

N.S.W. Official Inquiry Routs Opponents Of Land Value Rating

'Remarkable municipal progress has been made under that system . . . No case for abandoning it has been established.'

LAND VALUE RATING is endorsed by a Committee of Inquiry appointed in 1959 by the New South Wales Government. The Committee comprised Messrs. A. Bridge, Q.C., (Chairman); R. O. Rost, Valuer-General; J. T. Monaghan, Assistant Under Secretary, Department of Local Government; H. G. Collins, a representative of the Commonwealth Institute of Valuers; and S. B. Dawson, a representative of the Real Estate Institute of New South Wales.

The Committee was required to report on (a) whether the provisions of the Valuation of Land Act, 1916-1951 for determining land valuations were satisfactory and what amendments, if any, should be made; (b) whether use of those valuations for rating purposes causes hardship or results in anomalies and, if so, what action should be taken to relieve such hardships and correct such anomalies; and (c) whether the basis of compensation for land assumption by the State was satisfactory.

The Committee has presented a thorough and most valuable report of 92 closely printed foolscap pages set out in 20 chapters, which was published last September. It surveys not only the provisions of the current Acts, but the intentions of Parliament in introducing them. The report shows that a serious attack was made upon the basis of rating by those who for various reasons oppose the rating and taxation of land values. It is therefore particularly gratifying that the Committee endorse that system.

Such amendments as the Committee recommend in land valuation practice improve its machinery of application without affecting the principle. Some of them will be noted in a later issue of *Land & Liberty*. Below and in the following pages the chapter on the Basis of Rating is summarised and extensively quoted.



The Committee accepted submissions as to the basis on which rates should be levied but, as these were not strictly relevant to the Act under review, it considered that while it might properly comment upon them it should not make recommendations. (Paras. 352, 353).

Various bodies and private individuals submitted that local government rates on certain land should be levied on the A.A.V. basis—the assessed annual value of land and buildings taken together (para 354).

BOUQUET AND BRICKBAT

The Institute of Municipal Administration of Australia claimed that the use of unimproved capital value (the assessed selling value of the land alone — U.C.V.) caused hardship and created anomalies, particularly where values were affected by town planning. It conceded that the 1960 amending legislation provided machinery for granting relief in certain such cases. The Institute considered that land-value rating (U.C.V.) should be retained as the most equitable system for country areas and for vacant land in "metropolitan areas." This was necessary to encourage development. It suggested that in "metropolitan areas" improved land should be rated on the assessed annual value (A.A.V.) of land and buildings taken together. This, it argued, would spread responsibility for rates more equitably and would result in assessments related more to use of facilities and services provided by Councils as well as to ability to pay (365, 367). The Institute claimed that one result of adopting A.A.V. rating would be to alter the present position where the owner of a large building containing flats paid no more council rates than the owner of a single dwelling on land of equal value although the many occupants of the flats make more calls on the facilities and services provided by the Council than do the occupants of the single dwelling. The amount of rates paid in each case would bear a relation to the use of services. Vacant lands affected by the green belt or rural zonings and planning schemes should, in view of the restrictions on development, also be rated on an assessed annual value basis (358).

USE BASIS PREFERRED

Cumberland County Council (359, 360) suggested that rating on different bases to meet different conditions might be a solution. "Built up" land made greater demands on the authorities than did vacant land, and should be rated on the A.A.V. basis. The main difficulty in rating all lands on an unimproved capital value basis was said to be that:

"this basis is not sufficiently related to the use of the land which the land is put and the yield it returns to the owner, or to the demands made upon the council for services. If a use of land earns for its owner a financial return, e.g., commercial or industrial land let or leased to a tenant or lessee or a similar use where the owner is himself the occupier, there is

strong argument in favour of that owner contributing a greater proportion of the rate than, say, an owner-occupier of the dwelling in the vicinity. However, in many such cases we find the latter type of owner called upon to pay a greater amount *because* of the proximity of commercial or industrial use. That the value of the land has increased there may be no doubt, but this is largely if not solely because a buyer for a totally different type of use has been prepared to pay a higher figure for similar land because its development and use will yield an appreciable return on capital outlay."

ONE WRONG JUSTIFIES ANOTHER ?

The County Council also claimed that as the Metropolitan Water, Sewerage and Drainage Board rated on assessed annual value and had done so for many years it seemed incongruous that the Board and councils should rate on different bases when they were each, in fact, concerned with rendering essential services to land. (361).

Opponents of land-value rating argued variously that in "built-up" areas it had achieved its primary object of encouraging development and that assessed annual value could be more easily and definitely determined and had more regard to ability to pay and services supplied. They suggested the alternative A.A.V. basis would remove some of the valuation difficulties arising from town planning schemes and that rates on that basis would bear less heavily on home owners in areas where land values have risen as a result of land purchases for high density development. (362).

EXTEND LAND VALUE RATING, PLANNING INSTITUTE URGES

The Australian Planning Institute, Sydney Division, submitted written evidence in favour of retaining the land-value (U.C.V.) basis. This is of interest because the Cumberland C.C., a regional planning authority, had taken planning considerations into account when deciding to support A.A.V. Following is an extract from the Planning Institute's submission:—

"The Institute has considered two methods of rating—one levied in proportion to actual land use (based on annual value or improved capital value)—the other levied in proportion to potential land use (based on unimproved capital value).

"In the Sydney Metropolitan area and other major urban areas in this State, the former principle is adopted in respect of water and sewerage rates, while the latter principle is adopted throughout the State in respect of Municipal rates.

"In a rapidly expanding urban community such as Sydney, the problem of 'scatter' along the city outskirts and the problem of decay caused by obsolescence near the centre are both real and grave. Many millions of pounds could be saved annually by the

community on the provision and maintenance of service and in transportation costs, if a more compact pattern of urban development could be established. Any move in this direction requires that land should be put to its highest potential use within the shortest possible time. Acknowledging that rating of 'potential' use value penalises the owner of land carrying insufficient or obsolete improvements, it is considered that this penalty is justified if it serves, as it undoubtedly does, to reduce scatter and obsolescence in our urban areas.

"The Institute is of the opinion, therefore, that—

A. Municipal rates should continue to be levied on the unimproved capital value of land.

B. (i) The form of rating to be adopted should ensure that undeveloped or underdeveloped land will be used for the purpose for which it is zoned within the shortest possible time. It is considered therefore that:—

(ii) Consideration should be given to the levying of water and sewerage rates on the unimproved capital value of land—where these services are available."

SOCIAL AND ECONOMICAL FACTORS

Many private individuals called for retention of land value rating (363, 364). They stressed the social importance of the land value of the State, the need to check speculation in land, the right of the community to retain part of the unearned increment attaching to land by the works carried out at public expense and the need to encourage the development of land.

Other submissions were made that water and sewerage rates should be on the unimproved capital value principally on the ground that the provision of water and sewer mains and other services increases the value of land, whilst rating on the assessed annual value penalises those owners who develop, and encourages other owners to retain the land, without development, for speculation (365).

The Association of Local Government Clerks of N.S.W. and Mr. W. H. Mitchell, former Town Clerk of the City of Greater Wollongong, submitted separate, broadly similar proposals calling for the differential rating of land *based on present methods of valuation*. (366, 367). Various other differential rating suggestions were received by the Committee.

The historical background to the rating and taxation of land values in N.S.W. is presented in paras 369-377. It is, as the Committee remark, instructive, but space considerations prevent its presentation or even a summary here though the resolution adopted by the Legislative Assembly in 1892 may be quoted:—

"That in the opinion of this House, a system of raising revenue by means of direct taxation upon land values irrespective of improvements, would greatly promote the welfare of the country."

THE COMMITTEE'S REPLY

"377. In considering the competing claims for assessed annual value and unimproved capital value the fact that the latter has been the basis of local government finance for the past fifty years, during which time remarkable progress has been made in the development of municipalities and shires and in the provision of essential services, must not be overlooked. *It would require very good reasons to justify the abandonment of such a system in favour of a system which in past years was deliberately discarded by the Legislature. In the Committee's opinion no such reasons have been established.* There is a tendency, both in the States of the Commonwealth and in certain countries overseas to adopt unimproved capital value rating.

"378. Assessed annual value can be determined more readily and with greater certainty than can unimproved capital value but it should not be assumed that the former system presents no anomalies or difficulties or that anomalies or difficulties associated with the latter cannot be mitigated. . . . In England, where the rating is on a basis similar to assessed annual value, anomalies have arisen with respect to the determination of the annual value of certain classes of hereditaments and, because of the complexities and unsatisfactory nature of the present rating and valuation laws, a working party has been set up to review the whole field of rating and valuation. Claims have already been made in England for the adoption of rating on site or unimproved capital value, and the question has been posed whether the hypothetical rent basis of valuation should be abandoned in favour of some other basis.

REDEVELOPMENT IS A CONTINUOUS PROCESS

"379. Many of the arguments in favour of assessed annual value rating were not, in the Committee's opinion, well founded. Certain claims assumed that, as the metropolitan area was largely built up, the need for unimproved capital value rating to encourage the development of land was no longer present. This assumption is not valid; and even in the City of Sydney and the adjacent municipalities the need for redevelopment to meet modern standards and conditions is just as evident today as it was in 1906 when unimproved capital value rating was first introduced. The development of a city is never complete and the Committee, whilst not suggesting that assessed annual value rating in itself would prevent rebuilding, does consider that it would be a penalty on development and a tax on improvements.

"380. The claim that assessed annual value rating should be adopted because it is related more to use of service and facilities than is unimproved capital value rating is overstated. 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 rendered 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."

LAND FOR FLATS

The alleged anomaly of the building containing residential flats has also been overstated, the Committee states (382). The disparity in rates paid in respect of such lands and lands used and suitable only for single dwellings is being lessened in many instances as sites zoned for high density housing command increasing prices. Where the prices paid for high density housing sites influence values for similarly suitable neighbouring sites occupied by single residences, and hardship results, relief to the owner is available under section 160c of the Local Government Act.

[This departure from strict principle is regretted. If it is economically desirable that a given piece of land should be intensively redeveloped it is wrong and foolish to grant concessions which, inevitably, discourage or delay redevelopment. ED. L&L.]

HOUSES IN TRADING AREAS

The Local Government and Shires Associations of N.S.W. submitted:—

"that most local government services, even of a social and cultural sense, do improve local living conditions and because of that, the value of property within the area is enhanced. And, so it is generally accepted that land valuation as a basis of local government rating, is not unsound, or at least, it constitutes the most equitable method yet devised upon which to raise the funds—at least, in part—for local government services. What may be inequitable, is the disproportionate contribution as between the lowly valued property and highly valued property within the same area. Local Government services are enjoyed to much the same extent by all residents in the area and yet the owners of highly valued property—such as those within commercial and industrial areas, are called upon to pay substantially greater amounts to their councils solely because of the higher values placed on the property which they own or occupy. This is particularly emphasised, for example, in areas where say the cost of the garbage service is met from general revenue—as against a special levy. In such circumstances, the quantity of garbage actually collected may be much the same from all properties; nevertheless, the contribution in the case of highly valued property is many times greater than in the case of a residential cottage."

To this the Committee replies (384) "it would be impossible to devise a system of land rating or taxing which would make the burden fall with absolutely fair

weight upon the shoulders of all persons subject to the rate or tax, but unimproved capital value rating generally reflects ability to pay and appears to be the fairest system for raising revenue, for local government purposes, from land . . ." Any attempt to even out the differences between lowly valued and highly valued property would involve imposing extra burdens on the former. "Persons with less ability to pay could well be adversely affected."

"Evidence tendered to the Committee indicates that a high unimproved value frequently attaches to industrial land. Commercial land is generally of a higher value than residential land. The large contribution made to the rate revenue by industrial and commercial lands results in a smaller burden being borne by residential lands." (385).

SOME WOULD GAIN, OTHERS LOSE

"386. The Council of the City of Sydney in 1950 made a sample analysis of the effect in different parts of the City of a change in the basis of rating from unimproved capital value to assessed annual value. The analysis showed that in areas comprised in the municipalities united with the City of Sydney in 1949 a change to assessed annual value would have penalised the factory owner, house investor, individual home owner and small shopkeeper, whilst the business interests in close proximity to the City proper would have gained. Similarly, in the inner City area a change to assessed annual value would have favoured, with exceptions, business and commercial interests and owners of valuable home property, and would have penalised certain other home owners, small businessmen on the outskirts of the City and the owners of residential flat premises generally . . ."

The submission of the Institute of Municipal Administration and the Cumberland C.C. that land-value rating should continue only in respect of certain vacant land "recognises that assessed annual value rating is not a completely satisfactory rating system, but the remedy suggested is most discriminatory. The general basis of rating is that it must be uniform in character." If the proposal were adopted "the possibility of unfair discrimination between improved and vacant land would always be present." (387).

DIFFERENTIAL RATING

The Committee considers that the system of differential rating suggested by the Association of Local Government Clerks and by Mr. W. H. Mitchell is impracticable. (391). "The primary consideration of a Council, whatever system of rating is in force, is to collect sufficient revenue to meet its obligations, and the result of any variation in the basis would mean that one section of the ratepayers would be benefited to the disadvantage of others . . ." (394). Other differential systems advocated, although free from these and other stated objections, do not merit adoption (397).

"395. Except in the case of residentially occupied land in zoned industrial and commercial areas, no information was supplied to show that the rates on average residential land were excessive or imposed a burden which, having regard to the functions and corresponding revenue requirements of councils, it was not reasonable for them to carry." (395).

COUNCILS PREFER THE LAND VALUES SYSTEM

The Committee ends its chapter on the Basis of Rating as follows:—

"399. Councils may now levy loan, local and special rates on either the unimproved capital value or the improved capital value of land. Many specific works which are now financed from proceeds of the general rate levied on unimproved capital value could be financed from the proceeds of a special rate levied on improved capital value. *Councils have shown no inclination to levy rates on improved capital value and it is doubtful whether, if provision were made permitting the levying of the general rate partly on unimproved capital value and partly on improved capital value, they would depart from the generally convenient system of rating solely on unimproved capital value.*"

South Australia

SUCCESSFUL RATING POLLS

By the democratically-expressed wish of the ratepayers, two more places in South Australia have switched over to land-value rating. Voting last November in the rural areas of Marne District Council was 109 in favour and 61 against. The vote at Kapunda D.C., about 90 miles north of the capital, Adelaide, was 149 for and 30 against. There the assessed annual value (AAV) of land and buildings was £57,979 and a rate of 3s. 1d. in the £ was required to yield £8,938. A rate of 1.48d. in the £ on the unimproved capital value (of land only) of £1,449,032 will yield the same revenue.

Kanyaka District Council, in the far north of the State, has asked for literature and has invited Mr. E. J. Craigie to address a public meeting. Clare District Council will take a poll shortly, probably this month.

Mr. Craigie, sending this news, reports that he is slowly recovering from the three serious operations he underwent some months ago. He adds, however, that with the temperature 100 degrees in the shade and he now 90 years old, he is less vigorous than formerly.

With sorrow we have to report the deaths of two widely respected veterans, both members of the United Committee: Mr. Andrew D. Haxton, of St. Andrews, Scotland, and the Rev. Mervyn J. Stewart.