



Review of Local Government Financing

Comhar Submission

30th September 2004

1. Context and Terms of Reference

1.1 This submission has been prepared in response to the invitation from the Department of the Environment Heritage and Local Government for submissions on the review of local government financing which is being undertaken by Indecon International Economic Consultants in association with the Institute of Local Government Studies.

1.2 The Terms of Reference for the Review include the following criteria to which the funding and spending systems should accord:

- Local accountability, decision making and flexibility,
- Equity, including ability to pay and the breadth of the revenue base,
- The polluter and user pays principle,
- Administrative simplicity and efficiency.
- Compatibility with national economic and social policies, in particular national taxation strategies, and
- Equalisation.

1.3 In addition, Comhar would like to suggest further criteria for consideration:

- Difficulty to avoid or evade
- Discouraging of political and planning corruption
- Providing information feedback re the sustainable management of natural resources and environment
- Providing information feedback on maximizing the utility and value-added of planning and investment in the built environment

2. Appraise the existing system of funding and spending

2.1 Since the launch of the local government modernisation programme in 1996 there has been an increasing focus on the need to deliver improvements in the efficiency and effectiveness of the delivery of local authority services. There is a significant challenge for local authorities to fund their enhanced role in promoting economic and social development locally while ensuring the protection and improvement of the environment. The institutional reforms at local level through the improvements in participatory structures, e.g., establishment of county and city development boards and strategic policy committees, are seen as essential for the delivery of local sustainability¹ which facilitate the participation of stakeholders in local policy and decision making.

¹ Towards Sustainable local communities – Guidelines on Local Agenda 21. Department of the Environment and Local Government, 2001

2.2 However, the sustainability agenda has to be delivered at local level with financing from a very narrow local government revenue base. Current spending is funded by either grants or subsidies from central government or by user charges. Between 1983 and 2002², rates, as a proportion of local authority income, increased from 12% to 24% (with this increasing burden falling on the business sector); over the same period, Government grants declined from 65% to 47%, and other sources, including user charges increased from 23% to 29%.

2.3 A radical new approach to funding is required. Any increases in user charges should be capped at the level of inflation and tied to delivery of performance indicators. Alternative and more equitable forms of financing local government must be explored. Options for alternative forms of local government financing would include:

- Local income tax
- Rates (land & improvements)
- Poll tax/flat charges
- Tax resources

2.5 Comhar notes that the current review will focus on the current rather than the capital financing of local government and will deal with capital funding issues only to the extent of their impact on current financing and where capital expenditure is not grant aided. The main thrust of Comhar's recommendations focus on extending the revenue base for local government through taxation on natural resources, in particular land, and therefore the wider context must be addressed.

2.6 The principle underlying all funding and spending based on natural resources (natural capital) should be that of 'equity' not 'charity'; i.e. a rights-based approach. No individual human can claim to have created natural capital by their labour and/or capital therefore natural capital is fundamentally different from other forms of private property. However, as the conscious mind of the Earth, humanity can claim a sort of common right to it. As Henry George claimed: "*The equal right of all men and women to the use of land is as clear as their equal right to breathe the air. It is a right proclaimed by the fact of their existence. For we cannot suppose that some men and women have a right to be in this world and others do not*".³

3. Tax on Natural Resources

3.1 This common right of each human being to benefit from the Earth's natural capital should be protected and respected by governments at the appropriate level. From this basic premise comes the legitimacy for natural resource taxes/rents and charges.

² Figures, from Chapter 18, in *Local Government in Ireland- Inside Out* – edited by Mark Callanan and Justin F. Keogan – IPA 2003

Equity can be attained by pro-rata taxation/rents/charges that recognize environmental limits supported by universal equal per capita allocation of benefits.⁴

3.2 Tax shift to the use of environmental resources from income, transaction, and even capital taxes should begin at local government level as that is the level of governance most directly involved in environmental resource management. There is ample scope for a net increase in particular receipts (tax buoyancy) at local level without affecting potential for economic development. In other areas, a 'tax shift' from centralized taxes on labour and transactions is appropriate.

3.3 It is useful exercise to apply the charging system for man-made informational resources that has evolved in the telecom sector, such as for broadband, to natural resource taxes. Broadband providers typically ask for three kinds of payment; -

- Connectivity charge
- Rental charge and
- User charge.

Each competing provider weighs the charges in different proportions according to the nature of the resource, to attract a particular customer segment, to benefit from their own particular strengths or to ration their capacity.

3.4 It is no different for natural resources that have different attributes calling for differing mixes of charges. So for instance, clean air is a commons to which all are already connected (or would not be alive) so a connection charge would not make much sense. Ditto a flat rental charge. In the case of a limited and vulnerable resource such as the atmosphere, use charges are more appropriate. However, in an unequal world the rich will be able to pay more than the poor and would inevitably use more than their fair share of the atmosphere's capacity to absorb GHGs. The solution is to allocate an equal ration of use rights (or emission permits) to everybody so that those who use more than their ration have to pay those who use less. This is the basis of the EBCU proposal developed by Feasta with the Global Commons Institute⁵. Naturally, a global governing institution such as the UN is indicated for such a global resource. For some others such as river

³ George, Henry, quoted in A Geolibertarian FAQ By Todd Altman
http://members.aol.com/_ht_a/tma68/geo-faq.htm#rothbard

⁴ It is not enough that men and women should vote; it is not enough that they should be theoretically equal before the law. They must have liberty to avail themselves of the opportunities and means of life; they must stand on equal terms with reference to the bounty of nature. This is the universal law. This is the lesson of the centuries. Unless its foundations be laid in justice the social structure of the United States or any other country cannot stand'. George, Henry, *Progress and Poverty*, Hogarth press London 1st published 1879, 1979 edition.

⁵ The purchase of emissions permits from under-consuming nations by over-consuming ones would not just provide an income stream for the poorer parts of the world. It would also be a means by which the rich countries would pay off their ecological debts. Feasta website: www.feasta.org or go to the document directly <http://www.feasta.org/events/debtconf/sleepwalking.htm>

catchments and carbon energy, the nation state is the appropriate governance level. But for three-quarters of all natural resources- as confirmed by Local Agenda 21 of the Rio Declaration- local government is the appropriate level for the conservation and management of natural resources.

4. Tax on land resources

4.1 In a submission to the All-Party Oireachtas Committee on the Constitution, the School of Philosophy and Economic Science recommended the introduction of a new land tax. It suggested “*a system of land value taxation, based on market valuation, where the value of the land created by the community reverts to the community, is an equitable means to finance tax needs while still adhering to the fundamental principle of property rights*”. A history of land tax in the Irish context is set out in Annex 1.

4.2 In the case of land, a natural monopoly of space, which gives access to other natural resources, all three charges; connectivity, rent, and user fees are appropriate. The natural, logical governance level to recoup land or location charges is the local. Applying this structure to current revenue sources, we see that the individual elements of a charging system are partly already in place.

Connectivity charge – Development levies

4.3 Connectivity charges are related closely to development levies provided for under Section 48 and 49 of the 2000 Planning and Development Act. These levies are based on the cost of providing connection to roads, water, drainage waste and stated services to the particular site. It is ‘connectivity’ to public services and amenities, which comprises most of the value of the land. Yet, under the 2000 Act this levy is based on a difficult to calculate ‘estimated cost’ rather than a ‘value-added’ basis.

4.4 Value-added are the basis of all private service charging and the basis, according to government, on which all public services should be provided and paid for. This anomaly should be tackled as part of local government financial reform. Value-added by planning permission, conceptualized as permission to connect to public services, is simply calculated by subtracting the value of the land without planning permissions from the value of the land with permission. Each unit of land is assessed at its bare site value, with all surrounding land taken as being in its existing condition. The valuation is based on optimum use within whatever permissions and constraints apply.⁶

4.5 New technology in computers and mapping makes it very easy to generate geographical information systems (GIS) contour maps of land values from market information of site and property transactions. Northern Ireland has just completed a

⁶ From *Options for Local Government Finance ; Proposals for the reform of local government finance in the UK*. July 2004, Law, Henry Land Value Taxation Campaign . <http://www.landvaluetax.org.uk>

complete GIS map of property values including land values for the whole province. A recent conference in Oxford, UK⁷ heard of a trial land / site value mapping of the Botley area by Tony Vickers School of Surveying Kingston University. Site value contours are used in Pennsylvania as the basis of the 'smart tax' in four cities. Site values are probably easier than any other local tax to assess and keep up to date once the base mapping has been completed.

4.6 The next question is what share of the value-added can or should the local authority recoup? Economic theory states that all of the value-added can be recouped without affecting economic growth or disincentives to investment. The Municipality of Basel, Switzerland successfully levies a 50% site value tax with the support of developers who like the certainty and clarity it brings to property valuation and planning⁸. They know that since every developer bidding for the land will have to pay the same unavoidable levy, they will bid less and land will fall in price. In other words, neither the developer nor the finished development buyers will pay the levy but the landowner- through a lower price for the land. This is a counterintuitive economic fundamental that is hard to grasp - even for economists. Tom Dunne of the Dublin Institute of Technology sets out clearly why this is so in his paper to the All-Party Oireachtas Committee on the Constitution.⁹ The final equation informing the optimum percentage of the value-added under the development levy is a function of what other land rents and / or the user charges are also being levied at the time.

4.7 Critics may argue that the value-added to land by the connectivity of planning permission includes investment by central government such as public transport nodes, motorways, schools, and hospitals not just investment by local authorities. Section 48 and 49 does not allow all such investment to be considered when assessing charges. For instance, schools of all kinds are excluded. We accept this criticism. The section should be amended to include recouping a portion of all value-added by *all investment*; - that created by central government investment but also that created by third parties in the private sector. A new shopping centre adds value to neighbouring sites for instance.

4.8 The legitimacy of site/land value taxes of all kinds rests in part on the distribution of the receipts on as fair a basis as possible. Central government could pool their share of the funds and redistribute them to redress imbalances in revenue between wealthy and poorer authorities. In particular, there is a compelling case for distributing a portion of development levy revenue generated by infrastructure investment made under the National Spatial Strategy (NSS) such as rail and road transport links, 3rd level institutions and medical facilities etc, to central government for redistribution where needed. Under

⁷ Towards Land Value Taxation for Local Government, 16th September 2004, Oxford – organised by, inter alia, Oxfordshire County Council and the RICS.

⁸ Presentation by Basil City authorities, RIAI Conference October, 2003, Basel Switzerland

⁹ Tom Dunne, Submission to the All Party Oireachtas Committee on the Constitution, 30 May 2003.

the current system, towns that are lucky enough to be designated as hubs and gateways will receive the lion's share of infrastructure investment and public development. Their residents and landowners will gain not only the benefit of better services and shorter travel times, but also the rise in land values that will inevitably attach to their property. It seems only fair that some of this value should be recouped through development levies and other land value taxes and used to help the towns and villages that missed out. It is estimated that development levies could bring in revenue of €2.4 billion per annum¹⁰.

Rental charge: Zoning levy / Smart taxes / Second home LVT / Residential LVT / Farm LVT

4.9 The connectivity charge can be conceived as the capitalization of an annual land value rent or tax. Ideally an annual rental charge should be levied on all land such that all the value-added by the community is remitted to the community. If that were so then there would be no need for any other charges or taxes – a 'single tax' was Henry George's great aim. But we live in a historically constructed, contingent world where radical fiscal change would be very disruptive. The adage that 'old taxes are good taxes' has much truth. Polanyi warns against ideological imperatives that discount short-term damage and suffering "If the immediate effect is deleterious, then, until proof to the contrary, the final effects is deleterious."¹¹

4.10 A worthy goal should not prevent us from making immediate, practical and useful changes where they fall short of the final solution. Furthermore, as we shall see, there are advantages to collecting the 'land rent' in different guises such as a capitalized levy and user charges such as being able to respond to localized rapid growth or to reduce consumption of resources to within their natural carrying capacity.

Zoning levy

4.11 A practical and politically acceptable route to introducing a rental charge would be when land is freshly zoned as under a Development or Area plan. Zoning declares that planning permission for the appropriate development will be considered favorably and the greatest addition to the value of the land occurs at that point. There is growing political appetite for an annual rent/levy on zoned land as a way of stimulating prompt development or sale.

4.12 Local authorities routinely over-zone land for redevelopment in order to 'create a market' in land. This is particularly evident in the Action Plans for smaller towns where because of scale, the optimum land for development over the next five years, is often in single or at most a few owners control. There is already a provision for a zoning levy in the 2000 Act under Strategic Development Zones. This section could be amended to

¹⁰ 80,000 dwellings per annum at an average price of €100,000 per house and levy at 30% produces €2.4 billion

¹¹ Page 40, Polanyi, Karl, *The Great Transformation*, Beacon press Books 2001 (1st published 1944)

allow for an annual zoning levy on all zoned land. This levy/rent should be based on the 'value-added' by permission - as for the development levy- but annualized at a fraction of the total. It could be levied annually in a range of 1-10% of the value-added of planning permission. Again, site value contour maps derived from market transactions of similar land or residual calculations of property sales will provide an assessment base.

4.13 It is reasonable that the zoning levy would go towards the eventual payment of the development levy i.e. the development levy would be reduced by the amount paid under the zoning level. The zoning levy would act then as a cash flow or holding cost burden on the landowner/developer not as an extra capital cost. The zoning levy would be, none the less, very effective for that as the land would not be generating much by way of income under agricultural use.¹² The increase of land coming onto the market will reduce house prices, as supply will better meet demand. The actual percentage of value - added of the zoning levies is a political decision for each local authority that should be informed by the market in development land. Zoning levies should be increased where there is a surfeit of zoned land not being developed or offered for sale in a context of local rising house prices.

4.14 It is likely that many landowners will ask their land to be de-zoned when faced with a levy. If the land is not prime i.e. well located in relation to roads, drainage, and other services and needed for development within the period of the Development Plan, the request should be positively considered. But the landowner should be given no expectation that his land would be zoned again later. Over time, *zoning levies* will produce higher densities and less wasteful layouts resulting in less agricultural land-take and more compact settlements.

4.15 Some landowners may never wish to develop their lands for personal, ecological or historical reasons. In that case, if the land is not critical to the coherent and sustainable development of the area, the zoning levy could be foregone. But the owner must also forego all future development rights in favour of the local authority or other local trust. In the US, where planning control is limited and land/ property taxes enforced, Land Trusts buy future development rights from dedicated traditional farmers so that farming can continue in high land value areas near towns.

4.16 Community Land Trusts could play a somewhat similar role in Ireland; conserving land from development and managing important habitats or historic landscapes for the benefit of the local community and local environment.

¹² One argument for a wealth tax (in this case as a possible replacement for income tax) has frequently surfaced in relation to land. If land is left idle or not utilised to its potential, the user attracts no penalty under an income tax. Under a tax applying to the capital value of the land, however, there is an incentive to use the land productively. (P 86 Bristow)

4.17 Rural areas that are poorly serviced with good transport links and services would pay a lower *development levy* than towns and cities that have high site values because of their convenience to services and amenities. This is inherently and automatically fairer than the inflexible current system, which has produced a bewildering array of levies for different situations under each local authority that will nevertheless generate anomalies. This system of assessment also works for sites that have been developed already with existing buildings. If the value-added to the site with a new planning permission for a new use or intensification of an existing use is greater than its value in its current use, then it is likely a *development levy* would be due. However, for most planning permission for simple extensions or improvements to buildings, the levy would not be triggered, as the increase in value in the property would be due entirely to the building works.

4.18 Probably the greatest advantage of a value-added levy system is that it would provide essential information to the local authority, through the land and property market, about the effectiveness of their infrastructure and development decisions. Good planning and well-timed infrastructure and amenities investment would be reflected in higher land values. Levy payers would be happier (no one is completely happy to pay tax) to pay when they see that high value-added by local authorities is reflected in their sales prices. Some local authorities will opt for low levies and consequently low infrastructure investment- others the opposite. It would not take long before feedback will emerge indicating what percentage of value -added is optimum and which local authorities are most successful in creating value for both themselves and their residents. It should be self-evident that the central state grant should not make up the shortfall of investment in low levy councils for this balancing mechanism to operate.

4.19 With an effective zoning levy in place, planners would be free to zone only such land as is optimal for village or town expansion. Landowners would immediately cease their lobbying for designation unless they truly intend to develop immediately. The numbers of ‘planning consultant’s, auctioneers, and solicitors putting themselves forward for local election might well see a precipitous decline. Corruption in the planning system of local government would be immensely discouraged and consideration could confidently be given to expanding its realm of powers and functions.

Smart taxes or dual commercial rating

4.20 The next reform that is necessary to be consistent with our new structure is the reform of commercial rates. Commercial rates have grown to a significant percentage of local government expenditure. As the cost has grown for business, the criticism of aspects of the rating system as grown in parallel. It is perceived as arbitrary and unfair. This arises from the fact that so many other building users are exempt; - not only domestic dwellings but residential investment properties, public property, property occupied by charities and much vacant property.

4.21 As households pay neither rates nor water charges then the vast majority of this revenue was generated from the business sector which accounts for less than 10% of the properties and less than 15% of the water connections. The business sector points to disproportionate burden given that user charges on business rose by €650 million from 1996 to 2002 while there has been no corresponding increase in the level of engagement with the business sector.

4.22 Local authorities have discretion in whether to levy rates for vacant premises and it appears that they frequently remit entirely them rural areas. Service charges for water and waste collection are also higher for commercial users and are seen predictably, as double taxation.

4.23 A further fundamental bone of contention is that tenants and owners who maintain and improve their property find their rates increased while their negligent neighbours have theirs reduced. The eventual result of this penalization of investment and enterprise is derelict sites and underused properties often in central areas of our cities and towns. The government's response to stimulate development was special tax incentives of generous capital allowances and double rates relief. This cost the taxpayer hundreds of millions in taxes foregone and its effectiveness in stimulating investment that would not have occurred anyway is now, rightly, in question.¹³

4.24 In Pennsylvania US, the response to the same problem of underused and dereliction was the 'smart tax' or 'dual rate tax'. This local tax gradually increased the portion of local property taxes that fell on the site and decreased it on the portion that fell on the building. Thus, at the end of a set period, all local taxes were calculated solely on the value of the site or land under the property. The towns and cities that operate the 'smart tax' have decreased dereliction, booming business districts, higher tax receipts, and happier taxpayers. The city of Philadelphia is now debating whether to make this change following a campaign led by local businesses and homeowners. The same transition to site value taxes from rates on property should be undertaken in Ireland.

Site value tax (LVT) on public and charitable property

4.25 The next reform is to broaden the rate base to cover all public property, which may already be under active consideration by the government. Rates, even in their current imperfect form, are a good mechanism to ensure property resources are used efficiently; and public bodies are probably more at fault than private for 'wasting' their property assets. Although local site value tax receipts on local authority property would return to

¹³ It is not known how much revenue is foregone as a result of the accelerated depreciation granted to certain types of construction. What can be said is that there is no evidence that these concessionary schemes of carpark, tourist accommodation, town centres, amongst others) provide any benefit to anyone other than those who are able to avail of them... If this is so, these concessions are simply subsidies to certain developers with no quid pro quo for society. (P 119, Bristow)

the levying body, it would act as an invaluable indicator for more realistic internal accounting and more efficient property administration. Similarly, local taxes should be levied on not-for-profits and charities, some of which have very large property portfolios. It has to be recognized that underused sites and derelict and badly maintained properties are both a direct cost in terms of discouraging adjacent development and investment and an indirect opportunity cost on the local community - no matter who owns them.

Second home land value tax (LVT)

4.26 Other exemptions to local taxes which are obviously unfair and for which there is considerable support for change are some of the exemptions for residential uses. The reasoning for the exemption of residential property from rates in 1978 was that the owners or their tenants already paid for services through their income taxes. That might have been largely true at the time but it is not true now. Many people now own more than their principal dwelling. Recent research threw up the astonishing fact that a full one third of all housing units built over the last five years are second or replacement dwellings. This means that a substantial number of houses and flats are not occupied on a continuous basis- they are holiday houses in rural areas or pied-a- terres in the city.

4.27 Some rural counties have very high numbers of these semi-empty properties, which enjoy equal connection to local services but give no return to the local economy in terms of spending power. Many of these second homes are in areas of high scenic amenity where young locals have been priced out of the market. Broad agreement could be easily generated to require those who enjoy the privilege of a second home to contribute to the local community through a local tax. For convenience of assessing and for the other reasons put forward of efficiency and fairness this tax should be based on site value.

Farm LVT

4.28 Rates on farms were abolished following a legal challenge to the basis of the valuation of the land and buildings. As domestic rates had just been abolished to popular acclaim there was no political support for a proper valuation of land to put farm rates on a sound footing. We know far more now of the costs of this omission. It should be seriously considered again in the light of the high costs of collection and low returns of income tax from farmers (an average €1,300 per farmer) and the low turnover and high price of farmland. High land costs prevent entry of new farmers with energy, imagination and appreciation of a rural lifestyle. Organic, low energy and diversified farming supplemented by other rural enterprises including renewable energy generation is the model showing most sustainability given the end of cheap oil. Both the traditional family farmer and the green 'downshifter' fit this model and both would be supported by an appropriate tax system based on the quality of the land.

4.29 Years of research by Teagasc on land quality, combined with data generated by Coillte, Bord na Mona, the Heritage Council etc could be inputted into GIS maps to

update the original Griffith's farmland valuation. Buildings would not be valued as in the reformed commercial and residential LVT. A *farm LVT* should be offered at first, as an option to the accounts and income tax system. No further tax should be levied on the farming enterprise if the farm LVT option is taken. Many farmers would happily opt for a farm LVT. When the bugs are ironed out and its fairness is evident to all, it should be applied to all farmland. This would favour genuinely efficient farmers with low external inputs and help reduce the price of farmland to allow new entrants and competition on an equal basis.

4.30 A *farm LVT* would also provide a framework for a new legitimacy for EU payments to farmers with 'de-coupling' from production. The community could see that it was getting a portion of the value of the payments with the farmer's primary role changing from that of food producer to steward or custodian of the land on their behalf. There is a danger that with decoupling production will decline – a LVT will provide an incentive to keep production going and it will reward farmers who are efficient producers; it will also prevent decoupled payments becoming a subsidy to purchase land and inflate prices further.

4.31 A *Farm LVT* on farmland would also provide a fair framework for restrictions on use under environmental conservation designations. Farmland comprising high scenic views and/or with bio-diversity under use restrictions gives a lesser use value to the private owner but a higher use value to the community. Therefore the *farm LVT* paid by the owner to the community should be substantially reduced if not relieved altogether. Under this scenario, farmers would actively care for the environment and some landowners might even campaign to have their area designated.

Land value tax (LVT) on all residential dwellings

4.32 Undoing the damage to local government finance, democracy, and effectiveness of the 1978 abolition of local taxes on residential property is an absolutely necessary but delicate task. To succeed, it must be made completely clear at the outset that what is proposed is NOT an extra tax but a TAX SHIFT from income and other counterproductive and unfair taxes. In this respect, the tax reform outlined here will not generate a net gain to public revenue as a whole but represents a redirection of taxes from the central exchequer to those of local authorities. It should be attempted only when the other reforms listed above of the *development levy*, the *smart commercial tax* and *second home tax* have been carried out and their benefits have clearly been felt. When the benefits are felt, the intrinsic equity and efficiency of taxes on land and other natural resource will be much more easily understood.

In Ireland, one of the reasons why it is expensive to buy a house is that it is cheap to own one, there being no property taxes (rates) on residences and the exchequer (or, rather, taxpayers who do not have a mortgage) pays some of the interest

relief. This subsidized ownership raises the demand for housing, to the benefit of builders, landowners and mortgage lenders. (P 118, Bristow)¹⁴

4.33 Introduction of the residential land value tax (LVT) should be carefully managed in stages. LVT should be introduced in such manner that it is revenue neutral. One option would be that all existing homeowners would have a 100% credit against income tax for payment of LVT. In other words the taxpayer's income tax bill would be reduced by the amount he or she pays in site value tax so no extra tax is paid over an above what is paid at present. There should be research on all the options for introducing LVT on a revenue neutral basis. Assuming 1.5 million houses at an average of €100,000 per house, a levy of 1% would produce a revenue of €1.5 billion per year.

4.34 One section of the population will be negatively affected by the LVT are senior citizens dependant on fixed incomes. In many cases, senior citizens live in large valuable houses but have modest pensions. The LVT will act to persuade older people to trade down to housing with better fit to their reducing incomes and will free up larger houses for growing families. But this general social benefit is not so great that we should overlook the personal hardship it could cause for older citizens. A derogation for the very old – over 80 years- and infirm is called for in the early years of the measure so that people are given plenty of time to plan their affairs when they are fit and well. Secondly, the LVT payment could be postponed to add up as a charge on the property when it is sold or transferred in inheritance.

4.35 The effect of the LVT will be to restrain and then gradually reduce the price of housing. It will be easier for new entrants to the market to buy a house of their own because their deposit and their borrowing commitment will be less. Income taxes should be reduced as LVT receipts kick in and this reduction of the cost of labour should stimulate job creation. On the other hand, property will become less attractive as an investment because the owner will no longer benefit from unearned rises in land values. This is a good thing as Irish people rely dangerously on property for their future pensions and would be better served by diversifying into pensions and company shares, especially capital in renewable energy.

4.36 The local authority should raise the LVT to remove any further increase in land values following careful examination of market information. Increases in the cost of building because of inflation in labour or energy costs should not be taxed. It is an easy matter for a skilled quantity surveyor to extract the cost of the building and site from the overall value of the property.

¹⁴ Bristow, J, Taxation in Ireland : An Economist Perspective, 2004, Institute of Public Administration, Dublin, ISBN No. 1904541054

4.37 A fall in house values is very likely whether or not LVTs are introduced, as the market is very vulnerable at present to external economic shocks. The rising oil and gas prices due to oil peak and Middle East political turmoil is such a likely shock. Increased costs, reduced sales, and profits will bring lower salaries and redundancies affecting housing demand and prices will drop. Without LVT on zoned land, rather than accept lower profits, development landowners would simply withdraw land from the market; developers would stop building, which would further reduce employment in the construction sector and hasten a dangerous depression. The annual housing need of approximately 55,000 units per annum does not reduce however, as it is based on demographics of household formation - but it would not be met. Homelessness would compound joblessness. LVTs will ensure that that housing need is met at all times as it imposes considerable holding costs on ripe development land. Development landowners would be forced to sell at the lower price – a price that people can pay. Construction activity would continue and depression averted.

4.38 It is essentially *progressive tax* in that those with valuable large sites will have to pay more than those whose house is on modest sites. Apartment owners will pay considerably less under a site value tax regime than house owners will as their site is shared with a number of other apartments. Well-located city householders will pay more than remote village householders will even if they have similar sized houses. The age and condition of buildings would not have to be assessed.

4.39 It is an *easily assessed* and updated tax- once the initial site value contour maps has been prepared. As outlined earlier, new GIS technology has transformed site valuation exercises to make it perhaps the easiest and most transparent taxation basis currently available. A whole profession of ‘Valuation Surveyors’ already exists well capable of the work.

4.40 It is an *unavoidable* tax. Site owners cannot up and remove their site to the Caymen islands. It is a tax on location – or a rent for access to public and private infrastructure, services, and amenities. Progressive Income taxes can act to discourage investment; - this is an unfortunate fact that should be faced by social reformers. Governments therefore, keep high tax rates low and provide tax reliefs for various kinds of activities it sees as socially beneficial- pensions for instance or urban renewal as discussed before. The sum total of these reliefs is that the high earners pay a far lower percentage of their earnings on average even the tax bands would indicate. Poorer people cannot take advantage of tax reliefs and exemptions because they need all of their income for day-to-day living. However, LVT brings land into production rather than discourages it so there is no reason not to levy at high rate or to give special exemptions. This is what make it fair despite the fact is has no regard to income.

4.41 A residential LVT *reduces the use charges* for water and waste. This is because much of the capital cost of providing water and waste services would be covered by the LVT and therefore would be borne by a much greater extent than use charges alone, by the propertied classes. Use charges then would simply ration the resources within their sustainable limits; - see more below.

5. Tax on other resources - user charges: water and waste

5.1 As explained earlier, user charges are an essential part of a package to recoup value-added by publicly provided infrastructure and to share natural resources fairly and sustainably. Telecom service providers charge user fees when there is a limit to the capacity of the system in order to allocate the capacity efficiently and to prevent the system breaking down. Ditto for natural resources such as the capacity of the earth to absorb wastes in the air or on land, in fresh water and sea. But where it is reasonable for telecom providers to let ability to pay to determine use of the telecom resources and for local authorities to allocate road space through congestion charges or public transport through ticket sales, it is not reasonable to rely on such a crude system to allocate essential life support resources.

5.2 Every human being has an equal free right to a sustainable quota of such resources. In the case of Irish citizen using national resources, this translates into a free quota of water and waste services. This does not equate to absolutely free services as once one's fair quota is used up, further use takes from the quota of others already living or yet to be born. It is unfortunately true that we currently use far more than our sustainable and fair quota of natural resources; it is certainly so in the case of the capacity of the earth to absorb waste. It will take some time to reduce to sustainable levels as our entire industrial society is premised on regarding limited natural resources as income and environmental pollution as an externality. The adjustment should not be borne only by consumers but it should be borne equally, if not more so, by producers.

5.3 A start should be made with setting an annual quota for water and waste for every citizen based on what is achievable by a careful family of modest means. All users should pay at the same commercial "polluter pays" rate. There should be charges for use over the quota or extra quota should have to be bought. There should be charges for use over quota. The free water quota would contract if, or when, it becomes technically feasible for water users to conserve water. The free waste quota would be reduced in line with social changes towards sustainability.

6. Part V Planning Act Reforms

6.1 Society through the state accepts that access to essential natural resources and services are a fundamental right of every citizen. It is costly to provide many of these services to remote rural areas but society, recognizing the need for agricultural production

and environmental stewardship, has always been willing to absorb the extra costs. So for instance, local authorities provide water schemes and waste treatment and government agencies provide free school buses, subsidized postal services, social and health services to remote farm families. However, the quid pro quo is altered where the remote dwelling residents do not provide a service to the community but still expect their services to be subsidized by the general tax payer – typically living in compact town settlements. Many of the 30% plus one-off houses being built annually in the open countryside fall under this category of free riders within the system.

6.2 One-off houses benefit from a further free ride in that they are not required to contribute to social housing and cohesion under Part V of the 2000 Planning Act. This requires that housing development landowners pass approximately on average 15% of the value of their land in kind or in cash to the local authority to help it provide affordable and social housing. However, it only applies to sites containing five or more houses so by definition one-off houses are exempt. The loss of Part V to a local authority is very significant in many rural counties where single one-off housing may constitute up to 70% of all housing developments. There can be no explanation for the exception made for rural housing except that it conforms to historical precedence described earlier, to favour rural landowners over their urban brethren.

6.3 Free riders fundamentally threaten the system itself as studies show that other contributing participants will refuse to participate within a system, even where they suffer personally, to punish free riders. Ireland is no longer a predominately rural, farming electorate and the continuance of such blatantly unfair and discriminatory policies has the potential to undermine the planning system itself. The discrepancy in how the aspiring house owner in rural areas is treated under planning and fiscal policy compared to urban aspiring house owner will not be fully redressed under the residential LVT proposed above and further reform is necessary. For starters, all housing should come under Part V. Secondly, the extra-over costs of providing services to remote non-farming residents should be capitalized and charged up front as an additional contribution. Thirdly, the extra over social exclusion costs that the remote dweller imposes on village, town and city dwellers should be reflected in a higher charge. As a general guide, we recommend that remote, non farming house builders should make at least a 30% contribution under Part V; - this is additional to the *development levy*.

Annex 1

Land taxation – the historical context

There is a lack of clarity in the discourse about financing local government arising from the absence of a theoretical structure in which to frame an approach. Historical research suggests that the legacy of the largely unfinished business of the ‘land question’ may partly lie behind this obfuscation. W. E. Vaughan discusses the exclusive focus on ownership and possession to the almost universal neglect of discussion on the *nature* of ownership and how rights and responsibilities and revenues from it might be most efficiently and equitably assigned.¹⁵ The land struggle started out promisingly enough in the 1880s with a clear mandate for the three Fs of Fair rent, Fixity of tenure and Free sale of tenant improvements or tenant right. This provided an excellent structure with which to understand the dynamics of property in land. Michael Davitt of the Land League had a clear vision of what legislative and fiscal changes were needed for peace and prosperity which he shared with his supporter and ally, Henry George, the American social and economic reformer.

*I would abolish land monopoly by simply taxing all land, exclusive of improvements, up to its full value...In other words, I would recognize private property in the results of labour, and not in land.*¹⁶

Others leaders were less clear however, and in the tumult of the land war, the subtleties of the three Fs were lost in the clamour for the ‘right to buy’; the redistribution of land from the landlords to the tenant farmer. Ownership became the single issue and re-balancing of the bundle of rights and responsibilities pertaining to land amongst all interested stakeholders were forgotten.¹⁷

The land question and the history of its ‘resolution’ particularly any critical examination of the winners and losers is still very sensitive politically. Some commentators hold that it is the root of Unionist opposition to the new Irish Republic and the conflict to this

¹⁵ Because of the well established obsession with landlord–tenant relations, and the events of 1879-82, the whole issue of Irish land came to be viewed exclusively in terms of ownership and occupation. Against the drama of evictions and agrarian crime, the minutiae of agricultural improvement and rural organization seemed dull; against the contending claims of landlords and tenants, the claims of other groups – landless labourers, taxpayers, and city people who wanted access to land seemed less pressing. As a result, when landlordism was abolished, it was replaced by a highly private system of ownership. Public control was limited to the modestly exercised powers of the Land Commission; the landlords as centres of power were not replaced; farming became confined to those who inherited land, with some exceptions; physical access, even to stretches of beach, became a matter of private arrangement. Thus, despite the Land League’s campaign, the ‘land for the people’ did not lead to the establishment of great national forests, to areas of common land, or even to public footpaths. (P 41) Vaughan, WE, *Landlords and Tenants in Ireland 1848-1904*, Dundalgan press 1st published 1984, latest revision 1994, ISBN No. 0947897011

¹⁶ Davitt, Michael, *Some Suggestions for the Final Settlement of the Land Question* (1902)

¹⁷ Jordan, Donald E, *Land and Popular Politics in Ireland*. 1994, Cambridge University press, ISBN No. 0521324041

day.¹⁸ Access to Land Commission records continues to be highly restricted. Terence Dooley had to rely on a variety of other sources to write his recently published and very important book 'Land for the People'.¹⁹ Dooley showed how first, Cumann na nGadheal / Fine Gael and then, Fianna Fáil failed to find an equitable and efficient system to apportion the nation's land. Considerable evidence exists that the share-out of the available land was not as even-handed as the Land Commission intended and maintained; ruling political party's supporters benefited disproportionately at different times. In the nature of things there could be only a few winners – western tenants, the town merchants, first born sons and many losers– women, most labourers and all urban dwellers, in a system where apportioning rights was restricted to the blunt instrument of ownership and possession of land on a finite island. Wide scale emigration of the disinherited underwrote such redistribution that was possible.

It is astonishing to see just how much of the early state's revenue 5.4% in the early 1930s²⁰ was used to placate land hunger in rural areas to the neglect of pressing urban problems. This rural focus extended to providing subsidised housing both for farm migrants from the West to the more fertile lands of the midlands and of housing the rural labourer.²¹ Rural areas got more than ten times the social housing investment of urban areas. Rural social housing tenants moreover, were given the right to buy from the outset - a right only offered to urban social tenants of flats this year 2004. The debate about local government financing was constrained by the myths and hopes generated by the land redistribution process and its the political importance in generating votes.

¹⁸ Hussey, Christopher, *For Protestant Self Determination; The Key to the Ulster Question*, 2001, Dunesk Press, Dublin ISBN No. 0951021818.

¹⁹ In October 1933, the new Fianna Fail government introduced its own extensive and complicated act, which provided the catalyst for record acquisition division statistics 1934-5 and 1935-6 and was very much as Patrick Hogan contended, a 'political act' that pandered to the small farmer and labouring classes in an attempt to secure votes. After the terms of the act became known, there was a rather dramatic growth in the number of Fianna Fail *cumann* from 1,265 in 1932 to 1,679 in 1933. This growth was partly the result of more organized and sustained efforts by Fianna Fail organizers in the rural constituencies but it also owed much to the stimulus provided by the 1933 act and the widely held belief that one would have to be a member of a *cumann* in order to benefit from division. (P 206) Dooley, Terence, *Land for the People; The land Question in Independent Ireland*, 2004, UCD Dublin ISBN No. 1904558151pb

²⁰ In May 1923, the Minister for State, Patrick Hogan, estimated that it would cost the state up to £30 million to complete land purchase at a time when the country was only just emerging from an atmosphere of unreason and irresponsibility'. This money could only be raised through a loan from the British government. In a Dail speech in 1925, Hogan put the scale of the operation into perspective for his fellow TDs: "It is an enormous loan when compared with ordinary development, say, with the development of the Shannon, a gigantic scheme, but at the outset which is only going to cost about five million pounds. Thirty million pounds for land purchase is a very expensive matter, very much more expensive than any other." (P 19) , Dooley, Terence, *Land for the People; The land Question in Independent Ireland*, 2004, UCD Dublin ISBN No. 1904558151pb

²¹ By independence, 50,862 local authority dwellings had been built in Ireland, 41,653 of which were constructed under the Labourers Acts, and accounted for about 10% of rural housing stock, while only 8,861 dwellings had been completed by the urban authorities. (P 170) Norris. Michelle, Chapter 9 Housing in Callanan & Keogan, *Local Government in Ireland : Inside Out*, 2003, IPA Dublin, ISBN No. 1902448936

Thus the land question remained possibly the most potent political issue in rural Ireland long after independence and one of the great determinants of political survival and decline” (P229-30 Dooley.)

The early governments were negligent in allowing the valuations of land and property - the basis for determining rates charges - become out of date, perhaps because of the high sensitivity of any inquiry into the value and use of land. The growing inconsistencies and lack of fairness of the antiquated rates funding system gave an opportunity to first Fine Gael and then Fianna Fail to make political capital. A ‘race to the bottom’ ensued which Fianna Fáil won in 1977 by announcing the total abolition of domestic rates. The abolition of rates on farmland and farm buildings followed 1984 as the result of a legal challenge.

The political minefield of the land and that of its equitable distribution and efficient use continued in a new incarnation, from a focus on farming, to a focus on planning and development. Many landowners (some beneficiaries of Land Commission redistribution) were seen to make huge profits when their land was rezoned and developed for housing in the economic boom of the 1960s and early 70s. The high cost of acquiring land for local authority housing also became an issue politically. The result of this growing concern was the Kenny Report of 1971. It is not perhaps surprising, given previous history that Kenny concentrated on changing *ownership* rather than altering the *nature* of ownership to find a solution. The majority Kenny recommendations -for the compulsory purchase of potential development land by local authorities at existing use value plus 20%- were again, not surprisingly, never implemented. The practical difficulties – now well understood from the experience of the Land Commission - of delivering *both* equity and efficiency under a system which relied *solely* on acquisition has prevented high minded rhetoric from translating into reality.

We can see echoes of the old political fear of the power of rural landowners championed now by the Irish Rural Dwellers Association reacting to housing pressures, in the Guidelines for Rural Housing hastily published by the government in 2004. These guidelines, which are part of the National Spatial Strategy (NSS), bestow special, favourable planning treatment on rural landowners and their families to develop their lands for housing. The extra costs of servicing the resulting scattered rural housing will fall, under the present funding system, on the mostly urban taxpayer and the social exclusion it will intensify will be born by the village and town dweller.

The land struggle and its semi-resolution caused a major transformation in the economic and social structure of the nation that still resonates today. As Vaughan states in his conclusion;

“Above all, the land ceased to be a source of revenue; in the 1860s for example, 25% of total Irish revenue was raised directly by taxes on land; in the course of

the twentieth century, the expiry of land purchase annuities, the abolition of local government rates, and the growth of central government's assistance to agriculture have transformed the land into a net receiver of public revenue. (P41)

The narrow range of functions of Irish Local Government has also a historical explanation in the circumstances in which the new state was founded. Education for instance, was delivered by the Catholic Church and remained in their hands for many years after independence. Policing functions, because of the near anarchy in many rural areas, were kept away from local authorities. It has to be accepted too, that in the chaotic conditions of the early state many unacceptable practices has built up, particularly around procurement, in local authorities which the high minded new Dáil replaced by a new centralised system based on equity and fairness.²²

The question that faces us now is whether these historical determinants have or should have any power or validity in the present day. In particular, in any review of local government financing, we must be mindful of outdated assumptions that inhibit a lasting solution to local government funding and spending problems. One such common and rarely challenged assumption is that it is not politically possible to reintroduce any form of taxes on land. We contend that conditions have changed radically since Davitt first introduced the concept of land taxes. Much of the Jacobite inspired land hunger has been satisfied and Ireland has become a nation of widespread, modest landowners. The Planning Tribunal revelations of the excessive profits and endemic corruption, which our current concept of ownership of land engenders, have created growing demands for reform. Old problems are re-emerging in agriculture concerning the concentration of farming land ownership in fewer hands; the return of leases in land and the difficulty new farmer entrants have in buying land. Other alternatives to land taxes as the basis of local government financing have been tried and have been seen to be seriously deficient.

²² The post-independence performance of the local government system, may also have been a factor. It must be remembered that, by and large, the local authorities elected in Ireland, on foot of the greatly liberalised franchise system introduced in 1918, were nationalist in nature. They therefore, became the constitutional vehicle for the nationalist cause and actively participated in the civil disobedience campaign, which preceded independence. However loyal their motives, it was not constructive local government in the sense of delivery of efficient services. Immediately following independence, civil war conditions prevailed. It was therefore difficult, for a fledging local government system to establish itself. In this vacuum, strong central government departments grew up and reinforced the centralised nature of the Irish public and administrative systems, which encompasses local government and which has continued broadly to this day. Donal O'Donoghue, Galway County Manager, *Financing Strategies for Local Authorities a Manager's Perspective*, 17th Jan 2003

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