

Subject: Proposal for a Rapporteur Review : A Potential Land Value Tax for London

Report to: Planning Committee

Report of: Executive Director of Secretariat

Date: 16 July 2015

This report will be considered in public

1. Summary

- 1.1 This report asks Members to agree, in principle, for Tom Copley AM to carry out a rapporteurship to investigate the potential of a Land Value Tax for London. If agreed at this meeting a detailed scoping paper will be considered at the Committee's meeting in September for formal approval.

2. Recommendations

- 2.1 **That the Committee notes the report and agrees that officers work up a proposal for a rapporteurship to investigate the potential of a Land Value Tax for London.**
- 2.2 **That the Committee agrees to consider a detailed scoping paper for formal approval at its meeting on 17 September 2015.**

3. Background

- 3.1 This paper proposes a short rapporteur review of the impact of implementing a Land Value Tax in London. The review would assess how the introduction of such a funding mechanism might encourage the best use of land in London to meet the challenges of population growth and housing need. It would also assess the impact of such a tax on bringing forward land for development.
- 3.2 The London Finance Commission was established by the Mayor in 2012 to help improve the tax and public spending arrangements for London in order to promote jobs and growth. One of the recommendations in its final report, published in May 2013, was that:
- 3.3 The Commission concluded that:

"Further assessment should be undertaken of the potential benefits and costs of new taxes such as those on undeveloped land as part of the wider reforms of property taxation that we advocate."

"Further assessment be undertaken of the potential benefits and costs of new taxes such as these as part of the wider reforms of property taxation that we advocate... However, we believe it

would be more appropriate for the Mayor and London's boroughs to develop proposals, rather than central government."

- 3.4 This rapporteur review would aim to provide the new Mayor with a balanced assessment of the potential contribution of a Land Value Tax to promote jobs and growth and a significant contribution to the Mayor's evidence base in future discussions with Government on further devolution of powers to London.

4. Issues for Consideration

What is a Land Value Tax?

- 4.1 A Land Value Tax (LVT) is an annual levy on the ownership of land. LVT in its classic form is a tax on the annual 'rental value' of all land, ignoring buildings and other developments. There are more than 700 examples of where LVT is in operation, either nationally or locally, such as Singapore, Taiwan, Australian states, cities in the USA and Scandinavia. It is distinct from 'betterment' taxes which are levied on the increase in the value of property effected by improvement and have never been introduced in the UK.
- 4.2 In the UK, the existing approach relies on three principal sources of property taxation: council tax, business rates and stamp duty. The first two taxes are imposed on occupied and developed land which may have the effect of discouraging development. The third – stamp duty – is levied on most property transactions which can have the effect of lowering mobility and reducing liquidity.
- 4.3 Another disadvantage of the existing system was pointed out by Winston Churchill more than a hundred years ago, who argued landowners should be taxed on the benefits they accrue from external developments, because these have been provided by the labour, investment and tax payments of others – often through public investment.
- 4.4 Crossrail illustrates this. Crossrail will cost £16 billion, the majority of it funded by the taxpayer. Recent reports suggest that the impact of this investment on property prices has been significant: "Property values around some Crossrail stations have surged since the east-west London line got the green light in 2008, with the fastest-rising jumping 82 per cent". However, under the current system, little of this uplift in value will be returned to the taxpayer.

Importance for the Mayor and London

- 4.5 The challenges posed by London's unprecedented recent growth are well known. London is expected to grow by a further million over the coming ten years (and a further 500,000 in the decade after).
- 4.6 The implications of this growth on the demand for new housing and the required supporting infrastructure are significant, not just in funding but also in terms of bringing forward enough land for development. Land value tax is potentially an instrument that encourages the maximum and best use of land, imposing costs on holding undeveloped land and capturing for the public purse the benefits of public investment in infrastructure.
- 4.7 The Mayor estimates the total investment in London's required infrastructure between 2016 and 2050 will reach £1.3 trillion. The costs of delivering these aspirations will be nearly twice current expenditure levels by 2025 – but with a significant public sector funding gap.
- 4.8 Currently the Mayor is relying on a range of innovative funding mechanisms to finance individual projects. For example, there is a business levy for Crossrail and the Northern line extension to

Vauxhall is being funded by levies on businesses in an Enterprise Zone from 2016, for a period of 25 years.

- 4.9 A LVT might provide more simplicity, wrapping the different levies into a single tax, and a more certain income stream to fund the infrastructure to accommodate and support London's growth.
- 4.10 It is expected that any future Mayor will wish to press Government on London's case for further devolved services and taxes (in the context of devolved powers to other parts of the country). Part of that case will be to argue for further devolution to London by presenting practical solutions to unanswered questions, including how additional powers and yield from any localised taxes might work, in terms of the roles and responsibilities of the Mayor, GLA and London Boroughs

Potential terms of reference for this review

- 4.11 The review might seek to answer the following questions:
- What are the positive and negative features of the current system of property taxation?
 - What are the cases for and against introducing a Land Value Tax in London?
 - How might a Land Value Tax operate in London?
 - What effect would this have on bringing forward land for development, particularly for housing?
 - How might this encourage the "highest and best use" of land in London?

Sources of evidence

- 4.12 Desktop research would be supplemented by detailed interviews with experts from the following sectors:
- London Finance Commission
 - GLA Devolution Working Group
 - Academics and review authors
 - Representatives of developers and land owners
 - London boroughs
- 4.13 Evidence would also be sought from overseas authorities that use LVT.

Next steps

- 4.14 It is recommended that the Committee agree, in principle, that officers work up a proposal for a rapporteurship to investigate the potential of a Land Value Tax for London. Should Members agree this first step, then officers can work on a detailed scoping paper that would be tabled for formal approval at its meeting on 17 September 2015.

5. Legal Implications

- 5.1 The Committee has the power to do what is recommended in this report.

6. Financial Implications

- 6.1 There are no direct financial implications to the GLA arising from this report.

List of appendices to this report: nil

Local Government (Access to Information) Act 1985

List of Background Papers:

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