

SITE-VALUES—

THE BEST BASIS

AN OFFICIAL VIEW

Extracts from an address by Mr. W. Burges, Town Clerk,
Newcastle, New South Wales.

Net Annual Value (N.A.V.) = Annual Value of Land plus buildings, the U.K. system.

From *Local Government Information Service*

THE major basis of municipal taxation or rating in Australia is on the unimproved capital value and, in my opinion, of the real estate taxes, rating on site valuation is the most equitable and practical and I quote the main claims for this contention:—

1. Under site-value rating payments are based upon the value of the site itself without regard to whether it is fully developed or not. This site-value is not created by any effort of the individual ratepayer but is what economists call "unearned increment." This value is created and maintained by the public services provided by councils and other public instrumentalities which make it more desirable to live in the locality. Site-value is therefore an appropriate basis for local taxation to provide the revenue needed to maintain and extend such services.

2. Under site-value rating the improvements made and paid for by the individual taxpayer are exempted from local taxation. Such improvements are the result of the citizen's own industry and the full benefit should remain with him.

3. Services provided by local authorities are made available to the site without regard to whether it is developed or not. The extent of the services received by the ratepayer, compared with his neighbour's, depends on the frontage or area served. The fact that owners of undeveloped building or farm sites do not make use of the services provided does not alter the situation. The council is committed for the cost of the road maintenance, street lighting, garbage collection, parks and gardens, and its overhead expenses whether the owners of the sites served make use of them or not.

4. Site-value rating provides the same amount of revenue at any time as would be obtainable from the area under Net Annual Value but spreads it more equitably. Checks show that under N.A.V. approximately 90 per cent. of the total revenue from rates comes from lots with buildings on them even where the vacant holdings are comparable in number with the developed holdings. Site-value rating calls on completely undeveloped land to pay between two and four times the amount it would pay under N.A.V. As a result, a substantial majority of the holdings with buildings upon them carry lower rates under the site-value system.

5. The amount contributed in rates upon vacant holdings under Net Annual Value is insignificant and quite disproportionate to the costs to which the council is put. Cost surveys have shown that rates on vacant holdings

under N.A.V. are less than one-third of the road maintenance costs on the frontage to the property without considering other costs to be covered. Where vacant holdings are numerous they throw a heavier burden on the ratepayers with buildings on their sites who must pay extra to make up for the nominal payments on the undeveloped holdings.

6. The heavier rates on undeveloped holdings under site-value rating make owners who are unwilling to develop the sites themselves more willing to release these to others at reasonable prices. Site value rating squeezes out the speculative value in land, thus altering the pattern of development. Vacant sites located within the serviced area then tend to be used first instead of driving new residents to the outskirts. By bringing into use vacant lots already serviced, site-value rating avoids the extra cost to the council of premature extension of services in outer areas. It therefore means lower rates and better service to ratepayers.

7. Speculative holding of inner serviced areas under N.A.V. rating in turn inflates land prices in the outer areas with the result that owners are tempted to take land out of primary production to cash in on the speculative boom. Thus good farmland becomes sterile and unused long before natural extension of the settled area requires it. Site-value rating works to retain outer areas in production.

8. Site-value rating enables councils to obtain increased revenue needed to enable extension of council services without imposing hardship on any section. Under N.A.V. the means of obtaining greater revenue is either increase in the valuation or in the rate in the £. This means pro-rate increase in the rate payment of all, but as built lots under N.A.V. almost invariably are carrying many times the rates payable on the same site if it were vacant, the result is to increase the burden on those already highly rated whilst vacant holders pay minor increases only. Thus there is great hostility under N.A.V. when substantial increases in rate revenue are needed. Under site-value the same revenue increase is spread over the vacant holders as well as built lots and the amount of the increase on each is modest. Councils can thus provide more services and improvements for their ratepayers.

9. Council finances benefit under site-value rating as the council draws an increased share in appreciation of land values resultant on the stimulation of development which attends the introduction of this system.

10. Site-value rating charges ratepayers in proportion to the value of the services received from the council. The site-value itself is the best-known measure of this service. At the civic centre where roads converge and all council services are most concentrated, the site-value per foot or acre is high, while on the outskirts where services provided are few the site-value per foot or acre is low. Rate payments based on these values reflect the differences between the services available.

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