

Victoria's Municipal Rating System

A paper prepared for the Australian Institute of Urban Studies,
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Background to the report.

Victoria is an interesting state, with regard to its local government. It is the only area in the world that uses two different municipal rating structures, side by side, to finance local government. Basically, one system rates land (site value) only, the other taxes the full property value, being land plus buildings (Net Annual Value or Capital Improved Value). Also, there have been times when a municipal council has changed from one method to the other, and from one year to the next.

As part of the restructure of local government, started after the win of the Victorian State Liberal National Party Coalition government in 1992, the Office of Local Government, in its report "*Rates: proposals to improve Victoria's Municipal Rating System*", (August 1993), recommended that all newly amalgamated councils change to a uniform system of rating. The required system to be put into place was the Capital Improved Value system, CIV as it is known.

Parts of Victoria are now the first ever areas in Australia to rate on CIV. This is a social experiment that has implications both for councils and the community generally, and more public discussion is required. The Australian Institute of Urban Studies commissioned this report, "*Victoria's Municipal Rating System*," to examine and highlight the implications in more detail.

Introduction.

Local Government traditionally has obtained its funding from one or more of the following sources:

- ~ a poll tax (not used in Australia),
- ~ a property tax,
- ~ grants from state or federal governments,
- ~ and other minor sources such as fines, licences, etc.

Each of these finance methods has its own supporters and critics, each is in its own way an expression of the many and varied ways in which people view local government. In Victoria, revenue from property taxes has accounted for around 50% of total revenue for most councils over the years. This is a State average; the figure does vary slightly from council to council and from year to year. ¹

The different taxation methods may be explained as follows:

Poll tax

A poll tax is a levy, per head of population. It is levied upon each adult individual of the local area, taking no account of the level of income of that individual.

Property tax.

A tax on property is the amount levied upon the property owned by the resident, either corporation or individual, of the local district. The tax on property may be levied upon only the site, or land value of the asset, on the total capital (market) value of the property, on the rental return generated by the property, or on any combination of these, a so called "shandy". The process undertaken by competent valuers to value such property, for assessment purposes, is not considered difficult, though specific problems do occasionally arise.

Definitions

In Victoria, as expressed in the Local Government Act (1989) as amended, local government has adopted the following definitions for purposes of valuation of property:

Site Value: the land value only, exclusive of any improvements built upon that land.

Capital Improved Value: the price at which a property, as it stands, sells for in the market, excluding all chattels such as curtains, fittings etc.

Net Annual Value: being the rental return of the property, usually calculated by working out the gross rental, and deducting from this the statutory out-goings of rates and insurance etc. By legislation in Victoria, the NAV is restricted to a maximum of 5% of the Capital Improved Value (CIV). Detailed definitions are given in the Act.

¹ See "Local Governments side by side, comparative information on Victorian Local Councils", produced by the Victorian Office of Local Government, November 1992 for a further breakdown of such figures.

The rating base chosen by council, be it NAV, CIV, site value or even the poll tax, does not affect the quantum of revenue so raised; it will be the same under any system. It is the distributive burden of who pays, that alters. Victorian councils are required by state legislation to assess property value under all three property based systems, though only one can be used.

One unique identifying factor that should be noted about rates, as a tax base, is its practicality; the system does not require the ratepayer to keep any records, nor require the lodgement of any return.

The Office of Local Government, in its August 1993 publication "Rating Review", gave the following breakdown of the various rating systems in use around Victoria as at that date:

Region	Number of councils	site value	NAV	CIV	shandy
Metropolitan	55	26	27	1	1
Provincial	44	21	23	-	-
Rural	111	8	92	11	-
Total	210	55	142	12	1

The development of the different forms of rating within Victoria, as shown in the above table, has not occurred anywhere else in the world. The situation evolving up to 1996 is shown on page 11. See also appendices III and IV.

Key findings of the report.

Judged on economic and social grounds, the change to CIV rating by Victorian councils is unsubstantiated. The economic and social effects have not been adequately researched.

Evidence to suggest rating alters economic performance does exist, and Victoria's alternative rating systems have affected the State's development. This effect has been measured.

Substantial evidence exists to suggest ratepayers support site value to a greater extent than other available systems of rating.

Origin of rates.

The first rate as we know it, i.e., a tax struck by a local authority for a local purpose, was authorised by the Poor Relief Act of 1601 in the reign of Queen Elizabeth I. This Act required the inhabitants of the parish to contribute to the maintenance of the poor according to their means.

Such a rate has been a part of English custom for centuries; only in 1929 did the Local Government Act of that year transfer the poor law functions from parishes to county councils and county borough councils and abolish the poor law guardians. By an Act of 1948, poor relief virtually ceased to be a matter for local authorities and became a function of central government.

The form of local taxation known as rates has always been associated with local authorities, and in particular with parishes. When a parish incurred an expenditure that was payable by the inhabitants of the parish, it was met by the process known as levying a rate. The first step was to assess the value of the property of each person within the parish. The sum which had to be raised was then divided between all the property owners in proportion to the value of their property. It was from this calculation of the amount due, pro rata, that we get the term "rates".² Since the land owning condition was mostly a landlord tenant relationship rates were generally assessed on the property's annual rentable value.

Certainly throughout the English speaking world, municipal government is financed mainly from a tax on property. There have been several reasons for this, not only for historical reasons, but also because it has been generally accepted that "property" benefits in a peculiar way from the services supplied by local government and that therefore property should rightly make a contribution to the cost of local government.

It is also commonly accepted that Federal and State government should be separate from local government, and that local government should act to properly maintain such an independence, particularly as regards finance.

² Jackson, *The Machinery of Local government*, 2nd edition p 174

The early history of rating.

The English system of rating has historically been based on the Annual Rental Value of property. Such a system of rating did not prove to be readily transportable to the colonies originally under English colonial rule. In the United States, the system was quickly replaced by the Capital Improved Value system. This was to happen in New Zealand also, later to be replaced by site value.

There were two principal reasons for this general abandonment, by the English colonies, of Annual Rental Value rating. In colonial lands, the relationship of landlord and tenant, the tenant paying an annual rent, was no longer the normal pattern of land holding. It gave way to the owner-occupier and the independent settler. As a result, in practice rental payments became rare and even disappeared in some districts; the Annual Rental Values for rating purposes became increasingly difficult to assess. By contrast, in a young country land sales were common and capital values were constantly being set in a well established land market.

There was, however, an even more important reason. The pioneers found that as they improved their properties, the Annual Rental Value increased, and as a consequence so did the rates. Idle land however, not in productive use had little Annual Rental Value in the English sense where the rule was “no rent, no rates”. Idle land did have a market value though: a value increased by the steady industry of the working colonists. So the rates of the genuine settler increased as the improvements increased and the district prospered. Likewise, the market value of the speculator's assets also moved upward. Changing the rate base to a market or Capital Improved Value, and making the owner liable for rates on land which had no occupier, began to get rates from land not then in productive use. So until the late 19th century in Australia, rates were based on the total property value, administered mostly through Net Annual Value.

In the early part of the 20th century, the property tax in Australia and New Zealand went on to be further modified. The most significant modification was the removal of the tax from property improvements, concentrating the municipal revenue so raised from the unimproved, or site value, only. Such a modification was applied only in Australia, New Zealand, parts of Canada, South Africa and Jamaica.³

Site Value rating in Australia was applied first to farming districts. (Site Value was defined originally as “Unimproved Value”). Site Value rating was extended to Australia's towns and cities only after its suitability for, and acceptance by farmers had been demonstrated. Site Value rating was first used within the shires of Queensland in 1887 specifically to ease the position of genuine farmers, who were finding that under the system of the time, NAV, they were paying more than their fair share of municipal costs to make up for the token payments from the owners of vast, undeveloped property.⁴

The situation was the same in New South Wales, where Site Value rating was also applied first to farming shires, then later to urban areas. Queensland was also the first to apply Site Value to urban areas, done in 1890 in the midst of a serious nationwide, and international, depression. Its introduction, the government

³ A much more detailed rating history may be found in the book “Rating in New Zealand”, by Rolland O'Regan, Baranduin Publishers, 1985.

⁴ In Queensland, Sir Samuel Griffith, (later Australia's first chief Justice of the High Court), drafted the first provisions for valuing and rating the land and imposing local site rates. This was made law in 1891, covering 665 978 square miles, land value £49 154 977, and the rates so raised for that year being £253 581.

claimed at the time, was to stimulate the Queensland construction industry, which it did.⁵ In Western Australia, site rating was first applied to the Road Districts, equivalent to our shires, in 1902. Only in 1948 were the 21 urban councils given optional powers to use site value. In South Australia, the first municipality to adopt site value was Thebarton in 1907, followed by Moonta, a country shire, soon after.

Site Value rating has since developed to become the dominant system in Australia. By 1955, of the 921 municipalities in Australia, 570, or 62% were using site value. Apart from New Zealand, no other countries were so extensively using this system. By the late 1980's, councils using site value comprised more than 92% of the municipalised area of Australia, Site Value rating being used in approximately two-thirds of all local government councils. The fact that the remaining 8% of councils, by municipalised area, have not changed over to site value shows site rating's appeal has been primarily to our farmers.

The states of Queensland, New South Wales and Western Australia apply Site Value rating universally to farming properties. In South Australia, Victoria and Tasmania, its application has not been across the whole state.

Victoria's early rating history.

The development of rating in Victoria has been unusual. Rating of the site only was made the subject of legislation first in 1914. After much debate and several amendments, the City of Caulfield became the first council to give notice of an intention to adopt rates on site value, in March 1920. This was followed by Coburg, Essendon, Newtown, Chilwell, and Rosedale municipalities in the same year, then Oakleigh (1921), Chelsea (1923), Camberwell and Brunswick (1922), Mordialloc (1925) and Sandringham (1926).

At the time, in each council, the economic effect was clearly observed, and noted by many historians. Geoffrey Blainey, in his book "A History of Camberwell" having this to say;

"A few hundred people owned large areas of cow paddock and market garden and vacant land and refused to sell them for housing partly because they believed the speculative value of the land would rise. Such people blocked Camberwell's growth and contributed little to its municipal revenue. At Camberwell junction and other shopping centres, owners of old wooden shops were paying smaller rates than the enterprising landlords who built expensive shops and attracted business to the centre. In residential streets, landlords who allowed houses to go unpainted and unrepaired paid smaller rates, while the landlord who improved his property and therefore the neighbourhood's appearance and land values was penalised for his enterprise with higher taxes. The reformers argued that a new method of municipal taxation would accelerate the pace of Camberwell's growth and improve the quality of the suburb. Calling for a referendum, they carried the poll after a fierce campaign and Camberwell and Caulfield became the first Victorian municipalities to tax the land and not the buildings. From 1922, the new method of taxation undoubtedly forced many large landowners to release vacant land for house building..."⁶

⁵ Reported in "A graphic summary of Municipal Improvement and Finance", International Research Committee on Real Estate Taxation, 1958.

⁶ Blainey, G "A History of Camberwell", Lothian Publishers, (1980), page 86

Victoria's rating history is significant for the enormous changes to the rating system undertaken by various councils. Appendix II gives a detailed history, by municipality, of the *rating base* changes implemented. Appendix II also lists the method by which the rate base was changed. A further significant modification was made in 1968 when the levying of rates was permitted by the use of the NAV and site value systems in any proportion, uniform for the municipality. This is referred to commonly as the "shandy" system. To date, only a 50/50 proportion has been used.

Over the years, and particularly after the second world war, substantial *legislative changes* have been made to the rating system, both in Victoria and Australia. Theoretically at least, the basis of the rating system has always been the value of the property rated, a value generally considered to reflect the services supplied by council to that property. Legislative changes however have moved rates away from this concept, after a number of issues arose that needed addressing.

Historically in Victoria, property has usually been revalued (by council valuers) every four years. This made land based valuations during the intervening periods insensitive to a number of relatively recent economic events, in particular:

- ~ high inflation rates,
- ~ rapid urbanisation pressures in most cities and towns,
- ~ a high volume of property transactions in the residential sector related to growing urbanisation and labour mobility, and
- ~ (relatively) small number of transactions in the commercial and industrial sectors where property ownership related more to longer term investment.

For these reasons, rates based on site value were presenting problems to councils. But there was one further, more pressing problem. Here it is worth quoting Rolland O'Regan, *Rating in New Zealand*, (page 110) directly:

"Once an improvement, e.g. a building, is made, it begins to depreciate. It must be maintained at a cost. It tends to obsolescence: it has a limited life. It may in the end have a negative value, namely the cost of totally destroying it before it can be replaced. The other component in the value of a property is the value of the land. In any dynamic society this component tends to increase, sometimes dramatically. As the land value of a particular section goes up, the value of the improvements thereon tend to go down and the capital value might remain constant or increase but slowly. In an area in which the CIV is the rateable value, rates change little.

By contrast, when the site value is the sole rateable base, the property with the aging building on it gets quite steeply increasing rates as the land value goes up. This is why rating on the site value is intolerable to rundown properties and why it spurs renewal. Site value is the labile element in the capital value and when it is the sole rateable base, *it must produce anomalies.*" (Emphasis added.)

Legislative changes to adjust some of the “anomalies”, and other problems referred to above, have mostly taken one or more of the following forms:

- ~ adjustments to the basis of valuation of a property,
- ~ limits on rates, for example maximum and minimum rates,
- ~ reduced rates for urban farmland, some industries and mines,
- ~ reduced rates for residential use of higher valued land,
- ~ rate exemptions, for example church owned property and crown land;
- ~ special purpose rates for beneficiaries of particular services,
- ~ rate rebate schemes
- ~ derating and tax exemptions of some properties,
- ~ differential rating.

Land based rates, and the problems illustrated above, often brought heavy political pressures to bear, evidenced by the numerous enquiries and royal commissions into rating, far more than ever held into the more conventional (and punitive) forms of taxation like payroll tax and income tax. Notably, yearly valuations would go a long way towards removing many of the perceived inequities. In reality, the inequities brought about by infrequent valuations are valuation deficiencies, not rating deficiencies.

In addition to the many and varied legislative changes, to achieve some form of rating redistribution, the concept of rates based on “ability to pay”, rather than services received, has also lately been gathering momentum. (In other words, to consider rates more in the manner of an income tax.)

It is also interesting to note the changing expectations of ratepayers as to how they expect rates to be spent. Certainly during the 1950's and 1960's, the focus of rate expenditure was more on roads, bridges, and drains, etc. Today the emphasis is much more focussed on the human or social infrastructure. (Which, as noted previously, was the original reason for the first English “rate” in 1601.)

So we have the situation today that, although rates are still mainly a locally based tax on property values, changes have been introduced in an effort to achieve a more “equitable” distribution of the rate burden, or, more often, in response to political pressures from disaffected ratepayers.

With all the changes that have taken place however, it should be borne in mind that the changes have not generally been used to increase the total quantum of rates collected, rather it is done to alter the rate distribution; to have some ratepayers pay more, and some pay less, on equity grounds. “Equity”, of course, means different things to different ratepayers. Considerable discussion and dispute often arises. And what comes to represent a concession to one ratepayer, is always an imposition on another.

Mention should also be made of differential rating. It has been pointed out already that in Australia Site Value rating was first applied to farming districts, at the request of farmers themselves. This was a natural progression in the newly developing colonies.

The pressure for a rate differential came first from farming interests as well. Given the nature of early Australian development this is not surprising. The country sector after about the 1930's argued for rate relief for farmlands in areas where the site valuations were reflecting urban land use potential. Accordingly, councils eventually came to the view of affording some relief to farmers through a "differential rate", based upon classification of land according to its use. This came to be one of the earliest applied, and most common form of differential.

Differential rates have been increasingly used by councils to provide assistance with the either real or supposed defects of the rating system, as discussed earlier. (Pages 9 and 10.) In using differential rates, councils are basically trying not to levy rates on a uniform basis, but rather to vary the rate in the dollar as between properties. This is quite a fundamental shift in thinking and approach to rating.

Generally, Victorian councils have now been permitted to apply differentials in a partial manner, with State controls as to the classes of property and ratepayer, and the valuation systems permitted. At present, the ratio of differentials cannot exceed four to one. That is, the highest rate differential applied by council cannot be four times greater than the lowest, hence the application at present of rate capping .

In 1843, when applying its rates for that year, the New Plymouth, New Zealand, councillors drew circles from the town centre on a map, applying a diminishing rate to each circle, 5,4,3,2,1, as it were; a form of differential covering the land use mix in those days. It's a bit more complicated nowadays. But if the New Zealand rating situation of today is any guide, Victorian councils may shortly face some uncertain times with CIV. There have been in New Zealand, and only in those few areas rating Capital Value, significant court actions over rates. These court actions are successfully contesting the lack of cost/benefit relationship between capital value rates and council services.

The rating basis for Melbourne before and after the local government restructuring is shown in appendix III and appendix IV respectively. Note the extension of the rating divide between Melbourne's eastern and western suburbs. The possible implications, if any, for our western regions, and Melbourne's economic and social development as a whole, would be an excellent further research project.

The rating systems in operation across Victoria are now:

Councils on NAV	6
Councils on Site Value	8
Councils on CIV	64

Economic research.

Historically, quite a battle developed in Victoria between ratepayers and councils as to the merits of different rating systems. Over the years there have been times when councils changed from NAV to site value, and then sometimes back again to NAV. (See appendix II.) Some councils altered their rates system, whilst their neighbouring council did not. Currently the changes are to CIV.

Such a unique, even haphazard development of municipal taxation permitted extensive economic analysis, not only by Australian researchers, but also from overseas based interests. Much economic research has therefore been carried out, some of which is documented herein. Measurement of economic performance under different rating systems has also been done. H Bronson-Cowen, a visiting Canadian economist to Australia in 1942, noted some interesting statistics.⁷ He grouped together some of the early economic research into municipal taxation within Australia.

Historical research example one.

Early statistics were done for Camberwell Council. For the five years prior to 1923, the total number of dwelling permits issued was 2 051. After a change to site value in 1922, the number of dwelling permits for the following five years totalled 4373, more than double. The suburb of Camberwell topped suburban local government area building statistics every year after that until 1946. (Having originally shown very little activity prior to 1922.) This confirmed empirically what most 1920's Camberwell ratepayers had seen for themselves. (As noted by Geoffrey Blainey and quoted on page 8 of this report.) The prodigious increase in building activity would not have occurred without the introduction of Site Value rating to the Camberwell municipality.⁸

Historical research example two.

A comparison of Melbourne suburban development, undertaken for the years between 1920-21 and 1939-40, outside the then inner industrial areas revealed the following changes to their respective rate base growth;⁹

Twenty year comparison, 1920-21 to 1939-40

Comparison of;	<u>site value cities</u>	<u>NAV cities</u>
Total area of each suburban grouping	31 177 acres	53 796 acres
Total increase in the N.A.V. of each group	£2 649 000	£3 074 000
Per acre increase in N.A.V. of each group	£85	£57
Total increase in rate yield	£288 000	£ 299 000
Per acre increase in rate yield	£9.3	£6.2

⁷ Reported mainly in "A graphical summary of municipal improvement and finance", International Research Committee on Real Estate Taxation, Harper & Brothers, New York, 1958, H Bronson Cowan, Research Director.

⁸ Ibid, p 25

⁹ Extracted from "Rising Municipal Costs. A comparison of relative abilities of alternative rating systems to provide increased rate yield", Land Values Research Group, 1949.

(Historical research example two continued.)

The inner industrial areas were excluded from the study as they had no site value counterparts with which to compare, being all on Net Annual Value at this time. The seven (then) outer suburban areas used in the study that were rating on site value were Brunswick, Coburg, Camberwell, Caulfield, Essendon, Oakleigh and Sandringham. The ten outer municipalities included in the study rating NAV were Brighton, Footscray, Hawthorn, Kew, Malvern, Northcote, Moorabbin, Preston, Williamstown and Heidelberg.

The results of this long term, twenty year comparison of Melbourne's growth districts, revealed that of the outer districts studied, the annual rental value increased at a faster rate with site value rating as the rate base. This is important for councils to note. It is the annual rental value of the municipality that sets the limit of potential revenue under any rating system. This research indicated that property owners (and their property) did better, other things being equal, under site value. It was noted further that of the 14 councils rating site values at the time of the 1933 census, these districts accounted for 46% of Victoria's dwelling increase between 1933 and the previous census of 1921, but only contained 16% of the State's population. For this 1940's study, the researchers could not find any other reason to explain their results other than the different rating structures.

Historical research example three.

A more comprehensive study of Melbourne construction activity from 1927 to 1951 was done by The American Institute for Economic Research.¹⁰ The Institute study, an empirical analysis of data on building during this twenty five year period, showed that of the 28 councils in the area researched, nine exempted improvements from council rates in the 1920's, five more doing so in the 1940's. Construction activity was found to be least in the cities at or near the centre of the Melbourne municipal area, and among suburban councils, building construction was greatest in those councils rating site value. All councils that had changed from NAV in the 1940's were shown to have experienced marked increases in building activity immediately after the rating change, above what could have been otherwise expected.

Historical research example four.

After 1945, a number of other councils changed to site value. A further twenty-two councils changed from NAV to site value between 1955 and 1965. The economic effect for each of these councils was also measured. For the 22 municipalities involved, in the year following the rating change, increases in building activity were recorded as follows;

Ararat 60%, Benalla 39%, Castlemaine 55%, Cohuna, 25%, Horsham 12%, Kerang borough 20%, Kerang shire 119%, Kilmore 24%, Korumburra 168%, Maryborough 48%, Mclvor 69%, Mildura 41%, Moe borough 50%, Sale 39%, Swan Hill 111%, Towong 90%, Traralgon 7%, Wangaratta 49%, Warrnambool 89%, Wodonga 34%, and Wonthaggi 209%.¹¹

¹⁰ "Tax exemption of improvements", James T Gibbs, American Institute for Economic Research, Great Barrington, Massachusetts, USA. (not dated)

¹¹ Author's own records.

Historical research example five.

Research of a slightly different nature, from the Land Values Research Group, examined Australia's agricultural activity related to the rating system under which the state's farming sector was operating. Such research proved possible because, as noted, Australian States at this time, both prior and after the second world war, operated under entirely different rating systems.

The Research Group compared the changes for farming land under all crops for each State over two distinct periods; the ten years from 1929/30 to 1938/39, covering the depression to the start of the second world war, and the period 1946/47 to 1958/59, being the post war seasons. The war years agriculture was under government direction and control and was omitted. ¹²

Acreage under all crops

A). Depression period	1929/30	1938/39	change	
Site rating farming states	(000)	(000)	(000)	
Queensland	1 046	1 734	688	68%
New South Wales	5 501	7 049	1 548	22%
Western Australia	<u>4 566</u>	<u>4 719</u>	<u>153</u>	<u>3%</u>
Group figures	11 113	13 502	2 389	21%
NAV rating farming states				
South Australia	4 967	4 724	-243	-5%
Victoria	5 579	5 019	-560	-10%
Tasmania	<u>265</u>	<u>243</u>	<u>-22</u>	<u>-8%</u>
Group figures	10 811	9 986	-826	-8%
B). Post war years	1946/47	1958/59	change	
Site rating farming states				
Queensland	1 617	2 841	1 224	76%
New South Wales	6 512	6 825	313	5%
Western Australia	<u>3 590</u>	<u>6 135</u>	<u>2 545</u>	<u>71%</u>
Group figures	11 719	15 801	4 082	35%
NAV rating farming states				
South Australia	3 885	4 147	262	7%
Victoria	5 103	4 792	-311	-6%
Tasmania	<u>361</u>	<u>339</u>	<u>-22</u>	<u>-6%</u>
Group figures	3 349	9 278	-61	-1%

¹² Land Values Research Group, Melbourne, "A study of the effects of local government rating systems upon the social and economic development of the Australian States", 1963, page 10.

(Historical research example five continued.)

We can see that farmers in the site rated states extended their acreage under crops more than their farming counterparts in NAV rated states. The point of significance in this research was that between these two periods, rating systems changed in both Victoria and South Australia. The extension of site rating in Victoria was in urban areas only. In South Australia, the substantial extensions to site rating took place in rural areas almost exclusively. The post war “acreage under all crops” figures have reflected this change. South Australia extended its area of acreage under all crops, as more farming districts changed to site rating. Site rating was shown to be the catalyst.

More recent research.

Research example six.

A highly detailed and technical study was undertaken in 1990 by Professor Kenneth M Lusht, Chairman, Department of Insurance and Real Estate, Pennsylvania State University.¹³ The report noted that:

“Individual communities in the Melbourne, Australia, statistical division may tax real property on the basis of either capital value or site value. Cross sectional analysis of 53 of those communities associates the use of the site value base with significantly higher development stocks and a higher flow of new housing.”

In concluding his study, Professor Lusht went on to say:

“There is evidence that the use of site value stimulates development and that the advantage persists in the long run, though somewhat eroded. The results also suggest that the level of the property tax in Melbourne, which is similar to levels in typical U.S. cities, is sufficiently high to affect behaviour. Site Value was a consistently significant predictor, with most specifications showing 40-60 percent more stock per acre in site value taxing LGA’s. The question of whether the adoption of site value has preceded or followed development was addressed by reducing the sample to the 28 suburban communities that had substantial amounts of developable land available. The site value tax was strongly associated with the flow of new residential development in these communities, suggesting that development is following the tax.”

¹³ Lusht, Kenneth, “The site value tax and residential development”, working paper, Lincoln Institute of Land Policy, 1992, supported by The Royal Melbourne Institute of Technology.

Research example seven.

The finding that development is following the site rate in Melbourne was also researched by the Site Rating Defence Group, as reported in the Australian Financial Review.¹⁴ Specifically, the Group reported its findings that:

“According to Melbourne’s manufacturing and employment statistics for the 10 years between 1974 and 1984, as reported by the Australian Bureau of Statistics, the number of businesses in site rated councils increased by more than 10%, whilst in non site rated councils the number of businesses decreased by 20%.”

Similar results were found for employment levels.

¹⁴ Australian Financial Review, July 24 1995, SRD Group “Rating and Victorian Manufacturing”, April 1995. Readers may note that this group actively campaigned for the retention of site value, a group for whom this author did some research in an economic capacity.

Equity, fairness, and the system of rating.

As far as rating is concerned, the desirable objectives that any rating system should achieve, (or at least aim for) would be that the rating system is:

- ~ equitable,
- ~ effective and simple to administer,
- ~ easy to understand and explain,
- ~ allow comparison as between the taxing authorities,
- ~ be transparent.
- ~ and promote effective resource allocation and use.

The advocates of each system of rating would argue of course that their preferred method best meets such aims. Appendix I lists a general guide as to the many arguments put forward by the proponents of each system, and also a guide as to who pays more or less under each system:

The question of which rating system is considered the most appropriate has been often debated. Most ratepayers would probably argue that whichever system delivers them the lowest rate bill is the best system. This question of the most appropriate rating system has also been frequently reported upon at government level, through various commissions of enquiry. Their conclusions probably offer a more reliable guide as to discussions of equity and fairness.

Site Value rating was endorsed by the following Commissions:

- Queensland Committee of Inquiry into Valuation and Rating, 1989,
(chaired by Sir Gordon Chalk, KBE)
- The Wellington City Committee, 1989
- The Internal Affairs Department Coordinating Committee, New Zealand, 1989
- Commission of Inquiry into Land Tenures 1973 NSW
- Land Institute Report, Whitstable England, 1963, 1973
- The NSW Royal Commission of Inquiry chaired by R. Else-Mitchell 1967
- Inquiry Chaired by Justice Hardy (Qld) 1966
- Enquiry Chaired by N.L. Buchan (Qld) 1964
- Queensland Committee of Inquiry chaired by Sir A. Bridge Q.C. 1960
- The Royal Commission on Local Government finance, 1958
- Australian Country Party Inquiry 1933

CIV has been recommended by the following:

The Office of Local Government report "*Rates: proposals to improve Victoria's Municipal Rating System*", (August 1993).

Farmers. A brief discussion.

Farmers are an interesting, if not special, case; one reason being the often cyclical nature of farm income. Another reason, already referred to, is that of urban sprawl, whereby lands traditionally having been used for farming, be it wheat, orchards, crops or whatever, are being threatened with development because of a higher valuation placed upon that farmland due to potential alternative "higher use". Following on from this is the perception, lately developed,¹⁵ that since rates on site value do not tax improvements, a greater burden is therefore placed on farmers and other large land users. This is not necessarily the case.

Farmers, resident upon, and working their holdings, benefit in lower rates under the site value basis in the majority of cases, just as do householders in the towns, and in about the same proportions. To use just one example; when the once farming shires of Keilor, Eltham, and Frankston and Hastings changed over to Site Value rating, decades ago, the percentages of farmers benefiting from lower rates were 81%, 77% and 55% respectively.¹⁶ (Hence the votes cast by a majority of ratepayers at council poll, for a change to site value. See Appendix II for the voting pattern.) These areas are now mostly suburban of course, but changed to site value rating when the shires were once regarded as rural. Such a benefit would still hold for today's farming districts closest to Melbourne. Some of the rating problems for genuine farmers though are of real concern. If the problem is one of the farmer's capacity to pay, the answer may lie in part on council's use of an income based tax or rate. Both CIV and site value are property related, CIV even more so.

CIV will not, however, solve the question of rising farm values forcing more intensive higher use development. The situation for genuine Victorian farmers will probably now be worse. Historical research elsewhere within this report has indicated the possible economic effect on farmers, from a total production viewpoint. It can be noted that under CIV, a poorly developed farm close to the city will now pay lower rates than a highly capitalised farm more distant from that same city. This is not an effective way to encourage productive farming, nor is it more equitable than the situation it was designed to overcome.

Further investigation of genuine farmers needs *is* warranted, however. One suggestion may be to link the farm property rate to an appropriate commodity price index. This would at least ensure farmers' rates, a fixed overhead, do not prove destructive in poor seasons and can be afforded in good times by rising and falling with such commodity prices. (Country municipalities would need to consider the effect such a change would have on their revenue base.) Valuations must also be current. This then is relating an effective rating principle to some means of affordability.

Farmers too, must recognise that some city sprawl is inevitable where a growing population is concerned. One cause of urban sprawl is the inefficient use of land. As noted, the choice of rate base seems to affect this. Urban sprawl, not rates, is the true enemy of farmers. Therefore, both councils and other levels of government should look at other urban policies for remedial action. (A topic outside the scope of this report.) Notably, the US Farmers Association has been known to advocate a graduated site rate.¹⁷

¹⁵ See for instance the Local Government Board, Victorian Farmers federation joint resource paper, "Rating issues in non metropolitan areas", August 1994.

¹⁶ Analysis of historical council data by the author of information held in Land Values Research Group library, unpublished. Readers may also refer to the section discussing the distribution of the rates burden. Note the figures for the farming shire of Korumburra in particular.

¹⁷ US Farm News, Des Moines Iowa, June 1974.

Overseas rating experience.

Rates in the United Kingdom are heavy. In 1985 they raised about £9000 million a year and were 29% of all taxes levied. This represented 4.2% of the Gross National Product. Local government in the United Kingdom pays part of the cost of education and the police force. Rates are assessed on the Net Annual Rental Value of properties. As actual rents have been subject to rent control acts for many years there is virtually no free market in rents to determine Annual Rental ratable values.¹⁸

This fact introduced a large element of guesswork into the valuations and the resulting anomalies and inequities remain a source of widespread and bitter discontent. Particularly unpopular were the constant invasions of privacy by council inspectors, to value improvements. This reached a crescendo of opposition in the years under Margaret Thatcher, when it was decided to change the property based rates system to a poll tax. History shows that poll taxes do not last long, nor do those politicians who introduce them.

Overseas property taxes comparison:

	Local taxes on property as a % of all taxes	Local taxes on property as a % of GNP	Local taxes on property per head of pop. \$NZ
U.S.A.	30.7	2.6	326.00
Canada	11.8	4	567.40
United Kingdom	29	4.2	184.19
New Zealand	7	2.1	193.85
Australia	2.4	1.2	115.13

Source; Rating in New Zealand, page 8, 1985 figures.

The United States uses CIV as its rating base. (In 43 of the states, there is also a state tax on property, in addition to the local government rate.) The rating system is made worse since valuations are generally unrealistic and often hopelessly out of date. The US system has tended to become, therefore, a use based, rather than market based, valuation system. Whilst Victoria moves to CIV, US tax experts and land economists are having some success shifting US cities to a graded property tax; that is lower taxes on improvements, more on the site value, using evidence gained from Australian cities and councils under site value. Australia's site rating is seen by some concerned U.S. economists as the last regeneration hope of US cities and towns.

¹⁸ "Rating in New Zealand", Rolland O'Regan, Baranduin Publishers, 1985.

Overseas research. A review of other empirical evidence.

The Pittsburgh example.

Pittsburgh is one of the few US cities that deliberately uses site value rating as an economic development tool, having done so since 1913. (Stated city policy.) The city has as a result been intensively studied. Pittsburgh also happens to be the site of the first tax revolt in US history, when Alexander Hamilton introduced the whisky tax in 1789.

Oates and Schwab of the University of Maryland researched evidence that Pittsburgh, after significantly increasing the site component of its property tax base, far surpassed, in construction activity, 14 other comparable industrial cities which continued to rate on CIV.

Average annual value of building permits, constant 1982 dollars, millions, for 15 Midwest US cities. ¹⁹

City	1969-70	1980-89	% change
Pittsburgh	181.7	309.7	70.4
Akron	134.0	87.9	-34.4
Allentown	48.1	28.8	-40.4
Buffalo	93.7	82.9	-11.5
Canton	40.2	24.2	-39.7
Cincinnati	318.2	231.5	-27.2
Cleveland	329.5	224.5	-31.8
Columbus	456.5	527.0	15.4
Dayton	107.7	92.2	-14.4
Detroit	368.8	227.2	-24.7
Erie	48.3	22.7	-52.9
Rochester	118.7	82.4	-30.5
Syracuse	94.5	53.6	-43.2
Toledo	138.3	93.4	-32.4
Youngstown	33.6	11.1	-66.9

All but two of the cities studied saw the value of annual building permits decline sharply in the 1980's compared with the two prior decades. (Despite the 1980's being a high growth decade.) Apart from Pittsburgh, only Columbus, Ohio, realised an increase (15%) in building permits. This was dwarfed by Pittsburgh's showing. Pittsburgh's real value of building permits on an annual basis rose by some 70% in the 1980's relative to the twenty-year period preceding the property rate reform.

¹⁹ Source, Gates and Schwab, "The impact of urban land taxation; the Pittsburgh experience, Wallace Oates and Robert Schwab. Lincoln Institute of Land Policy, Cambridge, Mass. 1993, table 3.

Oates and Schwab also checked U.S. Census bureau records that, while covering shorter time spans, 1974-78 and 1980-89, had richer details with breakdowns of central city and suburban construction and building activity of different types. "Pittsburgh again stands out with a dramatic increase of more than 250% a year, while the new building investment in most other cities fell after 1979." ²⁰

The report's opening paragraph stated:

"The analysis of these data, in the context of some other key economic variables, suggests to us that the Pittsburgh tax reform, properly understood, has probably played a significant supportive role in the economic resurgence of the city." (The report did go on to state "We cannot conclude, from the Pittsburgh experience at least, that such fiscal incentives are in themselves capable of generating major urban renewal efforts, but in the general Pittsburgh context, it is our sense that they have played a supporting role for new urban construction.")

Despite this qualification, the results were found to be significant enough for copycat rating structures, ie heavier rates on the site, less taxes on buildings, to be under implementation in Maryland, West Virginia, New Hampshire and Cincinnati.

The most recent study of Pittsburgh is of particular interest. Australia's Steven Bourassa, at the ANU,²¹ used a general econometric model of the city, covering periods where the taxes applicable to improvements were progressively lowered even further and shifted more towards the site. He found that:

"the improvement tax rate is a highly significant determinant of the amount of new housing construction in Pittsburgh, a 1 per cent decrease in the improvement tax rate should result in a 2.31 per cent increase in the dollar value of new housing. This implies that a 5 per cent decrease in the improvement tax rate, such as that which occurred at the beginning of 1983, resulted in about an 11.6 per cent increase in the dollar value of new housing construction. Given the mean monthly amount of new housing construction during the study period (\$1 076 042), this would represent an increase in construction activity of about \$125 000 each month (in January 1978 dollars)."

The study was consistent with other previous findings that changes in property tax rates may lead to shifts in the location of households. Bourassa's study noted, importantly, that:

"given the results of this study, site rating seems to be a desirable strategy for central cities to employ in seeking to encourage development and attract households. Because households are relatively mobile within metropolitan areas, site rating may permit central cities to attract households that would otherwise locate in nearby suburban jurisdictions."

Pittsburgh has consistently been rated America's most livable city; it reputedly has the most affordable housing in the US.

²⁰ Ibid

²¹ Land Value Taxation and Housing Development for Three Cities in Pennsylvania, Steven C Bourassa. URU Working paper No. 13, June 1989. Australian National University Research School of Social Sciences.

A similar effect of the property tax has been measured in Hawaii. Pollock and Shoop, (1977),²² performed the study in Hawaii to estimate the effect on capital intensity of urban land development of a reduction in the rate on improvements accompanied by an increase in the tax rate on land value, with total property tax revenues held constant.

As the report noted, Hawaii was a good place to study since

“the preconditions for an empirical estimation of a real estate revenue production function appear to have been satisfied in the case of tourist hotel developments in Waikiki in the 1965 to 1973 period. An Hawaiian tourist boom in the 1960’s stimulated a boom in hotel construction in the primary tourist destination area of Waikiki. Since the Waikiki “island” is a relatively small and well defined area of about one square mile in size, the site characteristics under the new hotels are relatively homogeneous.....Moreover, the Hawaii graded property tax assessment procedure, in which accurate assessment of land and improvement value is required, makes available a significant amount of reliable empirical cost and revenue data for the outside analyst.”

The Pollock and Shoop study concluded that:

“the findings of this study lend tentative support to the view that a shift from general property taxation toward (site value) can have a significant impact on the degree of capital intensity of improvement to land.” And whilst it was acknowledged and readily seen that “at higher interest rates, property taxes constitute a smaller proportion of the total cost of capital, and thus reductions in the tax rate would have a relatively smaller effect on investment,” nevertheless, “elimination of the tax rate on improvements would increase the long run equilibrium investment in improvements by a maximum of 25 per cent.”

Though the study noted its own limitations; “only one particular form of improvement, in one location” was examined, the results are consistent with other studies, notably, Grierson, (1974),²³ who, in an entirely different approach, estimated that a total elimination of the property tax on improvements would increase the supply of structures by 23 percent.

Other studies also report results supporting the use of site value in preference to taxing improvements, including Di Masi, (1987), Follain and Miyake (1986), and Brueckner, (1986). Some other reports or studies however, have concluded an opposing view. Early literature, Heilbrun, (1966,) Woodruffe and Ecker-Rasz, (1969) believed they could find little evidence that site value measurably affected development. Still others, see for example Bentick (1982), Mills (1982), or Eckart (1983) have suggested site value may have an early “pay off “ stream, but inducing development that is too early, with less intensive development in the long run.

Agreement is almost universal today however that site rating will stimulate development of some sort, though it is not agreed whether this would persist in the long run.

²² Pollock, Richard, and Donald Shoop, 1977, The effect of shifting the property tax base from improvement values to land value; an empirical estimate. *Land Economics* 53; p 67-77.

²³ Grierson, Ronald E, 1974. The economics of property taxes and land values; the elasticity of supply structures. *Journal of Urban economics* 1 (Oct), p 367-381

In New York, Lower Manhattan property owners came up with an interesting proposal in 1995. Faced with their surrounding city area dying, a solution had to be found. Manhattan's problems are like most cities; vacant buildings, unlettable buildings useless to modern financial corporations, and in the New York case, no significant new buildings built in decades. Lower Manhattan property owners opted for a self imposed, voluntary property tax of \$US 9 a square foot; the money raised to be used for extra services like sanitation, garbage removal, security and general promotion. It is hoped that this will relieve vacancy rates in the area and ultimately of course lift returns for property investors.

Importantly, Amsterdam, New York, has just gone over to a two rate property tax, the first time ever in New York itself.²⁴

Property tax theory suggests also that not only should the quantity of housing increase with a reduction in the tax on improvements, but that the quality of housing should rise also. Research is tending to support theory. Tanzer, (1985)²⁵ shows empirically that a given percentage reduction in the tax rate on improvements leads to the same percentage increase in quantity as in quality.

One study in particular in 1972, from the Urban Land Institute, Washington,²⁶ emphasised the role of site rating in urban renewal by looking at Sydney. The report even went as far as comparing the Sydney CBD which developed under site rating, with that of the Melbourne CBD, which developed by taxing improvements. The study is revealing and Sydney proved a useful case study. The Washington report found site rating to be "an influential factor affecting the land use pattern of the city (Sydney)." In reviewing the evidence, the report concluded:

"redevelopment is part of the supply response to an increased demand for building space in a fully built up area. The site rate stimulates a more rapid and efficient redevelopment process by increasing the availability of sites for redevelopment and by encouraging the use of the most suitable sites first. It does this by accelerating the transition of marginal properties to the status of economic redevelopment sites.....It promotes an active market in redevelopment sites which assists land assembly and promotes an expanded role for the larger multi project developer and investors in the redevelopment process." And whilst noting that there existed many other reasons for the differences between Melbourne and Sydney, "some evidence was also assembled which indicated that site rating encourages the concentration of redevelopment activity.....the Sydney office node is more uniformly developed at a high intensity than is the Melbourne node."

With the adoption of site value in Melbourne, the evidence reviewed here strongly suggests property developers and investors could look forward to increased construction levels and higher returns. It is probable also that with such a change, the pressure would be taken off the often (community perceived) undesirable development of other, more inappropriate sites.

²⁴ U.S. enabling legislation allows a sliding scale approach to the property tax, whereby the tax can be any set proportion, some on the buildings, some on the site, replacing what used to be the tax fully on total capital value. Hence the term adopted of "two rate".

²⁵ Ellen Tanzer, The effect on housing quality of reducing the structure tax rate. Academic Press, 1985.

²⁶ Archer, R.W. 1972, Site Value taxation in Central Business District Development. Sydney Australia. U.L.I research report 19, Urban land Institute, Washington.

If nothing else, such studies clearly show there to be some community wide effects in changing the property tax; something that in Victoria ought to be fully researched and documented. In forcing local Government in Victoria to change to CIV, the State Government has no idea of the direction and effects that will result. Research is urgently required, particularly in one area, as follows.

The most recent Victorian land tax review found that currently around 65% of the land tax is paid by companies. A computer modelled move to a land tax base of land plus improvements, (termed in the report Capital Improved Value), would have shifted the burden of taxation even more to commercial and manufacturing properties.²⁷ CIV rating at local government level may do the same. It is possible therefore that Victorian manufacturers will pay lower rates in 1996, but also pay a greater burden of the total collected.

All property tax studies note distributional effects. Cuddington,²⁸ (1978) concluded his study by saying that "a careful consideration of the incidence of the existing property tax is essential for accurate estimation of the distributional effects of property tax reform."

²⁷ Review of Land Tax, Victoria, p 152.

²⁸ John T Cuddington, Estimating Impacts of a property tax reform. Land Economics, 54, August 1978.

Questions for wider community discussion and debate.

This report has highlighted a number of fundamental issues relating to municipal rating. Many would be suitable for community debate on rating as an area of public policy. Perhaps these issues could be summarised as follows: (suitable questions for discussion have been highlighted)

Resource efficiency.

Should municipal taxation be used to promote efficiency in resource allocation ?

The present state government's focus has been on making state taxes, state infrastructure, state utility pricing and no doubt local government amalgamations, attractive to business to encourage state growth. If this is accepted as a worthwhile objective, then should not municipal taxation also be seen in the same light ?

For example, in 1995, the State Government released its "Living Suburbs" policy paper, "For Metropolitan Melbourne into the 21st century". In this document, on page 56, the government clearly outlines its commitment to:

- "improve the management of Melbourne infrastructure and urban development by encouraging the more efficient use of land and infrastructure and greater housing choice,
- encourage redevelopment in areas with underused infrastructure capacity, and integrate land development with transport systems, particularly at major transport nodes and activity clusters".

On the evidence presented here, such a policy is incompatible with councils extending the use of CIV rating. CIV may ultimately undermine these good intentions. As "Living Suburbs" notes further, on page 58:

"Melbourne has an abundant supply of undeveloped but easily serviceable urban land with scope to accommodate population growth in established areas. There is no need to earmark extra land for urban purposes in the foreseeable future. *What we do need is a more sensible approach to using the land we already have.*" (Emphasis added.)

Research suggests municipal taxation will influence such an outcome.

Ratepayer choice.

How should the rating base for each municipality be decided ?

The change to CIV rating in Victoria, during the council amalgamation process, was largely State Government driven. Many questions could be asked about this process. For example, should ratepayers be able to democratically choose, through an appropriate forum, the system of rating they feel is most appropriate to the circumstances of their local government area ? Or should the council, through its councillors as democratically elected and politically responsible citizens, decide for them ? Or indeed, should the State Government choose ?

Should councils involve themselves in educating ratepayers to the purposes of rating, expressing to ratepayers the arguments from all points of view to facilitate ratepayer choice of the best system of rating as ratepayers see fit ?

Economic analysis of council property and valuation databases.

To assist with research, how can council data on property and valuations best be made available ?

This report has discovered that in past years, councils appeared most willing to assist economic researchers in analysing their own council property and valuation database. Indeed, much of the historical research undertaken, and documented herein, could not have been done without council assistance. Recent enquiries to councils, by this author, in an effort to repeat some of the much earlier research, have not been well received. A proper and current economic analysis of such data would at the present time prove most beneficial and should be done. This would serve as a useful follow up to this report and help clear up a good deal of community misunderstandings about rates.

Yearly valuations.

Should Victorian councils be required to value property annually ?

Victoria has been extremely slow to move to an annual system of valuations, as done now by most other Australian states. These states do not seem to find the exercise of yearly valuations additionally cumbersome. For an effectively functioning, modern rating system, yearly valuations of property are absolutely essential. This would overcome many of the problems for which so many legislative changes were made to our rating system in the first place.

How should the council determine equity ?

An analysis of historical records of council data from various sources revealed the following patterns of who bears the rate burden generally under the different systems. Four examples, from historical council records, are given.

Example i) Brunswick, 1922

When Brunswick went to site value in 1922, rates on vacant properties went up an average of 300% or so. Speculators began unloading almost immediately. At one subsequent auction, October 1925, 86 lots sold in ninety seven minutes. Over 1500 people reportedly attended the sales. The class of property that paid lower rates under site value, and the percentages, were residential properties, 75%, shops 45%, industrial properties 67%, hotels, banks and warehouses 60%, vacant land, zero. In this example, a majority of almost all categories of property users, except vacant land, paid lower rates under site value.

Example ii) Moorabbin, 1946

This suburb changed to site value in 1947. Total rates payable on vacant sites, two years before and after the change were as follows;

1945	£5 599	vacant land, total rates paid under NAV
1946	£5 387	vacant land, total rates paid under NAV
1947	£19 299	vacant land, total rates paid under site value
1948	£23452	vacant land, total rates paid under site value

In this example, one can again observe the distributional effect of different rating systems.

Example iii) Camberwell council data, 1944, for residential properties.

Property value range	% paying lower rates under site value
£ 400-900	79.2
£ 901-1350	68.5
£ 1351-2000	68.5
£ 2001-3500	84
£ 3501-5000	73.5
£ 5001 and above	41

For Camberwell at this time, three quarters of all home owners paid less under site value, the least expensive homes benefiting more than others, on average.

Example iv) Korumburra shire, 1963

Korumburra, a rural shire, adopted site value in 1963, 3211 votes for, 2859 votes against. The change in the rate burden distribution was that 62% of farms had a rates decrease. (These being the most highly improved farms.) In Korumburra township, 87% of housing had a rates decrease, averaging 38%. Of the commercial properties, 26 in number got a rates decrease, 64 by number a rate increase, again favouring the most highly improved businesses. For the 212 holdings of vacant land, rates went up without exception. In total, the rates collection from such vacant sites doubled.

Once again, we can observe that under all categories of property use, except vacant land owners and holders of substantially underdeveloped properties, a majority of ratepayers paid lower rates under site value. These results of course showed up in ratepayer voting patterns.

The distributional effect of the rates burden has probably changed little over time, and would be roughly similar today. This would be an interesting follow up exercise. The question of equity often depends upon one's perspectives. The question of who bears the rates burden is a political one.

Rate exemptions.

Should all income producing property, regardless of the owner, and notwithstanding that the owner may be a charitable institution, be subject to municipal rates ?

At present, a significant number of Victorian properties are exempt from rates, in particular government property and charitable organisations. This is another equity issue, and is noticed most in municipalities where there is a lot of crown land, for example Orbost, and also in the Melbourne CBD, where government owned property is rate exempt, forcing a greater burden upon other businesses.

Melbourne's own "economic division".

Melbourne's western suburbs now rate exclusively on CIV. Our eastern suburbs rate mostly on site value. Is this a rating structure Melbourne should be happy with ? Would the western suburbs attract suitable development if the area was on site value ?

The pattern of local government surely needs to evolve to meet present and future community needs. Amalgamation into stronger units was probably inevitable. However, Melbourne's west continues to tax buildings, our eastern and northern areas continue to rate the site only. The new rating structure, geographically, is not dissimilar to that which it replaced.

Appendix I

Arguments for and against rating systems

Who pays more, who pays less.

The proponents of site value generally argue that site value rating:

- ~ penalises those property owners who keep land idle,

- ~ taxes potential land use, encouraging therefore the vacant block owner to build, and to build a house of significantly greater value, without being penalised by council for doing so,

- ~ taxes only the “unearned” increment in land value, it does not tax the hard work of home owners who build their home out of after tax income,

- ~ takes into account the **source** of income, viz, from land or from labour,

- ~ does not set neighbour against neighbour. In the same residential street, most residents will pay the same rate, if their block is roughly of the same dimensions, as is the case in most suburban areas,

- ~ is impossible to avoid, land is simple to value, and cannot be hidden. Council valuers are not required to enter the home to examine improvements to ascertain the value for rating purposes. The valuation process is unobtrusive, seamless and works in the background,

- ~ Council services *supplied* to each block are exactly the same, whether used or not,

- ~ and the owner of a newer home will probably have a smaller ability to pay rates, especially if the property is recently mortgaged.

Proponents of CIV would argue that CIV rating:

- ~ more accurately reflects “ability to pay”. CIV therefore takes no account of the source of income, ie from land or capital,

- ~ taxes heaviest, the most highly developed properties; the more developed properties having an increased ability to pay,

- ~ collects a better proportion of rates from flat or unit owners,

- ~ taxes **actual** land use, taking no account of the land’s potential use. It is suggested that this taxes the district in accordance with its growth, to the benefit of existing ratepayers,

- ~ provides a readily assessable, and more widely understood concept of rating,

- ~ Council services *used* by each block are different; therefore a larger house is likely to use more council services. CIV equates this difference to the rate paid for services received.

Who pays more, who pays less.

When site value rating is the system in operation, the following classes of ratepayer generally pay more:

- ~ vacant land holders
- ~ any sites with development potential
- ~ properties with a higher land to building ratio.

The following generally pay less:

- ~ extensively improved properties on small sites
- ~ owners of flats and units
- ~ ratepayers working in office suites
- ~ shopping centre leasees
- ~ properties with a higher improvement to land ratio.

When CIV is the rating system in operation, the question of who pays more and who pays less is generally the reverse of that above.

Appendix II

Changes to Victoria's rate base

Municipality	Year	Section	System of Rating Before Proposed Result			Formal For SV	votes Not SV	Total	%-age for SV
Caulfield	1920	316	NAV	SV	SV		No poll		
	1969	319	SV	Shandy	Shandy		No poll		
	1985	319	Shandy	NAV	NAV		No poll		
Coburg	1920	316	NAV	SV	SV		No poll		
Dandenong	1920	316	NAV	SV	SV	632	137	799	79
Essendon	1920	316	NAV	SV	SV		No poll		
Newtown	1920	316	NAV	SV	SV		No poll		
	1978	319	SV	Shandy	SV	1245	806	2051	61
Portland	1920	317	NAV	SV	SV	197	76	273	72
	1968	319	SV	NAV	NAV	3444	3594	7038	49
Rosedale	1920	316	NAV	SV	SV		No poll		
	1953	319	SV	NAV	SV	1281	244	1525	84
Oakleigh	1921	316	NAV	SV	SV		No poll		
	1945	319	SV	NAV	SV	1761	587	2348	75
	1985	319	SV	NAV	SV	14426	10278	24704	58
Yea	1921	317	NAV	SV	SV	318	220	538	59
	1951	319	SV	NAV	SV	1072	502	1574	68
Brunswick	1922	316	NAV	SV	SV	2395	2107	4502	53
	1932	319	SV	NAV	SV	4120	1794	5914	70
Camberwell	1922	316	NAV	SV	SV	3399	2669	6068	56
	1970	319	SV	Shandy	SV	21890	13787	35677	61
Chelsea	1923	316	NAV	SV	SV		No Poll		
Mordialloc	1925	317	NAV	SV	SV	809	509	1318	61
	1985	319	SV	NAV	SV	10026	4903	14929	67
Sandringham	1926	317	NAV	SV	SV	2284	2098	4382	52
	1931	319	SV	NAV	SV	3069	1737	4806	64
Hamilton	1944	317	NAV	SV	SV	813	627	1440	56
Box Hill	1946	317	NAV	SV	SV	3378	2708	6086	56
Footscray	1946	317	NAV	SV	NAV		Not available		
Moorabbin	1946	317	NAV	SV	SV	3384	2159	5543	61
Northcote	1946	317	NAV	SV	SV	7408	5626	13134	57
	1950	319	SV	NAV	NAV	6687	6815	13502	50
Preston	1946	317	NAV	SV	SV	7262	3527	10789	67
Kew	1947	317	NAV	SV	SV	3202	2996	6198	52
	1951	319	SV	NAV	SV	6027	5348	11375	53
	1975	319	SV	Shandy	SV	6206	2999	9205	67
Brighton	1948	317	NAV	SV	NAV		Not available		
Echuca	1948	316	NAV	SV	SV		No poll		

Municipality	Year	Section	System of Rating			Formal	votes		%-age
			Before	Proposed	Result	For SV	Not SV	Total	for SV
Collingwood	1949	317	NAV	SV	NAV		Not available		
Frankston	1949	317	NAV	SV	SV	2517	1175	3692	68
	1953	319	SV	NAV	SV	3112	2335	5447	57
Heidelberg	1951	317	NAV	SV	SV	14211	7382	21593	66
Ringwood	1951	317	NAV	SV	SV	1905	1396	3301	58
Bellarine	1952	317	NAV	SV	NAV		Not available		
Nunawading	1952	317	NAV	SV	SV	5801	4033	9834	59
	1986	321	SV	NAV	SV	33691	11221	44912	75
Wangaratta	1952	316	NAV	SV	NAV		Not available		
	1956	317	NAV	SV	SV	2115	510	2625	81
Woorayl	1952	317	NAV	SV	NAV		Not available		
South Barwon	1953	317	NAV	SV	SV	3023	2284	5307	57
Eltham	1954	317	NAV	SV	SV	3418	3128	6546	52
Sale	1954	317	NAV	SV	SV	1932	736	2668	72
Warrnambool	1954	316	NAV	SV	SV		No poll		
Castlemaine	1955	317	NAV	SV	SV	1860	1175	3035	61
	1967	319	SV	NAV	SV	3484	1267	4751	73
Malvern	1955	317	NAV	SV	SV	11758	6339	18097	65
	1961	319	SV	NAV	SV	25681	10140	35821	72
	1986	319	SV	NAV	SV	13951	4005	17956	78
Springvale	1955	316	NAV	SV	SV		No Poll		
Broadmeadows	1956	317	NAV	SV	SV	5575	1743	7318	76
Mildura	1956	317	NAV	SV	SV	4619	1276	5895	78
Waverley	1956	317	NAV	SV	SV	10735	2302	13037	82
Keilor	1957	317	NAV	SV	SV	3948	1155	5103	77
Swan Hill	1957	317	NAV	SV	SV	1032	668	1700	61
Traralgon Shire	1957	317	NAV	SV	SV	2620	2323	4943	53
Wodonga	1957	317	NAV	SV	SV	1345	877	2222	61
Ararat	1958	316	NAV	SV	SV		No poll		
Benalla	1958	317	NAV	SV	SV	2067	512	2579	80
Daylesford	1958	317	NAV	SV	NAV		Not available		
Moe	1958	317	NAV	SV	SV	1784	876	2660	67
St. Arnaud	1958	317	NAV	SV	NAV		Not available		
Wonthaggi	1958	317	NAV	SV	SV	1328	418	1746	76

Municipality	Year	Section	System of Rating Before Proposed Result			Formal For SV	votes Not SV	Total	%-age for SV
Bairnsdale	1959	317	NAV	SV	NAV		Not available		
D'caster T'stowe	1959	317	NAV	SV	SV	6492	6034	12526	52
Maffra	1959	317	NAV	SV	NAV		Not available		
Maryborough	1959	317	NAV	SV	SV	2399	1174	3373	67
Stawell	1959	317	NAV	SV	SV	1818	777	2595	70
Mclvor	1961	317	NAV	SV	SV	635	385	1020	62
Tallangatta	1961	317	NAV	SV	SV	1302	1034	2336	56
	1971	319	SV	NAV	SV	713	388	1101	65
Traralgon	1961	316	NAV	SV	SV		No poll		
Hastings	1962	317	NAV	SV	NAV		Not available		
Croydon	1963	317	NAV	SV	SV	8152	6203	14355	57
	1968	319	SV	NAV	SV	15040	9950	24990	60
Korumburra	1963	317	NAV	SV	SV	3211	2859	6070	53
Diamond Valley	1964	316	NAV	SV	SV		No poll		
South Melbourne	1964	317	NAV	SV	SV	10949	6506	17455	63
	1978	319	SV	Shandy	Shandy		No poll		
	1981	319	Shandy	NAV	NAV	Demand for a poll frustrated			
Bacchus Marsh	1965	317	NAV	SV	NAV		Not available		
Knox	1965	317	NAV	SV	SV	17432	11583	29015	60
Morwell	1965	317	NAV	SV	NAV		Not available		
Sherbrooke	1965	317	NAV	SV	SV	10617	5621	16238	65
Sunshine	1965	317	NAV	SV	NAV		Not available		
Cohuna	1967	317	NAV	SV	SV	2340	1594	3934	59
Healesville	1967	317	NAV	SV	NAV		Not available		
Kerang	1967	317	NAV	SV	SV	2408	2014	4422	54
	1967	316	NAV	SV	SV	2515	844	3359	75
(Note: change of boundaries involved)									
Horsham	1969	317	NAV	SV	SV	2649	1437	4086	65
Kilmore	1970	317	NAV	SV	SV	338	311	949	52
Buninyong	1971	317	NAV	SV	SV	735	646	1381	53
	1979	319	SV	NAV	SV	1147	564	1171	67
Orbost	1972	317	NAV	SV	SV	1053	684	1737	61
	1986	319	SV	NAV	SV	2358	509	2867	82
Melton	1973	317	NAV	SV	SV	2682	2010	4692	57
Lilydale	1979	316	NAV	SV	NAV	10495	11683	22178	47
Seymour	1981	317	NAV	SV	SV	1216	1158	2374	51

Note: a sharp decrease in the total number of votes which may be observed in some cases is due to the elimination, in 1969, of multiple voting based on property qualifications.

Analysis

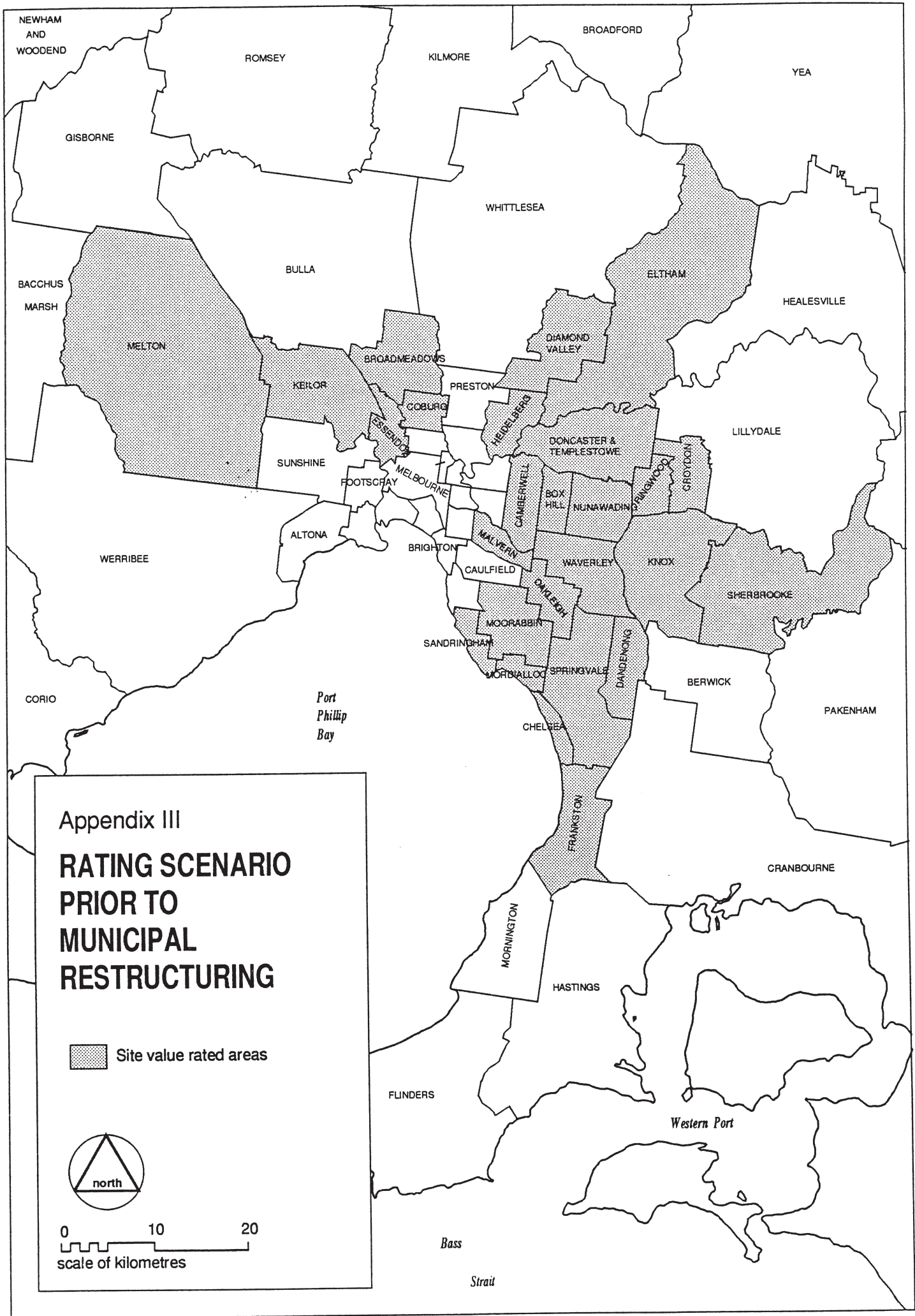
Section of the Local Government act used to change the rates base.

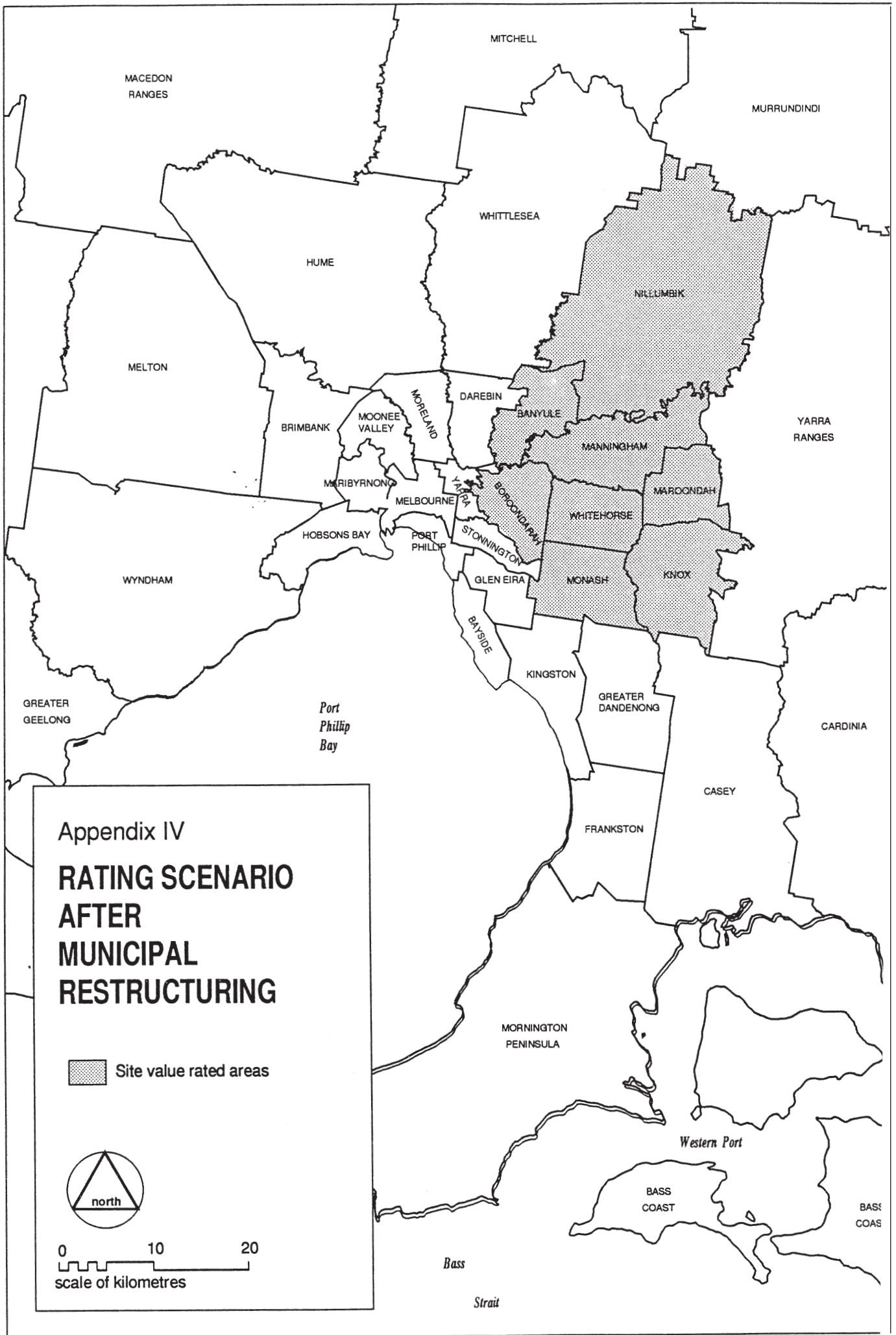
S.316 Used 19 times;that is, on 19 occasions, a Council using NAV resolved to go to SV. On 5 of those occasions, 10% of voters demanded a poll, and on only 1 of those 5 was Council's decision reversed.

S.317 Used 62 times; that is, on 62 occasions, 10% of voters under a Council using NAV initiated a demand for a poll with the aim of moving to SV rating. In 48 of the polls, a majority of voters voted for SV, in 14 of the polls, a majority for NAV.

S. 319 Used 25 times; that is, on 25 occasions, a Council using SV (or in two cases, a shandy) resolved to go to shandy (5 times) or NAV (20 times). On 22 of the 25 occasions, 10% of voters demanded a poll, and in 17 cases, reversed Council's decision.

S. 321 Used Once, that is, on one occasion (Nunawading, 1986) 10% of voters in a municipality using SV initiated a demand for a poll to move to NAV. In the poll the majority for SV was 75%, increased from 59% majority for site value in 1952.





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