

Should Local Government Rates Be Based On The “Improved” Or The “Unimproved” Value of Land ?

THIS PUBLICATION IS A DIGEST OF SUBMISSIONS MADE BY LOCAL GOVERNMENT AND OTHER INTERESTED BODIES ON THE RELATIVE MERITS OF ALTERNATIVE RATING BASES AS PRESENTED TO THE NEW SOUTH WALES ROYAL COMMISSION ON LOCAL GOVERNMENT FINANCE AND VALUATION, WHOSE REPORT WAS PRESENTED ON MAY 2, 1967.

It is based mainly on the transcript of proceedings before the Commission and generally excludes other matters discussed outside the alternative rating bases. It does not cover all contributions on the subject but aims to show the views of the authority or organisation concerned with actual quotations from the transcript or written statements where necessary.

It has been prepared by the Land Values Research Group to assist municipal authorities, valuers, primary producers, retail traders, ratepayers, builders and all interests concerned with stimulating the proper use of land to decide which basis best serves their real ends.

Further copies are obtainable from the Hon. Secretary Mr. L. F. Bawden, 52 Guildford Road, Surrey Hills, Vic. 3127, at 20 cents (including 6 cents postage).

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Explanatory Note

In New South Wales the term Assessed Annual Value (A.A.V.) means 90 per cent of the annual rental value of **land plus improvements**. This approximates to what is called in some other States, the Net Annual Value. In either case it is the "improved" annual value and not that of the land alone which is meant.

THE NEW SOUTH WALES ROYAL COMMISSION ON LOCAL GOVERNMENT FINANCE AND VALUATION

The major single question to be answered in the Inquiry were those covered by the first and seventh terms of reference which are inter-related and hence treated together. They were: "Is a rate on land the most appropriate method of financing the services which councils are authorised to provide under the Local Government Act, 1919, and if not, how should they be financed?"

Rate On Land Is The Appropriate Basis

On this the Commission gave a clear-cut answer in the following findings:—

- (1) *A rate on land is the most appropriate method of financing the services which councils are authorised to provide under the Local Government Act.*
- (2) *The claim that "rates have reached saturation point" is not established.*

Minor, though important, further findings under these terms were:—

Minimum rates not to exceed ten dollars per assessment (3); Councils should extend facilities for payment of rates by instalments (4); maximum rate of interest on overdue assessments to be ten per cent (5); interest to commence two months after the due date (6).

The answer given in the first two clauses above is most satisfactory since these were the key questions of the whole enquiry.

Valuation Bases

Terms of Reference 2 and 5 were questions whether the bases of valuation were satisfactory for the equitable distribution of the rate burden, and if not, what other system would be equitable?

The answer was that, subject to certain modifications, they did provide satisfactory bases for the equitable distribution of the rate burden. The main modifications recommended were:—

- (1) Period of time between general valuations to be reduced to three years;
- (2) The concept of unimproved value as a rating basis should be replaced by site-value (i.e., timber clearing and filling costs to be considered as merged with the land value after a period);
- (3) Assessed annual value to be taken in all cases as five per cent of the improved capital value.

Of these the first two are commendable, and the third questionable.

Other items of less concern to our readers covered methods to be followed for rating Crown tenures; perpetual and other leases; mines; rating of stratum titles and land which is only partly rateable.

Choice Of Rating System

Term of reference 3 (a) was the question whether the rate should be on the unimproved, improved or assessed annual value.

The Commission made no recommendation for any of these bases as a mandatory system. They made it clear that they thought each council should have local option as

to which system they used. This option was to apply to general, special, local or loan rates. County Councils would also have a similar option.

The Commission's Report cites the views of municipal and other bodies on the rating system. These make it clear that the overwhelming weight of municipal opinion is in favour of the unimproved value basis and that there is no demand from them for any change. These bodies supporting the unimproved or site-value included: The Local Government Association; the Shires' Associations; the councils making submissions; the Valuer-General of New South Wales; the Association for Good Government; the Land Values Research Group; the General Council for Rating Reform; the Federation of Progress Associations; the Real Estate Institute of New South Wales; the United Farmers' and Woolgrowers' Association; the Graziers' Association of New South Wales; the Commonwealth Institute of Valuers (N.S.W. Division); the Retail Traders' Association of New South Wales. Other individual authorities doing so were valuers H. J. Manning and C. O. Litchfield; New England University Lecturer Ian McPhail; Sydney University Associate Professor H. Geddes (supported potential productivity as a basis which is virtually unimproved annual value).

In face of all this evidence of satisfaction with the mandatory operation of the unimproved value basis, it is hard to see why the Commission thought an option should be given on the system. Particularly so since there already exists option about the systems except so far as the general rate is concerned and councils and ratepayers have shown no disposition to exercise it to depart from the U.C.V. basis. In fact, what ratepayers' polls have been taken in New South Wales have all resulted in favour of U.C.V.

Rating by Statutory Bodies

Terms of Reference 3 (b) was the question whether the basis considered most satisfactory for local councils should also apply to the Metropolitan Water, Sewerage and Drainage Board; the Hunter District Water Board; and the Broken Hill Water Board as statutory bodies providing water, sewerage and drainage services.

The first two of these bodies made extensive submissions for continuance of the use of assessed annual value as their rating basis. They made claims that its incidence was more favourable to homes in their area than would be change to the unimproved value. Their conclusions on this were challenged independently by the Land Values Research Group, and Mr. Eastwood, Valuer-General for N.S.W. Both contended that the Board had made serious errors in the basis of their comparisons, and that when the errors were corrected the Board's own check would show that a substantial majority of the homes in its area would benefit under U.C.V. The Valuer-General made a most comprehensive check covering all properties in approximately half of the Board's area and this clearly showed that most homes would pay less under the U.C.V. basis.

The Commission agrees that there are some arguments that point to U.C.V. as the better basis for at least part of

the statutory bodies' revenue. But it avoided making any decision on which basis was the most appropriate by extending local option to these bodies.

It recommended that the statutory bodies should be at liberty to continue raising rates on the assessed annual value. But they should also be equally at liberty to adopt the unimproved value for the whole or part of their rates if they wished and to facilitate this certain provisions in their governing Acts should be repealed. To this extent it represents an advance towards U.C.V. rating.

They also recommended that the councils providing water, sewerage and drainage services on the U.C.V. basis in accordance with their present optional powers could continue to do so.

Supplementary Revenue Sources

The sixth term of reference was on what basis, if any, revenue available to councils from rating should be supplemented?

In accordance with its recommendation that the rate on land was the appropriate basis for local government revenue

and that "saturation in rates" had not been reached, the Commission's answer to this question should have been a simple NO!

But, quite inconsistently, it recommended that revenue available to councils be supplemented by their being empowered to impose taxes and levies over a wider field than the rate on land.

These supplementary means included (a) poll taxes not exceeding twenty dollars per year on residents who are over 17 years of age; (b) imposition of a development or betterment charge based on the increment in land value over a specified period; (c) requiring developers to contribute towards the cost of public or communal services such as parking areas and access and heavy duty roads to serve proposed development; (d) licensing businesses or clubs on a basis of turnover, sales or membership; (e) levy of tourist and entertainment taxes.

These are the most controversial and objectionable proposals — the poll tax in particular being quite unjust in its very concept, and has since been rejected by its original sponsor (the L.G.A.).

THE PRINCIPLE OF LAND VALUE RATING

LAND VALUES RESEARCH GROUP SUBMISSION

QUESTION NO. 1.

Is a rate on land the most appropriate method of financing the services which Councils are authorised to provide under the Local Government Act, 1919?

Submission: Yes.

We submit that a rate on land value is the only appropriate method of financing Local Government services

1. This view is almost automatic when the principles behind the current acceptance of property rating as the basis of Local Government finance are considered. However, as many ratepayers are not well informed on the theory behind the practice we consider it advisable to re-state it simply below. We are in agreement with the theory.

THE BASIS OF PROPERTY RATING

- (1) The currently accepted basis for raising Local Government revenue is a rate on land. It has been in force for longer than the history of settlement on this continent.
- (2) Its basic principle is a recognition that useful services provided by Governments are rendered to the land and benefit land owners specially in a way that is exclusive to them as compared with all other sections of the community — hence that they should be expected to meet the costs of providing and maintaining these services.
- (3) This special benefit to landowners arises because such services makes the sites desirable to prospective tenants or purchasers so that they are willing to pay a site-rent or a purchase price for the privilege of its use. The magnitude of this potential rent or purchase price reflects the concentration of useful public services accessible to the site. The resultant land value given to a particular site depends on its situation and size.
- (4) A rate upon the value of land is considered just in its treatment of land owners and other citizens alike. It calls upon owners to contribute only in proportion to the value given to their sites by the community as a whole excluding that due to their own effort and outlay. Other citizens do not share in this value.
- (5) Non-landowners do not escape payment of their fair share to Government for such services which they use. They do contribute their share of the land rates less directly. They are either tenants or boarders and as such pay their share of the land-rate in their rent or board to the owner. The owner is in the position of being the actual receiver of the rent where land is used or of its capitalized equivalent in land price where it is held idle. All arrangements between him and the tenant will take account of his liability to the land-rate.
- (6) Historically the rate on land initially covered the value of buildings and other improvements as well as the bare-land-value. The exclusion of the value of owners' improvements is a later refinement which has not yet been made in all places, though it is now the accepted practice over more than 92 per cent of the whole municipalized area of this continent.
- (7) This historical evolution does not alter the basic theory. The sequence was necessary only because valuation staff, techniques and practices were at first inadequate to separate the value of the improvements from that of the site. It is the site which is enhanced in value by such services and not the owners' improvements. The improvements were recognised to be perishable while the land value was the enduring part. It is significant that it was called a rate-on-land even though some part of the improvements was rated in the process.

- (8) The accepted theory of a rate on land for financing useful Government services is not only applicable to Local Government services. It applies also to land value taxation for State purposes which historically preceded the application of the principle to Local Government. However, it is only necessary to mention the services provided by Local Government type bodies to see that their nature is such that the rate-on-land is a fully appropriate method to finance their costs in accordance with these principles.
- (9) The services provided by Local Government bodies are basic ones the presence of which makes life tolerable or pleasant. Roads, streets, pavements, street lighting and cleaning, sanitary and garbage removal, water supply, sewerage, electricity, gas, parks and gardens, child welfare centres, libraries and other amenities. Some councils do not provide all these services — some provide them to better standard than others within their financial limits. They are essentially rendered to property — their availability clearly gives and maintains a far higher value to the land than it would have without them. It is clearly fitting that the sharing of the cost between the property owners be proportionate to the value given to their land.
- (10) The principle does not require a precise balancing of the increments of land value given to particular sites by particular services and their cost for those sites. It requires payment into the municipal fund pro-rata to the benefit given by all such services — to enable similar or other services to be extended to other sites or to the same site at a later period.
- (11) It embodies something in the nature of an annual insurance premium. That also is based upon value insured but of the improvements instead of the site. The insurer does not expect to use the service immediately, and in making his payment hopes that the need for it may be deferred as long as possible. But he is happy to make the payment in the knowledge that the service will be given without further outlay by him if or when need arises. Similarly with the rate on land value — the municipal council may have constructed a street serving the ratepayer's property at relatively heavy cost. For many years thereafter little maintenance outlay may be incurred on his section. But he knows that sooner or later maintenance expenditure will be necessary and later again the whole street will need to be reconstructed from its foundations at very high capital cost. His land rate payment is really equivalent to an annual insurance premium to provide a fund from which this and other services will be provided to his property by the municipal council when needed.
- (12) The report of the Committee of Inquiry on matters arising under the Valuation of Land Act, presented to the N.S. Wales Government in September, 1960, makes the purpose and intended use of the rate quite clear in and reads as follows:
- (380) “ The rate is essentially a contribution towards the cost of Local Government and it is used to provide services both direct and indirect which largely contribute to the development of the community and result in the enhancement of the value of land. It is not generally a payment for services to a particular parcel of land. It might be prejudicial to the interests of local government and the general body of ratepayers to link the amount of rates paid in respect of each parcel of land with the services actually received or available to the occupants of that parcel.”

SUBMISSIONS BY RESPONSIBLE BODIES ON THE MOST SUITABLE RATING BASIS

LOCAL GOVERNMENT AND SHIRES ASSOCIATION

ALBERT MAINERD

(Local Government and Shires' Association)

This witness puts the main submissions linked with the establishment of the Commission — his submissions and examination on them extending over six days. The broad lines of argument put by his Association were that Local Government rates on the unimproved value of the land are favoured so far as the rating system is concerned, but they want them supplemented from other revenue sources. The general argument is that the percentage increase in municipal rates has been greater than that for States taxes since the war; that this proves that rates have reached saturation and that it would be better to provide State or Federal grants based on taxes by those administrations than extra municipal rates. (It has been shown in later submissions to the Commission from the Land Values Research Group that the Local Government Association's calculation of the percentage increase in State taxes was wrong and that they actually increased very substantially more than municipal rates).

Later submissions from the Association have pressed for a “residential tax” (euphemism for a poll tax) as the method of supplementary revenue.

In his final address before the Commission Mr. Mainerd made the following comments of particular interest upon the rating system and on points made by others:

“The Associations have expressed themselves as strongly in favour of the continuance of Land Rating as the main source of Local Government Revenue. In that, they have received the almost unanimous support of constituent Councils.

Land Rating constitutes the traditional method both here and overseas, for the financing of Local Government. The value of land is undoubtedly increased by the works and services rendered by Local Government. Thus, the rating of land provides a means whereby the community may recover the costs in providing such works and services.

“The Association for Good Government holds the view that land and it alone, should be required to finance Local Government Services. If I understand them aright, so does the Land Values Research Group of Victoria.

"The Local Government and Shires' Association, however, cannot accept the view that land should carry the whole burden of Local Government expenditure and that there is ample scope for increased revenue from that source.

"The Associations agree, as earlier stated, that Land Rating should be the core of Local Government Revenue, but they do not accept the view that land is the only source of wealth and in consequence, the only basis upon which revenue may equitably be derived.

Mr. R. W. Archer, Economic Consultant, Canberra, expressed much the same view as the Association for Good Government, and contended that in the main, Local Government rates in New South Wales are borne by the community in general, rather than the actual ratepayers and further, that the current rate levels are not excessive and could be substantially increased to expand the services provided by Local Government. He admitted, however, that particular Councils — such as those in the rapidly developing suburbs or the sparsely settled rural areas, were facing real financial problems which merit a full scale and thorough investigation.

It is important to bear in mind that, although there were individual witnesses who expressed other opinions on the system of rating, the responsible bodies whose members had practical experience of its operation, expressed themselves almost unanimously in favour of the unimproved value basis.

This is evident from the following portion of Mr. Mainerd's final address to the Commission on behalf of the Local Government and Shires' Associations which summarises the views of the various bodies on the third term of reference (a) Should the rate be on the unimproved, improved or assessed annual value of land; and (b) should the basis considered most satisfactory also be used for rating by statutory bodies providing water, sewerage and drainage services. If not, what basis should be used?

"Careful consideration of what Mr. Monaghan* has to say on item (a), finds no conflict with the views generally held by the Local Government and Shires' Associations. The conclusion reached by him — and also expressed by the Local Government and Shires' Associations — that the present system of U.C.V. rating should be continued, is endorsed.

"The Land Values Research Group contended that rates should be on U.C.V. rather than A.A.V. — on the ground that it is only the value of the site itself, which is increased and maintained by the availability of Local Government Services and Amenities. The value of the improvements on the site, is not so increased, being governed by replacement cost, less depreciation. Hence, only a rate upon the unimproved or site value, really accords with the principle of property rating, which requires that payment be proportionate to benefit given. Owners' improvements upon the land should be completely free from local rates and taxes.

"The Graziers' Association also expressed itself that rates on properties used for primary production should be levied on U.C.V., but it is vigorously opposed to site rating.

"The Local Government and Shires' Association see much merit in site valuation, but the Graziers' Association has raised substantial objections, preferring continuation of the U.C.V. system.

"On the other hand, the Real Estate Institute and the Commonwealth Institute of Valuers consider that land values should be based on 'site-value', levied annually on a valuation determined each year.

"However, whatever system be adopted, the fact remains, that Councils must collect the same amount in total rates and it is doubtful that a change from U.C.V. rating to the A.A.V. system would be warranted when, in the light of the data presented to the Commission, it seems clear that substantial variations in rate payments would result, provoking strong protests from those whose rate liabilities would rise for, to them, no justifiable reason whatsoever.

"So far as Reference 3 (b) is concerned, the Associations do not wish to add anything to what has already been said, except that the U.C.V. system of rating for water supply and sewerage purposes is universally applied by Councils in contradistinction to Water Supply Authorities for the Sydney Metropolis, Hunter District, and Broken Hill, which operate on the basis of A.A.V.

* Under Secretary for the Local Government Department.

(The references to 'site-value' and 'unimproved capital value' rating here are only variations of the same principle. The important point is that all these bodies are opposed to assessed annual value or capital improved value as the rate basis on grounds that these penalise people for their own improvements.)

MUNICIPAL AUTHORITIES

The submissions of various municipal councils as result of their experience and investigation of the incidence of the rating systems are important. They generally express concern at any suggestion to return to local taxation of land-holders according to the value of their own improvements.

SYDNEY CITY COUNCIL

JACK H. LUSCOMBE (Town Clerk, Sydney City Council)

The evidence led by this and other witnesses for the Council of Sydney City was most important. Its submissions traced the stages by which Sydney City in 1909 rated partly on unimproved capital value and partly on assessed annual value with improvements, and thence changed to rate unimproved values only. One of the early obstacles to rating unimproved value only was that certain companies were initially rateable under A.A.V. but not rateable under U.C.V. In 1916 assurances were given by the Government that the act would be amended to put them both on the same footing for rateability. Previously the City Treasurer had opposed use of U.C.V. but after certain comparisons had been taken out showing the incidence, the City Council decided to levy a single rate on the unimproved capital value. Its submissions contain most important historical matter and provide important evidence of the beneficial results of use of the unimproved value system.

The submissions from Sydney City Council strongly favored the unimproved value rating basis and produced a great deal of important supporting information which we will quote from elsewhere. The basic submission is in these terms:

"It is the unanimous opinion of council that the single unimproved capital value system is the best method of raising a rate to finance local government services . . . It will be seen that the council's support of the unimproved capital value system of rating is not based on prejudice for in its long history all systems of rating have been used. Moreover, the council has had the advantage, even in recent years, of making its own valuations."

This and the following witness, Francis D. O'Grady, assessment officer of the Council, were examined by the Commission at considerable length, the questions suggesting that Assessed Annual Value of land plus buildings might be a better basis. This was probably probing for information but the witnesses' answers strongly maintained that rating of improvements would be harmful.

The Sydney Council contended that even services which were not rendered direct to property but used by tenants

and casual visitors were reflected in land values and therefore covered by the site value rate. They therefore did not favor a poll tax upon these people. Their attitude on this will be seen from the following extract:

10958. "The concept of local government is to provide and administer within the framework of the Local Government Act, facilities and amenities to meet the needs and requirements of a particular area or areas. . . . To meet the needs of its large day-time population a city such as Sydney must provide additional amenities such as public conveniences, parks, libraries, etc., beyond those which would be required for its ratepayers and residents only.

Whilst it might be said that these additional amenities are services to the individual, their provision must have a real reflection in the value of the land in the city, particularly in business and industrial centres. Similarly, a municipality with natural attractions within its area must provide additional amenities to meet the needs and requirements of the visiting or tourist population. Without such additional amenities it could well be said that land values would decline or at least not increase commensurably with land in similar areas where additional amenities are provided.

It is felt that the imposition of a poll tax, as such, upon residents to meet the cost of the additional amenities would be foreign and unacceptable to the Australian viewpoint."

The Council considered that the exemptions from rates now extended to Government properties should be removed. It pointed out that these were not the original arrangement but were a Government expedient resorted to in depression days to reduce Government expenditure. Now that the country is enjoying prosperity they should again become rateable. It was revealed that the total rateable land value for the City of Sydney was £287,000,000 and the exempt land value was £90,000,000, which is about one-quarter of the total.

The comparison made earlier by Mr. Manning on the relative inadequacy of Melbourne rate yield in relation to that of Sydney was confirmed and extended. (It is the natural corollary of rating on improvements that ratepayer resistance against progressive schemes needing more revenue is built up from those most improved and hence heaviest rated who would be called upon to pay more than their fair share of the new revenue as well as of the old). (10886 to 11408).

GREATER WOLLONGONG CITY

JOHN J. WICKHAM

(Town Clerk, City of Greater Wollongong).

This witness gave a very comprehensive and well documented submission. He had made a great deal of research into the relative incidence of the U.C.V., I.C.V. and A.A.V. rate bases on residential and other properties in his city, which is one of the most important in the State. Some of this material later proved most valuable as a basis for other contributors (particularly the Land Values Research Group) as an information source. Among the most important material was the clear evidence given that for the vast majority of single dwelling houses in this area the current U.C.V. rates are much less than they would be under either the A.A.V. or I.C.V. rating basis. It was specifically mentioned that the Wollongong Council had studied the booklet, "Public Charges on Land Values," issued by the Land Values Research Group. On the basis of the material shown there on effects of the rating system it opposed any change from the unimproved value rating base.

NEWCASTLE CITY

WILLIAM C. BURGESS *(Town Clerk, Newcastle City).*

This witness is unequivocal in support of unimproved value as the main basis of rating, but wants it supplemented by a local income tax. He gives information of finance methods in various countries overseas. In dealing with property taxation in U.S.A., he refers to "the growing interest there in the system of site valuation taxing adopted almost universally in Australia and New Zealand." He also refers to the August 1960 issue of "House and Home," dealing with this subject, and to the 50-page Cowan Report. This witness is very well informed and not taken in by the general claims being pressed that "rates have reached saturation point," or that each flat in multi-unit buildings should be subject to a minimum rate. He criticised both these arguments and regards the second as inconsistent with the principle of U.C.V. (5048 - 5188).

BLACKTOWN MUNICIPALITY

WILLIAM A. DALE

(Town Clerk, Municipality of Blacktown)

This witness presented his council's views, which favoured U.C.V. and opposed A.A.V., which it was stated would have the effect of increasing the burden on the householder and therefore could not be recommended. It gave figures of its comparison on this. It stated that "Further, A.A.V. does in fact represent a tax on improvement and anything that discourages development is to be avoided. . . It is suggested a simple site valuation would give a fair basis of rating and be most economically determined." They favoured the water authority using this basis also (8050-8272).

BANKSTOWN MUNICIPALITY

DOUGLAS B. CARRUTHERS

(Deputy Mayor, Bankstown Municipality)

Favoured U.C.V. and commented that "In regard to council rates, it is obvious that if these were to be assessed upon the improved capital value, the rating system would tend to deter full development of the property concerned. The more a man developed his property, the greater would be his rate levy" (9183-9287).

LITHGOW MUNICIPALITY

JOHN K. MADDEN *(Town Clerk, Lithgow Municipality)*

The submission from this Council strongly favours the principle of a rate on land as means for local government finance and rating upon the U.C.V. basis for municipal, water and sewerage rating purposes. This was strongly defended under cross examination and it was pointed out the council has power to rate improved capital value if it wanted to but it had never used this power (9445-9531).

FORBES MUNICIPALITY

HECTOR J. DAWSON *(Town Clerk, Forbes Municipality)*

This witness presented a very strong endorsement of the system of rating on the unimproved value as evident from these extracts from his submission:

"I consider that the present method of rating land on the unimproved capital value is the soundest, simplest and

fairest method. A system whereby land is rated on the improved capital value or assessed annual value, could and surely must, lead to people holding undeveloped land. In a developing area land is so scarce that it is not to the best advantage of the town to have people tie up land and scorn development of same. Rating of land on unimproved capital value, possibly linked with a reasonably high minimum rate, compels people to utilise land to its best advantage . . . As explained in another section of my evidence, I favour the rate being levied on the unimproved capital value of the land, and consider for reasons stated that this basis is the most satisfactory for water, sewerage and general rates." There were many other important references on similar lines (9975-9998).

"C" DIVISION SHIRES

ATHOL G. HILL (Shire Clerk, Liverpool Plains Shire Council).

This witness tendered a joint submission on behalf of the "C" Division of the Shires' Association. The Shires involved in it are Bogan, Coolah, Coonabarabran, Coonamble, Gilgandra, Liverpool Plains, Merriwa, Murrurundi, Namoi, Tamarang, Timbregongie, Walgett, Warren.

These councils submitted that a rate on the unimproved capital value is the most equitable way to raise that part of their income which should come directly from the landowner, subject to uniformity in valuation. On this their submission said:

"There is no doubt that the levying of a rate on the unimproved capital value of land as opposed to the levying of a rate on any other value is the most equitable way to raise revenue from land owners for local government works carried out by a shire council."

"The system of rating the unimproved capital value is designed to equitably distribute the rate burden over all land in relation to its potential and is therefore quite fair."

On the other hand, the levying of a rate on the improved capital value would be unfair in that the landholder who works hard and develops his property would be penalised. In addition, there would be no incentive to a landholder, under an improved capital value system, to develop his land.

Under the unimproved capital value system, a landholder is encouraged to develop land because the rates become a burden if he does not." (21103).

"D" DIVISION SHIRES

WALTER SCOTT (President, Port Stephens Shire Council).

On behalf of "D" Division of the Shires' Association of New South Wales, comprising shires of Port Stephens, Gosford, Manning.

(20242). "Having accepted the principle that a rate on land should form the core of Local Government finance the next question to be considered is whether the rate should be levied on the unimproved, improved or assessed annual value of the land.

The Councils of this Division are emphatically of the opinion that, for ordinary services, rates should be levied on the unimproved capital value.

A change to rating on the I.C.V. or A.A.V. would mean that the owners of properties which are highly improved would be substantially subsidising the owners of properties which are not improved. Over a period of time the owners of improved properties would be paying a high proportion of the cost of establishing services which would be adding to the value of all land to which

the services were available. Owners of vacant land would be gaining increased capital assets at the expense of the owners of improved properties.

Rating on the I.C.V., or A.A.V., could encourage speculation in unoccupied land and thereby retard development.

"G" DIVISION SHIRES

JAMES M. SMITH (President, Urana Shire Council).

This witness was also Immediate Past President of the Shires' Association of N.S.W., and tendered a joint submission from the "G" Division of that Association. This comprises the Shires of Bland, Coolamon, Corowa, Culcairn, Holbrook, Hume, Illabo, Jindalee, Kyeamba, Lockhart, Mitchell, Narraburra, Tumbarumba and Urana.

From this submission representing such a wide body of opinion, the following extracts are particularly significant:

(13909) *The Division most emphatically supports rating on the Unimproved Capital Value and is unanimously opposed to any suggestion of rating on the Improved or Assessed Annual Value.* Rating on the improved capital or assessed annual value is actually a two-part tax, one part being a rate on the unimproved capital value and the other part a rate on improvements provided and erected thereon. Such rating would be unfair to farmers in closer settled areas, whilst larger grazing holdings remain.

(13912) ". . . Furthermore, it is contended that rating on improved or assessed annual value would be to the detriment of the progressive land holder. It is understood that a development tax on improvements is applied in some States in U.S.A., and this has unfortunately retarded rather than advanced rural development."

"The Division considers that in preference to rating on the improved capital or assessed annual value there would be more justification if the landholder who fails to develop his property in the national interest were penalised, rather than the progressive landholder."

The answer to a question from counsel assisting the Commission is also informative:

(13913) *Q:* Quite apart from the question of justice, the view has been expressed by some people that a rate which has been fixed on say the annual value might deter the land owner from improving his property. On the other hand, the view has been put that rates are only a small portion of the total outgoings, and the total of increased income and increased land value would outweigh any depressing effect of a heavier rate. Do you have any view on that?

A: The small landholder with intense culture is the man who increases the value of land in the area. The larger holding, and I have given an example of 20,000 acres, that holding is increased in value because of the intense agriculture taking place on the neighbouring property. He is getting the benefit of the increase in values; he would be under this change while paying a lower rate; and perhaps would tend to leave his land in that state instead of spending on improvements which would be in the country's interest. The fact is, we hope, to give an example there which indicates why we should be so opposed to any other value than the unimproved capital value (for rating)." (13860 to 14058).

"I" DIVISION SHIRES

DOUGLAS THOMSON

(President of Eurobodalla Shire Council)

This witness presented submissions of the "I" Division of the Shires' Association of New South Wales, which includes shires of Shoalhaven, Colo, Mittagong, Eurobodalla, Mumbulla, Wingecarribee, Imlay. The submissions are in response to questions asked of all councils by the Commission.

The views of these councils on the merits of the rating systems can be seen from the following answers given to questions on the effects of change in rating system and whether the present system of U.C.V. operates inequitably in distributing the rate burden.

Shoalhaven Shire:

"Council feels that the present system is as equitable as it is possible.

"In this area the most equitable rating is on the U.C.V. With U.C.V. rating as an area develops the allotments increase in value, whether built on or not, and this makes it harder for the person who holds land purely for investment to lock up the land over many years."

Eurobodalla Shire:

"A change in rating from rates levied on U.C.V. to rates levied on A.A.V. or I.C.V. would be detrimental to all ratepayers. It would retard development and amount to a tax on initiative."

Wingecarribee Shire:

"A change in rating from a rate levied on U.C.V. to rates levied on A.A.V. or I.C.V. would retard development in this area and lower standards."

Mittagong Shire:

"Site valuation rating is the most equitable and practicable, having regard to all factors. The U.C.V. basis, though stable, does not flexibly react to changes in economical circumstances."

Mumbulla Shire:

"Utilising the U.C.V. ALL ratepayers share the burden, whereas the I.C.V. and A.A.V. would mean that only developed properties are rated. This would tend to encourage vacant lands to remain idle and to discourage development. The rating of vacant land by using the U.C.V. influences the landholder to develop his land and to put it to its best use."

Colo Shire:

"The Council is satisfied that the existing system of valuations operates equitably in distributing the rate burden.

"This council does not favour use of the I.C.V. as a rating factor as this could result in an unjust distribution of rate charges. Such a rate would penalise the ratepayer who had expended his own funds in improving his own property, whereas a rate on the U.C.V. is a rate on the land only in its unimproved state and this has always been traditionally the prerogative of Local Government."

Wollondilly Shire:

"Council is opposed to any proposal for rates to be levied on the I.C.V. or A.A.V. It considered that this would be taxing progress and would tend to encourage owners not to develop their properties. Council feels that with rating on U.C.V. owners are enticed to develop properties to make same a paying investment."

WESTERN DIVISION SHIRES

LEO P. CONNELLAN (*President, Balranald Shire Council*).

This witness presented a submission on behalf of the Western Division Group of the Shires' Association of New South Wales. The Shires represented were those of Balranald, Bogan, Wentworth, Cobar, Hay, Darling, Walgett, Brewarrina. The submission favoured a rate on land to provide the major part of income, but supplemented by grants. It did not favour a poll tax suggested elsewhere to supplement rating.

(16109) "In the opinion of the Group, the rate should be on the Unimproved Capital Value. This method has been used throughout the State in Local Government and appears to be the most equitable. The Western Division Group think that rating on the Improved Capital Value or Assessed Annual Value would kill the incentive of landholders to maintain and improve their properties and become an unfair imposition upon progressive and public-spirited owners of property." (16099-16140).

OBERON SHIRE

L. C. ARMSTRONG (*President, Oberon Shire Council*)

This witness presented his council's views. In general, the council was of the opinion that U.C.V. rating should be retained by councils to provide the cost of basic services and that councils should receive supplementation of income from the common pool of taxation. A.A.V. rating tended

to penalize the progressive property owner, hence the council opposed rating on any value other than U.C.V. The council also held that rating for water supply should be on U.C.V. This witness stated that rating could amount to 15-20 per cent of the total net income of a grazier (10119-10207).

CARRATHOOL SHIRE

WILLIAM A. MERRYLEES (*Councillor, Carrathool Shire and Murrumbidgee County Council*).

The witness had a wide interest in local government matters over many years.

In para. 13538 of the transcript he was asked by Mr. Morling:

"You direct your mind to the problem arising from the circumstance that although the great bulk of council revenue comes from ratepayers, this does not necessarily mean that its expenditures are directed only to the benefiting of ratepayers, but you go on to make the point that in many indirect ways persons who are not property owners do contribute to what might be called the local economy perhaps, and that in this way they do, to an extent, make some contribution to the cost of municipal services? Dr. Merrylees:—Some by contribution to the local economy and some of them indirectly by paying extra rent or extra board.

Asked a further leading question on merits of rating improved rental values, Dr. Merrylees said: "The difficulty I see in anything except rating on U.C.V. is that only rating on U.C.V. encourages development; any other is liable either not to encourage it or to discourage it." (13548).

Dr. Merrylees stated that a system of rating which included the rating of improvements would be substantial discouragement in rural area. In rural areas, he said, we want every inducement we can to people to improve. It might not be a big factor, but anything that meant that the more you improved, the more rates you pay, would be one factor discouraging rural improvement, because the margin on which rural people are working is a very narrow one these days, for a lot of rural people, anyway.

He disagreed with the views expressed elsewhere that 'rates had reached saturation,' and his view was that this point was far from being reached. (13561).

He thought that if you rated on improvement, to give the same revenue it would necessarily mean in his shire that in the totally dry areas the rates would be decreased and the rates on the irrigation areas would be greatly increased. The increased rate would be enough to make very serious inroads on the margin of profit left. This would mean that owners of dry areas would not undertake improvements, and those with the improvements would have no option but to carry on, because it would be a big capital loss to abandon it. This could mean that the value of improved lands would be depreciated. (13568).

WADE SHIRE

EDWARD W. MOORE (*Shire Clerk, Wade Shire*).

It was the Council's opinion that a rate on land was the most appropriate way to finance Local Government services, but rates should be subsidised to some degree from income from other sources to allow councils to operate effectively.

The Council submits that valuation by the Valuer General or a private valuer provides a satisfactory basis for the equitable distribution of the rate burden, with the exception that neither system provided for the valuation and rating of non-rateable property, such as Government institutions, railways, post offices, schools, etc. In the majority of

instances these institutions were constructed on land in the main sections of the town, which would normally be highly valued.

Mr. Moore submitted that an examination of the merits and demerits of the various rating bases reveals that for general rating purposes, to obtain revenue for ordinary municipal services and meeting the cost of administration, the Unimproved Capital Value is the fairest. The main disadvantage of the assessed annual value and the improved capital is that the taxation of the improvements results. It seems unfair that an owner, through his own efforts, should add to the rental value of his property, and pay higher rates than his next door neighbour who neglects his house or farm. These were the views of his council.

LEETON SHIRE

FRANCIS M. ROSS (Shire Clerk, Leeton Shire).

Council had not considered a change to annual value rating desirable. The council had not experienced any difficulties of a serious kind with the unimproved rating system, nor any anomalies which have led to any widespread complaints.

He was asked the question (13262): In respect to annual value rating, was the council's opposition to it based not on a belief that it would inhibit development, but on a belief that it was simply unfair that the man who improves his property should pay more?

(Ans.): Well, mainly that it would force the man who improved his property to pay more. I think, too, there was some consideration of the factor that it could threaten development compared with the advantages to the developer under the U.C.V. system. (13247 to 13283).

LAKE MACQUARIE SHIRE

T. R. PENDLEBURY, (President, Lake Macquarie Shire Council).

(20349). "Council favours the making and levying of rates on the U.C.V. of land within its area. In this area there is a considerable amount of undeveloped and vacant land and should the rate be levied on I.C.V., the rates on undeveloped and vacant land would be considerably reduced and this would be an inducement for the owners to retain the land in an undeveloped state for longer periods. Council would prefer that large parcels of land which are zoned residential be subdivided and made available for the erection of houses."

BLUE MOUNTAINS CITY

J. S. PRYOR (Town Clerk, Blue Mountains City)

This witness mentioned the convenience and certainty of a land tax for the collecting authority; referred to the deduction of municipal rates for income tax purposes; criticized A.A.V. for water; mentioned U.C.V. rating for capital costs for water; stressed the penalizing effects of A.A.V.; urged that "if all purposes councils which supply water and sewerage rate on U.C.V., then it is most desirable for the sake of uniformity that other statutory bodies should also take the U.C.V. as a rating basis." He also recommended that the period of revaluation be reduced from six to three years. He alluded to non-payment of rates by bodies such as the P.M.G., and noted that often land owned by churches is in excess of actual requirements,

as evidenced by cutting up and sale of portions at opportune times. He explicitly disagreed with A.A.V. for the Sydney Water Board, and brought out the fact that the provision of a service like water supply does enhance the value of land. He mentioned that a council operating a gas undertaking usually levies a gas rate on land to cover the capital cost. On a number of occasions the advantages of U.C.V. were brought out by this witness (10560-10670).

FAIRFIELD MUNICIPALITY

VICTOR WINTON (Town Clerk, Fairfield Municipality).

Generally speaking, the council does not consider that anything would be achieved by any variation in the methods of rating from the present unimproved value basis. Asked by Council whether he thought, looking backwards, annual value rating on improvements may have been preferable in his area because it had grown too quickly, Mr. Winton replied that he thought not, because, in his opinion, annual value rating would have retarded development. (7301).

Fairfield Council did not consider that annual value rating would encourage the best type of home building. Pressed whether it was thought that the unimproved value system really produced substantially better homes, he maintained that A.A.V. would work in the direction of discouraging such development or certainly not encouraging it. The following extracts of question and answer from the transcript are informative:

(7403) *Q:* Have you given any thought to the assessed annual value system as compared with the unimproved value system? *A:* For myself, yes.

(7403) *Q:* What would you feel if council had option to adopt one or the other? *A:* Well, for Fairfield municipality my recommendation to the council would be for U.C.V.

(7404) *Q:* Why? *A:* For the main reason of development — encouraging development — particularly the commercial areas.

(7405) *Q:* There has been an opinion expressed here that it is not of much account — do you agree with that? You think that it is taken into account in respect of a lot of projects? *A:* Yes, in the development of existing areas. I feel sure that the rating on U.C.V. has had an effect on the development of our commercial area — that people have been forced to do something about either developing or selling.

(7406) *Q:* Have you formed this opinion from discussion with developers? *A:* Yes, and the owners of land and my observations of what has taken place. The only people that I have seen hold valuable land have been people that I have known could afford to hold it. If a person has a high income and rates are deductible for income tax purposes, it can mean up to 12/- in the £ for his rates, but there again he is still paying nearly half the rates and the improvement in values has not been sufficient to justify people holding their land for that purpose.

LISMORE CITY

BYRON C. STEVENS (Town Clerk, City of Lismore).

On the rating system the submissions of this council said:

"Unimproved capital value rating seems to provide the most equitable source of basic local government finance, as has been previously said, with the proviso that it should be limited to yield sufficient revenue only to carry out necessary works which have a direct effect on the value of the land itself An examination of assessed annual value rating shows that . . . it tends to impose a burden on those who care for their properties at the expense of those who do not. It has been shown by survey (refer to page 432 of "The Valuer," Vol. XV, No. 7, of July 1959, issued by the Commonwealth Institute of Valuers) that under A.A.V. rating, ratepayers tend to allow their properties to deteriorate in order to

attain a lower level of rate payments and on this basis alone the system does not recommend itself. The same argument must, of course apply to rating on the improved capital value.

Furthermore, assessed annual value rating creates no incentive to an owner to construct improvements on vacant land and this is a problem, particularly in country areas, where residential development has been largely uncontrolled in years gone by. The cost of providing council services remains the same whether the land is occupied or unoccupied and, in fairness to the majority of its ratepayers, a council must use every means available to it to encourage the development of vacant land where services are already available." (20897).

The availability of a water supply has a direct bearing upon the utility, and hence the value of land — more so its unimproved value than its assessed annual value. Hence it is apparent that, if the people of an area are to have a water supply — and this is fundamental to the standard of living they expect — then it must be financed by the fairest method available; and, in the light of the circumstances this appears to be U.C.V." (20923).

BROKEN HILL CITY

HENRY L. KEELAN (Town Clerk, City of Broken Hill)

The following extracts from the transcript are significant.

"The Council considers that these methods (rates on land) are the best yet devised for providing that part of the council's revenue which must be provided from rates. It also considers that the burden would be most equitably distributed only if the rate is based on the unimproved capital value (15916).

The Council considers that all rates should be based on the unimproved capital value. It realises this will require the levy of a minimum rate in some cases, but minimum rates are found necessary where other methods of rating are used. (15918).

On the question should the basis considered most satisfactory also be used for rating by statutory bodies providing water, sewerage and drainage services — if not, what basis should be used?

(A) Yes. Levying such rates on the assessed annual value (or what is much the same thing, on the capital improved value) favours the higher-valued land (mostly business properties) to the disadvantage of the lower-valued properties (mostly residential properties) (15920).

In other words, it tends to reduce the amount paid by property owners in the best position to pay and increase the amount paid by property owners in not such a good position to pay. It

is considered that this method of rating, i.e., on the assessed annual value, has had a bad effect on town planning. It has tended to bring about enclaves of highly valued properties. It also discourages improvement in the standard of residences erected in the city." (15939).

(15942) (Q) "But you say that the effect of assessed annual value rating would be to discourage improvement in the standard of residences. Well the converse is not true is it, that the unimproved value rating . . . has not encouraged improvement in the standard of residence? (A) "We feel it has. Furthermore, I think it is quite true to say that the adoption of the assessed annual value for all purposes — that is not in question — but the adoption of any system of valuation which had the effect of increasing the amount to come out of a person's pocket in relation to every pound you improved the property must influence the working man not to improve his home. The attitude could well be, "Why should I use my limited resources to improve my property in order that I pay more rates."

WOOLLAHRA MUNICIPALITY

FREDERICK D. BOLIN

(Town Clerk, Woollahra Municipality).

The Council which he represents is the one which is most favored by the continuance of the Metropolitan Water, Sewerage and Drainage Board rating under A.A.V., as compared with U.C.V., as shown by the 1960 survey. This Council represents those properties of abnormally large area and value which would generally be thought most indicative of "ability to pay." His council has imposed a minimum rate of £25 which effectively passes a lot of the contribution which should be made by the large holders under U.C.V., on to small holders whose fair contribution should be much less than this. This witness seeks differential rating with some classes of properties rated under A.A.V. and others under U.C.V. More generally, he favors A.A.V. in urban areas. He also quoted portions of the misleading Auckland report on rating methods. He criticises the report of the Local Government Association which endorsed the unimproved value as best form of rating. This witness was before the Commission for three days. (5763 - 6459).

This was the only municipal council expressing opposition to rating on unimproved value.

LOCAL GOVERNMENT DEPARTMENT

JOHN T. MONAGHAN (Under Secretary of the Local Government Department).

This witness submitted his own and not official views. His submissions and examination on them occupied three days and were among the most important of the inquiry. They were packed with valuable information supported with authorities and statistics. He showed that the claims of the Local Government Association that local government rates had become a burden and reached "saturation" were incorrect — that the percentage of the national income taken in local government rates had only increased between 1939 and 1960 from 1.8 per cent up to 2.0 per cent — an increase of only 0.2 per cent, which could not be called burdensome. Over this period the percentage of local rates to Commonwealth and State Taxes had fallen from 11.7 per cent to 7.4 per cent, and not increased as claimed by the L.G.A. That body had ignored that rates and land taxes on home-owners were tax-deductible for income tax purposes, and that in 1958-59 the rebate claimed amounted to £16,000,000 in a total rate bill of £35,000,000.

"The Local Government Department considered that the claim of local government to "a substantial share of the common pool of taxation" was opposed to the very concept of local government and its independent status and that, if granted, it would lead to increased central control and direction of the internal management of local government."

He answered the suggestion that there had been a trend away from property taxation in other parts of the world, with extensive quotations from recognised authorities. Among these were an article by Clyde E. Browning, Assistant Professor of Real Estate and Land Use at the University of Oregon; an article, "Property Taxes And Land Use Patterns In Australia And New Zealand," by Dean Woodruff and Professor Ecker-Racz, which appeared in the October, 1965, issue of the Tax Executive and showed local government rates in Australia and New Zealand to be at a lower level than overseas.

On the question whether the rating system should be on "unimproved" or "improved" value of the land he made it clear that he considered unimproved value rating was a just method of getting revenue for a council. (24892).

Referring to submissions of others to the Commission on this he said:

"Local Government rating is for all practical purposes now based on unimproved value and I think it can be said that the submissions made on behalf of local government, including that of the Local Government and Shires' Associations, stressed the retention of this basis. An exception was the submission of Mr. F. D. Bolin, Town Clerk of the Municipality of Woollahra. . . ."

Although other states had options as to systems he considered uniformity in use of the unimproved value over New South Wales was preferable, saying:

"Another reason why the practice in the other States should not be followed is that in these states there has been a movement for change from annual value to unimproved value and for reasons not known the legislatures decided to leave the matter for determination by local option. *There has been no movement in this State for change from unimproved value rating to rating on assessed annual value.*" (24895).

"Adoption of assessed annual value would certainly result in a change in the incidence of rate burden. Its effect would be marked in the outer metropolitan municipalities and shires in which there are still vacant land. Only detailed survey would show the effect of such a change, but I would think that the average home owner would be detrimentally affected. This view is supported by the evidence of the town clerks of Bathurst, Blacktown, Blue Mountains and Greater Wollongong."

On the question of whether water and sewerage should be changed from assessed annual values to unimproved values he considered that this was largely dependent on the extent to which this affected home owners.

He was opposed to poll taxes on the grounds of acceptability and practicability. Poll taxes were an outmoded form of taxation with no relation to the principle of "ability to pay" and consequently had no real place in current taxation theory and practice. Such a tax would, it was believed, be repugnant to both the community and the Government. Poll taxes had major disadvantages administratively. (24959).

VALUATION AUTHORITIES

COMMONWEALTH INSTITUTE OF VALUERS

CHARLES A. FLETCHER (Vice-President, N.S.W. Division of the Commonwealth Institute of Valuers).

On the question whether the rate should be on the "unimproved," "improved" or "assessed annual value" of the land the submission of the Commonwealth Institute of Valuers was:

"The Division favours the levying of municipal and shire rates on the unimproved value of land submitting that that value should relate to the 'Site value' concept. The present scheme in the valuation legislation which requires the valuer to identify the various improvements which have now become 'invisible' and to determine the value they would add to the land, if they were still in their native state, is unreal and impracticable. The Division recommends that the definition of unimproved value be amended to include as part of the value those "invisible" improvements which have merged with the land and have become part of the true land surface.

Although there was a division in view between members of the state Board of the N.S.W. Division of the Institute, the majority of members favoured the use of unimproved value (site value) for the levying of rates for water, sewerage and drainage purposes (19637).

Asked to tell broadly the reasons of the majority for holding this view the reply was:

"Well, as valuers I think we felt that it is extremely difficult to find evidence of annual value in practice; there is so much land that is not rented at all and there so many prestige buildings and all that type of thing that the task is rather difficult. Possibly the reason for saying that "site value" would be most acceptable was that we felt that a site value is something which everybody understands — we feel that this would be a concept that people would understand, and that once you remove visible improvements people can see that what is left would be the site value. The visible improvements when they are put on land immediately start to depreciate and become obsolescent, while the land itself — because of the pressures of population and general rise in values and perhaps depreciation in value of money — continues to rise fairly definitely, except in odd circumstances. Site value is a more constant value and one that is not affected by the depreciation in improvements; it also reflects the ability of the land to pay. I think improvements tend to be put on land to suit the site and at some stage they fully develop the land but at many stages they become obsolete and do not attract fair rent or a full economic rental." (19640).

The following passages between the Chairman and witness provide an adequate answer to the argument that non-ratepayers are escaping a fair contribution to local revenue and should be specially taxed:

(19621) (Q.): "Did you give any specific consideration to the sort of things that councils do which do not benefit ratepayers exclusively; for example, baby health centres, libraries, community centres, senior citizens centres, places of recreation, and things of that sort that are open to general use by lodgers, tenants and persons who are resident but who are not necessarily ratepayers?" (A.): Yes. I think the general feeling is that the position is quite reasonable at the moment. Each ratepayer, during the course of his life, is probably enjoying some of these benefits for nothing and then at a later stage, when his young family comes along, he takes advantage of the baby health centre, and is paying rates at that stage for some time. Eventually, when he gets too old, and perhaps sells his property and becomes a burden on the State, he may benefit from some of these services. But everybody will get their turn. I feel that my own children, for example, while they are not paying rates at the moment, will eventually become ratepayers and they will have their turn.

(19622) (Q.): Meantime it is part of the paternal burden or family burden that you should pay something for their right to enjoy the parks and recreation areas and to borrow books from the public library? (A.): I think this is so, particularly as I am one at the moment who is benefiting by the unearned increment due to these benefits in the district. The value of my property is going up, so that I am benefiting indirectly by the money spent by the council in a general way.

(19624) (Q.): What if he does not (become a landowner): how do you make him contribute to local government services? (A.): Well, he has to occupy some residence and he is probably paying a rent which includes a rate element. I do not think any of us avoid occupation of land in an area.

VALUER-GENERAL FOR N.S.WALES

H. W. EASTWOOD (Valuer General for N.S.Wales).

This witness made some of the most important submissions from many angles. His initial contributions occupied five days. His Department broadly submits that it should be relieved of the responsibility of making valuations of Improved Capital Value or Assessed Annual Value (improved) and be required to take out only the site value —

this to be a re-defined variant of the unimproved capital value — which would be broadly the market value less structures. (This considers clearing, filling and reclamation as merged into the land value after a period instead of having to take special account of their cost as improvements and is for simplification in valuation practice). The Valuer General's problem is that he is required to value all the municipalities at intervals which, some years ago, were triennially. Due to the higher valuation standards now required it takes much longer to value improvements and this has caused deterioration to the point that re-valuations are only made at six-yearly intervals and a high proportion of councils have not been brought into his valuation cycle as yet. If he were freed of the requirement to value the improvements he could undertake an annual revaluation of the site value, which would remove anomalies which must enter with a such a long valuation period as six years. (1983-3225).

On the merits of the rating systems the following passages from the transcript give the answers to questions asked by Mr. Sheppard for the Metropolitan Water, Sewerage and Drainage Board:

25770. *Q.*: You have formed the view personally that it is better to rate both for water and sewerage purposes and for local-government purposes on site values and not on assessed annual values? *A.*: What do you mean by personally?

25771. *Q.*: I mean your personal opinion? *A.*: Yes, it is a personal opinion that is subscribed to — or I choose to think it is, by conversation and consultation with senior officers in the department. It is not something that I simply crusade as a person. It has been the subject of discussion over the years.

25772. *Q.*: Do you — and I mean this in the same sense — have that view quite apart from any problem that you have, by reason of these difficulties in obtaining assessed annual values at sufficiently regular periods? *A.*: Yes, the view that I had prior to causing this survey to be made, which this Commission required us to make, had not been as crystallized as clearly as it is now. *I think the result of the survey shows to my satisfaction unmistakably that not only is there simplicity in the site value system, but there is a better equity.*

CANBERRA

HENRY J. MANNING (Valuer, Canberra).

This witness is the officer in charge of rating in the Department of the Interior at Canberra. He has had valuation experience with the Snowy Mountains Authority; Government of Singapore; has made researches for the Lincoln Foundation and attended the Lincoln Foundation Seminar at Claremont in California, at which he delivered a paper. He dealt in these submissions with rating systems in other countries, particularly South Africa, United States, Hawaii, Singapore, Ireland. He then went on to make some very significant observations backed by detailed statements, on the relative incidence of rates and land tax on business properties in four capital cities in Australia — Brisbane, Sydney, Melbourne and Adelaide. The first rates U.C.V. for all pur-

poses; the second U.C.V. for municipal and A.A.V. for water and sewerage rating, the other two rate the (improved) annual value for all purposes. He deals with the general place of rating in the metropolitan area in each case. He listed obsolete central business properties which had been sold recently in Brisbane, comparing the income they brought in at the date of sale with the total rates and land tax attracted under the U.C.V. method. This showed that in some cases the liabilities exceeded the cash income and in others there was not much left to the owners while the properties were held in the under-developed condition. There was, therefore, a strong stimulus to make owners put buildings on them commensurate with the potential shown by the land value. He developed similar comparisons for the capitals, showing that the impetus to development was less in Melbourne than in either Brisbane or Sydney, where it did not pay to buy up old business buildings and hold them to reap increased land value. In these places buildings were pulled down and new ones arise relatively soon. But he showed that in Melbourne old buildings were being bought and not re-built, but treated as an investment because the "appreciation" in value of the land was much greater than the outgo in rates and land tax. Among other things drawn to attention which rocked the Commission was the fact that local rates in Sydney City were double those in Melbourne City, from approximately the same area. (This will not surprise Melbourne residents, who will have noticed how little has been done by their council in the way of major improvements because of the fear of ratepayer reaction to increases in the rates. This is because the well-developed properties are over-rated while the numerous under-developed properties are under-rated under the council's practice of rating improvements). Mr. Manning read into his evidence a substantial portion of a paper, "Property Tax and Land Use Patterns in Australia and New Zealand," by Dr. A. M. Woodruff and Mr. L. Echer-Racz from the American "Tax Executive" magazine of 1965. He made comparisons of the rates currently payable on certain Melbourne properties under rating of improvements with those payable under the unimproved value basis. (6460 - 7077).

This witness presented a further comprehensive submission directly related to the terms of reference. He considered that a rate on land is the most appropriate method of financing Local Government services. He considered that the rate should be on the unimproved value of the land as modified to a site-value concept on lines set out. He sets out reasons for these views and examines arguments for and against rating the site value, answering these criticisms very well. Subject to certain modifications that are relative to the water and sewerage services he considered the basis of rating by statutory bodies providing water, sewerage and drainage, should be met by a rate on the unimproved value while the Operating Costs for water should be met by consumption charges based on meterage. He considered that the sewerage and drainage services should be met by a rate upon the unimproved value. He gave much important information on technical discussions of valuation. He considered that assessment of the "assessed annual value" should be discontinued for the following reasons:

- (a) it would reduce the statutory task of the Valuer-General;
- (b) it is an artificial concept too much subject to hazard and requiring constant attention truly to reflect the

- changing nature of rentals and of the improvements on land;
- (c) rating on assessed annual values is a tax on the progressive and thrifty property owner in that the better he builds the more he extends a house, perhaps solely for the increasing needs of his family, the more he is required to pay;

- (d) elsewhere, the administration of rating based on annual values, unless these are kept much below market possibilities, has been the subject of extensive and endless litigation;
- (e) only three statutory water, sewerage and drainage authorities in N.S.W. still use this basis and in each of these site values could be substituted.

GRAZIERS, REAL ESTATE INTERESTS AND RATEPAYERS' ASSOCIATIONS

GRAZIERS

KENNETH P. BAXTER (*Graziers' Association of New South Wales*).

This Association has over 11,000 members with 14,000 holdings in New South Wales. On the rating system the submission said: "The Association considers that the rating of land on the Unimproved Capital Value is relatively the most acceptable method for providing services directly related to the use and enjoyment of land." (19222-19329).

MARCUS M. HYNDES (*Grazier and Valuer, Tamworth*)

This witness has been carrying out his own business as a grazier for 20 years and has given advice to various bodies at times. He has acted as adviser to the Liverpool Plains Landowners' Assn., and some of his submissions were on behalf of that body as well as his own views. The submission made was that a rate on land is the most appropriate method of financing local government but that it should be subject to augmentation from other sources. Leaving aside isolated special cases he had formed the opinion over the years that rating on land has formed a reasonably satisfactory basis for the financing of local government services in this country. The supplementation of rating revenue which he advocated was limited to diversion to councils of certain fees and charges which presently go to the Land Department. These are the rentals on road permits which are nominally roads but leased for grazing. With this augmentation he considered the land rating system would be reasonably adequate in future to finance local government services which have to be maintained and expanded. He considered the concept of unimproved value should be changed to make it more suitable and put forward a variation which he called "key value." Questioning and answers showed that in many respects this agreed with the site value ex structures being sought by the Valuer General (10772-10881).

RATEPAYERS' ASSOCIATION

MICHAEL M. LOWING (*Estate Agent in Griffith and President of the Wade Shire Ratepayers' Association*).

The witness stated the opinion of his ratepayers' association was that a rate on land is an appropriate method of financing the services which councils are authorised to provide under the Local Government Act, 1919. He also said

that his association agreed that the system under the above mentioned acts do provide a satisfactory basis for the equitable distribution of the rate burden.

The Association is of the firm opinion that the rate should be on the unimproved capital value of lands. It considers that the rating of land, using the improved capital value, or assessed annual value of land, would be tantamount to penalising people for improving the value of their holdings of land.

He contended that even though a ratepayer would build the house he desired, *he would be penalised for building it.*

A man who buys a block of horticultural land or grazing land and improves it with his own work, is being penalised more highly for his labour than the man who does not. He made the point that a man who is hard working is being penalised for his hard working. A man who is working hard and is being taxed more highly than others who do not, is not encouraged to use the assets of his country to the best effort. He should not be penalised for his efforts as against the person who is slothful.

Mr. Lowing stated that his association considered that every Federal and State Government instrumentality owning land in a shire should pay rates on that land. He also considered that this would include schools, both public and private. His association did not agree with a proposed poll tax, as such a tax would be sectional and would be an intrusion into the privacy of home-owners. The cost of collecting and policing the tax would not warrant the amount collected. (13406 to 13508).

REAL ESTATE INSTITUTE

CHARLES S. DYSON (*Deputy President, Real Estate Institute of New South Wales*).

Some of the proposals of most interest to readers are as follows:

"All lands in the State should be valued. There should be one value only for rating and taxing purposes, a "site value," or "land-site value" or other appropriate term distinct from the present unimproved capital value, valuations of improved capital value and assessed annual value to be discontinued for rating and taxing purposes. (17063A). All lands should be valued annually (17075). I feel that land tax is something that should be covered by general taxation instead of sectional taxation. (17135). There should be a property rate levied by the Local Government Authorities based on the "Site Value" furnished annually by the Valuer-General to meet the cost of works and services which are of benefit to the property, principally construction and maintenance of roads,

bridges, drains, footpaths, street lighting, cleansing and contribution to maintenance of fire brigades. (17137). This rate to be levied on every site irrespective of ownership. In other words there should be no land exempt from taxation. (17140). Schools and court houses and government buildings should be rated (17141). Independent or private schools the same (17142). Religious hostels and churches should all pay some rating to the local council (17143). There should be no exemptions at all (17144). There should be no provision for minimum rates as the site values will truly reflect the rating values. . . The levying of minimum rates also defeats the object of property tax based on land value (17150). A poll tax was favoured to supplement rating (17188). There should be one assessing and collecting agency to prepare assessments, receive payments and disburse the proceeds to the various authorities. This should be possible if the "site value only" method of valuation is adopted and valuations made annually (17042-17286).

CITY DEVELOPMENT FIRMS

GERALD DUSSELDORP (*Chairman of Directors, Lend Lease Corporation*).

The firm of which this witness is Chairman is well known as one of the major firms engaged in high-rise building development in Sydney, residential subdivisions and the building of homes, shopping centres and commercial developments in suburban centres.

Mr. Dusseldorp's evidence was strongly in favour of rating on the site value rather than the value of improvements. In view of the importance of his evidence to the building industries we give some of his answers to key questions below:

(11535) Q: Do you think that there would be any shortage of sites and buildings available for re-development under an annual value rating system as compared with an unimproved value rating system? A: I think that the tendency would be that . . . Then it would definitely pay an owner who is in no hurry to pay the rates and taxes without improving it, because the chance is that he would recover that plus, when the market is right, so that he can ride the "booms" and the "troughs." If he misses one boom period he can just sit it out and wait for the next one and he is bound to recover more than he has paid out during the time, plus the fact that what he collects is tax free, yet his rates and taxes will be deductible during that period from any income that he might derive from other sources."

(11536) Q: Do you think that this in the long run has any effect upon the prices in the market? A: Very much so because this, of course, drives up the value of land in particular preferred locations for all times and this is, of course, the whole history of land values in the city areas — they have just gone up all the time.

(11541) Q: I think you have given some consideration to the way in which the face of Sydney is changing and the manner in which you sometimes see high-rise buildings being erected in close proximity to buildings of a different kind. Do you feel that any rating system is likely of itself to have any significant effect on the way in which the city develops? A: Well, if you put it that "any rating system," that draws one's mind back to the time that they used to tax you for the glass area you had in a building and, of course, it had a very significant effect.

(11542) Q: The window tax? A: Yes. But leaving these things aside, I do not think that a rating system per se in the short term has any influence on this. On the long term there is overwhelming evidence the world over where different systems are used to what we have here that the life of a property, like the life of anything, goes through various stages and I think one has to have clearly in mind what one is talking about — what stage one is talking about — when trying to answer a question like yours. You have really dealt with two stages. From acquisition to completion I do not think it makes any difference there at all. Immediately after completion and for a period thereafter whilst the building is new, fresh, competitive and so on — I do not think there is a

great deal of difference there so long as conditions pertain like Sydney and Melbourne having the total amount (rates and land tax) approximately the same; but it is with the ageing of a building, I think that is where the differences in the rating systems acquire, with the passage of time, greater influence. Naturally as time passes on, the system that reduces its charges with the obsolescence of the building will tend to drag out the life of this building far more than a system that makes greater and greater impositions in the net income and forces a renewal at an earlier date. So in the long term my answer to your question would be that it has a very definite influence; in the short view — our narrow view — I don't think it would make any difference at all.

(11545) Q: Take the long term view. On the one hand, as you have pointed out, perhaps an annual value rating system would prolong the life of aged buildings and you would, I gather, regard this as being not in the best interests of the community — would that be right? A: Yes, that would be right.

(11546) Q: The other point is, is there not a high degree of economic waste in some cases by the demolition of old but useful buildings? How would you yourself measure up those advantages and disadvantages? A: Well, this is no different than in the whole of other industries. I think there would be very few industries today where physical obsolescence would take place before economic obsolescence. And I think that when economic obsolescence is reached it just about encompasses all types of industrial plant, and an office building and a retail centre and all these things are really no other things than factories used for a certain purpose. If they are taxed in a way that they tend to be used longer, as for example, on machinery in a factory if the taxation rates allowed there were to tend to give incentives to people to hang on to this old stuff, there would be economic waste from not following technological improvement as closely as one should. That must have a very large bearing on the economy of any country and that would cause a gradual slipping back from those countries that would not adopt such practices. So to think that something that is physically still capable of carrying on, therefore must be carried on until it falls to bits, I think that is economically completely obsolete and out-moded and I think we would have a very drastic depression if that were to be generally held.

(11563) Q: Does your view on this question (water rates) mean that there would be no rate at all and that it would be solely a consumption charge, like gas and electricity, or that there should be some minimum or basic rate to cover connection . . . ?

A: . . . I think what I really mean to say is that to have this on an assessed annual value is wrong in principle and that if one takes the other factors into account, like sewerage and storm water drains where you cannot draw the analogy with the gas and so on but as a final conclusion you might still keep the whole system intact and make it a tax on the land rather than on the improvements on the land. So that if one abandons the consumption idea because of these other reasons — and I presume that is the way it has been done — then one should take the attitude that these facilities are available to land that has been released for certain purposes and therefore there should be a tax on the land and not on the improvements on the land, whether that land is being used or not.

(11577) Q: And you suggest as an alternative that if councils were to collect land tax in the same way as they collect rates, being a tax on the land and not on the owner, and to account to the central authority for the land tax, perhaps with an adjustment to cover collection costs and so on — you say that this would be more efficient and lead to economies?

A: Yes, but I think that that would be the minor aspect although an important one. I think that the major aspect of the whole land tax situation is this. Here I am talking not as the narrow developer looking after his immediate interests, but looking at the position as a citizen having the broader view that the land tax, as a tax, should be used to penetrate these unearned increments both in the city as well as on suburban land, because that is the only way of bringing these values down to a realistic level . . . I am all in favour of that, because ultimately if there were only enough broad acres released, then that would give developers and others the chance of competing more for these broad acres and then the price would come down . . . that is where land tax, in my opinion, should be used to bring these broad acre prices down.

THE ASSOCIATION FOR GOOD GOVERNMENT

LIONEL B. BOORMAN (*Eastwood*).

This witness gave submissions on behalf of the "Good Government Association," which is the N.S.Wales equivalent of the Henry George League. The submissions here are a comprehensive statement of the principle of land value rating and the practical effects of its application. They covered a very wide range from which the merits of the principle of land value taxation are demonstrated. Together with those of the following witness for the Good Government Association (Mr. E. B. Donohue), they occupied the 21st and 22nd days of the hearing covered by paragraphs 4828 to 5205. These contributions, and the questions and answers during examination upon them, make interesting reading. Broadly, the Association considered (1) that a rate on land is a suitable basis for payment for local government services; (2) that the method should be the unimproved value and not the improved value; (3) that the Metropolitan Water Sewerage and Drainage Board and other statutory bodies should change from the A.A.V. basis of rating to the U.C.V. basis; (4) that there should not be any other revenue source used to supplement the rate on land for municipal finance.

EDWARD B. DONOHUE (*Croydon*).

This witness for the Good Government Association dealt with many of the statements that had been made by the Local Government Association as a basis for its desire to supplement rates from other sources. Some claims which it refuted were such general statements as "Rates are a burden"; "Local Government rating on U.C.V. is proving inadequate for the modern age"; "Councils have been forced to levy rates so high that in many cases they are becoming difficult to collect"; "Local Government wants a new system of financing"; the proposal for penalty rates upon multi-storey commercial buildings; the proposal for poll-taxes, "ability to pay." In these various submissions there have been extensive references to the results of the Cowan Report and other investigations, and opinions of those with experience of the working of land value rating. (4828 - 5188).

OPENING PORTION OF THE STATEMENT SUBMITTED BY "THE ASSOCIATION FOR GOOD GOVERNMENT"

The basis of our submission is that rating on the unimproved value of land is a taking by the community of part of the site rent or economic rent which arises by reason of the superiority of one site over another. This site rent is a measure of the advantage of exclusive occupancy of a site, generally understood as ownership of land. This site rent or advantage accrues to the owner's benefit not because of anything he himself has done, but through people living and working together in society. We submit that this site rent is a community fund, community-created, out of which the cost of the provision of social amenities should be met.

There is nothing new in this contention, although as civilisation develops, and more especially since the Industrial Revolution, the stated principle becomes clearer and clearer and of greater and greater importance. The feudal system clearly recognised that the land belonged to society at large and not to the individual. It admitted in no one the uncontrolled and exclusive right to land. A

fief was essentially a trust and to enjoyment was annexed obligation. In the feudal view the king was the owner of land, and although individuals were granted possession, yet in its possession were involved obligations from the possessor to the Crown.

In the feudal scheme the Crown lands supported public expenditure for the maintenance of the king and his family; the church lands defrayed the cost of public worship, education and the care of the sick and the poor and maintained the priesthood. The military tenures provided for public defence and in time of emergency the landholder's duty was to lead a body of his sub-holders in defence of the realm. The possessor's control of land was not allowed to extend beyond his own lifetime. If a possessor of land became unable to discharge his duties to the Crown he was dispossessed. If he were exiled or outlawed his rights were forfeited. The feudal system in its rise and early development was a triumph of the idea of the common right to land.

Site rent or economic rent was recognised by the early French physiocrats who referred to it as "produit net" or surplus, and Adam Smith, the father of economists, said that as soon as land became private property the landlord demands a share of almost all the produce which the labourer can either raise or collect from it and that his rent makes the first deduction from the produce of the labour which is employed upon the land. He also said that rent of land not only varies with its fertility, whatever be its produce, but with its situation, whatever be its fertility, and that the landlord's share of the produce necessarily increases with the increase of produce.

Adam Smith, in his book, "The Wealth of Nations," made the following further statements:—

"All those improvements in the productive powers of labour, which tend directly to reduce the real price of manufacturers, tend indirectly to raise the real rent of land."

"Every increase in the real wealth of the society, every increase in the quantity of useful labour employed within it, tends indirectly to raise the real rent of land."

"Both ground-rents and the ordinary rent of land are species of revenue which the owner, in many cases, enjoys without any care or attention of his own. Though a part of this revenue should be taken from him in order to defray the expenses of the state, no discouragement will thereby be given to any sort of industry. The annual produce of the land and the labour of the society, the real wealth and revenue of the great body of the people, might be the same after such a tax as before. Ground-rents, and the ordinary rent of land, are therefore perhaps the species of revenue which can best bear to have a peculiar tax imposed upon them Nothing can be more reasonable than that a fund which owes its existence to the good government of the state should be taxed peculiarly, or should contribute something more than the greater part of other funds, towards the support of that government."

John Stuart Mill, in his "Principles of Political Economy," said that rent is a natural monopoly which may be regulated and which may even be held as a trust for the community generally but which cannot be prevented from existing. He also said that as society advances in population, wealth and combination of labour, land constantly rises in value and price, and he goes on to say:—

"As long as there is land which yields no rent, the land which does yield rent does so in consequence of some advantage which it enjoys in fertility or vicinity to markets over the other, and the measure of its advantage is also the measure of its rent, and the cause of its yielding rent is that it possesses a natural monopoly, the quantity of land as favourably circumstanced as itself not being sufficient to supply the market."

These propositions constitute the theory of rent laid down by Ricardo.

"The theory of rent: a theorem which may be called the 'pons asinorum' of political economy for there are few persons who have refused their assent to it, except from not having thoroughly understood it."

The existence of site rent or economic rent was recognised by Bernard Shaw who, in his book, "Everybody's Political What's What," said that the land question was so fundamental that if we went wrong on it everything else would go wrong automatically, and he goes on to say—

"To understand the matter we must begin by grasping the fact that land is neither unlimited in quantity nor equally valuable everywhere. It varies from acre to acre between frontages in the city of London which are valued by the foot, and Saharas on which human life cannot subsist. Within the British islands there are places where at low tide the inhabitants can pick up coal and take it home in their prams for nothing, and mines from which, after twenty years' expensive tunnelling, coal is hewn and transported laboriously from miles out under the sea. There are lands flowing with milk and honey; lands oozing oil, lands stuffed with diamonds or gold nuggets, el Dorados of all sorts, side by side with deserts of waterless sand, malarious swamps, and jungle haunted by venomous snakes and man-eating leopards. In the loveliest landscapes of western Ireland and Scotland there are stony fields on which the hardest labour will not support the cultivator unless he can get a yearly job as harvest labourer elsewhere. On suburban roads the house rents vary from mile to mile by the amount of fare by tram, bus or railway to the nearest market or business centre. If rents vary as they do from shillings a week to thousands a year, it is because the earth varies in fertilities, proximities, advantages and disadvantages of all descriptions. These are not views of the land question: they are facts. If the land of a country be divided up into separate plots and made the property of its occupiers, the final result will not be that individuals will be rich in proportion to their industry, honesty, sobriety and capacity. Some of them will be longlived and fabulously rich; others will be fever-stricken and half-starved, or on the road as destitute tramps, with the rest somewhere on the scale between these extremes. Almost immedi-

ately the unlucky ones will abandon their barren sands and swamps and offer to cultivate the land of the lucky ones for a better subsistence, giving up the rest of the product to the owner as *rent*."

Winston Churchill, during the bitter debates preceding the Finance Bill of 1909, said:

"Land monopoly is not the only monopoly, but it is by far the greatest of monopolies . . . it is a perpetual monopoly and it is the mother of all other forms of monopoly. Unearned increments in land are not the only form of unearned or undeserved profit, but they are the principal form of unearned increment, and they are derived from processes which are not merely not beneficial but positively detrimental to the general public . . . In fact, you may say that the unearned increment on the land is reaped by the land monopolist in exact proportion not to the service but to the disservice done. It is monopoly which is the keynote, and where monopoly prevails the greater the injury to society and the greater the reward of the monopolist . . . The municipality, wishing for broader streets, better houses, more healthy, decent, scientifically planned towns, is made to pay more to get them in proportion as it has exerted itself to make past improvements. The more it has improved the town the more it will have to pay for any land it may now wish to acquire for further improvements. . . . All goes back to the land, and the landowner is enabled to absorb to himself a share of almost every public and every private benefit, however important or however pitiful those benefits may be Our system of local taxation today is vicious and wasteful — a harsh burden on the poor and an impediment to enterprise and progress."

RETAIL TRADERS' ASSOCIATIONS

ALAN D. BARRON

(Retail Traders' Association of New South Wales)

This witness presented a comprehensive submission on behalf of the Retail Traders' Association of N.S.W., representing 3,100 retail stores owned by members throughout the State, but principally in the Sydney metropolitan district, Newcastle and Wollongong. The submissions are also endorsed by the Federated Pharmaceutical Service Guild of Australia, New South Wales Branch, which consists of some 1,800 chemists. Linked with them, too, are the Country Traders' Association of New South Wales, with 1,852 members in country areas. The submissions also are supported by the N.S.W. Retail Tobacco Traders' Association of 6,137 members, and the Sydney Chamber of Commerce which consists of 1,750 members. There is also represented the Radio Electrical and Television Retailers' Association of N.S.W., with 200 members.

It was pointed out in its submissions that the term "ability to pay," which had been much used in discussions before the Commission, was misleading without qualification. The Associations' submission rightly qualified its meaning as "ability to pay based on land ownership."

They expressed concern at the extent of rate exempt properties and gave a list showing these for many local government units. It showed that the exemptions were greatest in Sydney City where 25.3% of the total value of property was rate exempt. This caused a correspondingly inflated rate upon the remaining properties required to bear more than their fair share to cover the exempt properties. Compared with the average of about 7½% this raised the Sydney rate level 24% above what might reasonably be expected. The extra burden was illustrated with actual cases. It was therefore submitted that land owned by the State or Commonwealth Government for administration should pay rates or

the Governments concerned should contribute an amount equal to the rates to the municipality concerned.

On the rating system itself the submission says:

"This Association favours a rate on land, as it feels that land is the only medium common to all ratepayers which has attained its value in a broad sense as a result of the overall conditions prevailing in the community and not as a direct result of personal enterprise. It also feels that if there is an equitable basis for rating which is common to all, then that basis should be equally adaptable for the levying of Municipal and Water and Sewerage rates and Land Tax."

The Association, however, suggested a two-part rating system comprising two components. The first component would be a fixed basic amount for properties within each of eight categories but varying between the categories. The second component would be the Unimproved Capital Value or Site Value as in the present system. This two-component suggestion seems to have been developed because it was thought that the Commission was considering the claims of rating on improvements through the A.A.V. system and the Association thought this intermediate plan would be less objectionable. That it is heartily opposed to the A.A.V. system as inequitable is shown by the following quotations from its submissions:

(17737). It should be made quite clear that the adoption of the A.A.V. for assessing municipal rates would undoubtedly favour the retailer, who in the main, operates from valuable sites which are usually poorly developed. However, as to whether this system achieves equitability is another matter which, regrettably from the retailer's point of view, cannot be overlooked."

(17747) The Assessed Annual Value basis favours the land owner who chooses to leave his holding in an underdeveloped state, and as will be seen, achieves a greater rate obligation for a two-bedroom unit than exists in the case of a reasonable self-contained cottage. . . . Some advocates of A.A.V. rating hold that adoption of this system would reflect the development of a site and place the burden on those who are "more able to pay."

(17749) The Unimproved Capital Value system does this very thing. The very substance of rating on the Unimproved Capital Value is that it—

- (i) has full regard to the degree to which a site can be developed, and
- (ii) has complete regard to the revenue potential of the site in its optimum developed state.

Adoption of the A.A.V. system of rating would not only lump the burden on the small property holder, as evidence by the foregoing schedules, but would also place an additional burden on the owners of large and well-developed properties which would act as a subsidy to the owners of equally valuable sites which are under-developed.

It is therefore held that the Assessed Annual Value could not provide an equitable basis upon which to distribute municipal rates."

(17766) "Again the adoption of the Assessed Annual Value as a basis for the levying of Municipal Rates would penalise the proprietor who developed his site to the optimum and would be a tax on the enterprise of man: This anomaly already occurs in the levying of Water and Sewerage Rates on the A.A.V., as evidenced by the following example:

Two adjoining and identical terrace houses can have different Assessed Annual Values because one owner has a higher domestic

standard than his neighbour. This ratepayer carried out improvements to this house resulting in an A.A.V. of £562 (£12 per week rental value) whilst the neighbour who, although more affluent, is prepared to live in sub-standard conditions resulting in an A.A.V. of £375 (or the equivalent of £8 per week rental value). This example becomes more magnified when applied to large commercial properties.

It is therefore submitted that the adoption of an Unimproved Capital Value or Site Value would be the only common basis which is not influenced in any major fashion by man-made improvements and therefore not a charge on enterprise.

This Association supports the implementation of an annual valuation of the Unimproved Capital Value or Site Value but contends that a differential factor is needed to achieve a more equitable basis of rating."

(17790). It is submitted that the Unimproved Capital Value or Site Value should also be used for the assessment of Water, Sewerage and Drainage rates, and again that the matter of assessments should be differential and should have regard to the following three components (a) Availability; (b) Usage; (c) Ability to pay as indicated by land ownership.

LAND VALUES RESEARCH GROUP

ALLAN R. HUTCHINSON (Research Director, Land Values Research Group, Melbourne).

The Land Values Research Group — whose headquarters are in Melbourne, Victoria — made several very important separate submissions to the Commission:

This body has made and published many factual surveys and reports over the last 20 years, both on the incidence and effects of municipal rating systems on particular municipalities and on relative development between the Australian States as shown by key indicators of economic and social progress. The introduction to the Group's original submission says:

"As the relative merits of rating systems and alternative sources of local government revenue are the specific subject of this inquiry it is felt that we should offer the Commission the benefit of our investigations. These should be particularly important because New South Wales has been operating almost exclusively under the unimproved land value rating principle for a half-century.

"It is, therefore, not possible to make direct comparisons of development between areas within the State applying different rating policies, to estimate the social and economic effects to be expected if return were made to the discarded practice of levying local taxes on buildings and other improvements. Nor to test the effects of extension of unimproved land value rating to the Metropolitan, Newcastle and Broken Hill water, sewerage and drainage authorities (these being the only New South Wales bodies still imposing local taxes upon buildings and other owner-improvements).

"Such comparisons are possible in Victoria where some councils rate unimproved land value while others rate value of improvements. Moreover many have made the change-over to the unimproved value so recently that the effects under modern conditions can be studied. Comparisons are also possible between the development of the various States according to the varying weight of local taxes levied on the value of the land or of the value of the buildings and cultivation respectively. These have been studied by the Group, and the results are discussed later under the appropriate terms of reference."

There are four distinct sets of submissions made at different times by the Group. The original submissions dealt with the first four questions listed in the terms of reference and comprised 26 pages single space plus statistical appendices. The supplementary submissions dealt with the other three questions of the terms of reference and comprised 24 pages.

The third set of submissions corrected misleading statements by the City Valuer of Auckland as contained in a report on the incidence of rating systems in New Zealand. That report had been cited extensively by two witnesses before the Commission. The Group submissions showed that the facts and conclusions to be drawn from them were the direct reverse of those stated in the report. The submissions occupied 16 pages.

The fourth set of submissions was contained in letters to the N.S. Wales Crown Solicitor with comments in criticism of the submissions made by the Sydney Metropolitan Water, Sewerage and Drainage Board. Some of the statements made in submissions from that authority were in direct conflict with tables prepared by that authority in 1960 and included as part of the Research Group submissions. Hence the group was invited to comment. Its submissions in this field were regarded as so important that the Commission caused both the Valuer-General's Department and the Board to independently undertake two exercises to check the facts as to incidence of the rating systems on homes in the Board's area. In the course of this more than 250,000 homes were checked by computer analysis. It was found by the Valuer-General that about two-thirds of the homes would benefit in lower rates for water, sewerage and drainage if the basis of the Board's rating were changed from (improved) A.A.V. to the unimproved value basis. The Board's report of its exercise gave a different result to this but both the Valuer-General and the Research Group have pointed out further serious errors in the Board's treatment, and that when these are corrected its exercise confirms the results obtained by the Valuer-General.

The Group's submissions were not read into the transcript of proceedings in detail as were earlier submissions. They were recorded as Exhibit 302.

The Group considers that a rate on land is the most appropriate means to finance local government services. It made suggestions for improvement of the machinery of applying the principle including provision for rating of *unimproved annual value* as an alternative to *unimproved capital value*. It favoured the Valuer-General's proposal for site-value (whether annual or capital) as a basis, with invisible improvements such as clearing of timber and filling being considered as merging with the land value after at least 20 years. It favored rating on unimproved value for the water, sewerage and drainage authorities as well as local councils. It worked out a table showing how it was possible to check the magnitude of the penalty effect of one rating system compared with another. This showed that there was no limit to the percentage penalty upon improvements where there were rated and this could become infinitely great. On the other hand there was a limit to the penalty effect of unimproved value rating on under-developed property. For the Sydney metro area the least developed property was vacant land on which the penalty was limited to 222 per cent above the rates payable under A.A.V. The effect upon the economics of building was illustrated with a multi-storey prestige building of which details were taken from "The Valuer." It was shown that a proposition which was economic with rating on U.C.V. would become uneconomic under A.A.V. on accepted standards of required return. The total penalty on the building industries by rating buildings in the Sydney metro area was calculated and the extent of relief if the water and sewerage rates were switched to the site value. Comparisons were given of building activity before and after removal of local rates on buildings, for a sequence of years in Victorian councils. Comparisons were made between development of Melbourne and Sydney. The general effects of removal of local taxes from improvements were shown with supporting statistics and exhibits.

Findings of other recent committees of inquiry on this subject were cited with detail. The abuses in the recently

introduced practice of imposition of minimum rates on dwellings were dealt with and abandonment recommended. The absurdity and injustice of the suggested tax on commercial buildings with more than three storeys was demonstrated and abandonment of the proposal recommended. This was dealt with both from the town planning and the revenue angles. Proposals of the Local Government Association to supplement rates by other taxes were examined and shown to be fallacious as also the claim that "rates are too high." The supporting claims that "State Taxes have increased faster than Local Rates" were shown to be untrue and the statistics quoted by the Association in its support completely misleading. It was shown that for its comparisons of the period 1947 to 1962 the L.G.A. figure of £47,037,000 for State taxes for 1962 was only that part of States taxes paid into consolidated revenue but omitted £20,382,000 covering the whole range of motor vehicle taxes and poker machine taxes, although these were shown by the Statist in the same source data for total taxes. When these were taken into account local taxes had risen substantially less than State taxes. The figures on the relative weight of rates here and overseas were also examined and shown to be far more favorable to the ratepayer in Australia than U.K., U.S.A. or Canada, quoted by the L.G.A.

The relative suitability of Commonwealth Grants, Local Income Taxes and Poll Taxes to supplement local rates were discussed and shown to the disadvantage of owners and tenants of homes. Recommendations for a complete change in the Public Relations approach to Local Government to its problems were made. These deserve continued study by Local Government authorities after the present inquiry is over because they go much beyond its scope.

As the Commissioners had not read these submissions at the stage of his appearance before the Commission, Mr. Hutchinson was not cross examined upon them, except on some points dealt with in them on which the Commission was particularly concerned and upon which discussion was led by the Q.C. assisting the Commission.

ELECTRICITY SUPPLY AUTHORITIES

HAROLD G. WICKHAM (*County Clerk, Namoi Valley County Council*).

This authority supplies electricity to the far western areas of the State. It could finance these solely from charges to the consumer or by assessment on the Shires within its area who would, in turn, recover them by the unimproved value rate charge on their ratepayers. It first used the former method and electricity development was very slow under it. No return could be got until the lines were built and in use. In 1954 it switched to the assessment method and development has been meteoric. Statistics were given of the growth in revenue by assessment year by year. The rise was from £3,633 in 1954 to £64,233 in 1966. The witness was full of praise for the system since its finances were adequate while at the same time the ratepayers were able to get a rebate of income tax for the rate payment where they could get nothing back on an electricity supply bill. It was so successful that neighbouring areas were trying to get them to supply electricity to them. This Council covers 39,642 square miles, or one-eighth of the whole State, and has a population of only 41,160 people. They were operating under Section 572A of the Local Government Act and were anxious that it be note deleted. (21354-87).

CYRIL K. GUINEY

(*Mains Engineer for Sydney County Council*)

This witness gave evidence on a suggestion made by the Local Government and Shires' Association and some councils that county councils which supply electricity should be responsible for the cost of street lighting. The council strongly opposed any proposal that the liability for the whole of the cost of the maintenance and lighting of street lights be placed on electricity consumers rather than on ratepayers, as at present. It pointed out that, under present conditions, ratepayers are allowed Income Tax Deductions for their Local Government rates, which include components for street lighting charges, whereas under the suggested arrangement whereby street lighting charges would be incorporated in electricity accounts, ratepayers would no longer receive a tax rebate for the street lighting component. (18061).

ROBERT A. HINGSTON (*County Clerk of Prospect Council*).

The submissions here concerned a proposal to transfer responsibility for street lighting from the ratepayers to electricity consumers which was opposed by this Council. Some

important points from its submission follow:

(g) In the case of occupiers who are not ratepayers, rent payments should cover rates, including the street lighting component, so that in effect all residents are contributing to street lighting costs in the form of either rates or rents.

(h) If street lighting costs are not to be covered by rates, but by an impost on the charge for electricity, it seems relevant to observe that rates are a deductible item for income tax purposes but electricity charges are not.

(i) If street lighting were made a charge on electricity consumers unoccupied blocks would receive a free service and, if it is agreed that land values are increased by the amenity, this would be inequitable.

I subscribe to the view that the availability of street lighting improves the value of land and that the principle of making the ratepayers who benefit responsible for street lighting costs is a sound one. (19731).

DONALD KENNETH MUIR (Rural Investigation Engineer, Electricity Authority of New South Wales)

This witness supported land value rating as a means of obtaining electricity revenue and affirmed that in general U.C.V. was the most equitable method of finance. He also argued that rating is more attractive to the consumer than levying a service charge.

OTHER AUTHORITIES

IAN R. McPHAIL (Lecturer, Department of Geography, University of New England).

This witness gave important evidence favouring continuance of the rate on land as the basis of local government finance but using the "site value" formulation as proposed by the Valuer-General instead of the present unimproved capital value. He opposed suggestions to rate Improved Capital Value and its derivative Annual Value on which he said:—

"Rating on the I.C.V. therefore adds a second component, that of capital improvement, to the basic value of the unimproved land. No longer is the desirability of the parcel of land, as measured by market price, the criterion for rating, **but the effort and ability of the landholder to improve the land is added to the rating basis.** An impressive demonstration of the actual effect of the shift in the rate burden is found in the submission of the Bathurst City Council to the Royal Commission. . . . As part of them the argument appears that is the most cogent, and the most often made against a rate on I.C.V. or A.A.V., **that this is a tax on improvement and incentive.** In terms of rural production **this State cannot afford any tax on productivity, or the desire to improve, no matter how slight the effect of such tax may be claimed.**" (22321).

Asked whether the rural lands tax on improved value in Victoria known as net annual value was any less encouragement there than in New South Wales, he said:

"I think it is possibly. It is difficult to assess; it would probably only have a slight effect, **but it is still a tax on improvement and even if the people of Victoria have grown up with it I personally do not agree with it. I think in a country like Australia, which is trying to increase its rural production, it just cannot even stand a slight effect such as this.**

"Further, a rate on the I.C.V. would have the effect of transferring the rate burden away from the person most able to pay, the large landholder or grazier to the smaller owner who is less able to pay. In the Shire of Dumaresq the largest property owners, with the highest incomes, utilise extensive grazing methods on relatively unimproved land. On the other hand owners of small holdings are forced to improve land, farm more extensively, and invest in capital improvements in order to make a reasonable return from a much smaller area. If the rating basis was altered then, in this shire specifically, the proportionate rate burden would be shifted from the most able to pay to the least able. As well the large grazier would have a further dis-incentive to improve land which in many cases has a high potential for improvement."

HECTOR J. GEDDES (Associate Professor of Animal Husbandry in the University of Sydney and Director of the Animal Husbandry Farm at Camden).

This witness expressed concern at the inflation of land values in the vicinity of cities to levels that will not allow a new owner to earn much more than bank interest. He therefore favoured basing rates on potential productivity rather than on market value. To clarify uncertainty on his proposals he explained:

"Eventually I would think the most desirable system would be one based on productivity, or perhaps a better phrase would be *potential productivity*, as a safeguard against the man who fails to develop his land — if he were taxed on potential productivity under reasonably efficient management." (23681).

RAYMOND W. ARCHER (Economist, National Development Commission).

This witness gave important evidence on the merits of the property tax as the major source of finance for local government services in New South Wales. The general thesis put forward is that the property tax is a satisfactory base for financing a large part of local government services and for financing the expansion of those services. He dealt with the incidence of land rates on various classes of business and residential properties. He gave evidence from overseas sources showing that local property tax rates in Australia are low compared with those overseas. On a per head of population basis for four major cities this worked out at: St. Louis (U.S.A.) \$94.6; Pittsburgh (U.S.A.) \$84.0; Boston (U.S.A.) \$182.4; Sydney \$42.1.

He pointed out that a very considerable part of the local taxes are passed on to the Commonwealth Government through the deductibility of rates from taxable income subject to income tax. He did an important service and pointed out that the claims that property rates had now reached saturation in Australia were fallacious. This had been the burden of some of the argument used by the Local Government Association to support a case for greater subsidies.