SUBMISSION TO:

WESTERN AUSTRALIA

THE COMMITTEE OF INQUIRY

INTO RATES, TAXES AND CHARGES

FROM

THE LAND VALUES RESEARCH GROUP

MELBOURNE

. . . . . .

QUESTION NO. I

Question 1.

What are the anomalies of the present system of valuation used for:

(a) Land taxes;
(b) Metropolitan region improvement tax;
(c) Local authority rating;
(d) Water supply, sewerage and drainage rating.

Answer

(1) Anomalies due to the use of different valuation bases simultaneously in the same district. Or to the use of valuations made at different times by different valuers for different purposes.

(2) Anomalies caused by excessive intervals between successive valuations. They arise between parts of the district concerned developing faster or slower than the district average;

(3) The much more difficult and time consuming nature of valuation of the improvements on the land as compared with that of the land alone makes anomalies more frequent and serious even at the time of valuation. It also extends the time taken to value the district and results in the anomalies referred to in (1);

(4) The artificial requirement that valuers take account of the original condition of the land and treat clearing, filling and other such as continuing improvements long after the original cost of making them has merged into the value of the land is an unnecessary complication which leads to valuation anomalies.

.../2

QUESTION NO. 2

Can the anomalies listed in the answer to Question No. 1 be rectified? If so in what manner?

Answers

The anomalies listed in the answers to the first question can be rectified as described below:

(1) By requiring that all valuations for any district be made at the same time by the same valuer whatever rating bases are involved.

(2) By requiring that valuations be revised annually or not less frequently than bi-ennially.

(3) By requiring the State Taxation Department valuers to supply valuations of the land only (excluding the component due to owners' improvements).

(4) By requiring valuers only to return the unimproved annual or capital site value of the land, treating the costs of clearing, filling and reclamation as merging with the value of the land after a sufficient interval (between 14 and 20 years).

Explanatory Comment

(1) Same valuer for all purposes

There should only be one valuation authority operating in any district. If valuations on more than one basis are needed they should all be done simultaneously by the same valuer for the property being valued. In Western Australia valuations may be made by one or more of three categories of valuers: (a) the staff of the Commissioner of Land Tax, (b) a valuer or valuers engaged by the council, (c) the water supply authority for the district. Anomalies can arise particularly where parts of the district are valued for rating on the unimproved value while others are rated on the (improved) annual value.

(2) Frequency of valuation

W.A. In Western Australia there is no set interval between re-valuations and this lack is a serious weakness. It is especially important that the intervals to revaluation be short in times of inflation and changing development rates as now.

The necessity to specify a period at which there must be a revaluation is recognised in other States. Most of them have already reduced the period from earlier practice and the tendency is to reduce it further.

QLD. TAS. S.A. In Queensland, Tasmania and South Australia, the period set to revaluation is five years.

VIC. In Victoria it has now been reduced to four-yearly re-valuations for the Metropolitan area and six years in the country. These are recognised to be too long still. The last valuation for the metro area was returned on 30/9/72, valuations being as current at a common date of 31/12/69. Thus the valuations being supplied for rating were already three years behind the market. As they last for four years by the time the next valuation is returned the valuations currently used for land tax and municipal rating will be up to seven years behind market prices. Under current conditions of development and inflation this is most unsatisfactory.

Instructions have gone out to valuers for the next valuation to be brought one year closer to the market.

NSW. The most important developments have been in New South Wales where the Valuer General's Department makes most of the valuations. The interval specified to revaluation was three years. Had the unimproved value of the land only to be supplied this would have been adequate, but with the greater complexity of valuation of improvements it was found to be impracticable to comply with this requirement. The intervals to re-valuation had degenerated over many years till the three-year cycle became a six-year cycle. The Valuer-General for New South Wales made strong submissions to the 1966 Royal Commission into Land Valuation and Local Government Finance to be relieved of the requirement to value improvements at all, these being the bottleneck. As unimproved values were almost universally used in that State and use of the improved annual rental values was confined to the three water, sewerage and drainage authorities serving Sydney, Newcastle and Broken Hill areas he proposed that his staff be required only to supply unimproved values and these be used by these other bodies. He gave assurances that, freed from the requirement to value improvements, his Department would be able to revise the unimproved values annually. The Royal Commission was not prepared to recommend that it be made mandatory for these three rating bodies to use the unimproved values. It left it optional but recommended that certain provisions of the legislation that prevented them from doing so be removed.

However, the necessity to have updated valuations available quickly became so pressing that the Askin Government last year legislated to require the Valuer-General in future to supply bi-ennially only the unimproved capital value for purposes of taxing and rating.

As from 1st July, 1974, unimproved values only are supplied and used for water, sewerage and drainage rates for residential properties comprising more than 90% of the total assessments. The commercial and industrial properties will continue to be valued and rated on the annual value basis using the Water and Sewerage Board's own existing valuation staff, which are independent of the Valuer-General. It seems that the Board, having a finger in the valuation pie, is unwilling that it be passed over completely to another body. This may only be a temporary exception since it seems less efficient to have the Board doing its own valuations for a small segment of assessments while using those of the Valuer-General for 90% of its assessments.

<u>We submit that West Australia should follow thr recent N.S.Wales pattern of biennial revaluation frequency as a solution to its own similar problems</u>.

(3) <u>Valuation of the land only</u>

Increase in the frequency of valuation to rectify anomalies is not possible to any substantial extend if the valuation authority is required to value the improved as well as the unimproved values of the land. The unimproved or site-value is relatively easy to establish. It is the improvement component that is time-consuming and more difficult to establish.

The unimproved value of the land is already returned by the Western Australian State Taxation Department valuers. It is used as a basis for land tax and for local government rating purposes wholly or in part by 129 out of 140 local councils. Only 11 councils rate the (improved) annual value alone while 50 rate the unimproved capital value only. The rest supplement rating on the unimproved values with rates on the improved values in the township areas. These were the figures for the 1970/71 year as recorded in "Local Government Statistics of Western Australia" for that year.

Analysis of Table No. 4 of that publication showed that $17.737 million in rates were levied on the unimproved value compared with $8.435 million levied on the annual value basis.

So far as Western Australia is concerned the proportion of local councils already using the unimproved value basis wholly or partly is 93 per cent. Of the total Council rate revenue of the State 67.7 per cent is raised by rates on the unimproved value basis. This system of valuation is so nearly universal in its application in Western Australia that little administrative effort would be needed to bring the remainder into line and make it so in fact.

(4) Site-Value

A modification of the unimproved value, as previously estimated, has been found to have advantages in reducing unnecessary work to the valuer as compared with the older methods and to give more certainty to the results. What is involved is a variant of valuation technique rather than of principle. To distinguish between the old and new variants the product of the new is usually referred to as the Site Value. The difference is that in the latter costs of making improvements such as clearing, filling and land reclamation are treated as having merged into the value of the land after a period ranging from 14 to 20 years. This has been adopted in Victoria. For a period the old and new variants were to be taken out together until all parts of the State had been valued under the new basis. From that time onwards the site-value variant would become the official unimproved value and valuations under the old methods would cease. This point has nearly been reached. Recommendations for similar changes in other states have been made by Committees of Inquiry in New South Wales, Queensland and Tasmania.

QUESTION NO. 3

Examine and report on the advantages and disadvantages of -

(a) Annual value base
(b) Unimproved value base

for existing rates and taxes imposed

Answer

This question is examined and reported on in four parts on the following sheets:

First

A statement of the principle of land value rating generally applicable both to rating on the "improved" and "unimproved" value bases, though only the latter complies fully with the requirements of the principle.

(This part is taken from our publication "Should Local Government Rates be based on the "Improved" or the "Unimproved" value of land?" of which a copy of the full publication is supplied as Exhibit "A" to which closer reference will be helpful on this and other terms of reference.)

Second

Discusses the extent to which rating on the Annual Value and Unimproved Value bases respectively accord with or depart from the principle of land value rating or taxing.

Third

This part discusses the advantages and disadvantages of the two alternative bases as demonstrated by the effects of rating and taxing owners' improvements as compared with the unimproved value of the land alone. The material in it was prepared for the New South Wales Royal Commission of Inquiry into Local Government Finance and Valuation in 1966 and is equally applicable to the present Inquiry in Western Australia. The letters A.A.V. where used in it stand for Assessed Annual Value which is the equivalent of Annual Value as used in Western Australia. The Victorian equivalent is the Net Annual Value (N.A.V.).

The analyses of the incidence of the alternative rating systems for the water, sewerage and drainage areas of Melbourne and Sydney dealt with therein will also be relevant to those of Perth. We understand that similar comparisons there would be difficult as the annual values and unimproved values of all properties in the areas are not estimated simultaneously by the same valuer. But the general conclusions from the Melbourne and Sydney comparisons would also apply in Perth.

Fourth

This part summarises in tabular form the main advantages and disadvantages of the alternative rating bases.

Answer to Question No. 3

THE PRINCIPLE OF LAND VALUE RATING

Land Values Research Group Submission

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 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."**

Answer to Question No.3
(Part 2)

Discussing the extent to which rating on annual values and unimproved value bases accord with the principle of land value rating and taxing.

(1) The systems of valuation provided for in Western Australia are:

(a) Annual value base
(b) Unimproved value base

(2) Annual value is a general description which would cover two possible alternatives. It could relate either to the improved annual value of the land and improvements upon it. Alternatively it could relate to the unimproved annual value of the land alone disregarding that of any improvements. The definition of 'annual value' given under section 533 (4) of the Local Government Act shows that what is meant as the basis is the improved annual value.

(3) Similarly the general description unimproved value could cover either the unimproved annual value or the unimproved capital value. The definition of 'unimproved value' given under section 533 (3) of the Local Government Act shows that what is meant here is the unimproved capital value.

(4) Later in this submission we suggest that provision should be made for rating of the two alternative forms unimproved annual and improved capital value under the common general heading 'unimproved value'.

(5) But for the purpose of this question the alternatives reduce to two - the general headings "Unimproved value" and "improved value" respectively and the observations under these headings will be equally applicable to the annual or the capital form.

(6) Key words in this question are 'safisfactory' and 'equitable'. We think the answers suggest themselves in these respects if we consider the nature of these two alternatives "unimproved value" and "improved value" of land.

(7) We submit that the 'unimproved value' is both a satisfactory and equitable base for the distribution of the rate burden while the 'improved value' is not.

(8) The improved value was a first approximation only to an equitable base evolved at a time when valuation staffing and technique did not permit the separation of the rental or capital value due to the site from that due to the owner's improvements.

(9) It recognised the principle that a rate on land was the fairest method of apportioning costs between owners but the practice followed was only a rough stab at it. It became obsolete and unsatisfactory as soon as it became possible to value the site separately from the improvements on the site.

(10) The unimproved value of the site is a publicly-created value. It arises because of community factors apart from the individual contribution of the owner in labor or capital. Among the most important of these community factors which cause people to want to live or work

in the vicinity and hence give value to the particular sites is the level of services made available by local government.

(11) The most equitable means of distributing these costs among land-owners is unquestionably pro-rata to the value given to their sites by the community independently of their own effort. None can have any legitimate ground for complaint in being asked to contribute towards the costs of local government pro-rata to benefit he receives. Hence a rate based on the 'unimproved value' of land is both equitable and satisfactory.

(12) On the other hand the 'improved value' is a combination of land value plus improvements value. The value due to the improvements is essentially that which the individual has produced by his own effort and capital. It has no relationship to the level of local government type services towards the costs of which he is asked to contribute. Those services give and maintain value to the site and not to the improvements.

(13) So far as they fall upon the improvements a rate on the 'improved value' falls directly as a fine or penalty proportioned to his own effort and outlay in making the improvements. There is no correspondence between value given to and the payment demanded from the individual and therefore no real basis of equity. Any apparent reasonableness in the resultant bill to individual ratepayers will be accidental and not inherent in the method. As the existence and development of the community is dependent upon the level of these 'improvements' the presence of an inbuilt penalty against them in the system cuts across the true interests of every section of the community other than land speculators and slum owners. Hence rates based upon the 'improved value' are neither equitable nor satisfactory.

Answer to Question No. 3
(Part 3)
Advantages and disadvantages of Annual Value and Unimproved Value as bases for taxing and rating.

(1) The rate should be upon the value given to the site by the community instead of the value developed upon the site by the individual.

(2) 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.

(3) The submissions already made in our paragraphs (7) to (11) relative to Question 2 are also applicable to this Question and need to be referred back to.

General Effects of Rating "improved" value

(4) Our submissions in paragraphs (12) and (13) relative to Question 2 indicating how rates based upon "improved" value are neither equitable nor satisfactory are also applicable to this question.

(5) The value of the buildings or other improvements measures what the owner does for the community as well as for himself. It is upon the multiplication of such improvements that our living standards and the prosperity of all sections of the community depend. The common interest requires that such improvements be encouraged or given incentives -- certainly not penalised.

(6) Rates and taxes imposed on the value of owners' buildings, cultivation and other improvements, by their nature act as deterrents and have an inhibiting effect upon the building construction and related industries. Such rates directly reduce the return obtainable from investment in new building construction.

(7) Conversely the removal of rates and taxes from improvements stimulates their supply and acts to the advantage of the community by increasing the Gross National Product available to be shared by the members of the community.

(8) The magnitude of the rate-penalty on buildings of above-average improvement/site ratio is so great that commendable building projects are considered but abandoned because the rate-charge the buildings would attract makes the projects uneconomic. This happens whether the sites concerned have potential for prestige offices, commercial, industrial, residential or farming use.

(9) Results of rating improvements are that properties are retained in inferior condition and use long after they should be demolished and re-developed -- or inferior construction bearing a low rate burden is used -- simply because the rate penalty attracted would make proper development unremunerative.

.../10

Advantages and Disadvantages of Annual Value and Unimproved Value as bases for taxing and rating.

(1) The rate should be upon the value given to the site by the community instead of the value developed upon the site by the individual.

(2) 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.

(3) The submissions already made in our paragraphs (7) to (11) relative to Question 2 are also applicable to this Question and need to be referred back to.

General Effects of Rating "improved" value

(4) Our submissions in paragraphs (12) and (13) relative to Question 2 indicating how rates based upon "improved" value are neither equitable nor satisfactory are also applicable to this question.

(5) The value of the buildings or other improvements measures what the owner does for the community as well as for himself. It is upon the multiplication of such improvements that our living standards and the prosperity of all sections of the community depend. The common interest requires that such improvements be encouraged or given incentives -- certainly not penalised.

(6) Rates and taxes imposed on the value of owners' buildings, cultivation and other improvements, by their nature act as deterrents and have an inhibiting effect upon the building construction and related industries. Such rates directly reduce the return obtainable from investment in new building construction.

(7) Conversely the removal of rates and taxes from improvements stimulates their supply and acts to the advantage of the community by increasing the Gross National Product available to be shared by the members of the community.

(8) The magnitude of the rate-penalty on buildings of above-average improvement/site ratio is so great that commendable building projects are considered but abandoned because the rate-charge the buildings would attract makes the projects uneconomic. This happens whether the sites concerned have potential for prestige offices, commercial, industrial, residential or farming use.

(9) Results of rating improvements are that properties are retained in inferior condition and use long after they should be demolished and re-developed -- or inferior construction bearing a low rate burden is used -- simply because the rate penalty attracted would make proper development unremunerative.

(10) These effects inevitably follow even though individual owners may be quite unaware of the differences between rating systems. They follow automatically from application of the normal business practices followed by any prudent investor to determine whether a proposed expenditure will result in profit or loss. Consideration of the rates and taxes payable on a building project is normally an essential element in the calculations of such an investor to test whether the net income obtainable will be sufficient to justify spending the money on it.

(11) A building project is uneconomic when the net return to be expected from it after paying all annual expenses (before income tax) is less than the interest obtainable from investing the same capital outlay in safe securities. That means a return of at least the order of six per cent clear must be assured. The extra rate payments under A.V. as compared with those on U.C.V. for a well improved new building is frequently up to two per cent of capital cost. This is sufficient to cause abandonment of near marginal projects.

(In view of its importance we deal at greater length with the magnitude of the rate penalty illustrating with examples under a special sub-heading.)

(12) Rating buildings and other improvements is a process by which there are no direct gainers -- only losers:

(i) The city stagnates, becomes blighted or fails to regenerate as rapidly as it should if natural incentives were allowed to operate;

(ii) Owners of the properties retained in inferior condition are losers because the building tax prevents them increasing their income adequately from outlay on a socially desirable project;

(iii) The building construction and allied industries - and all that engage in them - are losers in curtailed activity and the repercussive effects spread to every section of the community;

(iv) The local rating authority loses since the properties which its own practice of rating buildings holds under-developed do not contribute adequately to its revenues. (The fact that some development and revenue increase takes place despite the penalties merely diverts attention from the vastly greater area which fails to develop.) The local authority also loses in that it is left with a run-down area to administer offering less personal satisfaction to staff, councillors and inhabitants.

The only apparent indirect beneficiaries of the process are owners of vacant land and other under-developed properties who - because owners of well-improved properties are charged more than their fair share of the rate yield - are let off and pay less than their fair share in rates.

(13) <u>Hence owners' improvements upon the land should be completely free from local rates and taxes</u>.

PRACTICAL CHECKS AND TESTS

(14) The foregoing general submissions on the relative effects of rating the unimproved and improved land value may appear statements of self-evident truths which do not need any special proofs. However we think it necessary to supplement them with the following more detailed submissions based on the results of practical tests of the alternative systems in operation.

What is the Magnitude of the Penalty Effect Between alternative Rating Systems?

(15) A key factor to understanding of the effects upon individuals or the community of rating the unimproved or the improved value respectively is a knowledge of the magnitude of the penalty imposed by the one system relatively to the other. The same total sum of money must be raised irrespective of the system but the distribution between the ratepayers will be different. It is important to consider how great the penalty effect is and whether it operates towards or against the good of the community as well as individuals concerned.

(16) The magnitude of the penalty imposed on any individual property by the one rating system (A.V.) as compared with the other (U.C.V.) can be readily found by dividing the A.V. of the property into its U.C.V. and comparing the result obtained with the average figure similarly obtained for the whole rating area concerned.

(17) For any rating area we can easily construct a simple table or graph from which - against the number obtained by division as above - we can directly read the penalty in extra payment under the one system as compared with the other. This is shown as a percentage which is the most useful form.

(18) In paragraph (20) we give such a table applicable to the Sydney Metropolitan area, substantially that served with water by the Metropolitan Water, Sewerage and Drainage Board. This is based on the valuations for 1963/64 which were: A.A.V. £245,151.000 and U.C.V. £1,519,493,000. The ratio U.C.V./A.A.V., from this is 6.2 averaged over the area, this number being that at which the rates are the same under either system. The pattern shown by this will vary slightly for different times and places but not in form which is characteristic of the difference in incidence of the systems anywhere.

(19) We confine the table below to the bare figures needed in using it to find the penalty effect. But in view of its key importance we give the full working on Exhibit "A.2" of the Appendix forming part of the submissions, so that those interested can study it and work out similar tables (if desired) for other rating areas having different average ratios on dividing the total A.A.V. into the U.C.V. On that same page we work out the corresponding table for Melbourne Metropolitan Areas served with water by the Melbourne & Metropolitan Board of Works which is also responsible for sewerage and drainage of that city.

(20)

Properties with Ratio U.C.V. / A.V.		Penalty Effect: A.V. rate exceeds U.C.V. rate by:	Penalty Effect: U.C.V. rate exceeds A.V. rate by:
Most improved	= 0	Infinitely great	
	= 0.25	2,380 per cent	
	= 0.50	1,140 " "	
Improved	= 1	520 " "	
above	= 2	210 " "	
average	= 3	106 " "	
of the	= 4	55 " "	
rating area.	= 5	24 " "	
Area average	= 6.2	0 " "	same either system here.

Properties with Ratio U.C.V. / A.V.		Penalty Effect: A.V. rate exceeds U.C.V. rate by:	Penalty Effect: U.C.V. rate exceeds A.V. rate by:
Improved	= 7		13 per cent
below	= 8		29 " "
average	= 9		45 " "
of the	=10		61 " "
rating area.	=11		77 " "
	=12		93 " "
	=13		109 " "
	=14		125 " "
	=15		142 " "
	=16		158 " "
	=17		174 " "
	=18		190 " "
	=19		206 " "
Lease improved	=20		222 " " vacant land.

(21) On the next page we give a graph* plotting the points of the similar Melbourne table to give a visual picture of the penal effect of the one system relative to the other. Either the tabular or graphical form can be used as preferred to see how any particular property is affected. We do not give a similar graph for Sydney though one can readily be drawn up by anyone interested to plot the points. The form would be the same as the Melbourne one conclusions from which are equally applicable to Sydney and other places.

* The graph is that in the pamphlet included as Appendix "B.2"

(22) Implications of the Graph and Table.

It is important to understand what the graph and tabulation mean because they are the key to explain why expansion of the level of building construction (and other indicators of economic and social development linked with it) can be confidently expected when rates are shifted from buildings to sites - and conversely shrinking of the improvement level if rates are shifted from sites to buildings. The conclusions drawn from these exhibits are:

Well-Improved Properties

* Properties with numbers in the range 0 to 6 (Sydney) and 8 (Melbourne) resultant on dividing the A.V. into the U.C.V. have degree of improvement above the district average.

* They are the kind of properties we all take pride in and want to see multiplied. But they are seen to be penalised by A.V. rating on improvements.

* The extent of the penalty is seen to increase with ever-multiplying intensity the more improved the properties are above the district average. As seen on the graph the penalty does not follow a straight line increase with improvement but follows an exponential curve accelerating at each successive step in the scale.

* There is seen to be no upper limit to the penalty effect on well improved properties on this basis. The penalty can theoretically be infinitely great magnitude.

* The only limitation that would prevent it reaching this magnitude is the physical practicability of concentrating enough improvements upon the site.

* Before this stage is reached the project would have been abandoned as rendered uneconomic by the severity of the rate penalty that would be attracted. (This actually happens well below the extreme degrees of improvements.)

Average Properties

* Properties with the number 6.2 (Sydney) and 9 (Melbourne*) on dividing the A.V. into U.C.V. are improved to the district average. At this number there is no penalty since rates are the same under either system.

(* This comparison was made in 1966 and at this time the Melbourne number so derived was 8.9. The later revaluations returned in 1968 and 1972 both resulted in the number 8.4.)

Poorly Developed Properties

* Properties with numbers in the range 7 (Sydney) and 10 (Melbourne) on to 20 on dividing the A.V. into the U.C.V. have degree of improvement below the district average.

* They are mainly the kind of properties we all want to see re-modelled or pulled down and replaced with better buildings more fitted for the sites. They include slum and blighted properties fit only for demolition and vacant land holdings. They are seen to be penalized by U.C.V. rating.

* The extent of the penalty is mild rising on a straight line graph as properties fall furthest below the district-average degree of improvement.

* There is an upper limit to the penalty effect under U.C.V. on poorly-improved properties (although no limit on the A.V. penalty on well-improved properties.) It is seen that the limit any property can be asked to pay is a little more than double (in Melbourne) and treble (in Sydney) its payment under A.V. This is only incurred for vacant land which is the least improved of all properties. It has the number 20 on the graph or table incurring a penalty of 222% (Sydney) or 122% (Melbourne) above its A.V. payment.

* Although there is a penalty effect upon under-developed properties under U.C.V. this arises simply because (having low-valued improvements) the amount of the rate-saving in abolition of rates on improvements is insufficient to cancel out the increased rates on the sites. There is no penalty at all upon improvements as such under unimproved value rating.

* General

The penal effect of A.V. in discouraging the making of improvements is far more intense than that of U.C.V. rating in discouraging holding of vacant or under-developed properties. Hence buildings and other improvements should not be rated.

How Rates Affect the Economics of Buildings illustrated with a Multi-Storey Example

(23) Our example is an economic analysis of a typical multi-storey building project taken, with due acknowledgement to "THE VALUER" in whose April, 1963, issue it appears in an article entitled "Planning to Build" by John C. Davis, Property Investment Officer of the National Mutual Life Association of A'asia Ltd. The considerations used in it apply to any new building projects whether commercial, industrial or residential. We show below only the part necessary to the comparison of the effects of the rating systems on the economics of the project but give the full detail Exhibit "B" of the Appendix.

(24) The basic data provided by the example is:

	£
Capital Cost (land plus 12-storey building)	2,382,937
Unimproved Capital Value of land for rating	478,000
Assessed Annual Value (improved) for rating	200,000
Annual Income Gross (est.)	267,399
Annual Outgoings (est.)	
All items except rates as detailed	88,792
Rates - municipal, water & sewerage (below):	
(Case 1) where all rates are on U.C.V.	17,207
(Case 2) municipal U.C.V.; water & sewer A.V.	27,956
(Case 3) where all rates are on A.V.	45,000

Net Return on Capital Cost (Income less Outgoings)£

(Case 1) where all rates are on U.C.V.	161,400	= 6.76%
(Case 2) municipal U.C.V.; water & sewer A.V.	150,651	= 6.31%
(Case 3) where all rates on A.V.	133,607	= 5.60%

Resultant Conclusion

(Case 1) Would be economic to build
(Case 2) Would be economic to build
(Case 3) Would be uneconomic and result in loss

If a six per cent yield on capital outlay is regarded as the minimum return to justify going on with the project it could not be undertaken under the third alternative (all rates on A.V.)

The range in yield due to the rating system here is from 5.60% up to 6.76%, a difference of 1.16% - i.e. under U.C.V. rating for all purposes the yield would be more than 20% greater than if A.V. were the rating basis. This is a most substantial factor in the viability of the project.

(25) Rating - the Power to Destroy - or Create?

Justice Marshall of U.S.A. is credited with saying that "Taxation is the Power to destroy - it is also the power to create". This is demonstrably true of local taxation through the rating system. Both effects can be illustrated from the data of the above example.

* Destructive Rating

(26) Rating of buildings exemplifies the power to destroy. Though some strong financial firms may be willing to carry a loss on their office buildings from profits on other properties it is

still true that building generally will not be undertaken unless the investors can see a profit in the project.

Such marginal buildings projects as the above example are conceived - are killed by the penal rates they would attract where levied on the improved value - and remain unborn. The killing is real and not a figure of speech.

The amount of £17,000 annually from such a site with all rates levied on U.C.V. (equal to the combined payments of some 340 houses) is a substantial sum. To charge £45,000 (equal to payments of 900 homes) under full rating of improvements would be fantastic and the higher charges morally and economically indefensible. It would have no relation to benefit offered as the theory of rating requires. The £17,000 site-value payment is clearly linked with value given and payable also by similar under-developed neighboring properties.

In this example with all rates on the improved value a building project which would have involved spending £1,583,000 on building construction, architects, engineers, surveyors and wages - is killed because the penal effect of rating on value of buildings makes the return from investing the money less than could be obtained by investing it in safe securities.

* Creative Rating

(27) Rating of sites exemplifies the power to create.

The interests of all sections of the community require that the potential of land be developed and that holding of vacant or under-developed sites be discouraged.

To assure this there must be a sufficient economic cost involved in holding land idle.

Rates and taxes - on land value apart from improvements - provide such a cost factor tending to make owners willing to consider development proposals instead of waiting for land prices to rise. If the proposed multi-storey site were allowed to remain vacant land the effect of rates and land tax would be as follows:

As vacant land the A.V. would be £23,900, on which the municipal, water and sewerage rates under that basis would total £5,377, (municipal £3,286; water-sewerage £2,091). Only cash income coming in would be proceeds of parking fees on 30 cars as in the original example totalling £4,500 annually.

Outgoings annually under the two rating systems are as under:

Item	Rating System U.C.V. (for all purposes) £	Rating System A.V. (for all purposes) £
Outgoing for:		
Rates	17,207	5,377
Land Tax	14,981	14,981
	32,188	20,358
Less Cash Income	4,500	4,500
Cash loss while vacant	£27,688	£15,858

(28) That these sums have to be paid out in cash - whether the land remain sterile or is developed - ensures that owners will seek to develop adequately to make it earn. To this there is the additional important factor associated with holding

the land vacant in loss of interest on the £500,000 which could be obtained by selling it and investing. This would be £30,000 annually which exceeds the rates-plus-land tax. But it is not as potent an influence to develop because it does not involve a cash outlay and could be offset against appreciation in land value. Nevertheless it must be reckoned in economic comparisons. The fact that such a site while idle would involve loss of earnings in rates, land tax and loss if interest totalling £57,000 under U.C.V. or £46,000 under A.V. tends to make the owner develop it even if it means taking a lower yield than he might like. This is the main cause for the great development of city buildings now going on in all capitals and especially in Sydney.

(29) Rates upon the improved value could be more appropriately called DETERRENTS AGAINST IMPROVEMENT since this would identify in the public mind their true effect.

Rates upon the unimproved value could be more appropriately called INCENTIVES TOWARDS IMPROVEMENT because that is their effect.

How Rate Deterrents or Incentives are Distributed Between Land and Buildings Under Unimproved or Improved Value Base.

(30) For more than half a century buildings and other owners' improvements have been completely free from local taxes for municipal purposes under unimproved value rating and the only bodies in New South Wales rating improvements are the Water, Sewerage and Drainage Boards of the Sydney Metropolitan Area (which also serves Camden, Campbelltown, Penrith, Shellharbour, Wollongong and Wollondilly); the Hunter River District (serving Newcastle, Cessnock and Maitland) and Broken Hill.

(31) In view of the fact that municipal councils have for many years had the option to put some of their rates on the improved value if they desired but none have done so in New South Wales, it seems unlikely that there will be any serious suggestion made to the Commission that buildings and other improvements again be taxed. The most likely change would be to bring the three bodies still taxing improvements into line with councils by adopting the unimproved value basis. Nevertheless it is important to examine how the rate burden would be distributed under both systems.

(32) We do this for the year 1964 covering the municipal general rates for ordinary purposes and the water, sewerage and Drainage rates of the Sydney and Hunter River authorities with districts mentioned in submission (30). These areas covered in our analysis below contributed 65% of the total municipal rates for ordinary purposes of the State. We show how great the penalty would be upon buildings if unimproved value rating was abandoned as well as the further relief to buildings obtainable by bringing the remaining bodies into line with the municipalities.

Total Rates Raised 1964

(33)

Area included	Municipal Rates	Water Sewer Drainage Rates *
	£	£
Sydney Metropolis, Camden, Campbelltown, Penrith, Shellharbour, Wollongong, Wollondilly	32,956,000	17,567,000
Newcastle, Cessnock, and Maitland	2,115,000	2,075,000
Total Rates	35,071,000	19,642,000