LAND VALUES RESEARCH GROUP

SUBMISSIONS

to

THE ROYAL COMMISSION ON LOCAL GOVERNMENT FINANCE AND LAND VALUATION

NEW SOUTH WALES

1966

LAND VALUES RESEARCH GROUP

For the collection, analysis and distribution of information upon the incidence and effects of public charges upon land values :

HON. RESEARCH GROUP

G.A. BAKER	B.C.E., A.M.I.E. Aust.
F.O. BARNETT	M. Com., F.C.A. Aust.
H.E. BARTLETT	A.R.I.B.A.
W.A. CARNE	F.A.S.A.
L.M. DONNELLY	A.F.I.A.
A.J. EDWARDS	Dip. P. Admin.
F. DOOLAN	M.V.I.S., M.C.I.V.
Sir. RONALD EAST	Kt., C.B.E., M.C.E., M.I.C.E., M.I.E. Aust., F.ASCE.
G.A. FORSTER	B.Sc., B.A.
R. FORSTER	B.Sc., B.A.
J.A. FRENCH	B.C.E.
S.S. GILCHRIST	B.Sc.
R.H. GLADMAN	A.C.I.V.
W.E. GOWER	F.R.V.I.A., A.R.A.I.A.
K.N. GRIGG	M.B., B.S.
E.F. HALKYARD	B.Sc., Dip. Ed.
A.R. HUTCHINSON	B.Sc., A.M.I.E. Aust.
D.W. JOHNS	A.R.E.I.
E.K. MACKAY	A.R.I.B.A.
S. MERRIFIELD	L.S., M.V.I.S.
L.M. PERROTT	F.R.I.B.A.
C.H. RICHARDSON	B.E.E., A.M.I.E. Aust.
A.G. SANDOW	B.E., A.M.I.E. Aust.
L.E. STEVENS	B. Met. E., B. Ed.
W.H. TAYLOR	M.C.E., A.M.I.C.E. A.M.I.E. Aust.
N.A. WIGMORE	L.S., A.C.I.V.
N.R. WHITELOCK	F.C.I.S.
M.T. WILLIAMS	B.A., B.Comm., A.A.S.A.

HON. RESEARCH DIRECTOR

A.R. HUTCHINSON B.Sc., A.M.I.E. Aust.
32 Allison Avenue, Glen Iris, S.E.6.

HON. SECRETARY

L.F. BAWDEN

52 Guildford Road, Surrey Hills, E.10. Victoria.

HON. TREASURER

R. FORSTER B.Sc., B.A.

8 Leura Street, Surrey Hills E.10. Victoria.

FOREWORD

These submissions were made to the Royal Commission on Local Government Finance and Valuation in June, 1966.

They contain material and discuss ideas of basic importance to the community.

It was felt that they should be made available more widely for study and discussion by those concerned with the equity and incidence of alternative systems of public finance.

Accordingly, they have been combined in this booklet, issued at a nominal price of $0.50 posted, which barely covers the costs involved.

This is a small printing but further copies will be run off if necessary to meet continuing demand.

Some of the printed publications included with the submissions as appendices and listed following Page 26 , are not in the booklet. They are available at an extra $0.25 per set posted. If these are desired, requests should indicate ' complete with appendices '.

The ' Supplementary Submissions ' made on questions 6 and 7, of the terms of reference, relative to alternative revenue sources, are also available in a separate booklet at $0.25 posted.

THE LAND VALUES RESEARCH GROUP

SUBMISSIONS

TO

THE ROYAL COMMISSION ON RATING AND VALUATION

1. Introductory

(1) These submissions are made by the Land Values Research Group, whose headquarters are in Melbourne. This body has made and published many factual surveys and reports over the last twenty 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.

(2) 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.

(3) 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.)

(4) Such comparisons are possible in Victoria where some councils rate unimproved land value while others rate value of improvements. Moreover many have made the changeover 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.

(5) It should be mentioned that the Land Values Research Group is a non-profit association existing for the collection, analysis and distribution of information upon the incidence and effects of public charges imposed on land tenures. It was formed in 1943 following a visit to Australia of a Canadian economist H. Bronson Cowan, Director of the International Research Institute on Real Estate Taxation, who made two important surveys here in the Cities of Brunswick and Camberwell respectively employing new research methods. Members of various professional bodies who became acquainted with the methods used and the findings in his surveys were so impressed with their importance to the development of the community generally that the Group was formed to continue and extend them. It receives no government subsidy and its operations have been financed by members subscriptions, contributions from the public or municipal councils in areas where surveys have been requested and proceeds of sales of publications. All officers and research workers give their services in an honorary capacity.

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?

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

1. This view is almost axiomatic 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 make 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% 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 recognized 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 costs 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 there-after 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 clause 380 which (with the relevant part underlined by us) 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 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."

QUESTION NO.2.

Do the systems of valuation under the Valuation of Land Act, 1916-1964 and Schedule three of the Local Government Act, 1919, provide satisfactory bases for the equitable destribution of the rate burden?

Submission: YES-IN PART ONLY

(1) The systems of valuation provided for under the Valuation of Land Act are:

(i) Unimproved Value of land;
(ii) Improved Value of land;
(iii) Assessed Annual Value of land.

(2) Examination of the definitions that go with these in ss.5, 6 and 7 of the Act show that (iii) "assessed annual value" is not in fact that of the land alone as the title suggests but is the annual value of land plus improvements. It is therefore really the improved annual value while the definition of (ii) above shows that it is really the improved capital value of land plus improvements.

(3) These are in fact the same thing the improved capital value being merely the capitalized form of the improved annual value. So far as alternatives are concerned they boil down to the same thing both being embraced by the general term "improved value".

(4) There should similarly be two forms, unimproved annual and unimproved capital value of land, under the general heading "Unimproved value". In later submissions we suggest that provision be made for the unimproved annual as well as the capital form.

(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 'satisfactory' 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 recognized 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 absolete 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 particular sites is the level of services made available by local government.

(11) The most equitable means of distributing these costs among landowners 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.

(14) Although the existing provisions for unimproved capital valuation do provide a satisfactory base for the equitable distribution of the rate burden we consider it could be streamlined in the following respects:

(i) One such improvement would be to set a time limit beyond which invisible improvments such as clearing timber, filling excavations and land reclamation from sea or, swamps, would cease to be allowed as improvements and would merge into the land value.

(ii) In our opinion the period during which costs of such improvements as originally recorded would be specially allowed as such should be of the order of 20 years. Except for the period to merging this agrees with the recommendations of the N.S.W. Committee of Inquiry on Valuation of Land and Rating presented in 1960.

(15) Later in these submissions under question 4 we suggest that provision be made for rating the unimproved annual value as an alternative to the unimproved capital value

QUESTION NO. 3 (a).

Should the Rate be on the unimproved, improved or assessed annual value of the land

Submissions: UPON THE UNIMPROVED VALUE OF THE LAND

(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 again referred 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 penalized;

(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 investement in new building construction;

(7) Conversely the removal of rates and taxes from improvments 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 project uneconomic. This happens whether the sites concerned have potential for prestige offices, commercial, industrial, residential or farming use;

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 unremuneralive;

) 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.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)(page 11)

(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.

.* Hence owners' improvements upon the land should be completely free from local rates and taxes.

[illegible] CHECKS AND TESTS

- 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.

[illegible] 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 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.A.V.) as compared with the other (U.C.V.) can be readily found by dividing the A.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 1963/4 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" 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.A.V.		Penalty Effect: A.A.V. rate exceeds U.C.V. rate by:	Penalty Effect: U.C.V. rate exceeds A.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.
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 " "
Least improved	= 20		222 " " vacant land.

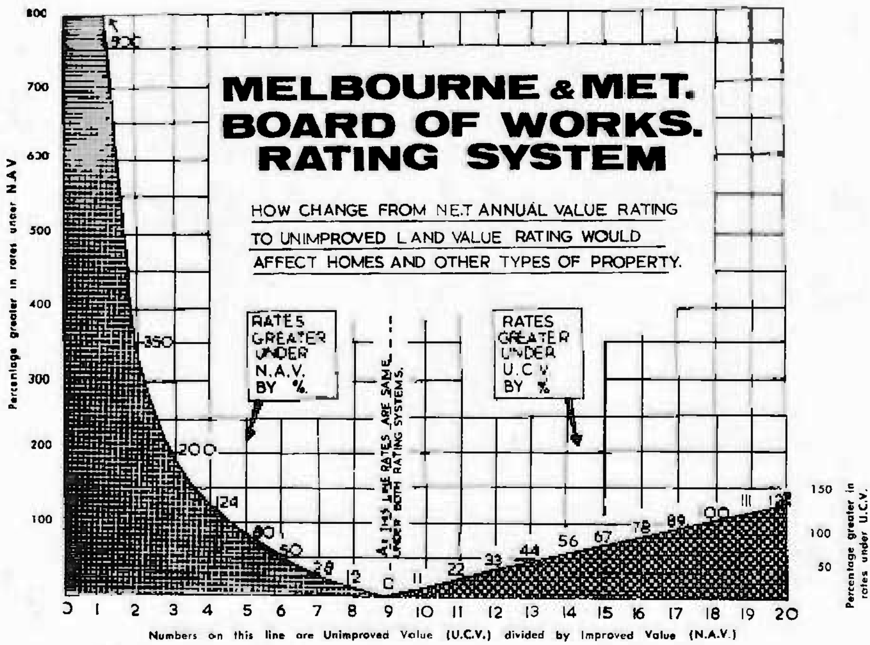
(21) On the next page we give a graph plotting the points of the similar Melbourne table to give a visual picture of the penal effect of the one system relative to the other. Either the tabular or graphical form can be used as preferred to see how any particular property is affected. We do not give a 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.

Implications of the Graph and Table

(22) 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.A.V. into the U.C.V. have degree of improvement above the district average.



TO FIND HOW THE TWO RATING SYSTEMS AFFECT YOUR PROPERTY

nstructions

FIRST Get the U.C.V. and N.A.V. of your property from your last municipal Council rate notice:

NEXT Divide its U.C.V. by its N.A.V. and find the corresponding figure on the bottom horizontal line of the chart

THEN The point on the graph vertically above this number shows the system which would charge you the highest M. & M. B. W. rates and the percentage extra involved.

SOME WORKED EXAMPLES.

(1) Municipal rate assessment shows the valuation figures are U.C.V. 500 and N.A.V. 240 ... Dividing the U.C.V. (500) by N.A.V. (240) gives 2 as the whole number (ignoring the extra fraction) ... Reading off vertically against the number 2 on the base line of the graph gives 350.

Thus the N.A.V. rate on this property is 350% greater than that payable under the U.C.V. basis.

(2) Municipal rate assessment shows valuation figures are U.C.V. 2270 and N.A.V. 235.... Dividing the U.C.V. by the N.A.V. figure gives the whole number 9.... Reading off from the graph vertically against 9 on the base line gives 0 showing that the rates under either system are the same in this case.

(3) Municipal rate assessment shows valuation figures are U.C.V. 2500 and N.A.V. 215 .... Dividing the U.C.V. by the N.A.V. figure gives the whole number 11. Reading off from the graph vertically against 11 on the base line gives 22.

If both U.C.V. and N.A.V. valuation figures are not shown on your rate assessment ask your municipal valuer to tell you the figures for your property.

* They are the kind of properties we all take pride in and want to see multiplied. But they are seen to be penalized by A.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 reach 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 improvement.)

Average Properties

* Properties with the number 6.2 (Sydney) and 9 (Melbourne) on dividing the A.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.

Poorly-Developed Properties

* Properties with numbers in the range 7 (Sydney) and 10 (Melbourne) on to 20 on dividing the A.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 remodelled 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.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.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.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.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'asis 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.A.V.	27,956
(Case 3) where all rates are on A.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.A.V.	150,651	=6.31%
(Case 3) where all rates on A.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.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.A.V. were the rating basis. This is a most substantial factor in the viability of the project.

Rating-- the Power to Destroy --or Create?

(25) 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 homes) 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.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.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 invested. 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 of interest totalling £57,000 under U.C.V. or £46,000 under A.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 Metropoltan 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	21,898,000
Newcastle, Cessnock and Maitland	2,115,000	2,455,000
Total Rates	35,071,000	24,353,000

* Water, sewerage and drainage figures are as supplied to us in correspondence from the respective authorities municipal rates.

Of these totals the A.A.V. rates for the Sydney grouped municipalities and the water, sewerage and drainage authority are to be distributed in the proportions 31% to land and 69% to buildings which is appropriate to their ratio 6.2 for U.C.V./A.A.V. Similarly the Newcastle group is to be distributed in the proportion 24% to land and 76% to buildings appropriate to their ratio 4.8 for U.C.V./A.A.V. When this is done the following table results.

(34) Rate Incidence on Land and Buildings

Effect on building	Rate Burden on	Municipal Rates	Sydney-Hunter Water, sewer & Drainage rates	Total Rates
		£	£	£
Present Rating (municipal U.C.V. water, sewerage, drainage A.A.V.)				
Incentive	Land	35,071,000	7,377,000	42,448,000
Deterrent	Buildings	nil	16,976,000	16,976,000
Rating U.C.V. for all purposes				
Incentive	Land	35,071,000	24,353,000	59,424,000
Deterrent	Buildings	nil	nil	nil
Rating A.A.V. for all purposes				
Incentive	Land	10,724,000	7,377,000	18,101,000
Deterrent	Buildings	24,347,000	16,976,000	41,323,000

(35) The present A.A.V. rating for water, sewerage and drainage in these areas imposes a penalty upon buildings as such of £16,976,000 annually. This is a very great deterrent which tends to channel investment funds from the building and associated industries into sterile investment in bare land.

If A.A.V. rating were extended to municipal councils a further burden of £24,347,000 annually would be imposed on the building industries as such with resultant channelling of investment funds from those industries towards land speculation.

If present U.C.V. rating for municipal purposes be extended to the water, sewerage and drainage functions in these areas the building and associated industries would be relieved annually of a burden of £16,976,000 now imposed on them. This would tend to channel investment funds from sterile land speculation into the productive fields of building and other industries.

Hence rates should be levied upon the unimproved value only for all purposes and buildings be completely un-taxed.

Extent to which Rates upon Buildings Actually inhibit Building Construction

(36) Exhibit C of Appendix is analysis sheets showing typical distribution patterns between numbers of properties grouped under whichever of the columns headed 0 to 20 is appropriate on dividing their A.A.V. into the U.C.V. (ignoring the decimal point). The first sheet is for residential properties and the second analysis sheet for industrial properties. Each number in the column is the reference number on the roll for the property.

(37) Evidence of the inhibiting effect of the rate penalty on improvements is seen in the relative infrequency of the lowest number from 2 downwards these being the most-improved properties subject to the heaviest penalty effect. Such distribution diagrams can only show the properties actually built despite the penalty and give no idea of the numbers of more-improved properties that would have been built had the penalty not been imposed on improvements.

(38) Evidence of this is found in the step-up in building activity seen in municipalities previously rating improvements after they have abandoned the practice. It is also seen in the markedly higher level of building construction activity shown over many years by the Australian States rating almost exclusively on the unimproved value as compared with those rating improvements.

Victorian Experience

(39) As N.S.W. municipalities have not penalized buildings or other improvements for at least 50 years we turn to experience of Victoria where many municipalities previously rating improved value have changed to unimproved value particularly in the post war years. That of provincial municipalities is more important than the metropolis since they are isolated self-contained communities where cause and effect can be readily seen.

Post-War Provincial Towns

(40) Analysis of figures for building permits has been made in such provincial minicipalities in the years immediately before and after the change to un-tax buildings. It has been found that the level of building construction activity actually recorded following the change is invariably greatly above both the level before change and its projection to give the reasonable expectation of the level had rating on buildings continued in force.

(41) It can be said quite generally that a municipality which ceases to penalize buildings will - within two to three years of the change - experience about a doubling of its expectation of building construction had buildings continued to be rated. The table on Exhibit D of the Appendix shows the growth for the specific municipalities for a sequence of years before and after ceasing to rate buildings.

Building Construction Graphs, U.C.V. and A.A.V.

(42) Graphs have been prepared showing the progressive trend in the level of dwelling commencements from a common starting date in 1954, for municipalities rating buildings and those rating unimproved value respectively. These have been based on study of 46 municipalities for which the Commonwealth Statistician publishes the figures quarterly. The graphs take account of the changes in the general economic conditions common to the whole State. These graphs are shown in the publication "Key to Decentralisation" included as Exhibit E in the Appendix as part of our submissions. That for U.C.V. shows accelerated growth and less adverse effect in periods of recession compared with the graph for A.A.V.

Growth of Major Provincial Towns

(43) The same exhibit shows the relative growth ratios of major provincial towns of population 5000 upwards grouped according to rating system. For these population growth is directly tied to the step-up in dwelling construction. Here it is the average growth rate of the groups that is significant rather than the individual towns listed. The growth rate of the U.C.V. rating group between the censuses of 1954 and 1961 averaged 21.8% while that of the group rating buildings was only 13.4%. This is a 62 per cent superiority in those where improvements are untaxed.

Greater Melbourne Suburbs 1920 to 1939

(44) In the Melbourne metropolitan area municipalities ceasing to rate buildings have similarly experienced substantial step-up in all cases. But conditions vary with different suburbs and it is only the average scale of the suburbs rating unimproved value compared with those still rating buildings which is significant. A survey showed that over the 20-year period from 1920 to 1939 six cities of Greater Melbourne which shifted their municipal taxes from buildings to sites averaged 2.12 times the number of dwellings built per acre available compared with 10 cities corresponding in distance and type where subject to local taxes on improvements.

Greater Melbourne Suburbs 1954 to 1958

(45) A study of all building construction activity 'per rateable property' in the municipalities comprising Greater Melbourne, grouped according to whether buildings are rated or sites only - covering the five calendar years 1954 to 1958 inclusive - shows that there is a substantial difference in favour of those where buildings are not rated. Making the comparisons on a 'per rateable property' basis irons out differences in size of the units. The 24 suburbs rating U.C.V. had building construction activity over the period averaging £770 per property. The 16 suburbs rating buildings averaged only £459

per property. The level where buildings are rate-free is thus 67% greater than where they are rated.

Sydney and Melbourne Metropolitan Areas.

(46) Probably the most significant single interstate comparison possible to prove that the New South Wales practice of rating unimproved value has actually produced a far greater level of development than could have been expected had buildings been rated over the last 50 years -- is the simple comparison of the improvement/site value ratio of the Sydney Metropolis with that of Melbourne. Sydney's unimproved value in 1944 was £1,519,493,000 compared with Melbourne's £1,507,590,000 for the 39 municipalities supplied with water from the Board of Works. The land value is almost identical but the U.C.V./A.A.V. ratio for Sydney Metropolis is only 6.2 compared with 8.9 for Melbourne Metropolis. Dividing 20 by these figures gives us 3.22 for Sydney against 2.25 for Melbourne as the ratio which the combined value of land plus improvements bears to that of the land alone. Thus, on average over the whole area, for every £100 of land value there will be £125 value in improvements in Melbourne compared with £222 in Sydney -- i.e. Sydney's is 56% greater than Melbourne. Which is what we would expect to find. Relatively, land values have been held down and building values stimulated in the Sydney Metropolis -- while building values have been held down and land value increased in the Melbourne Metropolis.

The operative factor of difference here is the municipal rating system only, which in Sydney has been U.C.V. and in Melbourne mainly A.A.V. (although a majority of the suburbs have recently changed over to the U.C.V. basis and are showing stepped-up development, this has only reduced the differential a little in the accumulated results of half a century of contrasting practices). The water and sewerage rating systems of the two capitals have been a common factor to the comparison.

Interstate Building Comparisons

(47) A series of comparisons of dwelling construction between the Australian States, according to the extent to which they rate unimproved or improved value of land, is given in our booklet "Public Charges on Land Values" forming part of this submission as Exhibit I in the Appendix. Section 6, pages 18 to 24 are relative. Dwelling construction per 100 marriages is a particularly significant indicator and it is notable that the three States in which unimproved value rating is nearly universal (Queensland, New South Wales and West Australia) have a substantially better performance than the three predominantly rating improved value (South Australia, Victoria and Tasmania). This comparison extended over 37 years from 1921 to 1958 and the average figures for the two groups were 60.0 and 54.5 dwellings constructed by private industry per 100 marriages.

Residential Properties Suffer Most
by Rating Upon Improvements (A.A.V.)

(48) We have made and published many surveys in Victoria and Tasmania covering all properties in municipal councils concerned. These have invariably shown that of the four classes of property -- residential, commercial, industrial and vacant land -- residential properties are the ones which benefit most under the unimproved value basis. The proportion of homes paying less on U.C.V. averages around 75 per cent though varying in different municipalities. For industrial properties the proportion is about 60% and

commercial properties a little less. Vacant land is the group which invariably pays substantially more under U.C.V.

(49) The reasons why homes as a group benefit more than either industrial or commercial under U.C.V. are (a) that building costs per square for residential property are several times those for industrial or commercial property (and hence attract higher A.A. Values and rates under the improved value) per unit of size, and (b) land values for residential zoned areas are much lower per square foot than for industrial or commercial areas (and so attract lower U.C.V. rates.) The sample analysis sheets for residential and industrial properties in one municipality included in the Appendix as Exhibit C show this. Most of the numbers obtained by dividing the U.C.V. by the A.A.V. in the residential pattern sheet are in the low scale while the industrial pattern has most in the high numbers.

(50) The results of the analysis already made by Wollongong Municipality, already submitted to the Commission, conform to the general pattern observed elsewhere. They found that the overwhelming majority of single-unit homes within that area benefit in lowest rates under the U.C.V. basis, the relative payments under the three alternatives being :

Rating Basis	Rates Range for Most Single Unit Homes
U.C.V.	£ 21.11. 3 to £ 29.18.11.
I.C.V.	£ 28.14. 0 to £ 36.18. 0.
A.A.V.	£ 32.12. 2 to £ 45.13. 0.

These figures show that change from U.C.V. to Improved Capital Value would increase the payment on these homes by approximately 28%, and change to A.A.V. increase them by 50%. Conversely change of the Water, Sewerage and Drainage Board rates from A.A.V. to U.C.V. would reduce the average payment on these homes by 33%.

OTHER EFFECTS OF RATING SYSTEMS ON ECONOMIC AND SOCIAL CONDITIONS AND ON MUNICIPAL ADMINISTRATION

(51) Application of the principle that improvements made by owners upon their sites shall not be rated has resulted in greatly superior development in the States and local units within them following this practice.

(52) The relative performance can be tested by reference to statistics of key indicators of economic and social development. We have already shown this for building construction and related industries. The stimulation to other key activities follows as a matter of course since they are all inter-related.

(53) The observed step-up in the level of new buildings, alterations and additions, resultant on the absence of penalty on them also gives a multiplied demand for all the materials that go into making buildings - the timber, bricks, tiles, glass, cement, steel, plumbing and further down to the mining and primary industries. It brings a multiplied demand too for the services of those engaged in transport, retailing and

installing of these materials and of the volume of trade generally. The greater supply of buildings due to this more general prosperity, brings added demand for the fittings and furnishings that go with new buildings and thus to paralled expansion of manufacturing and retailing which, at first impression, we might not think of as connected with the building industries.

Basic Reason Why Expansion
Can be expected in Key Items

(54) The basic reason why superior development should be expected to flow as a direct result of the absence of rate penalties on improvements is set out in the following sequence :-

(i) Rates - as well as wages, salaries, profits and rents are money equivalents from the distribution of the total sum of capital and consumer goods produced in the community -- which economists call the Gross National Product;

(ii) The primary source of these goods is raw materials extracted, produced, modified, worked-up, transported or exchanged on sites potentially suitable for the purpose -- whether mines, farms, industry, commerce, transport or residential sites;

(iii) In the ultimate the pattern of wealth distribution and living standards of all members of the community is set by the results achieved on <u>those sites of which the potential is actually developed</u>;

(iv) Policies or practices that increase the number or proportion of sites put to effective use in accordance with their potential - increase the G.N.P. available to distribute;

(v) Policies or practices that work to encourage the sterile holding of valuable sites out of effective use work to contact the G.N.P. and so make the average condition worse;

(vi) Rates upon the unimproved value of the land stimulate those making inadequate use of their sites to develop them properly or sell them to others who will -- in either case the G.N.P. is augmented and conditions improve for all;

(vii) The absence of rates on improvements tends to channel investments into buildings, cultivation and other improvements instead of sterile land speculation -- again the process works to augment the G.N.P. to general gain;

(viii) The net result of all this is that under unimproved value rating the national cake gets so much larger enabling the average citizen to get a larger slice.

Extent of Stimulation to Economic and
Social Growth Measured for Key Items

(55) The Australian States fall into two broad groupings according to rating system. One group (comprising Queensland, New South Wales, and West Australia) has used the unimproved value rating principle almost universally for at least 50 years. The other group (comprising South Australia, Victoria and Tasmania) has mostly rated improvements through the A.A.V. system over the same period. There are variations within the States in the group. Queensland uses U.C.V. for all purposes including water and sewerage in Greater Brisbane.

N.S.W. is exclusively U.C.V. rating except for water, sewerage and drainage in the Sydney, Newcastle and Broken Hill areas. A substantial proportion of South Australian and Victorian municipalities have more recently changed over to rating of U.C.V. instead of A.A.V.

(56) We have therefore an economic and social laboratory set-up by which the effects of the two systems can be tested by statistics of growth for key indicators -- not only between the groups but also within them according to their varying degree of use of the unimproved value rating principle or of penalties imposed on improvements.

(57) The results of such comparative interstate studies are contained in our booklet "Public Charges on Land Values" of which a copy forms part of these submissions marked Exhibit I in the Appendix. We do not wish to repeat in our main submissions the detail contained in that study but list below the separate key indicators which are dealt with in sections - and the pages for quick reference :-

Key Indicator	References
Effect upon agricultural development	Pages 10 to 12
" " Improvement of Rural and Urban Holdings	" 12 to 15
" " assets of land owners	" 15 to 18
" " dwelling construction	" 18 to 23
" " manufacturing industries	" 24 to 28
" " retail traders	" 28 to 31
" " incomes of working population	" 32 to 33
" " real wages of industrial workers	" 34
" " home ownership and tenancy	" 33 to 36
" " flow of migration	" 36 to 37
" " mortgage assets of financial institutions	" 37 to 38
" " co-operative societies	" 38 to 43

To this can be added the publication "Shopping Centre Surveys in Five States", included in the Appendix as Exhibit J.

(58) The general submission can be made in regard to all these criteria, that the States where land is and improvements are not rated show markedly better performance under each of these tests than the States where improvements are rated. This is true for the group averages -- and the position for individual States, with minor exceptions only, follows the order of the degree of application of the unimproved value principle. Moreover, within the State in which some councils use U.C.V. and others use A.A.V. the individual councils which do not rate improvements contribute a disproportionately high share of the development within the State.

Administrative Effects

(59) So far as the local government rating bodies themselves are concerned -- from the purely administrative angle -- they are best served by unimproved value of the site as the rating basis. They can obtain adequate revenue for their needs under it with less discontent and opposition to desirable municipal projects than where improvements are rated.

(60) This is simply demonstrated from the differences in incidence between the systems in urban areas. Broadly, there are two classes of rateable property, (a) those which are improved, with buildings upon them, and (b) those unimproved, i.e. vacant lots having no buildings (or those which have only demolition value left in them.) Any suburban council will have from 10% upwards of its rateable properties in this second class where the A.A.V. system has been in force for a long time. Under the A.A.V. basis at least 90% of the total rate yield comes from the improved properties and token contributions aggregating less than 10% from the vacant land no matter how numerous such holdings may be. On the other hand, the U.C.V. rate burden is spread over both groups (a) and (b) with relative uniformity in the payments of neighbors with similar frontage.

(61) If the council concerned wants to undertake new or improved municipal services needing greater rate revenue, under A.A.V. it can only get it by re-valuation or increasing the rate in the £ (or $), over all properties. In either case the (a) group (which was already paying more than its fair share of the old revenue) is called upon to pay 90% of the extra revenue. Owners of these properties do not like it and exercise pressure on the council both against increase in the rate revenue and in opposition to the commendable council program for which the money is needed.

On the other hand, the U.C.V. basis spreads the cost over all ratepayers instead of concentrating the burden on any one section. As shown earlier in our submissions the maximum increase possible under U.C.V. in the Sydney Metropolis as compared with A.A.V. was 222% (and that only on purely vacant land). There are none who are really hurt by it, whereas the increase with A.A.V. rating on improved properties has no limit.

Central Melbourne and Sydney Compared

(62) The superiority of the U.C.V. basis for council revenue purposes is well illustrated by comparing the central City of Sydney using U.C.V. with Melbourne City using A.A.V. The areas are nearly the same at 7,765 acres in Melbourne, to 7,161 acres for Sydney. Melbourne's rate revenue for the 1963/64 year was only £2,413,000., while that of Sydney was £5,914,000. The greatly increased level for Sydney does not indicate extravagance but ability to provide a higher level of services which is just as greatly needed in Melbourne. That city is financially starved and highly desirable projects (such as the proposal to purchase the site for a central square opposite the Town Hall) are frequently ruled out because their cost would require increase in the rates. The objection to this arises because central Melbourne has about one-third of its city buildings adequately improved, one-third only passable, and the other third only fit for demolition and re-development. Increase of the rate would hurt the most improved third, which is already paying excessive amounts and would not be popular either with the middle third. U.C.V. rating would cause the under-developed third to pay their fair share along with the rest, while charging no more (and in many cases substantially less) to the average and better-than-average properties. Hence change to U.C.V. rating is really the answer to Melbourne's financial problem. If rating of improvements were re-introduced in Sydney similar financial difficulty would be experienced in that city.

QUESTION NO.3 (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?

(63) YES.

We submit that there is no real functional difference between the municipal councils and the statutory bodies providing water, sewerage and drainage. Both are local government services, and the water and sewerage services are already operated in country areas of New South Wales by local councils in conjunction with their other services. The separation of function in the metropolitan areas is only an administrative convenience for more efficient division of labor. Unimproved value rating for water, sewerage and drainage purposes is even more clearly appropriate than for other services provided by the municipal councils. A major part of the capital outlay of these water and sewerage undertakings is in the cost of mains and reticulation to which the frontage-value combination given by U.C.V. is appropriate. The token rates charged by A.A.V. on vacant or other under-developed land passed by these mains is inappropriate. These and overhead costs for administration, interest on capital etc -- all of which must be paid whether individual ratepayers use the service or not --- are clearly best shared pro-rata to unimproved value.

(64) Unimproved value rating for water, sewerage and drainage purposes would produce relative justice in the assessments between rate-payers which is lacking under A.A.V. It is not possible to justify such differences in rates between built and vacant lots as are demanded under the A.A.V. system. These charge built lots anything from 2 to 20 times as much as on vacant lots with identical services available.

(65) We have already dealt with the general effects of the rating systems on the water and sewerage authorities in conjunction with municipal councils in our submissions on Question 3 (a) and recommend that sections 29 to 35 and 46 to 50 in particular be again referred to as specially relevant to Question 3 (b) also.

(66) We submit for your consideration the table in the Appendix marked Exhibit F, which was prepared in 1959 by the Sydney Water, Sewerage and Drainage Board. This shows the changes in total rates payable by the ratepayers of various municipalities under U.C.V. and A.A.V. respectively, for the Authority's purposes. The relativity is unlikely to have changed significantly since. Our submissions here bear on the inferences to be drawn from the Table.

(67) The general conclusions can be drawn from the table that with change to the U.C.V. basis ratepayers of Sydney City and 14 other councils listed in the lower part of the table would pay approximately 20% more in total (and 60% of this would come from under-developed properties in Sydney City proper). On the other hand, ratepayers in each of 28 other suburban areas listed in the top part of the table would pay less by amounts averaging 14%. They include most of the residential type suburbs of the metropolis and it can be taken that most homes in these would have their rates cut under U.C.V. by an

average of at least a third (as found in the Wollongong Municipality check referred to in section 50). Paradoxically, even over the 14 municipalities paying more in total under U.C.V. the majority of homes would still pay less under that basis. The mere fact that ratepayers in a district will pay more or less in aggregate under the one system than the other can be misleading. The area combines residential, commercial, industrial and vacant land in varying proportions. Within each municipal district well developed properties will pay less and under-developed or vacant land holdings will pay more. The fact that one municipality pays more in aggregate under U.C.V. may simply mean that it has more vacant lots or more valuable under-developed sites than another and the extra payable on these outweigh the reductions. The aggregation is simply a balancing of gains and losses. Even where the difference in the total appears nil the differences between treatment of improved and vacant land will be as great as in other districts.
The vital point is that within most municipal districts a substantial majority of dwellings will carry lower rates under the U.C.V. basis and under-developed properties will pay more than under A.A.V. If the Commission is doubtful on this we suggest the water and sewerage authorities concerned be asked to test it by analysis of a cross section of at least 10% of the dwellings in each municipal district within their area on the lines of the sample sheets shown as Exhibit B in the Appendix.

(68) We submit that the unimproved value principle should be applied to the Sydney, Newcastle and Broken Hill Water, Sewerage and Drainage authorities as well as local councils. This could take either the unimproved capital or the unimproved annual value form. Under question 4 we are proposing that local government bodies be given the additional option of using either form as unimproved annual value has advantages.

(69) We suggest that these statutory bodies might well use the unimproved annual value which could readily be done in their case by redefining their present (improved) annual value to exclude that part of the rental value attributable to the owners' improvements. A formula connecting the unimproved annual and unimproved capital value is given under Question 4.

(70) The main advantage in this proposal is that it would provide a completely stable rate base unaffected by the amount of the rate levied, so that increasing revenue will result from year to year with little if any alteration in the percentage rate levied. With the unimproved capital form, as the desirable objective of reducing the price of land is achieved it would necessitate a gradual increase in the tax-rate. This has not produced any real difficulty to date but the opportunity should be there to apply the unimproved principle by the better means available.

average of at least a third (as found in the Wollongong Municipality check referred to in section 50). Paradoxically, even over the 14 municipalities paying more in total under U.C.V. the majority of homes would still pay less under that basis. The mere fact that ratepayers in a district will pay more or less in aggregate under the one system than the other can be misleading. The area combines residential, commercial, industrial and vacant land in varying proportions. Within each municipal district well developed properties will pay less and under-developed or vacant land holdings will pay more. The fact that one municipality pays more in aggregate under U.C.V. may simply mean that it has more vacant lots or more valuable under-developed sites than another and the extra payable on these outweigh the reductions. The aggregation is simply a balancing of gains and losses. Even where the difference in the total appears nil the differences between treatment of improved and vacant land will be as great as in other districts.

The vital point is that within most municipal districts a substantial majority of dwellings will carry lower rates under the U.C.V. basis and under-developed properties will pay more than under A.A.V. If the Commission is doubtful on this we suggest the water and sewerage authorities concerned be asked to test it by analysis of a cross section of at least 10% of the dwellings in each municipal district within their area on the lines of the sample sheets shown as Exhibit B in the Appendix.

(68) We submit that the unimproved value principle should be applied to the Sydney, Newcastle and Broken Hill Water, Sewerage and Drainage authorities as well as local councils. This could take either the unimproved capital or the unimproved annual value form. Under question 4 we are proposing that local government bodies be given the additional option of using either form as unimproved annual value has advantages.

(69) We suggest that these statutory bodies might well use the unimproved annual value which could readily be done in their case by redefining their present (improved) annual value to exclude that part of the rental value attributable to the owners' improvements. A formula connecting the unimproved annual and unimproved capital value is given under Question 4.

(70) The main advantage in this proposal is that it would provide a completely stable rate base unaffected by the amount of the rate levied, so that increasing revenue will result from year to year with little if any alteration in the percentage rate levied. With the unimproved capital form, as the desirable objective of reducing the price of land is achieved it would necessitate a gradual increase in the tax-rate. This has not produced any real difficulty to date but the opportunity should be there to apply the unimproved principle by the better means available.

QUESTION NO.4.

What changes, if any, are necessary to the Valuation of Land Act, 1916-1964, in relation to valuations made for purposes of:

(a) Rating of land;
(b) land taxation;
(c) assessment of Stamp and Death Duties;
(d) settlement of claims for compensation in respect of the resumption of land?

(71) Our submissions under this question are made with regard to rating of land only on which we suggest three amendments:

(i) Provision for rating on the unimproved annual value of land as an optional alternative to unimproved capital value of land;

(ii) The original principle that land of the Crown should be rated to be restored to as it was prior to the exemptions introducted by the Rating (Exemption) Act 1931;

(iii) Expenditure on invisible improvements in clearing, filling and land reclamation to be taken into account as improvements for a limited period (not less than 20 years after the outlay) and then considered to be merged into the value of the site.

Unimproved Annual Value

(72) We submit that rating bodies be given optional powers to use the unimproved annual value as their rating base as an alternative to the unimproved capital value.

(73) The unimproved annual value of the land would result by re-definition of the 'assessed annual value' to specifically exclude that part of the annual value attributable to the improvements. It would then in fact become the annual value of the land alone as it is supposed to be in theory now.

(74) With the re-definition would need to be combined the following formula to connect the unimproved capital value normally ascertained by the Valuer-General with the unimproved annual value used by the rating authority:

The unimproved annual value used by the rating authority to be the sum of :

(a) 5% of the unimproved capital value +

(b) the amount of the municipal or other rates upon the land +

(c) the amount of land tax which the land would attract as a single parcel only.

(All these as at the time of valuation.)

(75) The basis of this formula is that the unimproved capital value (or market price) is simply the capitalized form of the balance of the unimproved annual value remaining to the owner after payment of any land rates and land taxes. Hence the greater the land rates the lower the market price becomes (although this effect is offset by appreciation attending

stimulated development). Assuming capitalization at 5% (which is the accepted figure in the Act to determine the A.A.V. of vacant land) there is the following relation between the valuation's and rates:

$$\text{i.e.} \quad \text{U.C.V.} = 20 \times \left(\text{U.A.V.} - \frac{\text{land}}{\text{rates}} - \frac{\text{land}}{\text{tax}}\right)$$

$$\text{U.A.V.} = (1/20 \times \text{U.C.V.}) + \frac{\text{land}}{\text{rates}} + \frac{\text{land}}{\text{tax}}$$

(land tax (if any) in these equations is that which the site would attract as a single parcel and not the higher figure due with aggregation which brings the property into a higher tax scale).

(76) The advantage in use of this will be seen from the graph, exhibit G in the Appendix, which compares the combined general, water and sewerage rate in the £ of U.C.V., as levied over a sequence of years for Greater Brisbane, with that which would have been required under the unimproved annual value basis to return the same total revenue. It will be seen that there was a very great fluctuation in the U.C.V. tax-rate but only minor variation under the unimproved annual value resultant from the formula. The details of the computationsover the sequence of years are given in Appendix exhibit H so that the steps can be followed.

(77) A desirable objective sought from rating unimproved land value is that the price of land to purchasers be reduced or held to the lowest figure possible so that users' capital savings can go direct into productive improvements instead of sterile land price. To the extent this is achieved the tax-rate may need to be increased. In the ultimate there is no real disadvantage in this since it is what the individual ratepayer has to pay that matters -- and it does not really matter to him whether the same rate-sum is worked out by multiplying a high land-value figure by a low rate per £, or a low land-value figure by a high rate per £. Nevertheless there is a psychological factor in increasing rates hence the merit of unimproved annual value which will provide steadily increasing revenue with little, if any, upwards variation in the tax-rate (and probably even a reducing trend in it).

(78) With existing levels of municipal rating in New South Wales there has been no recent upward trend in rates in the £ of U.C.V., -- in fact they have been falling substantially over the ten years from 1953 to 1963. The rates per £ are tabulated in the N.S.W. year book over these years and show the decreases to be: Sydney, 7.99d., down to 5.25d (-34%); Other Metro, 6.92d., down to 4.21d. (-39%); Newcastle, 10.10d down to 6.56d (-35%) and Greater Wollongong, (7.73d down to 4.32d (-44%); Shires, 6.58d down to 5.35d (-19%).

(79) Nevertheless, although no great disadvantage has been found in practice in increasing the tax-rate under unimproved capital value to provide extra revenue - hence many councils may not wish to avail of it - we think the advantages are important enough to warrant provision for both unimproved capital and unimproved annual value as optional alternative bases of rating.

(80) Our submissions in regard to rating on the unimproved value of the land apply equally to the proposed use of site-value as suggested in the report of the Committee of Inquiry on the Valuation of Land Act, presented in September, 1960 and in later submissions already made to your Commission. We regard the site-value proposed as a commendable variation of the unimproved value concept, fully embodying its principle

that owners' improvements should be rate-free. As with unimproved value, the site-value can be either a capital value or an annual site-rental value. The advantages of rating the annual rental instead of the capital value form apply equally with the site-value as to the unimproved value as commonly understood.

Liability of Crown for Rates

(81) We submit that the original position by which Government properties were rateable should be restored as it was before the 1931 amendment.

(82) Government bodies can fail to make proper use of their sites just as private individuals can, and the best guarantee that there will be regular review is to make them subject to the same economic incentives by rating.

QUESTIONS NOS. 5, 6 AND 7.

(83) We consider it unnecessary to submit detailed submissions on these questions at this stage as we consider (a) the system of valuation does provide satisfactory bases for equitable rating generally (Q 5); (b) that it should be unnecessary to supplement rating from other sources (Q 6); and that a rate on land is the most appropriate method of financing council services (Q 7).

(84) However, we would like to make supplementary comments later which may help the Commission on some of the proposals already made or foreshadowed by others -- particularly the suggestions for poll taxes, income taxes and special rating of multi-storey building sites under these Questions 5, 6 and 7.

The Land Values Research Group.

A.R. HUTCHINSON.

Research Director.

Issued 1966.