

## Act for the Future – Directions for a new Local Government Act

Submission by Prosper Australia

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## About Prosper

Prosper Australia is a non-government think tank and tax reform lobby group inspired by economic efficiency and social justice advocating the fair distribution of land and natural resource rents.

In researching land and taxation issues, we call upon a multi-disciplinary team of economists, econometricians, mathematicians, land valuers, tax lawyers, chartered accountants, urban planners and academics.

We reach out to business on lowering costs by ending deadweight losses from bad taxes; to progressives on urban amenity, infrastructure funding and resource conservation; and to all who work for a living and bear the cost of labour taxation.

### Our Vision:

- Abolish poverty
- Achieve full employment
- Reduce the cost of home ownership
- Create a sustainable future by the best use of land and natural resources
- Create a more educated, productive and engaged society

### Our History

Prosper Australia grew out of the ferment for social reform at the beginning of the twentieth century. Although there was land holder opposition to the idea of untaxing work and taxing land instead, this reform enjoyed widespread support. Both the conservative and Labor parties had Land Value Taxation in their policy platforms. We were part of a wider movement for a more equitable society and dynamic economy.

Today, the popularity of tax havens, Australia's never-ending land bubble, the compliance costs heaped on business and the steep taxes on labour mean our views are being considered with fresh eyes – because nothing else works.

## Prosper comments on the following Directions:

### **Direction 36 – on representative structures**

Prosper urges the Victorian Government to mandate proportional representation for all local government elections. Victoria can and should improve its democratic structures.

In single member electorates, only 50 per cent plus one vote play any part in determining who will represent an area. The remaining voters may as well not have bothered filling out their ballot paper.

Victoria has local governments elected by single member electorates that are dominated entirely by councillors representing one particular political view. While this makes for collegiate times on council, it hardly reflects the range of views held by the represented.

In a five member multi-councillor electoral district chosen by PR, for example, 83.3% of voters will have a direct say in who represents them.

We commend to the Review the submission of the Proportional Representation Society of Australia (Victoria-Tasmania) Inc.

### **Direction 122 – on rateable land**

This proposal redefines what land uses are exempt from rates.

It appears the new Act is set to exempt land used by religious organisations to the extent of ministers' housing, places of worship and for the education of ministers of religion.

Many religious people wish their institutions to be rate exempt, to lower their costs. At the other end of the spectrum, some irreligious people regards this as private recreation and unworthy of public support and their personal subsidy.

Prosper observes rate exemptions advantage large, organised and established religious institutions over smaller, dispersed religious groups who perhaps might conduct prayer groups in private houses.

If government wishes to support (some) religious denominations, it should do so explicitly with grants or disbursements from consolidated revenue so the scale and nature of the subsidy is transparent to all.

#### **Option 1** considers land used for returned veterans clubs

Prosper acknowledges and respects our war veterans. However, we see no reason to subsidise their activities through the rates system and warn against the economic distortions this introduces. A clear example of the anomalies this can create is the very wealthy NSW RSL clubs which have become significant business and trading organisations based on poker machine revenues. This major activity has little or nothing to do with veterans' welfare.

Local government remains obligated to provide their full range of services to veterans' clubs.

If government wishes to support veterans' clubs, as Prosper does, it should do so explicitly with grants or disbursements from consolidated revenue so the scale and nature of the subsidy is transparent to all.

**Option 2** considers rating mines

Prosper observes ownership of the sub-surface is vested in government by the Australian Constitution.

Mining involves significant human activity and material movement and can create considerable obligations on LGAs. Councils are invariably drawn into the conflicts with adjoining land holders and have an enduring interest in final site rehabilitation. They provide and maintain the roads outside the mine site, to be trafficked by the heaviest permissible vehicles.

The colonial hangover exempting mining from council rates is anomalous and its removal welcomed.

**Direction 123 – on granting rebates and concessions and apportion rates based on separate occupancies or activities**

This heading is a little confusing as the Issues statement discusses rating by CIV versus NAV and SV.

Prosper sees no impediment to councils granting rebates, concessions and apportioning rates based on separate occupancies and activities, provided any concessions offered are clearly explained in the rates schedule, are economically sound and are for socially useful purposes.

The real and enduring risk is these 'incentives' are subject to being gamed by powerful land holders. Beware!

**Direction 124 – on migrating all LGA rating bases to Capital Improved Value**

The key argument offered by the review for CIV appears to be that rate bases should be uniform state-wide. This is a second or third order argument.

Prosper wants Victoria to use the best rating system available - one that imposes no deadweight costs, fosters economic activity and promotes the best and highest use of the land.

CIV does NOT exhibit these virtues.

If we tax buildings, there will be fewer buildings. But if we tax land, there will not be less land. If we tax values of buildings, we will get not only fewer buildings, but also inferior buildings. But if we tax the value of land (exclusive of buildings and other improvements), we will get neither less land nor less valuable land, because land is not the product of private effort or enterprise - its value is conferred by the surrounding community, not by the land holder who pays the tax.

The argument for imposing municipal rates on land values alone consists in the elaboration of these simple facts. The argument for any other rating system consists in the concealment or obfuscation of them.

*Rating in New Zealand 1973* by Rolland O'Regan explains:

*"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.”*

There have been repeated inquiries into SV versus CIV. All found firmly for the superior base:

- Queensland Committee of Inquiry into Valuation and Rating 1989, chaired by Sir Gordon Chalk
- The Wellington City Committee, 1989
- The Internal Affairs Department Coordinating Committee New Zealand, 1989
- Commission of Inquiry into Land Tenures, 1973-76
- NSW Royal Commission of Inquiry chaired by R Else—Mitchell 1967
- Inquiry chaired by Justice Hardy Queensland, 1966
- Inquiry chaired by N L Buchan Queensland, 1964
- Queensland Committee of Inquiry chaired by Sir A Bridges QC 1960
- The Royal Commission on Local Government Finance 1958
- Australian Country Party Inquiry 1933

The most comprehensive Australian inquiry into rating bases was undoubtedly the New South Wales Royal Commission on Valuation and Rating (1965-67) under the late Justice Rae Else-Mitchell. After detailed consideration of all the arguments put to it, the Royal Commission came out strongly in support of rating on land values only.

The second-most detailed inquiry into the subject was arguably the City of Brisbane Rating Study of 1989, chaired by Sir Gordon Chalk. This inquiry also supported the principle of rating land values rather than improved values.

A poor Municipal Association of Victoria submission acted as the basis for the Office of Local Government August 1993 report *"Rates: proposals to improve Victoria's Rating System"*. The Victorian government then proceeded to offer the 'reward' to councils of being able to employ differential rates to those municipalities who were prepared to shift from NAV and SV onto CIV, choosing to ignore the extensive arguments and considered judgements of the above inquiries.

Prosper commends to the review the 2009 paper *Why Site-Value rating is better, and how to implement it with no losers* by Dr Gavin Putland of the Land Values Research Group.<sup>1</sup>

### **Direction 125 - on fixing the municipal charge at a maximum of 10 per cent of the total revenues from municipal and general rates and divided equally**

To administrators' dismay, there are land titles in Victoria whose value is so low the rate chargeable approaches the cost of performing the valuation and collecting the revenues.

There are profound tax principles involved here: government should not discriminate between sites based on market value or who owns it.

All the services of councils are services to land: the benefit of libraries, rubbish collection, roads, tree pruning, public swimming pools and social services are embedded in the market price of land. Very low value sites come about because of the lack of access to these civic facilities as much as small or difficult land parcels. Plain and simple Site Value rating is the best means to honestly and fairly pay for the services local government provides.

Prosper dislikes minimum rate charges, however constructed. They oblige holders of very low value land to subsidize more wealthy land holders. They blunt the persistent prompting Site Value rating gives holders to put their land to the best and highest use.

Queensland offers a salutary example. In theory, it has an excellent council rate system: Site Value is mandated. But wealthy land holders cannot resist a cost-shifting opportunity and Fraser Coast Regional Council (among others) introduced a Minimum General Rate.

An MGR may sound innocent. It can be defended to meet the cost of valuation and sending a rates bill on low value sites. But Fraser Coast's MGR is \$1175 in built up areas and \$1098 elsewhere. Eighty per cent of ratepayers are on the MGR. The remaining twenty per cent on the most valuable sites are thus subsidised and pay a mere 0.8 cents in the dollar.

The lowest value rateable site in Fraser Coast is \$9,900 and fully liable for a \$1098 minimum charge – 11.1 per cent of the lot's value.

While limiting minimum rates to 10 per cent may seem to prevent such abuses, even that level means holders of very low value sites are obliged to over-pay for council services and benefits.

### **Direction 126 – on retaining differential rates**

The Review cites the examples of reconciling farmer/urban property interests and of retirement villages.

Farmers, as a class, have long argued 'capacity-to-pay' trumps all other considerations. Yet farmers are not a homogenous group single-mindedly making a living from the soil. The business of some is land-banking near urban areas and agriculture merely meets the holding charges like rates and interest. The business of others, like market gardening, derive advantage from proximity to urban areas and customers. Their land values reflect these qualities, not the visible land use which is the mere production of commodities.

Farmers also argue that because they don't personally use libraries and kindergartens, they need not contribute to these civic facilities. This ignores the fact that many urban land holders don't use them either, yet the facilities add to the locational amenity for all and are capitalised into their land values.

Farmers ought focus their attention on councils wrongly taxing their improvements – fencing, sheds, dams, windmills and so on – which is what CIV imposes and SV does not.

Concessions to retirement villages are also a case of special pleading by vested interests. While it may seem socially useful to advantage the elderly, the real beneficiary will invariably prove to be the property developer, who capitalises the concession into the land price and thereby extracts its value.

Differential rates are also a way to influence land holder behavior. They penalise the bad and encourage the good – as defined by incumbent councillors according to their social agenda.

In Melbourne, an energetic debate is raging about vacant properties, informed by Prosper Australia's *Speculative Vacancies 8 Report* that found 82,000 metro Melbourne properties have been held demonstrably vacant for the last 12 months<sup>ii</sup>.

Populists are calling for steep differential rates to curtail this misuse. Reliably identifying vacancies is administratively difficult and subject to gaming.

Intentional vacancies reflect Australia's overweighting on labour and capital taxes and sorely distorted property tax system. Prosper does not believe these federal and state abuses can be remedied by differential rates at the local government level.

### **Direction 127 - on councils demonstrating how differential rates contribute to equity and efficiency**

This is a useful obligation to impose on those who would insult equity and fairness. Prosper believes councils will struggle to defend differential rates if their rationale was exposed to public scrutiny. These moves are a sop to vested interests at the expense of general ratepayers.

### **Direction 128 – on the requirement that the highest differential rate be no more than four times the lowest differential rate.**

This requirement would still leave a staggering range of 400 per cent for doctrinaire or partisan councillors to play with. A tenth of this would be sufficient for those seeking political advantage. Prosper observes, at least their capacity to distort is capped.

### **Direction 129 – on service rates and charges**

Prosper sees the imposition of regular charges outside general rates as a diversion and an invitation to cost shift.

Many councils have taken to imposing a separate garbage charge to highlight to land holders the high costs of garbage removal and the staggering waste in excessive packaging of foodstuffs and consumer goods. This is a worthy objective pursued by a mistaken policy.

At a practical level, consumers cannot acquire their desired goods without the attendant packaging. Nor can they reduce their garbage charge by going without the service.

The Review says: *“The existing name – service rates and charges – creates confusion, giving the impression that these charges are part of the general rate.”*

The only conceivable benefits in service rates and charges is to reduce the rate in the dollar chargeable against the property, and to broaden the practical scope of the minimum charge. Both of these are economically and socially irresponsible.

### **Direction 131 – Retain special rates and charges, with greater public transparency**

Special rates and charges are rarely justified. As the Review points out, they struggle to find acceptance where the special rate would recover more than two thirds of the cost from the beneficiaries. Special rates are thus usually set below this level, meaning general ratepayers must explicitly subsidise sectional interests.

If ratepayers understood this, they would replace incumbent councillors at the earliest opportunity. The public transparency the Review suggests would end the practice abruptly.

**Direction 133 – on allowing councils to use rebates and concessions to further their strategic objectives**

Councillors have no place in erecting elaborate frameworks and grand strategies, despite their fervent wishes. Any preferential treatment to favoured groups or themes via the rating system simply increases the cost for all, magnified by the deadweight costs and behavior changes such distortions introduce.

David Collyer

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<sup>i</sup> <http://blog.lvrg.org.au/2008/09/why-site-value-rating-is-better-and-how.html>

<sup>ii</sup> <https://www.prosper.org.au/2015/12/09/speculative-vacancies-8/>