## SUBMISSION TO:

## WESTERN AUSTRALIA

## THE COMMITTEE OF INQUIRY

## INTO RATES, TAXES AND CHARGES

## FROM

## THE LAND VALUES RESEARCH GROUP

## MELBOURNE

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### 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

- 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.
- 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 <u>improvements on the land</u> 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.

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# 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:

- 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) <u>Same valuer for all purposes</u>
  - 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 revaluations 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. In Queensland, Tasmania and South Australia, the period set to TAS. revaluation is five years. S.A.

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 <u>seven years behind market prices</u>. 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 Had the unimproved value of the land only to three years. 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 threeyear 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.

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.

#### (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) <u>Site-Value</u>

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 This has been adopted in Victoria. 14 to 20 years. 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 From that time onwards the site-value variant would basis. 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:

#### <u>First</u>

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

priate 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 bareland-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.

- We submit that a rate on land value is the only appro- (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 pre-ceded 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 wel-fare 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."

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- 7 -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 <u>improved</u> annual value of the land and <u>improvements</u> upon it. Alternatively it could relate to the <u>unimproved</u> 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 <u>annual</u> value or the unimproved <u>capital</u> 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 <u>capital</u> value.
- (4) Later in this submission we suggest that provision should be made for rating of the two alternative forms <u>unimproved annual</u> and <u>improved capital</u> 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 ratepavers 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 aboveaverage 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.

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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 incometax) 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</u> <u>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 <u>unimproved</u> or the <u>improved</u> 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 <u>percentage</u> 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.		I	ena1	ty Effec	t		
	<u>A.V.</u>	A.V. rate exceeds U.C.V. rate by: U.C.V. rate by: U.C.V. rate by:			exceeds			
	Most improved	$\begin{pmatrix} = 0 \\ = 0 \\ 0 \end{pmatrix}$	Infini 25 2,380	tely per	great cent			
	Improved above average of the	(=0.) (=1) (=2) (=3) (=4)	50 1,140 520 210 106 55	11 11 11 11	17 17 17 17			
	rating area.	( = 5	24	•••	11	·····		
	Area average	= 6.2	2 0	**	" same	either	syste	here.
	Properties with Ratio $\frac{U \cdot C \cdot V}{A \cdot V}$		A.V. rate U.C.V. ra	enal exc te b	ty Effect eeds y:	U.C.V. A.V.	rate rate	exceeds by:
	Improved below	( = 7 ( = 8	<u> — «««««««»»»»»»»»»»»» (</u> ««»»»»»»»»»»»»»»»			13 29	per ce	ent "
	average of the rating area.	( = 9 ( =10 ( =11				45 61 77	11 11 11	11 11 11
		(=12) (=13) (=14) (=15)				93 109 125 142	11 11 11	11 11 11
		(=16) (=17) (=18)				158 174 190	11 11 11 -	11 17 11
	Lease improved	( =19 ( =20				206 222	11 11	" 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) <u>Implications of the Graph and Table</u>.

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. <u>But they are seen to be penalised</u> by A.V. rating on improvements.
- \* The extent of the penalty is seen to increase with evermultiplying 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. <u>They are seen to be penalized by U.C.V.</u> <u>rating</u>.
- \* The extent of the penalty is mild <u>rising on a straight line</u> <u>graph</u> 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 <u>as such</u> under unimproved value rating.

\* <u>General</u>

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 underdeveloped 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:	£
	<u>Capital Cost</u> (land plus 12-storey building) Unimproved Capital Value of land for rating	2,382,937 478,000
	Assessed Annual Value (improved) for rating Annual Income Gross (est.)	200,000
	Annual Outgoings (est.)	267,399
	All items except rates as detailed Rates - municipal, water & sewerage (below):	88,792
		17 007

(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 <u>more than 20%</u> <u>greater</u> than if A.V. were the rating basis. This is a most substantial factor in the viability of the project.

(25) <u>Rating - the Power to Destroy - or Create</u>?

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.

#### \* <u>Destructive Rating</u>

(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 <u>economic cost</u> <u>involved in holding land idle</u>.

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 <u>cash income</u> 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 Land Tax	17,207 <u>14,981</u>	5,377 <u>14,981</u>
Less Cash Income	32,188 <u>4,500</u>	20,358 <u>4,500</u>
Cash loss while vacant	£27,688	£15,858

(28) That these sums have to be <u>paid out in cash</u> - 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

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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 <u>cash outlay</u> 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.
  - <u>Total Rates Raised 1964</u>

(33)

Area included	Municipal Rates	Water Sewer D <b>rainag</b> e Rates *
Sydney Metropolis, Camden, ) Campbelltown, Penrith, ) Shellharbour, Wollongong, ) Wollondilly )	£ 32,956,000	£ 17,567,000
New <b>cas</b> tle, Cessnock, and Maitland	2,115,000	2,075,000
Total Rates	35,071,000	19,642,000

\* Water, sewerage and drainage figures are approximate as exact split of revenue figures between rates, excess water and minimum charges is not available from sources, Commonwealth and New South Wales Year Books 1965.

Of these totals the 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.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.V. When this is done the following table results.

(34) <u>Rate incidence on Land and Buildings</u>

Effect	Rate	Municipal	Sydney-Hunt	er, Total
on	Burden	Rates	Water, sewe	r & Rates
Building	on		Drainage ra	tes
	-	£	£	£
Present Rating	(municipal U	$\frac{.c.v.}{.v}$		
water, sewerage	, drainage A	<u>• V • )</u>		
Incentive Deterrent	Land Buildings	<b>35,071,000</b> nil	5,944,000 13,698,000	41,015,000 13,698,000
Rating U.C.V. f	or all purpos	ses		
Incentive Deterrent	Land Buildings	35,071,000 nil	19,642,000 nil	54,713,000 nil
Rating A.V. for	all purposes	<u>s</u>		
Incentive Deterrent	Land Buildings	10,724,000 24 <b>,3</b> 47,000	5,944,000 13,698,000	16,668,000 38,045,000

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.

(35) The present A.V. rating for water, sewerage and drainage in these areas imposes a penalty upon buildings as such of £13,698,000 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.V. rating were extended to municipal councils a further burden of  $\pounds 24,347,000$  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 £13,698,000 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.

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Extent to which Rates upon Buildings Actually Inhibit Building Construction

- (36) Exhibit C of the 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.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 penalised 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.
- (40) Post-War Provincial Towns

Analysis of figures for building permits has been made in such provincial municipalities 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.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.V.

Growth of Major Provincial Towns

(43) The same exhibit shows the relative growth ratios of major provincial towns of population 5000 upwards grouped accordingly 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.

### (45) Greater Melbourne Suburbs 1954 to 1958.

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.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

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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.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.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. 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.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 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:

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Rating Basis	Rates Range for Most <u>Single Unit Homes</u>
U.C.V. I.C.V.	£ 21.11.3 to £ 29.18.11 £ 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 parallel 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 Produce;
  - (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 <u>on those sites of which</u> the potential is actually developed:
  - (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;

- Policies or practices that work to encourage the sterile holding of valuable sites out of effective use work to contract 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.V. system over the same period. There are variations within the States in the group. Queensland used U.C.V. for all purposes including water and sewerage in Greater Brisbane. N.S.W. is exclusively  $U \cdot C \cdot V \cdot$  rating except for water, sewerage and drainage in the Sydney, Newcastle and Broken Hill areas. Δ substantial proportion of South Australian and Victorian municipalities have more recently changed over to rating of U.C.V. instead of 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:

Effect	upon "	agricultural development	Pages	10	to	12
		Improvement of Rural and				
		Orban Holdings	11	12	to	15
11	11	assets of land owners	11	15	$\mathbf{to}$	18
t1	tt	dwelling construction	tt	18	to	23
<b>!</b> 1	11	manufacturing industries	11	24	to	28
**	11	retail traders	**	28	+0	21
tt	11	incomes of working nonulotion	. 11	20	÷	21
**		THEORES OF WOLKING DODUTATION	L	~د	τo	رر
		real wages of industrial work	ers "	34		
tt	11	home ownership and tenancy	"	35	+0	36
11	11	flage of the state of the second state of the state of th		2	00	50
		110W of migration	11	36	to	37
11	11	mortgage assets of financial		-		
		institutions	11	37	to	38
**	88	co-operative societies	11	38	to	43

Key Indicator

References

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 <u>is</u> and improvements are <u>not</u> 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.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 <u>unimproved</u> 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.) A suburban council will have from 10% upwards of its rateable properties in this second class where the A.V. system has been in force for a long time. Under the 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.V. it can only get it by re-valuation or increasing the rate in the \$\\$ 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 <u>all</u> 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.V. was 222% (and that only on purely vacant land). There are none who are really hurt by it, whereas the increase with 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 N.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 wou 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.

Increased revenue can be raised by the public authority concerned as needed under the Unimproved Value basis with less hardship than would be involved in payments under the (improved) annual value basis.

- (63) This will be true whatever the level of government involved and could be the most important determinant of the choice of tax base in the present conditions of inflation. The proofs are given in the analysis made in thirteen cities of the Melbourne Metropolitan Area for which both the Unimproved Values (U.C.V.) and Annual Values (N.A.V.) were available. These cities were studied individually and results then combined to give a cross-section of the area rated by the Melbourne and Metropolitan Board of Works responsible for Water, Sewerage and Drainage for the whole metropolitan area. The details are made available with the answer to Question No. 7 of this inquiry and the related appendices, in view of their relevance to the similar problems of Western Australian water and sewerage authorities. (Appendices Bl to B6 refer)
- (64) Whether the local unit considered be large or small it is found that the (improved) Annual Value basis as compared with the Unimproved Value basis penalises owners of well-improved homes to a far greater extent than the Unimproved Value basis could be said to penalise even vacant land which is the least improved of all properties.

The penalty observed on homes under the (improved) Annual Value basis (N.A.V.) ranged between 10 and 780% above the rate payments under the <u>Unimproved Value</u> basis. This range in penalty on improvements was experienced by 53 per cent of the total homes. Clearly it is from those experiencing such substantial penalties as these that objections to further increases in revenue can be expected by the authority concerned.

If this authority changed from the (improved) <u>Annual Value</u> to the <u>Unimproved Value</u> basis and simultaneously budgeted for a 25% increase in total rate revenue it would be achieved with 39% of the total homes paying less rates than they are now paying under (improved) Annual Value. (See Appendix B.6 table B)

If, instead of 25% increase the authority budgeted for a 47% increase in total rate revenue in the process, it would be achieved with <u>26% of the total homes still paying less in</u> rates than they are now paying under Annual Value. Increases

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in rates would be mainly borne by about 23% of the total homes of sub-average improvement now paying less than their fair share to revenue.

Future increases in rates would be more acceptable when spread pro-rata to land value over <u>all</u> properties than as now when a minority already bearing more than their fair share have a proportionate further increase imposed on that burden as under (improved) Annual Value.

#### QUESTION No. 4

What are the advantages and disadvantages of:

(a) A flat annual charge for each zoning of land?
(b) A rate or tax using as a base personal gross income of all occupiers of a residential unit and the gross income of occupiers of commercial and industrial properties?

#### Answer (a)

A flat annual charge for each zoning of land would be inequitable, multiply anomalies, produce administrative difficulties, and would vitiate the principles of land valuation and rating.

#### Explanatory comment

The principle of land rating requires that each site contribute to revenue through rating in proportion to the value given to that site by community services and other people.

To do this requires that valuations be assessed frequently and accurately to ensure that correct relativity is preserved between properties within the same streets or zone as well as between zones.

The implication that flat payments on properties within a zone will be equitable is not correct. Delineation of zones on maps does not make the valuations the same for all properties within For example, when a purely residential area is rezoned the zone. as a potential flat area, only a few properties will at first be put to that higher use and generally will be those nearest to the transport or shopping facilities. Other parts more remote within the zone will remain unchanged, probably for years, and the market will establish lower values on them reflecting their inferior position within the zone. The fixation of a flat payment will be an arbitrary act involving incorrect relativity in payments between the sites in the zone. Relativity with the payments, between one zone and another fixed in similar arbitrary fashion, will also Ъe The fixing of the arbitrary payments within the zones suspect. will presumably be (roughly) based on market valuations in the first place. But the arbitrary flat-payment will disturb the true relativity in market valuations in future, eroding the standards of valuation and creating anomalies in relativity between ratepayers leading to legitimate complaints.

The whole exercise will unnecessarily multiply arbitrary administrative decisions and pressures and will satisfy nobody. If valuations are revised at frequent intervals (as they should be) the use of a common multiplier applied to the valuation will give equity to a degree unattainable with the proposal for a flat payment. And it would do it, directly, inexpensively and certainly, with the office machines available. That the proposal is seriously put forward at all suggests that the intervals to revaluation are too long under current practice. The simple remedy needed is to make revisions of valuation more frequent. (In our answer to Question 2 we have recommended that they be made annually or biennially and thus eliminate such anomalies.

#### Answer (b)

A rate or tax using as a base personal gross income of all occupiers of a residential unit and the gross income of occupiers of commercial and industrial properties would destroy the whole principle of payment according to value given to the sites by community factors which the principle of property rating seeks to achieve.

In its place it would substitute a rigid socialist system under which the earnings of each occupant of a residential unit would need to be declared. This would logically need to be accompanied by a substantial expansion of government investigators or police to verify the correctness of the income returns to prevent evasion with loss of revenue. It would in fact prove most capricious in yield and operation because the occupants of residential units are not stable but fluctuate greatly. Unlike a census (which takes place on one particular day and covers all persons under the same roof) it would deal with individuals who may only be there for a minor fraction of the year. A large proportion of them would be unlocateable at the time returns would be required.

But even if these difficulties could be surmounted the payments sought from them would be completely inequitable. This system would shift the burden of land value taxation completely from the owners of the properties who receive the land rentals and place it on the shoulders of the tenants as such. These tenants would be paying twice over - first in their rentals paid to the property owner - second in the extra tax based on their personal gross incomes and those of their families sharing the residential unit.

Again, with commercial and industrial properties, the same monstrous inequity would be perpetrated. Owners of rented business properties (who often live in other districts) would receive the rent intact while the tenants would pay twice - once in their rent to the owner and again in their liability to pay the new tax.

Whoever pays the tax it would be duplicating current income tax levied by the Commonwealth Government, while the fact that the proposal is to use gross personal income as base instead of net taxable income makes it even more objectionable.

The current belief that income tax is acceptable in the public mind where payment of rates is objectionable is superficial. There has already been a reaction against income tax in Scandinavian countries resulting in Denmark in the election to Parliament last December of 28 members of a new party on the specific programme of abolition of There is increasing dissatisfaction with it in our income tax. own community. It needs to be borne in mind that, so far as the ordinary owner-occupiers of homes are concerned, local rates are the only form of taxes which are deductible for income tax purposes. In this country more than 70 per cent of ratepayers are entitled to this deduction for their homes.

### QUESTION No. 5.

Report on other alternative rating and tax bases which could be used.

#### Answer

The Unimproved or Site Value is considered the most suitable basis known.

#### QUESTION NO. 6.

Recommend the use of the most appropriate base or bases to give the most equitable treatment of tax and ratepayers on the basis that those with the greatest resources should make the greatest contribution.

#### Answer

It is submitted that the most appropriate bases which comply with the above requirements are the two variants of the Unimproved or site value of the land. That is to say the <u>Unimproved Annual</u> <u>Value</u> and the <u>Unimproved Capital Value</u>. Of these the first has some advantages over the second and is to be preferred.

#### Explanatory

Either of these inter-related unimproved value bases clearly comply with the requirements of equitable treatment of tax and ratepayers since they are demonstrably just. The payments based upon them are proportioned to the site value given to their property by the community as a whole and are in substitution for tax and rate payments which would otherwise have to be based on the capital or annual value of their own improvements or exertions. There can be no legitimate complaint about contributing to the public costs in proportion to the advantages which the subject site offers in relation to community and are reflected in its rental or capital value.

Both these alternative unimproved value bases also comply with the requirement that those with the greatest resources should make the greatest contribution. It is a recognised fact that greatest fortunes mainly comprise holdings of real estate of which the site-rent potential (or its capitalisation into land price) is the major component. So far as such resources are due to the efforts and outlay of the holder they are excluded from the land tax or rates and do not act as dis-incentives to use. But in falling on the bare-land-value whether used or not they act as powerful incentives to put the land into proper use, at least to the extent of covering the tax or rate.

The <u>unimproved annual value</u> alternative is preferred because this is the more stable form, the site rental value being unaffected by the rate levied in the dollar. After the initial setting of the rate in the dollar it will continue to provide generally increasing revenue for many years with little or no change of that rate.

The <u>unimproved capital value</u>, being the capitalisation in the market of the amount of the site rental left with the landholder after payment of the tax or rate, is affected by the tax-rate. This presents no practical difficulty requiring only that the tax-rate be gradually increased to yield the required revenue as the capital value on which it is levied is reduced. (The graph and table of Appendix H show how the rates in the dollar would have varied for Brisbane City Council over a series of years.)

## QUESTION No. 7

What system of applying a rate or tax to the base should be used for:

(a) Land tax;

- (b) Metropolitan Region improvement tax;
- (c) Local authority rating;
- (d) Water sewerage and drainage rating.

#### <u>Answer</u>:

For each of these applications (a) to (d) either the unimproved <u>capital</u> value or the unimproved <u>annual</u> value should be used. (In either case modification in accordance with the site-value concept is considered acceptable being merely a variant of the unimproved value.)

#### Explanatory

It is assumed that one valuation authority will be involved and will compute both the unimproved annual and unimproved capital values simultaneously for each property. Which is actually used as the basis of its charges could be optional to the rating or taxing authority concerned.

It appears that the (improved) annual values now used for water, sewerage and drainage rating purposes are made by separate valuation staff from those making the unimproved values supplied by the State Taxation Department.

For water, sewerage and drainage rating purposes, for which the authorities' record books now show and rate (improved) annual values, it is thought that simple re-definition of annual value to exclude the component due to improvements and convert it to the (unimproved) annual value would avoid any change in the form of the records. The columns headed "annual value" would still be so headed but the figures recorded in them would be the <u>unimproved</u> annual values instead of the <u>improved annual</u> values.

Supplementary Note on Water, Sewerage and Drainage Rate Bases.

- \* The rating basis for these rates in Brisbane has been unimproved capital value since establishment of the Greater Brisbane Council in 1928. A Committee of Inquiry to inquire into the rating practices of Brisbane City Council in 1964 presented its report which was an endorsement of the suitability of rating on the unimproved value of the land with the modification that it be computed on the site-value variant. The report specifically inquired into the suitability of the rating basis for water and sewerage and decided that the present basis of levying rates on the unimproved capital value (with the site-value amendment suggested) was the most appropriate basis of rating for both water and sewerage for the Brisbane City Council.
- \* A further Committee of Inquiry into Valuation and Rating on a Statewide scope under Mr. Justice Hardie in July, 1966, reported that "the only presently practicable method of levying rates and land tax was one based on values of land without improvements."
- \* The N.S.Wales Royal Commission on Local Government Finance and Valuation in 1966, did not accept the representations of the Valuer-General that his Department be required only to return unimproved values and that the Sydney and Newcastle Corporations concerned with water, sewerage and drainage should use the unimproved value instead of the (improved) Annual Value. But last year agreement was reached between the Valuer-General and

these Water and Sewerage authorities as a result of which legislation was passed changing the rate basis for residential properties comprising more than 90 per cent of the total to the unimproved value basis as from July, 1974. The views of the Valuer-General presented to the Commission are reported on pages 12 and 13 of the booklet entitled "Should Local Government Rates be based on the "Improved" or the "Unimproved" Value of Land?" which forms Appendix "A" to this submission.

\* In Victoria, the General Council for Rating Reform representing 98 affiliated bodies comprising Building Construction, Progress and Civic Development Associations and others, seeking to encourage proper land use by the rating of site-values and abolition of taxes upon buildings and other improvements, is strongly pressing a campaign for change of the rating basis of the Melbourne and Metropolitan Board of Works from the (improved) We are among Annual Value to the unimproved value basis. the bodies affiliated with it and have been in consultation With its co-operation we enclose in preparing this submission. copies of some of the material published by this body in support of its campaign for this change. This is combined together with some of our own material in a bracket of seven sheets grouped as Appendix "B" to this submission, and reference to them should help the Committee to reach sound decisions on the appropriate rating basis for such authorities in Western Australia.

The subject matter of these seven items is listed below:

- B.I Municipal Justice or Robbery?
- B.2 Are you in the Red with the Board of Works?
- B.3 How the Melbourne Board of Works can solve its financial problems by changing its basis to rate the value of the site instead of land plus buildings as now.
- B.4 Diagram comparing the magnitude of the penalty effect of the Board's Rating basis under the alternative rate bases Annual Value (NAV.) and Unimproved Value (U.C.V.)
- B.5 Incidence of the alternative rate bases upon homes in 13 Melbourne cities forming a cross section of the Board's rating area.
- B.6 Summary showing numbers and proportions of Melbourne homes penalised to a similar extent under the alternative rating bases.
- B.7 The M.& M.B.W. Rating System Reasons Why it should be changed to the Site-value basis.

#### QUESTION No. 8

#### Should a uniform scale of charges for water, sewerage and drainage be applied to the whole State? If so, is it a feasible proposition?

#### Answer

No. A uniform scale of charges would vitiate the principle of payment according to value given to property by the availability to the site of such public utilities. The common charge would bear no real relation to that benefit.

If the intention behind the question is to prevent people in sparsely populated areas from having to pay charges much above the inhabitants of the metropolitan areas this proposal is the wrong way to achieve the objective.

The appropriate way would be to have the water, sewerage and drainage functions financed by a rate upon the unimproved value of the land treating the finances on a State wide basis. The relatively low unimproved values in the sparsely settled areas compared with the high unimproved values in the metropolitan or other urban areas would ensure that the people in those isolated areas were lightly rated compared with those in the more fortunately situated urban areas. Even if a State wide authority is considered impracticable for these services the same desired result could be achieved by the rating method if the services are provided and financed by a few large regional undertakings having urban areas within them.

Alternatively, the establishment of a State Development Fund financed from the Land Value tax with distribution to cover annual outlay on servicing capital cost of such developmental works as these services would prevent such sparsely settled areas from having to bear excessive burdens. This alternative is discussed in the answer to question No. 10.

#### QUESTION No. 9.

Examine and report on the heavy relative burden placed on initial developers and occupants of land and recommend any corrective action required.

#### Answer

It is not clear whether it is developers of rural land for such purposes as farming or developers of urban land for housing that is in mind in the question. If the first mentioned the State Development Fund proposal mentioned under Question 8 and set out in more detail under Question 10 would relieve such areas of heavy obligations for capital costs. The benefits in such marginal areas would be relatively high and the land value rate charge very low in such areas.

If the second, the costs imposed on developers in urban areas by local requirements to provide roads, water, sewerage and other services as a condition of permits for subdivision are really in the nature of improvements. These have in the past been provided by municipal councils and other bodies concerned from rate revenue (and still are in some cases). Municipalities can borrow money for such works at far lower interest rates than the penalty ones that must be paid by developers. The municipal councils or other bodies should either assume the responsibility of doing the work themselves or be required to borrow themselves and advance to the developers at cost the funds to do the work. These costs for work done by such developers are in the nature of improvements and are passed on to the site purchaser. The developer or purchaser (whichever pay them) should be able to have these costs treated in valuation for rating as improvements which merge into the value of the land after a period of 14 to 20 years. This would remove the anomalous position both of the developer and the site purchaser.

#### QUESTION No. 10.

#### Report on any other improved method by which the Government may raise revenue to meet the cost of administration, debt servicing, operating and maintenance expenses for essential services provided by State and Local authorities.

#### Answer

It is submitted that the State Development Fund proposal briefly outlined below is worthy of adoption. We embodied it in a submission to the Victorian Parliamentary Public Accounts Committee Inquiry on Railways in 1972, from which the following extracts are taken. A copy of the full report is supplied as Appendix "J" in case it is desired to study it, further. Although the Railways was the immediate subject of that report and would be a major developmental work financed in part from it the State Development Fund is envisaged as having much wider application than this.

Printed Extracts giving details of the State Development Fund proposal follow on Page 32.

Submitted on behalf of the Land Values Research Group by

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