

**BRISBANE CITY COUNCIL  
COMMITTEE OF INQUIRY INTO VALUATION AND RATING**

**A Summary of the Committee's two-volume Report on its Deliberations and Findings.**

**September 1989**

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**September 1989**

**NOTE**

This edition of the summary of the two volume report has been produced by the Land Value Taxation Campaign and it is distributed with the consent of Brisbane City Council.

Copies of the complete two-volume report and further information are available from:

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## **1000000 APPOINTMENT AND BRIEFING**

The Valuer-General's revaluation of Brisbane properties in 1986 resulted in an average increase in valuations of 163 percent over previous valuations. Increases in some instances were as high as 400 percent. The extent of the increases gave rise to public apprehension about the possible impact of the new valuations on the rates levied by the City Council. Another concern was the fact that Brisbane residents paid water and sewerage rates based on the value of their properties regardless of the amount of water they used. Within the Council there was concern about other anomalies, as well as some uncertainty about whether and to what extent areas of the city should be differentiated for rating purposes.

Accordingly in mid-1987 the Lord Mayor instituted the present inquiry. The Lord Mayor invited the Committee to undertake a wide-ranging review of the operation of the valuation and rating system in Brisbane and report on the revenue-raising and revenue-earning options which were open to Council. In effect the Committee's charter required it to consider, in respect of Brisbane, a series of basic questions:

- (a) Was a rate levied on property an appropriate means of local government revenue-raising?
  
- (b) If so, how should property be valued?
  
- (c) What alternative or supplementary means of revenue-raising (or revenue-earning) were available?

- (d) In particular, how should services such as water supply and sewerage be paid for?
  
- (e) Were there any ways by which the means of revenue-raising could contribute to expenditure-saving?

## **2.00000 EXISTING VALUATION AND RATING PRACTICE**

The City Council presently raises a substantial part of the revenue it needs each year by levying rates on the value of land assessed periodically by the Queensland Valuer-General. The Valuation of Land Act requires the Valuer-General to assess the unimproved value of land in the city area for this purpose, and the City of Brisbane Act authorises the City Council to levy a general rate on all rateable land. Council is also authorised to levy water and sewerage rates and to levy charges for various services. In practice the operation of these basic mechanisms is subject to qualifications, some of which are unavoidably complex. Particularly in the case of water and sewerage services, the circumstances of an enormous variety of industrial, commercial and residential users require complicated supply and pricing arrangements; and the situation is compounded by the fact that the majority of Brisbane's residential properties are not metered. Historically, water pricing arrangements have not been specifically aimed at discouraging consumption.

Council's power to levy a general rate is qualified in the case of land being used for primary production. The general rate levied on such land must not exceed one-half of the general rate levied on other land, and the potential value of rural land for more intensive urban uses is not taken into account. Likewise the potential value of land used exclusively for a single dwelling house is not assessed for rating purposes. In general Crown lands are exempt from general rates, as also are certain religious, charitable and educational bodies. Pensioners in receipt of a full pension and in possession of a health benefit card are eligible to have a proportion (currently 40 percent) of their total rates remitted, and their properties in due course pass unencumbered to their successors in title. Council may levy an additional separate rate on parts of the city which have been specially benefited by works or services not normally provided. In levying a general rate Council may also differentiate between

sectors of the city designated with the concurrence of the Valuer-General.

The preceding graphs provide a broad overview of the origin and distribution of Council's revenue and expenditure (and highlight the relative significance of Council's transport operations). Council revenue includes grants and subsidies from other levels of government, and revenue from the development and sale of Council's own land. It should also be noted that, as a condition of planning approval, Council negotiates the contribution of works and services which offset in some measure the increase in land value which planning consent confers upon private landowners.

### **3.00000 PRINCIPLES**

Recognising that there had been a number of previous inquiries locally, interstate and overseas into property valuation and local government rating, the Committee resolved that its recommendations - whether or not they were accepted - should be logically consistent and defensible in principle. At the outset, therefore, in pursuit of the twin objectives of equity and efficiency, the Committee reviewed (a) the role and functions of government recognised by economic theory for fiscal purposes; (b) the economic classification of goods and services required by the community; and (c) the basic principles of taxation. The Committee appreciated that the nature and extent of goods and services provided and the functions which a government exercised were variables which in turn could have a bearing on the principles of taxation adopted.

The Committee came to the conclusion that the benefit principle rather than ability-to-pay was the most equitable and rational basis of public revenue-raising. In other words, the Committee resolved not to equate revenue-raising with simply taxing wealth. It was reinforced in this view by its belief that the redistribution of income and wealth was not a primary function of local government. It was moreover impressed with the view that - in any community - the legitimate generation of income and wealth through labour, skill and enterprise should be encouraged rather than penalised.

By contrast, the ability-to-pay principle related levels of taxation primarily to levels of income. It explicitly provided for redistribution from upper to lower income groups in the community. Carried to its logical conclusion, it implied equality of sacrifice, which ultimately meant taxing all wealth and incomes down to the lowest common denominator of sacrifice - a proposition which the Committee was not disposed to endorse.

Nevertheless opinions within the Committee diverged about the relative merits of the benefit and ability-to-pay principles in achieving the goal of equity, and about whether revenue-raising could ever be entirely benefit-related. The principles were not mutually exclusive. Some taxes were seen to combine elements of both principles. And while the redistribution of income and wealth was primarily a policy function of national and state governments, local government revenue-raising and expenditure inevitably had some redistributive effects both between income groups and between localities. Indeed, in the case of Brisbane, the amalgamation of smaller local authorities into one large local government council explicitly involved cross-subsidisation in the provision of "standard" levels of service over a large area. A question, therefore, was whether benefit-related revenue-raising mechanisms could continue to achieve this objective.

Notwithstanding some divergence of views about these issues, in respect of "public goods" [1], the Committee concluded that - as a basic principle - in seeking to recover the cost of the works and services it provided, a revenue-raising authority should - as far as possible - charge the beneficiaries of such works and services to the extent that such works and services and their beneficiaries could be distinguished and were identifiable. Where works and services were not, or could not be, separately identified and specifically charged for, their cost should be recovered by a basic general charge which should nevertheless conform, as far as possible, with the benefit principle.

In respect of "merit goods" [2], the Committee adopted the view that charges should be related primarily to the value of the service or benefit provided (rather than to some arbitrarily determined level of cost-recovery); while in the case of any local government works

or services which were effectively "market goods" [3], it took the view that local government should adopt a realistic pricing policy and be entitled to earn surpluses (which could be applied to the cross-subsidisation of public and merit goods).

The Committee defined efficiency as requiring that revenue-raising mechanisms should be cost-effective to administer, visible (in order to maximise accountability), predictable, and difficult to evade, and that they should not induce undue distortions in the economy. At the same time, it recognised that there would be circumstances in which, for various reasons, some citizens would be temporarily or permanently unable to meet their obligation to contribute to local government revenue. Local government would wish to offer relief to citizens experiencing hardship or incapacity. Any system of concessions, however, should be consistent with the benefit principle.

To sum up, ideally what the Committee sought was a revenue mechanism or a combination of mechanisms which would enable Council to recover the cost of the works and services it provided as directly as possible from those who used or benefited from them, but which also enables works and services to be provided at a uniformly reasonable standard throughout the community - leaving the redistribution of wealth to other levels of government as a policy objective as they saw fit.

#### **4. POSSIBLE OPTIONS**

The Committee reviewed all the possible revenue-raising options. These included property taxes of various kinds, a poll tax, local income tax, sales taxes, taxes on particular goods and services, user charges for certain services, betterment levies and developer contributions, and grants from central government. In addition it reviewed the scope for revenue-earning through commercial operations and joint ventures, together with the scope for revenue-conserving through the more rational operation of pricing policies, concessions and exemptions. It then tested all these possible options against various criteria of acceptability in terms of equity and efficiency, and their conformity with the benefit principle.

#### **5. THE INQUIRY PROCESS**

Meetings of the Committee or its research sub-committee were held on average fortnightly. The Committee drew upon the ample literature covering the theory and practice of valuation and rating and public revenue-raising and revenue-earning, especially the reports of previous inquiries, and reports on recent developments in the United Kingdom. It assembled copies of all the relevant local and interstate legislation. It addressed a comprehensive questionnaire about current valuation and rating practice to 78 Australasian local governments and in a number of cases it followed up the questionnaire with supplementary inquiries. It invited public submissions by advertisement in the Brisbane press. It sought and received advice and information from officers of the Council, from acknowledged experts in various professional areas, and from the Queensland Valuer-General.

While the Committee operated at arm's length from Council, it nevertheless informed itself of current policy issues confronting the Council. It submitted three interim reports to the Lord Mayor. Its interim recommendations regarding water and sewerage charges were substantially adopted in Council's 1988-89 budget.

A feature of the inquiry was the commissioning of research to explore and quantify the implications of possible options and develop models to assist Council. Compared with earlier inquiries, two other features distinguish the context in which the present inquiry was conducted. One was the introduction of annual valuations by the Valuer-General in 1986. Secondly, town planning controls defining permissible land uses now warrant greater recognition as a determinant of the value of land than has hitherto been the case.

## **6. CONCLUSIONS AND RECOMMENDATIONS**

Conceptually and administratively public revenue-raising is an extraordinarily complex and contentious field of inquiry. All members of the Committee wished to improve the status and public perception of local government. All members endorsed the need for democratic and well-informed local government to be freed from arbitrary restraints upon its resources and its capacity to respond to the needs of an evolving society. Not surprisingly, however, members differed in their philosophical perspective. Thus it will

be noted that the conclusions and recommendations which follow were not unanimous in some instances, while in other instances the form of expression may not necessarily be an exact representation of individual members' views:

- (1) In searching for a general revenue base the Committee noted that a poll tax, i.e. a uniform tax on every (adult) resident of the city, had a prima facie attraction. A poll tax appears to satisfy the requirement that all citizens who benefit from living in the city should contribute to the cost of building and maintaining it. Some members were therefore impressed with the argument that, compared with an alternative, a poll tax was a more direct method of recouping the cost of personal (as distinct from property-related) services provided local government. The Committee, however, is firmly of the opinion that, as a general revenue base, a poll tax should be rejected, because a uniform per capita tax would impose a significantly greater actual and proportionate burden upon most lower income-earners (and would therefore constitute an intrusion by local government into the area of income redistribution which is more properly the function of central government); and because of the very considerable difficulties of costs which would be involved in administering it.
  
- (2) The Committee considered the implications of a local income tax. Not all residents of the city earn their income in the city, however, and not all those who earn income in the city are residents of the city. Even assuming that a local income tax were constitutionally and administratively feasible, the Committee is firmly of the opinion that any form of income tax is incompatible with the benefit principle. Income taxes tax income regardless of services used or benefit enjoyed. While the Greater Brisbane concept required a measure of cross-subsidisation between the wealthier and less well endowed areas of the city, this objective could be achieved by other means. As deliberate policy objective, redistribution of wealth was primarily function of the central government. Accordingly the Committee recommends that no form of local income tax should be contemplated.
  
- (3) For similar reasons, the Committee recommends against any form of broad-based consumption tax as a general revenue base. Such a tax would be an indiscriminating revenue-raising device unrelated to the

benefits and costs of city services provided (as well as being inherently inflationary and likely to divert trade away from the city).

- (4) As a general revenue base, the conclusion of the majority of Committee is that a tax or rate levied on property - provided it levied on land and not upon the buildings or other visible improvements erected on land - is the basic general revenue source which most nearly conforms with the benefit principle. In the Committee's view every resident of the city and every activity conducted in the city uses or occupies land directly or indirectly, and a charge on the value of land used or occupied is paid, directly or indirectly, by every citizen. If all land in the city were valued frequently and in accordance with use of it permitted by the city's town planning controls, a land value charge should accurately reflect the benefit derived from its use or occupation. Moreover, a charge on the value of land encourages development and discourages the speculative withholding of vacant land from productive use (whereas a charge on the value of buildings other improvements tends to penalise enterprise and development.)
- (5) All members of the Committee agree that a charge on the value of land is relatively simple and inexpensive to administer and is impossible to evade. Some members also wish to place on record their view that land is a finite commodity and that a charge levied at the same rate on all uses of land does not affect the free market allocation of resources and cannot be passed on. The rental value of land, when capitalised, gives land its value, and to the extent that the community captures some of the rental value of land by way of a charge, a land value charge operates to depress the value of land and therefore its price.
- (6) While not all members of the Committee share the same philosophical position in respect of the nature of land, or the same view of the impact of a land value charge, the Committee's unanimous response to its first term of reference is that a rate levied on the value of unimproved land is an appropriate means of local government revenue-raising. The Committee's conclusion in this regard is in line with the findings of other recent Australian inquiries. Most members, however, go further. In their view a rate on unimproved land value is not merely appropriate: it is the most efficient and equitable

source of general revenue, both in principle and in practice.

- (7) Paragraphs (8) to (22), hereunder, deal with matters which flow from or are incidental to the Committee's endorsement of a rate on unimproved land value as a general revenue source.
  
- (8) With the advent of annual valuations, coupled with increasingly comprehensive town planning controls, the Committee is satisfied that, at any given time, there is no reason why the Valuer-General's valuations should not accurately reflect the value of all land in the city. Valuations are based on the open market's assessment of the Vocational characteristics of land (including its size, frontage and shape); the availability of works and services; and its highest and best use. The Committee believes that henceforth there should be fewer anomalies and fewer "surprise" increases. Nevertheless the rights of objection and appeal should continue to be available to all landowners who wish to challenge the Valuer-General's assessment, and the Committee considers that rights of objection and appeal in respect of both general and annual valuations should also be available to local government councils (which presently may object only to general valuations which they consider to be too low).
  
- (9) Certain anomalies, however, require to be addressed. Thus the Committee considers that, if rural land within the city area is zoned and used for rural purposes, it should be valued accordingly, in which case the present statutory requirement that the general rate on rural land should not exceed 50 percent of the general rate levied on urban land constitutes a double benefit which is no longer necessary and should be repealed.
  
- (10) If valuations accurately reflect the present value of all land, the Committee considers that there are only two situations in which disproportion between benefits conferred and costs recovered would justify a departure from a uniform general rate. One is where land benefited by specially provided extra works or services not generally provided by the Council (as in the case of the Queen Street and Chinatown Malls). In this case a separate (additional) rate is appropriate. The other situation is where it can be demonstrated

that the Council is not recovering a proportionate share of the cost of works and services from identifiable sectors or categories of land uses. The Committee considers that a differential rate could be warranted in these circumstances.

- (11) In relation to differential rating the Committee commissioned the development of a model to enable the Council to monitor any disparity between the benefits conferred on sectors or categories of land use and the general rate revenue derived from them. It sought to discover for example, whether there was any disparity in this regard between the residential, commercial and industrial sectors. The Committee' research shows that there have been some disparities but that these appear to have been redressed in the most recent valuations. If in the course of monitoring relativities a disparity between sectors were to become apparent, a differential rate should be levied to ameliorate it. But, in the absence of any such evidence, the Committee is very firmly of the opinion that recourse to differential rating would undermine the credibility of the valuation and rating system.
- (12) The Committee draws attention to the fact that rates of income-producing properties are currently tax-deductible. Thus, while there is no present disparity which would justify differentiation between sectors on a pre-tax basis, the majority of members are of the opinion that Council could consider differential rating to equalise the after-tax incidence of rates (in which case higher rates of income-producing properties would in effect be funded in part by the Commonwealth).
- (13) Where property owners continue to reside on land which is zoned for a higher intensity use and is therefore valued accordingly, the Committee recognises that some dispensation from rates is warranted. However, the extent of the present dispensation (via section 11(1)(vii) of the Valuation of land Act) is quite unwarranted. The majority of the Committee therefore recommend that, while the existing residential use continues, owners should be eligible to defer that proportion of rates attributable to the increased value. If a property is transferred to another residential occupier, the same dispensation should be permitted subject, however, to the rate due and payable being not less than the rate calculated on the value established by the sale price. It is further recommended that owners of farming land which has been zoned for urban use should similarly be eligible to

apply for deferment while the land continues to be farmed. The existing residential or farming uses may of course continue indefinitely. If so, the Committee considers it reasonable that the deferred rates should not continue to accrue, but should be written off for any retrospective period in excess of five years.

(14) The Committee considers that there is no valid reason why the rating of individual subdivided lots should be delayed. At present a developer retains the benefit of an en globo valuation until subdivided lots are sold. This reduces any incentive to sell, and encourages the withholding of land from the market for investment. The Committee considers that, consistent with its other recommendations in respect of concessions, this concession should not be conferred by the Valuation of Land Act. In the case of new subdivisions, therefore, the Committee recommends that every new subdivided lot should be separately valued and become rateable upon registration of the survey plan.

(15) In practice, irrespective of the value of their properties, all property owners are currently liable to pay a minimum general rate determined by Council. In the Committee's view, however, while this practice may be partly dictated by administrative convenience, it represents a departure from principle at the lower end of the rating scale. If land values for all properties are assessed frequently and accurately, then the majority of the Committee believe that, in principle, the amount of the general rate payable should in all cases be that calculated on actual values. The Committee noted that minimum rates tended not to distinguish between large and small home units in multiple dwellings. The Committee also noted that, whereas dwelling units in buildings subject to the Building Units and Group Titles Act could be levied minimum rates, flats in otherwise similar buildings not subject to the Act could not be individually rated. It acknowledged that if a minimum rate were not levied, valuations of multiple dwelling unit sites were such that the apportionment of the land value among a large number of individual home units could lead to unreasonably low actual values for each unit. It might be possible to remedy this by changes to the valuation guidelines.

(16) The Committee noted local government's historical association with property-related works and services. Thus a rate on property may be

seen as a particularly appropriate basic revenue source. However, the Committee's affirmation of the merits of taxing the unimproved value of land as a basic source of public revenue does not rely on this traditional association, and does not imply that land value taxation should be confined to local government. While some merit was seen in land value taxation being regarded as a distinctive local government revenue source, in principle, in the Committee's view, the unimproved value of land is a logical basis for revenue-raising irrespective of the level of government.

- (17) Unimproved value requires to be defined. Since the turn of the [20th] century local government rates in Queensland have been levied on the unimproved capital value (UCV) of properties, meaning the value of the land literally without any improvements of any kind (but with all existing amenities). There are difficulties and anomalies, however, associated with this definition of land. For example, improvements such as levelling, clearing and filling carried out many years previously become virtually impossible to identify. The Committee therefore prefers the concept of "site value". This means the value of land including improvements which have merged with it over time because they have become permanent; require no maintenance; and for all practical purposes have become invisible. The Committee is therefore of the opinion that, for the purposes of assessing the rateable value of land in Brisbane, such improvements should be deemed to have merged with the land after ten years or upon its prior sale.
- (18) Reviewing generally the operation of the land valuation and rating system, the Committee believes it is inherently sound. The Committee wishes to emphasise, however, the critical importance of frequent and up-to-date valuations, and the need for annual valuations to come into effect as soon as possible after they have been made. Its recommendations are formulated on the assumption that valuations will continue to be (statistically) re-assessed at least annually, and that there will be frequent general revaluations to review relativities over time. The Committee noted that elsewhere in some instances valuation for rating purposes is undertaken by local government councils. In the Committee's view, however, valuation and rating should be recognised as separate functions, neither of which should be manipulated for the purposes of the other. Thus the Committee endorses their allocation to separate bodies as is presently the case in Queensland.

- (19) Compared with PAYE taxation, the levying of a rate on property is a highly visible form of revenue-raising. This is a virtue, since it maximises a revenue-raising authority's accountability for expenditure. The price of high visibility, however, may be disproportionate unpopularity, particularly if rates are collected in periodic lump sums. The Committee therefore recommends that Council work towards further spreading the payment of rates by instalments at less than quarterly intervals.
- (20) The Committee also recommends that information generally regarding the valuation and rating system be more widely disseminated. In particular, it believes that the fact that valuations are based on current market values needs to be more widely appreciated. While property owners may complain about high valuations, the Committee is not aware of any property owners who would willingly sell their properties for less than their market value.
- (21) In particular, the Committee believes that there needs to be greater recognition of the fact that population growth will inevitably - and quite properly - lead to increased land values, particularly in prime locations. This will pose problems, for example for elderly residents in these locations who may thus become in effect asset-rich but income-poor. These circumstances may warrant deferment - but not a waiver - of the obligation to pay rates on the true value of their properties. As the Committee emphasises in paragraph (34), the obligation should remain a charge on the land.
- (22) The Committee has examined the policy of "rate-pegging" or "rate-capping" as practised by the Thatcher government in Britain and the Wran and Greiner governments in New South Wales. While rate-pegging has been conceived as a means of arbitrarily limiting the growth of local government taxation, it has had the opposite result in many cases. Rate-pegging has been demonstrably disastrous for the autonomy and electoral accountability of local government and has failed as an intended restraint upon local government revenue-raising. Indeed, distortion of the rating system has been so severe that in Britain a poll tax (or "community charge") is now replacing domestic rates, and a similar proposal is under discussion in New South Wales. The

Committee was disturbed by a recent media report that rate-pegging had been advocated in Queensland. The Committee records its strong opposition to any form of rate-pegging (or the 'freezing' or deferring of valuation changes).

(23) In considering possible options which might be seen as supplementary revenue devices, the Committee does not favour charges levied on goods and services which are simply revenue-raising taxes unrelated to benefit received or to the cost of city services provided. In this category are charges such as sales taxes on selected goods, bed taxes, accommodation taxes and various forms of business taxes. The Committee is of the opinion that any consumption taxes levied on goods or services not provided by the Council are incompatible with the benefit principle (as well as being inherently inflationary and regressive). Indirect taxes are also "invisible", and their accountability is thereby obscured. While there was some support for the view that local sales taxes could be a means of recovering some revenue from non-residents and visitors, the majority of the Committee consider that a tax on consumer goods could only be justified if it served to achieve some policy objective (such as, for example, traffic restraint, or the minimisation of pollution). The Committee recognises that, while tourists and non-residents use or benefit from city services, they contribute in other respects to its prosperity. A share in this prosperity should more properly be recouped for the city through the increased value of rateable land on which, for example, accommodation and entertainment facilities are erected.

(24) Nevertheless the Committee considers that there are a number of identifiable works and services provided by Council which benefit or are used by identifiable people or activities. Where the extent of the benefit or use of these works and services can be identified, the Committee considers that their cost should be met (at least in part) by specific separate charges. Providing such works or services from a general rate on land is neither equitable nor efficient. In particular, the Committee considers that, while the availability of water and sewerage affects the value of land, the actual consumption of water has no necessary relationship to land value.

(25) The Committee is strongly of the opinion that greater community recognition of the cost of reticulated water will determine whether

and when the city's water supply headworks will need to be augmented. Accordingly the Committee recommends that the consumption of water should be measured; that metering of residential properties (as well as commercial and industrial properties) should be introduced, voluntarily in the first instance; and that Council should move towards abandoning water rates levied on land value. The Committee's report identifies a number of options which the Committee believes Council should investigate in relation to water pricing having regard to storage, treatment and reticulation costs and the special requirements of particular users. In respect of sewerage the Committee recommends a flat charge for all self-contained residential properties in lieu of the pedestal charge. (While recommendations in an interim report to the Lord Mayor were substantially implemented in Council's 1988-89 budget, the Committee believes that the fixed charge of the charge-plus-consumption package recommended by the Committee to encourage voluntary meter installation was not in fact sufficiently low to be an effective inducement).

- (26) The Committee is of the opinion that water supply and sewerage are not the only Council services the beneficiaries of which can be separately identified. It therefore recommends that Council should review all its services to ascertain whether their cost can be recovered wholly or partly from charges based on the extent of their benefit to identifiable beneficiaries. By way of example, the Committee is of the opinion that certain foreseeable specialist library services should be charged for and not absorbed in the cost of basic library services.
- (27) In particular, it believes that equity requires that Council's road maintenance costs should not continue to be wholly met from general rate revenue (levied, irrespective of vehicle ownership, upon all property owners, some of whose properties are depreciated in value by road works) but that at least in part they should be apportioned among vehicle users. The Committee considers that the most equitable and practical way to do this would be by way of a motor vehicle fuel franchise levy, imposed within the municipal area in the first instance, and extended to the actual metropolitan area by negotiation with the surrounding local government councils.
- (28) While in the Committee's opinion a motor vehicle fuel franchise levy

is the most direct way of securing a contribution from motor vehicle users who enjoy the benefits of road maintenance and improvements, the Committee endorses Council's announced intention to increase metered parking charges and impose a levy on inner city parking spaces [4]. Of these measures, only on-street parking charges are a direct charge for the benefit of road space provided by Council. Both, however, will operate to minimise the disbenefit of congestion caused by motor vehicle usage in the central city and indirectly compensate for the use of roads leading to the city.

(29) The Committee reviewed the concept of betterment, i.e. the benefit conferred upon landowners by town planning approvals which increase the value of their land. It noted that rates on increased land values recoup a small part of this windfall increase, and that contributions to infrastructure required from developers as a condition of development approval offset a proportion of the increase. The Committee does not recommend a special betterment levy to recoup a proportion of this increased value. It believes, however, that in principle Council should be able to recoup, either by way of cash payments or the contribution of infrastructure, a greater share of the land value increments attributable to planning approvals, and that accordingly a clear-cut philosophy in relation to development contributions should be spelt out in town planning legislation; and, further, that there should be an equally clear-cut recognition in principle that any consequential costs imposed upon the community by development proposals (whether internal or external to the development) should be recoverable from the proponents of development (including, for example, the costs of traffic congestion).

(30) The Committee noted that Council owned considerable land and was itself a land developer. In the Committee's view, however, the practice of disposing of Council-owned land in freehold is depriving Council of the benefit of future increases in land value attributable to population growth and community development. At the cost of forgoing a once-only capital return on the land it sold, a majority of the Committee favour Council retaining the benefit of land value increments in perpetuity by disposing of land on a leasehold basis. In the case of residential land, disposal on a leasehold basis would substantially reduce the initial cost of home ownership to lessees without long-term cost to Council.

- (31) The Committee noted that, while overtures to central government in the past have rarely been successful, it was nevertheless open to local government to seek increased grants from state and federal government either in lieu of, or to supplement, general rate revenue. It can be argued that seeking increased grants implies a departure from the benefit principle and a reliance instead on a share of revenue raised by other governments on the basis of ability to pay. It could also tend to compromise local government's aspirations to greater autonomy. Nevertheless there was some sympathy within the Committee for the view that, particularly in a capital city situation, grants from government were a justifiable compensation for the cost of providing services to non-residents, and would represent a contribution to greater vertical equalisation of revenue receipts as between levels of government. The case for transfer payments may need to be pressed in the light of the continuing tendency of higher levels of government to reduce such payments.
- (32) With regard to revenue-earning, the Committee is of the opinion that local government should not be precluded from engaging in commercial operations. It recognised, however, that there were risks. The history of municipal business ventures elsewhere has not been without blemish. In the Committee's opinion there are likely to be few circumstances in which the scope for viable commercial operations has not already been recognised and exploited by private entrepreneurs. It considers, however, that Council should explore the scope for joint ventures in circumstances where neither the private sector nor the public sector can operate alone, and accordingly recommends that it should seek statutory authorisation to enable it to engage in joint ventures in these circumstances.
- (33) As for revenue-conserving, while systematic water pricing as recommended by the Committee would enable future major expenditure on water treatment and headworks to be deferred, the Committee considers Council's present revenue could be conserved by reviewing rate concessions and exemptions. The Committee noted that Queensland councils varied in their attitude to rate concessions. In the Committee's opinion Council's present rate concessions - which are confined to full pensioners - could be extended to a wider range of deserving recipients if concessions were conferred by way of deferment of rates rather than by remission. The present remission scheme is discriminatory and inequitable and results in a substantial loss of revenue. This shortfall is being met by the city's ratepayers

(including part-pensioners and other ineligible persons experiencing hardship). The ultimate beneficiaries of the present remission scheme are pensioners' successors in title who inherit unencumbered properties. The Committee therefore recommends that, without necessarily withdrawing any entitlements to remission which are currently being exercised, Council should offer deferment of rates as an optional alternative to remission, and gradually move towards replacing the present pensioner remission scheme by a deferral scheme open to a wider range of applicants. A study commissioned by the Committee illustrates the cash flow implications of deferring various proportions of rate revenue as well as the implications of various transitional combinations of remission and deferral.

- (34) In the Committee's view deferment would accord with the fact that rates are properly a charge on property rather than a tax on persons. If Council so desired, deferment of rates could also be employed as an incentive to encourage the establishment or expansion of commercial or industrial enterprises in the city, and the Committee considers that Council should seek the necessary statutory authorisation to enable it to do this.
- (35) With regard to the controversial question of the exemption of state and federal governments from general rates levied by local government, the Committee noted the Self Committee's [5] conclusion that, while most local government councils were probably net beneficiaries from reciprocal relief from state and federal taxes, capital cities such as Brisbane, with a high proportion of government properties, were disadvantaged. The Committee endorses the view that, as a first stage towards the abolition of Crown exemptions, rate exemptions enjoyed by government owned trading operations should be phased out (in the interests both of minimising the disadvantage to councils and minimising the advantage enjoyed by public sector commercial undertakings trading in competition with the private sector).
- (36) In the case of charitable and other non-governmental bodies the Committee considers that any exemptions from the general rate should not be a matter for statute, but for individual councils to determine as a matter of policy (taking into account the extent to which the whole or part of a claimant property is used for purposes other than its primary purpose). In order to avoid distortion of the rate base,

the Committee further recommends that any such exemptions should operate by way of remission of rates due and payable rather than as exemptions from liability.

- (37) The Committee acknowledges that rate concessions apply only to property owners, whereas the hardship being experienced by many private rental residents is an increasing social problem. While tenants effectively pay the general rate indirectly as a component of their rent, there appears to be no way in which a concession to tenants can be made a charge on property in keeping with the basic mechanism of deferral which the Committee recommends for rate concessions. Any assistance paid directly to tenants assuming a mechanism with appropriate safeguards could be devised would be a direct cost to Council and would constitute a major extension of Council's redistributive role.
- (38) Should Council decide to adopt them, the implementation of the Committee's recommendations will in some cases require legislative amendments. In other cases implementation will merely require administrative action. Whatever the form of action required, the Committee commends to Council the practice of requiring its relevant departments to report annually on the specific steps being taken by them towards achieving the desired results.
- (39) Finally, it should be emphasised that the Committee has not been concerned with increasing Council's revenue; its evaluation of possible revenue-raising options has been undertaken on a revenue-neutral basis. The aggregate level of local taxation at any given time is a matter for elected councils to determine and to accept responsibility for at the ballot box. The Committee's concern has been to ensure that, at whatever level of revenue, Council's revenue-raising is equitable and efficient. And, in respect of concessions, its concern has been to ensure that Council's revenue-raising mechanisms are able to respond more flexibly and sensitively to situations in which its citizens are experiencing hardship.

The Committee's reasoning in support of the foregoing conclusions and recommendations is amplified in Volume 1 of its report, together with references to the legislative amendments which the implementation of certain recommendations will entail. Volume 2 contains supporting information including the results of the research studies which the Committee commissioned.

**END NOTES:**

- 1 Defined as those goods which generally could not be priced in the market sense, since their use could not be made subject to price payments in the same way as market goods, and which therefore had to be paid for from public revenue.
- 2 Defined as those which could be supplied by the market but which, for policy reasons, governments decided should be provided at a price less than their full cost.
- 3 Defined as those which could be supplied efficiently at socially acceptable prices by the market mechanism.
- 4 Council also announced its intention to impose rigid upper limits upon the amount of off-street parking permissible in inner city buildings.
- 5 The National Inquiry into Local Government Finance, 1985, chaired by Professor Peter Self.

Mr. Hancock dissents from the Committee's conclusions (12) regarding differentiating between the pre-tax and after-tax incidence of rates;

(28) regarding the proposed levy on inner city parking spaces; and  
(29) regarding development contributions to infrastructure, and recovering the consequential costs of development proposals.

**Brisbane**  
**26 September 1989**

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## **GLOSSARY OF TERMS**

**Assessed Annual Value (A.A.V.):** the gross annual rental which might reasonably be expected if premises were let on a tenancy from year to year.

**Annual Value (A.V.):** a proportion (around three-quarters) of the gross annual rental which might reasonably be expected if premises were let on a tenancy from year to year upon the condition that the landlord was liable for all rates, taxes and insurance; (it may additionally be defined to be not less than five percent of the fee simple).

**Capital Value (C.V.):** the capital sum that an unencumbered estate in fee simple in land together with any improvements might be expected to realise if offered for sale on reasonable terms and conditions at a point in time.

**Gross Rental Value (G.R.V.):** the gross annual rental which might reasonably

be expected if premises were let on a tenancy from year to year upon the condition that the landlord was liable for all rates, taxes and insurance.

**Highest and Best Use:** the lawful use to which land by its attributes and location might best be adapted, and which is capable of yielding the highest utility or benefit to the owner.

**Land Value (L.V.) :** the capital sum which an estate in fee simple in land unencumbered by any lease, mortgage or other charge might be expected to realise if offered for sale on a given day on reasonable terms and conditions, excluding the value of any visible or tangible improvements, but not excluding the value of any improvements resulting from work done by the Crown or any work of reclamation, drainage, filling, excavation, grading, levelling or clearing. From the view point that capital value or market value is the sum of the value of improvements and land value, any value not due to improvements is land value. The works identified above are however to be included in the assessment of land value.

**Market Value:** the sum which a property could be expected to realise upon purchase by a willing but not anxious buyer from a willing but not anxious seller at a given point in time.

**Site Value (S.V.):** the capital sum which an estate in fee simple in land unencumbered by any lease, mortgage or other charge might be expected to realise if offered for sale at a given day on reasonable terms and conditions, assuming that any site improvements other than merged improvements had not been made. Site improvements include reclamation.

