately leaves it to the local authorities themselves to work out how to make BIDs work. It is intended to formulate 'Guidance Notes' which will be provided by the Secretary of State based on existing voluntary BID type schemes. Otherwise, a wide discretion will be left to the billing authorities.

7. It is also essential to understand that BID's will have to relate to specific projects. The sort of things the government has in mind are additional security measures such as more frequent policing, installation of CCTV cameras or litter bins, or remedial measures such as rapid response to graffiti and litter, replacing street lamps or mending pavements. Other possibilities referred to in the White Paper are local training and employment schemes or more frequent rural bus services. The important point, says the White Paper, is that both the authority and the affected business community are clear what problem they want tackled and what specific measures they want taken to deal with it. All this will have to be set out in the BID arrangements.

7. Clause 52(2)(a) and (b) simply empower the relevant authorities to make contributions in addition to the revenue raised by the BID levy. 52(2)(c), however, allows BID arrangements which involve financial contributions from persons other than NDRP's. 'Other persons' may include other affected authorities, regional development agencies or even the European Union, provided they agree. It is also specifically intended to include property owners who may not themselves be NDRP's. In relation to property owners the White Paper explains the Government's position:

“(7.32) Discussions with local government and bodies representing businesses have raised the issue of the role of property owners in BID's. Property owners take a leading role in many of the voluntary BID schemes in England. In America, the BID levy is paid by the owners, rather than by the occupiers. However, American property taxes are generally levied on ownership, while the English rating system is a tax on property occupation. Some businesses have expressed concern that limiting the BID levy to occupiers, through the rating system, would be unfair, as much of the benefit would in fact fall to property owners, as the improvements to the area would increase property values, enabling them to increase rents to occupiers. Some fear that they would pay twice for the improvements, both through the BID levy and in the longer term through higher rents, which might force some to leave the improved area for which they had paid.

“(7.33) Property owners have a key role to play in BIDs. But there are significant practical difficulties in extending a BID levy to property owners, outside the rating system. This would, in effect, be a new tax on property ownership. We therefore intend to build voluntary landlord contributions, already substantial in many existing projects, into the model for BIDs in England. This would be done through the guidance rather

than legislation. This will encourage BID partnerships to involve property owners from the start so that they can participate in the development and implementation of the BID proposals.

“(7.33) The BID proposal on which ratepayers vote will show the role of property owners, including their financial and other contributions to the scheme. If occupiers are not satisfied that landlords are making a sufficient contribution, they can vote against the proposal. This will encourage the landlords to meet the concerns of occupiers if they are both to get the benefits of the scheme.....”

8. It must be a matter of some regret that there are no compulsory powers against un-cooperative owners. One can only speculate as to the attitude of the owner of run-down or derelict property, exempt from business rates, when asked to make a voluntary contribution to improving the surroundings. The position of dissatisfied ratepayers who are anxious to improve the area is hopeless. They can either go ahead without the contribution or not go ahead at all. It is, however, clear that the government does not intend to allow “a new tax on property ownership” to enter by the back door, however beneficial or just such a scheme might be. Any proposals for amending the bill will have to take this factor into account.

9. I have been specifically asked to suggest amendments to the bill which would enable authorities to enforce contributions against recalcitrant landlords. The following suggestion should be read in the light of the government’s clearly stated opposition² to introducing a new form of property tax.

10. To enable the BID levy to be enforced against persons other than non-domestic ratepayers would require amendments to Clause 50(2)(b) and to Clause 55 so that the levy applies to non-domestic ratepayers and such other persons not being domestic ratepayers as the BID arrangements may specify” so that Clause 52(2)(b) reads:

(b) those projects to be financed (in whole or in part) by a levy (“BID levy”) imposed on the non-domestic ratepayers, or a class of such ratepayers, and³ such other persons not being domestic ratepayers as the BID arrangements may specify, in the district.

The words underlined are the changes to the existing draft.

² The Government’s attitude is further explained in the discussion of rate reliefs in Paragraph 7.40 which is set out in full at Appendix 1. Those advocating the changes proposed should be aware that the government has considered the position of property owners and already reached certain conclusions.

³ The principal researcher (Vickers) preferred ‘and’ to be replaced by ‘or’. This would mean that BIDs could decide to exempt all existing ratepayers from the whole of the BID levy, making these ‘other persons’ (i.e. property owners) pay it all.

11. The addition I would propose amend clause 55(1), which creates the liability to pay the BID levy, so that it reads as follows:

(1) BID arrangements must specify the description of non-domestic ratepayers and other persons not being domestic ratepayers in the business improvement district who are liable for BID levy for a chargeable period.

It should be noted that clause 55(3) provides that the amount of a person's liability for BID levy is to be determined in accordance with the BID arrangements.

12. As indicated above, the whole BID procedure is dependent on a ballot of the non-domestic rate-payers involved. It is extremely unlikely that the amendments proposed above would be accepted without also providing for any other persons upon whom the compulsory levy was likely to fall to have a vote in the ballot. For that reason section 58(1) will also have to be amended to allow for this. I suggest the following:

58(1) BID arrangements are not to come into force unless proposals for the arrangements ("BID proposals") are approved by a ballot of

(a) the non-domestic ratepayers, and

(b) any other persons not being non-domestic rate-payers who will be subject to BID levy under the proposed BID arrangement.

in the proposed business improvement district who are to be liable for the proposed BID levy.

13. These amendments will create a legislative framework which would allow BIDs arrangements to be used to pilot a land value based levy. Much however will depend on the regulations to be made by the Secretary of State and on the actual proposals for BID arrangements which will vary from place to place. There are no prescriptions in the Bill as to how the levy is to be calculated. I would only point out, so that they can be anticipated, not so as to pour cold water on the attempt, that there are a number of problems with using BIDs for such pilots.

- (a) All BIDs arrangements have to be linked to specific local projects.
- (b) All those subject to the levy have to be balloted on a weighted basis. The Bill leaves the weighting to "be prescribed" by regulations but the intention is that it would be based on rateable values. As we know, existing rateable values and land values may not correspond and there may be some who would object to a different basis for calculating the levy to that used for weighting the ballot.
- (c) Although there are no express limits on the amount of levy (or indeed on the number of levies to which a particular district may be subject) the amounts involved are likely to be quite small. Although the new system could provide a basis for showing that a land value based collection system is possible, it is likely to suffer from being too small to have any significant effect.

14. I have also been asked to comment on the application of the levy to unused land and on powers to reduce the levy by way of rate rebate. As far as unused land is concerned, it is likely to be exempt from the business rate, but that does not mean that it has no rateable value. Under the amendments proposed above, the owners vote in the ballot would be weighted according to the actual rateable value, although there is no reason why the arrangements should not themselves provide for the fact that no rates are being paid to affect the weighting. Without seeing quite how it is propose to operate the weighting system, it is difficult to comment further.

15. As far as reducing the levy for specified properties, this could be accounted for the BID arrangements, allowing some properties to be effectively zero rated if that was desired. I think it extremely unlikely that any BID arrangements would be permitted to impact on existing business rate system which will continue alongside it.

16. I will be happy to comment further on these last two aspects if the questions can be formulated more precisely. Please do not hesitate to come back with specific questions about any aspect of this report.

Ian Mason
10 October 2002

Addendum

White Paper – Paragraph 7.40: Rate reliefs

In their green paper responses, valuation professionals argued that the gain to the business that receives the relief will often be short lived. Most business premises are rented. At the rent review, or on a change of occupation, the landlord will take account of the rate reduction in setting the rent. Other things being equal, landlords will seek to increase the rent on properties occupied by businesses which receive rate relief. This could leave the business no better off than it was before. In effect the rate relief goes to landlords, not to businesses. The Government believes that the property market is more complex, rational and efficient than this analysis suggests. In the rent review, landlords will take a view on the return they require on their investment, on the rent that the current tenant can afford and on the rent that possible alternative tenants might be able to afford. We have tried to focus our rate reliefs on categories of business where these factors will work to reduce the ‘leakage’ of benefit from the business to the landlord. A substantial minority of properties is owner-occupied, especially in the smaller end of the scale and in rural areas. Nevertheless the Government recognises – and DTLR research confirms – that some ‘leakage’ is inevitable. As we said in the Green Paper we shall monitor closely the effectiveness of rate reliefs.

Appendix 6: Notes of Colloquium on LVT, October 25, 2002

This is an anonymised version¹ of the official record (Whelan 2003a) of a meeting held on 25 October 2002, 1030-1500hrs, at KPMG

Attendees²: Richard Butt (chair) (RB); Greg McGill (GM), David Mills (DM), Jerry Schurder (JS), Tim Wachter (TW), Jim Whelan (rapporteur) (JW), Ted Gwartney (TG), Robert Ashton Kane (RAK), Mark Thurstain-Goodwin (MTG), Tony Vickers (TV)

Apologies³: Nathaniel Lichfield, Jon Sawyer

Introductory Matters

- The purpose of the colloquium was to consider the practical implications of introducing land value taxation⁴. It was recognised that not all participants were persuaded of the case for such a tax and it was agreed that other measures for releasing capital for major infrastructure projects, should be discussed, time permitting.
- A set of headings were used to structure the discussions. These were as follows:
 - Lack of political will to introduce LVT
 - Cost of valuing all sites
 - Complex ownership patterns
 - Planning system uncertainty
 - Other measures for ‘releasing added value’

¹ The ‘official’ record associates the names of one or more participants with each ‘item’. However as a condition of publication here, it was agreed that attribution of remarks to individuals would be obscured, since it was neither the intention nor the achievement of the Colloquium to reach consensus.

² Although all attendees were leading figures in their fields (various parts of the property professions), since they were not representing anyone but themselves it was agreed not to state their affiliations in this document.

³ Owen Connellan and Frances Plimmer (both rating valuation academics) had also been invited but declined owing to prior engagements. Mssrs Lichfield and Sawyer had expected to attend but illness and urgent business, respectively, meant that they were unable to.

⁴ The colloquium was concerned predominantly with a system for taxing land value on an annual basis rather than, for example, one off taxes on betterment when land is sold. Site value rating is the most commonly discussed form of such a tax but is usually treated as local tax whereas the colloquium’s discussion was intended also to embrace the possibility of a national tax. The term land value taxation (LVT) is therefore used throughout this record of the discussion.

- It was noted that people attending did not necessarily represent their respective organisations. Views expressed were professional/personal, and intended to address the purpose of the colloquium.
- It was agreed that the meeting would operate under Chatham House rules⁵.

Item	Issue Raised
	Lack of Political Will
1	Hitherto the government had been cautious about new forms of land taxation but it seemed likely that a funding gap would open up in public finances which might lead the government to be more open-minded about new tax measures.
2	It was noted that all Mayoral candidates for London were prepared to look at LVT. Also suggested that politicians will believe what they are told by professionals to a large degree. Therefore, the call for further research into the area of LVT should be made.
3	Need for both major political parties to support LVT for it to have a chance of progress, and this needs to be in manifesto pledges. Furthermore, many key institutions and interest groups remain deeply sceptical about LVT and would need a lot of convincing. It could be counter-productive to make either landowners or developers (they are frequently indivisible) surrender more of their land value when their co-operation was vitally needed to secure and provide built infrastructure in all its forms. For this reason many were totally opposed to SVR, although some forms of taxation of land value increases, once realised, might be conceivable to finance specific infrastructure projects. Partnership and co-operation were the way forward not coercion.
4	Pilots of the LVT should be introduced, and on the basis of being fiscally neutral. Issue of whether real monies are involved or whether a ‘shadow’ system is used was raised (see Item 5, 9, 11-13, 18). Piloting in central London was considered important. It was also recognised that government financial support for such pilots would be necessary.
5	Pilots important in dealing with practical issues, such as treatment of boundaries, as demonstrated by road congestion charging in London.
6	Noted that Council Tax change was a major sea change in local taxation principles. This demonstrated that change can occur. The valuation methodology would need to be changed in introducing LVT however. It was noted that other interests might dictate the introduction of such change, such as the valuation profession.
7	Suggested that the focus should be upon the capital values of land and buildings given the difficulty of separating out these entities.
8	A new system of property taxation would, at least at first, produce additional work for property professionals, so this was unlikely to be a significant reason for opposition by the property community. It is more likely to be concerns over issues of practicality.

⁵ “Chatham House” is a well known UK Government venue for conferences where officials meet non-officials to discuss policy. There are no published rules, but the convention for such meetings is that remarks are not attributable to particular individuals in any record that may be made.

9	A cross-section of locations to pilot LVT are required. This should cover urban and rural locations, different types of urban location, geographical spread etc.
10	Ultimately the decision to introduce LVT has to be a political one, but based upon an understanding of economic realities. This means that, once such a decision is reached, the property profession can focus on ‘delivering’ a working system. Pilot schemes are not appropriate as they could effectively end up as a delaying tactic. Reference could be made instead to successful schemes elsewhere, such as in Brisbane and Orange Free State.
11	In response, it was suggested that a ‘compare and contrast’ style of piloting might be useful, backed-up as necessary by international experience. Without such UK focussed piloting, however, the success of other countries experiences may not be fully appreciated.
12	Pilots would be needed in order to demonstrate that it will work, before politicians will take it seriously. However small local pilots have limited use, since they can only involve replacement of local taxes.
13	Pilots should be in the form of ‘application’ rather than ‘demonstration’ in order to show how it could work. Phased implementation may be required, rather than a full application of LVT. Education is also important to ensure all parties are brought along, especially the public. An annual basis of valuation/application is required, rather than a 5/10 year valuation.
14	It was recognised that distinguishing between land and buildings in terms of valuations can be difficult. Thus, in theoretical terms, buildings are not worth anything without the land.
15	A key question to consider is whether LVT is to be seen as an additional tax or a replacement tax. Others commented that the Treasury were likely to see such taxes as additional sources of revenue. However its supporters always see it as a replacement.
16	LVT on vacant land may not be the key issue. It may, in fact, be derelict and under-utilised sites. This needs to be adequately dealt with in a LVT system.
17	Tax Increment Financing (TIFs) would be a simpler system to use than SVR. Using this approach additional revenue generated through UBR would be effectively fed-back to local councils and / or regional government without affecting businesses’ existing rating liability. This would at least recognise that ‘released added values’ already provide a return on public investment to either central or local government. At present the UBR system does not recognise this fact.
18	If politicians are to be convinced then evidence is needed. In practical terms, it would be useful to show how much would be paid under such a system. This requires a piloting or testing of the system in some form.
19	ODPM is preparing to carry out a Balance of Funding study. This is looking at the issue of increased financial self-sufficiency for local government, and has Treasury input. This study is looking at various funding mechanisms, and is open to the value of LVT. However, they need to be convinced of the merits of such a system.
20	Conclusions: Piloting in some form was considered to be a necessary stage to go through to convince people about LVT. This could be desk-based (national or local/regional) or a ‘real’ application. ‘Saleability’ of LVT to politicians depends on convincing the public of its benefits. To do this must be frank about its disadvantages as well. The debate needs to be open and

	<p>objective.</p> <p>Technical issues are a major factor to be dealt with, and will be critical in convincing politicians that the system can work and will be of benefit. However, this may be a self-reinforcing argument: politicians will only be convinced if the practicalities of site valuation can be demonstrated.</p>
	Cost of Valuing Sites, Valuation Process and Ownership Issues
21	Is computer-aided mass assessment possible? Site ownership details are not available for all sites and unique site reference data is not fully comprehensive. In short, the geographical information infrastructure is currently not available in the UK.
22	There is a commitment to a Full Register (of land details) by government. The Land Registry are technically capable of doing this by 2010. There are also other imperatives driving the delivery of this: the National Land and Property Gazetteer commitment by 2004; EU directive on water pollution by 2009.
23	There is a major problem with some public bodies in their lack of detailed knowledge of what they actually own. This has grown up for historical reasons, and would hinder the development of a full cadastre type system. There are also issues of market cycles and the timing of land or property sales in the public interest and general accountability.
24	It was noted that mass assessments have been carried out in many developed countries in one form or another.
25	Clarity of the definition of a site would be needed. Is it based on ownership, and if so what form? This is necessary for valuation purposes.
26	LVT valuations will have to be largely done on the basis of full but hypothetical residual valuations. This is effectively an approximation of value at any one point in time using largely 'subjective' criteria. The residual valuation approach involves incorporating both known / unknown estimated cost and income inputs plus, where appropriate, capitalisation and finance rates into the valuation, and these can be subject to frequent change as circumstances and market cycles alter. However many modern ground leased developments are based on ultimate income share on a joint share basis with no upfront capital payments or even specific figures. Ultimate shares depend on final cost and return outcomes based on complex formula: this would not fit easily with a formal tax system based on 'up-front' residual valuations.
27	Why is this a problem given the experiences of other countries? Primarily because of the scale of the enterprise and that the UK property industry is more complex with a different planning system. In addition, however, is the fact that every site is unique. Thus, two sites of the same size next to each other with identical buildings on them, could differ in valuation terms because of the topography, physical and operational constraints, differing and complex ownership rights, finance limitations (affected by market cycles) and planning constraints. There is also potential for complex and lengthy appeals. Further if subsequent property / land sales or leasing do not achieve original assessments, will 'payback' provisions be made?
28	An approach could be to use agreed 'fixed valuation assumptions'. This might include views of architect fees etc. This might have to be in the form of statutory requirements. However this could lead to considerable debate as to what are appropriate building costs / fees in different parts of the country and the varied nature of the inputs in individual cases.

	The key problem for SVR remains the subjective nature of the residual valuation, which are essentially just used as guides / estimates to development viability.
29	There is a danger that the residual valuation method – using standard assessment criteria - could result in poor design, as it could penalise a developer for putting up a ‘better’ building. However, this raises the issue of better than what? This needs to relate to the ‘best and highest’ use of the site – see comments on planning issues below.
30	The courts can be expected to provide decisions/guidance upon the interpretation of valuation matters. In the U.S. one approach used is to use the land residual to find out what land is worth, from which a building residual can be calculated.
31	The issue of ‘negative values’ was considered. From one perspective it could be stated that there is no negative land value, only ‘no value’. However, there can be problems with polluted sites and cost of remediation, which can translate into reverse premiums. This effectively generates a ‘negative value’ for a site. This was the case in the London Docklands in the 1970’s.
32	Does value have to be generated on a site specific basis, or at a broader contour level? For equity reasons it should be site-by-site, but for practicality reasons a broader approach would be better.
33	Decisions as to whether the valuation focus is Open Market Value or Potential End Use Value need to be made. If the ‘White Book’ global accounting approach is adopted, then there is likely to be more frequent open-market valuations. This has some similarity with what could be required for LVT.
34	In relation to the above point, it was argued that it was not reasonable to tax a value that could not be immediately realised, and to do so would be potentially destabilising for financial institutions. This must be a key consideration in present economic circumstances.
34a	Extreme accuracy in valuation not important: key is relative site values. Published draft assessments allow owners to question discrepancies. Initial low percent levy will keep appeal rate low. As land market heats up and changes (a result of LVT) better evidence will lead to better site valuations.
35	<p>Conclusions:</p> <p>It appears that it may be some time before enough accessible data is available to carry out mass appraisal. Therefore, the valuation route would need to be more site specific if pursued in the short-term. This would raise overall costs.</p> <p>It does appear, however, that there may be longer-term drivers that will make site data more usable.</p> <p>Site-specific residual valuations appear to be the most appropriate route, at least in the short-term. The scale of the enterprise may be reduced by incorporating agreed ‘fixed’ assumptions, and allowing courts to adjudicate, although the development sector are likely to be unhappy with this approach. The subjective nature of the residual valuation method, which is normally used as a guide and estimate, needs to be recognised and understood.</p>
	Planning Uncertainty
36	The planning system’s very flexibility was a constraint to the introduction of LVT. In other words, the system would need to be more prescriptive to allow the introduction of LVT. The government’s July statement on the reform of planning suggested that in important

	<p>respects the system could become less precise in future. Alternatively, reliance on policy statements, past planning permission approvals, and surrounding could be used to inform the type of ‘appropriate use’ for a site under valuation.</p> <p>It was noted that LVT might well replace the revenue from S106 agreements and the implications of this would need careful consideration.</p>
37	<p>Deciding the ‘highest and best use’ could be assisted by the issuing of Certificates of Development Potential from a local planning authority, or perhaps an Alternative Development Use approval. This would help provide some certainty over the type of use, without committing a local planning authority to the granting of planning permission.</p> <p>However developers / financial institutions would require planning certainty on permitted land uses i.e., similar to American zoning systems if they were to be expected to pay either LVT / SVR.</p> <p>It would be inequitable to levy tax on <u>potential</u> best use – decided by local authorities with their own financial targets, which would throw up extra high values in central areas. In addition LA’s might be forced to sell their own holdings to meet their tax liabilities.</p>
38	<p>Insight could be gained from the activities of land speculators in terms of valuing land. A degree of risk is effectively calculated by such agents in purchasing land, which could be examined to establish valuation relationships, although in the U.S. this was against a more certain planning background.</p>
39	<p>Using ‘land use allocations’ in development plans as a basis of establishing values was suggested. However, it was recognised that they often bear little relation to what is developed. In the UK land was not normally purchased with ‘hope value’ unless the prospect of planning consent was fairly good. Conditional contracts/options dependent on grant of planning consent were more usual.</p>
40	<p>The use of listed buildings value adjustments might be a mechanism for dealing with problematic sites. Land values are modified to reflect the constraints that a listed status places on the property. Whilst this might be used in some form to reflect planning uncertainty, the key issue of complex planning arguments and valuation appeals remains.</p>
41	<p>LVT should not be applied to residential property in the first instance, if it is to have any chance of introduction. However it is not clear how this would work with horizontally integrated mixed-use property.</p>
42	<p>Conclusions:</p> <p>Planning issues posed a considerable challenge to the introduction of LVT. Pilots may assist in determining the extent of such problems and how they might be overcome.</p>
	<p>Other Measures</p>
43	<p>Various other revenue generating measures exist, and are likely to be under review by the government. All, except LVT in its ‘pure’ form, deal with generating additional revenues. The most advanced, at least in terms of timing and ability to proceed, are congestion charging, TIFs and Business Improvement Districts (BIDs). BIDs could be based on the existing rating system with appropriate apportionments. The government was also still looking at the issue of planning tariffs.</p> <p>Interesting work had been carried out by CB Hillier Parker regarding various options for funding Crossrail 1 including possible UBR and LVT levies (but not SVR). The RICS had</p>

	<p>commissioned GVA Grimley to undertake a review of transport infrastructure funding for London as a whole. A report - probably to be entitled 'Funding London's Transport Needs' - is to be published in the New Year: this would include a review of current options.</p>
44	<p>Fundamental property tax reform, if implemented, would have a greater chance of success if based on gross property valuations rather than site valuations.</p> <p>Using the BID initiative might be another way to test LVT and was being discussed with government. Three proposals have been made on the BID legislation: ability to vary, not just increase the UBR; ability to make other funding methods such as LVT compulsory if approved by a vote; and allow owners a 'vote' within the BID system.</p>
	<p>Overall Conclusions</p>
45	<p>The meeting had identified a number of important practical problems that would have to be overcome if some form of LVT was to be introduced. Views varied on whether these could be resolved cost-effectively (as well as on the merits of the underlying rationale for LVT). Pilots were seen as a possible way of trying to overcome the problems, as well as of building political support. Ideally they would cover a number of areas representative of the country as a whole and, whether conducted "for real" or as essentially desk exercises, would need to show who pays/benefits</p>

Appendix 7: Questionnaire Used for 2003 Liverpool Smart Tax Survey

Note: The full report “Liverpool Businesses LVT / Smart Tax Opinion Survey” by October Communications includes a breakdown of the types of business and comment on Focus Groups held on the subject. (October Communications 2003)

Q. no	Statement	Agree strongly %	Agree slightly %	Don't know %	Disagree slightly %	Disagree strongly %
1	The establishment of BIDs is an important and positive initiative to regenerate the City Centre.	58	29.5	10	2.5	0
2	In North America, where BIDs are well established, they are normally funded by financial or tax contributions from property owners. It is right in principle that owners within the BID should help fund initiatives within the area.	20	46.5	13.5	5.5	14.5
3	The Government is currently proposing that property owners' contributions within the BID should only be voluntary. I think this is a good idea.	39.5	20.5	13.5	14	12.5
4	All businesses within the proposed BID should be required to contribute financially to activities and initiatives within the area.	10	23	15.5	22.5	29
5	Financial contributions should be based on a supplement to the existing business rate system.	8	32	20.5	14	25.5
6	Financial contributions should be based on a supplement to the existing business rate system.	17.5	42	14.5	13	13
7	Land Value Tax would be a fairer way of funding BIDs.	48.74	21.11	10.55	9.05	10.55
8	LVT should be piloted in a few BID's before Government decides to introduce it nationwide.	51.76	31.66	4.02	4.52	8.04
9	I would support a BID using LVT - a "smart BID" in my area.	35.86	27.78	23.23	4.55	8.59
10	Vacant or derelict land and buildings should be taxed on the full potential use of the site, according to the local development plan.	52.5	15.5	7.5	14.5	10
11	Land owners ought to pay a heavy tax on the windfall profit they get from planning permission.	28.14	27.14	17.59	13.07	14.07

12	A one-off tax on major property developments such as the proposed Paradise St Shopping scheme is fairer than an annual tax on land values.	17.5	22	38	18	4.5
13	Taxing land according to its market value, whether or not it was in use would encourage urban renewal.	48	30	12	3	7
14	A tax based on land values would encourage sustainable development.	36.18	32.66	23.12	1.51	6.53
15	A land value tax would be passed on by owners to occupiers so that businesses might go elsewhere.	29.5	30	27	5.5	8

Appendix 8: Promotional Leaflet on “Smart BIDs” (last revised December 2002)

Appendix 8: Promotional Leaflet on “Smart BIDs” (last revised December 2002)

Appendix 9: Liverpool “Smart BIDs” Draft Schedule of Activities

Ser'l	Description	Duration elapsed time [poss. dates]	Links to other activities	Cost (LVT-related)	Remarks (resources and constraints)
1	Define geographic area of prospective BID	1-3 months [Jun-Aug 03]	must be complete before any other starts	nil	<p>1. Ideally should be a business initiative, with LCC/Vision consulted and advising.</p> <p>2. A ‘Smart’ BID needs to have significant – but not excessive - amounts of under-used land and buildings.</p> <p>3. All other activities are to some extent size-dependent, this Plan assumes approx. 1 km.sq.</p>
2	Decide BID objectives and operations	6-12 months [Aug03-Aug04]	after 1	nil	The more ambitious and capital-intensive, the more likely to be suitable for Smart funding.
3	Create Site Schedule	2-6 months [Aug03-Jan04]	after 1	nil	To include ownership, unique property ref. nos (UPRNs), current use and site boundaries. Being done as part of LLPG anyway.
4	Site valuation of BID area	2-4 months [July-Dec04]	start after 1; can't complete until 2&3 complete	£75/site approx. or £500-£700/ha	<p>1. Iterative process. Needs to be revisited at least annually, but cost will be much less after first valuation. Cost varies greatly according to complexity of – and redevelopment ongoing in - area.</p> <p>2. All major planning decisions will affect valuations – especially ‘Activity 2’.</p>
5	Create Tax Effect Demonstrator (TED) database	1 month [Jan-May04]	start after 3; finish after 4	£2,500	Assumes OS, VOA data all available free but not at first matching well, hence cost is all GIS expertise in data cleansing and matching. One-off task, but needs to be maintained along with 3 – as part of Corporate GIS routine (say £500/yr).

Ser'l	Description	Duration elapsed time [poss. dates]	Links to other activities	Cost (LVT-related)	Remarks (resources and constraints)
6	Prepare indicative BID budget & Levy	2 months [Jul-Sep04]	after 2	-	Needs to happen before any 'Smart BID' public education can be effective. Normal part of BID process.
7	Prepare Smart BID report & briefings	1 week [Nov 04]	after 5, 6	£2,000	Should offer different mixes of NNDR and LVT and show what each occupier and owner would pay under each option. Ideally can be inter-active tool for use in meetings. Need to develop in-house LCC expertise. Initial training could cost further £2,000.
8	Prepare billing system	3 months [Aug-Oct 03]	start after 1; finish after 6 but before 7	£10,000	Rough estimate (not part of Lincoln Trial). One-off task with potential value as intellectual property. BIDs will need to have NNDR software adapted anyway: this is only the extra cost for Smart funding.
9	Run trial BID billing	1 week [Nov 03]	after 8	£1,000	At least six months before BID goes live, can use dummy site valuations and budget figures.
10	Public education	3 months [Nov04-Feb05]	after 7	£4,000	Take TED to business groups and local media before conducting vote on BID Arrangements
11	Prepare Formal BID Arrangements	4-6 months [Nov04-Apr05]	start after 7; finish after 10	nil	Need to have backing for Smart BID funding proposals before undertaking this
12	Vote on BID Budget	[Apr 05]	after 9,11	-	Must be in time to prepare and issue rate bills