

The Sydney Betterment Levy, 1969-1973: An Experiment in Functional Funding for Metropolitan Development

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The Sydney Betterment Law¹

The State Planning Authority for New South Wales (N.S.W.) published its *Sydney Region Outline Plan, 1970-2000 A.D.* in 1968 as 'a broad statement of the objectives and principles, a strategy for urban development, and a phasing plan for development'. The Authority proposed a development corridor and metrotown strategy to accommodate the forecast population growth of metropolitan Sydney from 2.7 million at 1970 to 5.0 million at A.D. 2000 (Archer, 1976a).

The planning report also presented estimates of the costs of the infrastructure public works needed and drew attention to the problems of financing these works. Thus, the water and sewerage works estimated to cost \$A1850 million (in 1968 prices) would require an average annual expenditure of \$A62 million, which was well above the actual level of expenditure of around \$A40 million a year on these works. (The inadequacy of this level of expenditure was also apparent by the 1968 backlog of needed sewerage works: the Sydney Metropolitan Water, Sewerage and Drainage Board Annual Report 1967-68 showed that some 24 per cent of the 756,063 occupied properties in its area were not served by mains sewerage at June 1968). In the case of highways, the estimated total cost of \$A2600 million would require expenditures averaging about \$A87 million a year as against the \$A14.5 million actual expenditure on highway construction in the previous year.

In considering the works financing problem the Authority noted the anomaly of needed infrastructure public works delayed by shortage of capital funds while the urban-fringe landowners received large windfall increases in land values based on the provision of

these infrastructure works. The possibility of raising funds by way of a betterment levy on the new urban land was considered. In August 1969 the N.S.W. Minister for Local Government announced the introduction of a land value increment levy on specified lands in the Sydney Metropolitan Region, with the amounts collected to be used to help finance the public works and facilities required for metropolitan expansion. This land value increment levy, a betterment levy, was designated the Land Development Contribution and the lands liable to it were the lands to be rezoned from rural to urban uses so as to accommodate the metropolitan expansion. The levy collections were to be paid into a Land Development Contribution Fund.

The *Land Development Contribution Act, 1970* and the *Land Development Contribution Management Act, 1970* authorised the State Planning Authority to impose the levy as from 1 July 1970 on the specified non-urban lands of the Sydney Metropolitan Region, with the levy to be 30 per cent of the increase in the value of these lands. The specified lands were those lands to be rezoned from rural to urban uses and the levy was to be on the assessed increase in land value between 1 August 1969 up to the date the land was rezoned. It was to be the increase in the market value of the land as assessed by the N.S.W. Government Valuer-General, but the assessed increase was to be on the unimproved capital value of the land only, and was also to be adjusted downwards by a factor to allow for general price inflation. As the Valuer-General made regular assessments of land values throughout N.S.W. for State Government land tax and local government rating purposes, there was no particular difficulty in assessing the August 1969 base land values and the increases in land values.

The levy was payable by the landowner at the time

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¹ See State Planning Authority (1970), Pullen (1971a) and Hort (1972).

he sold his land or at the time he was given planning permission to develop, but it was calculated only on the increase in land value up to the date of rezoning. When land was sold before rezoning the landowner paid the levy on the increase in value as indicated by the sale price of the land, and the new owner was liable to pay the levy on any further increase in the land value up to the date the land was rezoned. He would pay this amount when he obtained planning permission for development or when he sold the land. The levy was a charge against the land.

The increase in land value subject to the levy was limited to the increase in land value between August 1969 and the date on which the land was rezoned to urban land uses. Although the levy was payable at the time of the grant of planning permission for development, it was calculated on the increase in land value up to the time the land had been rezoned which would often be years earlier. This time limit factor in the definition of the betterment to be levied was adopted so as to overcome the problem of measuring the betterment arising from town planning measures, which had discouraged previous attempts to tax betterment. Although the N.S.W. *Local Government (Town and Country Planning) Amendment Act, 1945* had authorised the taxing of up to 80 per cent of the betterment arising from the adoption of town planning schemes, local governments had not used this authority. This was partly because of the difficulty of identifying the increase in land values that could be attributed to the adoption of the town planning scheme as distinct from other factors such as public works and urban development generally. The *Report of the Royal Commission of Inquiry into Rating, Valuation and Local Government Finance in N.S.W.* issued in 1967 had recommended this basis for a betterment levy.

Metropolitan Expansion Fund

Although betterment levies had previously been imposed in Britain and South Africa (Kantorowich, 1964; Manning, 1969; Penny, 1970), these levies had been treated as general revenue taxes and paid into the general tax fund.² The Sydney betterment levy was the first to be imposed to provide finance for the urban public works and improvements that helped to generate and support the betterment. All levy collections had to be paid into the Land Development Contribution Fund and used to contribute towards the cost of public works and facilities (including land acquisition) needed to support the opening up of new urban areas in the Sydney Region. The Fund was controlled by the N.S.W. Treasurer acting with the advice of the State Planning Authority.

The increase in the annual levy collections was slow, as was to be expected with a levy on the increase in land values, and the first allocation of Fund monies was not made until 1972-73, the year in which the levy was abolished. The Authority announced in its *Annual Report 1971-72* the order of priorities for Fund allocations: '(a) water, sewerage and drainage services; (b) acquiring lands essential for the implementation of the Sydney Region Outline Plan; and (c) community facilities in rapidly growing areas'. Also, it announced that the monies would be allocated as 20 year loans (with interest at 2 per cent p.a.) so that the Fund would operate as a revolving fund.

The progress of the levy and the Fund over the years is summarised in the figures in Table 1 which show the number and amounts of assessments made each year, the annual operating costs with the advances made, and the resulting end of year balance of the Fund.

The figures in the Table show that the levy was

Table 1

*Sydney Betterment Levy**

Year	Assessments issued		Administration costs	Fund advances	End of year fund balance
	Number	Amount†			
1970-71	117	\$1,019,825	\$345,849	Nil	\$651,600
1971-72	353	\$3,532,044	\$391,137	Nil	\$3,791,769
1972-73	628	\$7,052,375	\$504,439	\$704,261	\$9,349,446
1973-74	492	\$4,732,886	\$436,054	\$869,766	\$12,681,261
1974-75	122	\$708,180	\$423,437	\$3,536,218	\$9,443,223

* All amounts shown in \$ Australian.

† Includes minor miscellaneous income.

Sources: State Planning Authority of N.S.W. *Annual Reports*, and Auditor-General of N.S.W. *Annual Reports*.

² The *British Land Commission Act 1967* authorised the collection from 6 April 1967 of a 40 per cent betterment levy on the development value of land when realised by the landowner—mainly on the sale of land or on receipt of planning permission for development. It was abolished in April 1970. See Pennance (1967). Although the *British Town and Country Planning Act 1947* authorised the collection of a development charge on land for which planning permission for development was given, this charge was really the sale price of the urban development rights in the land held by the government, rather than a betterment levy. This scheme was abandoned in 1953. See Archer (1971).

beginning to yield substantial revenues by 1972-73, even though its abolition on 7 February 1973 meant that lands sold and approved for development after that date were not assessed for the levy. The cost of collecting the levy in 1972-73 had fallen to 7 per cent of the revenues.

The unexplained accumulation over the first four years of most of the levy revenues as cash in the Fund must raise questions about the management of the Fund. During these years the market prices of urban-fringe land were escalating rapidly and forward buying of the lands required for public works and facilities would have been a feasible and sound use for Fund monies even if suitable works projects were not available. Although \$A2 899 905 was allocated for land acquisition during 1974-75, the other allocations were small and most of the levy funds were still unused at June, 1975.

Abolition of the Levy

The levy was abolished by the conservative Government that had introduced it, although under a different Minister for Local Government. The Labour Party Opposition promised to abolish the levy at a by-election in an urban-fringe electorate so as to obtain political advantage.³ The proposal was adopted by the State Government and then implemented with the tacit approval of the Federal Labour Government. Although the N.S.W. Government referred to the impact of the levy in increasing the price of housing land when announcing its decision, it showed no interest in ensuring that the benefit of the abolition of the levy was passed on to land buyers as lower prices, and there is no evidence that land prices were reduced when the levy was abolished. The abolition of the levy was, in effect, a gift from the N.S.W. Labour Opposition and the N.S.W. Government to the landowners (at the expense of the future land users). It would be fair comment to claim that the reason for the abolition of the levy was partly political advantage.

An Assessment

The Land Development Contribution scheme to provide funds for Sydney's metropolitan expansion was probably the most successful of the betterment levy attempts since World War II.⁴ It was administratively straightforward and provided worthwhile revenues at a reasonable collection cost. It was designed as a functional funding system with the levy collections to be applied to financing the public works and facilities which helped to generate them. However, there were three main problems in the operation of the scheme.

1. It is generally accepted that the scheme operated to increase land prices to land users; the landowners were able to pass on most or all of the levy to land buyers and home buyers because it was introduced during a period of housing land shortage and a sellers' market.⁵ This 'passing on' of the levy could have been countered by a deliberate and explicit programme to increase the supply of land suitable for subdivision into homesites. (The popular belief was that the levy was passed on to land buyers simply because many landowners selling land stipulated in the contract of sale that the buyer should pay the levy due.)
2. It did not provide funds for development works when they were needed. The levy provided little revenue during the early years of the scheme because it was on the post-1969 increase in land values. However, this was the time when funds were most needed to finance the public works necessary to increase the supply of land suitable for subdivision so as to hold the market price of this land steady, and to demonstrate the benefit side of the scheme. This possibly could have been done by seeking Treasury advances to the Fund, as was authorised by the legislation, and using these advances and the early levy collections to finance the works and publicising this activity. The failure to do this, or even to spend the levy funds available, made the levy particularly vulnerable to attack during the early years of the scheme because it had many critics and few supporters, and few demonstrated benefits.
3. The levy provided no stimulus for landowners to develop their land (or to sell it) promptly after it was rezoned from rural to urban uses, because the increase in land value after the date of rezoning was not subject to the levy. However, this would probably be the time of greatest increase in land values (and probably the time of greatest speculative land dealing) because the commencement and progress of urbanisation would demonstrate the urban potential of the remaining land.

The rationale of the Land Development Contribution Scheme was that part of the 'unearned increment' in the value of the land being rezoned for urban development should be recovered from the landowners to provide finance for the infrastructure public works and facilities needed for private land subdivision, and which therefore supported the increase in the value of their land. However, the levy rate was set at an arbitrary 30 per cent of the increase in land value and would not provide the

³ See *The Radical* (Sydney) February 1973.

⁴ See Pennance (1967) and Archer (1971) for descriptions and assessments of the British attempt, and Kantorowich (1964), Manning (1969) and Penny (1970) for descriptions and assessments of the South African attempts.

⁵ See Vogan (1970), Pullen (1971b) and Department of Urban and Regional Development (1974). The apparent contradiction between the statements that the levy was passed on as higher land prices when it was introduced in 1970 but not passed on as lower land prices when it was abolished in 1973, can be explained in the context of the boom situation in the urban-fringe land market in 1973. The increases in land prices were well above holding costs and the decisions of many landowners and land buyers were determined by their expectations of future land price increases.

amount of finance required for those works and facilities, and would not provide the finance at the time it was needed. Further, if the landowners could pass on the levy as higher prices to land buyers then this would undermine the rationale of the scheme.

A Functional Funding System

The shortcomings of the Sydney betterment levy indicate the need for a more functional funding system for metropolitan expansion. A sound functional funding system to finance the infrastructure network extensions necessary to enable private landowners to subdivide and service their land for urban development should:

- a. provide the amount of funds needed and provide them when they are needed;
- b. charge the costs against the lands to be serviced by the network extensions, with the charges being met from the 'unearned increment' in the market value of subdivision land by being passed back as lower prices for raw land; and
- c. encourage the prompt development of the land after it is connected to the utility networks and zoned to urban uses.

These requirements suggest the following approach. First, the designation of the urban-fringe lands required for metropolitan expansion into large urban development areas on the basis of natural catchment/drainage areas and the planned urban pattern. Second, the preparation of an urban land use plan for each area. Third, the assessment of the market value of each land-holding in its planned use. Fourth, the costing of the infrastructure network needed to allow the subdivision and servicing of this land. Fifth, preparation of the infrastructure works programme for the staged development of the land. Sixth, the calculation of an infrastructure costs levy on the assessed value of the lands. Seventh, the imposition and collection of levy on lands in the first area for development. Eighth, control of the rate of land development and supply so as to stabilise the price level for new homesites.

This sketch of the proposed functional funding system outlines its key features. Its design is based on the logic of private enterprise new town development projects, but it avoids the difficulties and financial problems of land assembly for these projects. The mechanics of the

system have been outlined elsewhere by the present writer and by Henry Bain in his analysis of the 'development district' concept (Archer, 1974; Archer, 1976b; Bain, 1968).

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