

ABSTRACT

This paper commences with a review of some of the research undertaken by the SRD Group over the last several years. This has been done to bring to the attention of the reader the impact of municipal rating. After noting the research, a number of conclusions are then stated. The paper concludes by relating the Groups research to the subject of environmental economics, addressing in particular;

- land use,
- how to help shift the economy to more sustainable activity, and
- the difference in economic effect of the two types of rating base.

First though, an introduction and some background information is necessary.

KEYWORDS

Municipal Rates
Property Taxation
Environmental Policy

PAPER

Introduction and Background Information.

Victoria is an interesting part of the world, particularly its local government. Victoria has the only municipal structure in the world that uses two different rating systems, side by side, to finance its local government. One system rates land, (site value rating), the other taxes buildings, (Capital Improved Value rating). Also, there have been times when a

council has changed from one method of rating to the other, and from one year to the next. This has enabled extensive research to be done on rating and its economic impact.

A change of Victorian State Government in 1992 brought with it a complete review of Victorian Municipal activities. Since then, Victorian councils have been reduced in number from 210 down to 78.

It became a requirement for all newly amalgamated councils, once formed, to changeover 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. This was the Minister for Local Government's preferred position.

A review of local government in Victoria was long overdue, of this there is no doubt. In the long run, a number of the changes made will prove positive for the state. The issue of rates however, has proved the most contentious for ratepayers.

The SRD Group found a niche in this field by supplying information to council, business and other ratepayers, about rates. After a study of this data our Group was approached to defend the principle of site rating, on economic grounds, highlighting the effect CIV would have upon business development in this state. Hence the name of our Group.

Building upon existing data, the Group undertook further research in this field. Some examples of our research follow.

Example 1. The council shire of Seymour

Seymour is situated approximately 100 kilometres to the north of Melbourne. The Shire made a change to its rating base in 1982. Up to this time, Seymour had been collecting municipal revenue by a direct charge on the value of both land and buildings, in other words using CIV as its rates base. In 1982, it was decided to levy the rates only upon site value, that is, exclusive of improvements. An analysis of building statistics for Seymour shire, for the three years before and after this change revealed the following; (Figures 1 and 2)

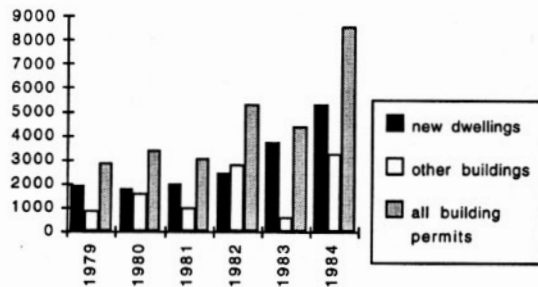


Fig. 1 Seymour shire building permits, by value \$000's.

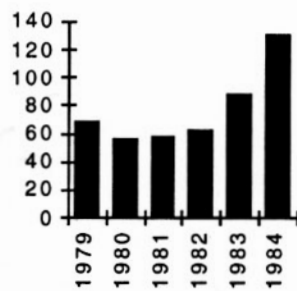


Fig. 2 Seymour shire number of dwellings built

Seymour building activity increased in the years following 1981, the final year of Seymour taxing buildings at the municipal level. For Seymour, the three years of municipally taxed buildings up to 1981 was a period of declining or comparatively stagnant building activity. The value of all new building permits in 1981, for example, was just over \$3 million. The value by 1984, after only

three years of site rating, had climbed to \$8.5 million, an increase of around 280%.

The figures for Seymour are consistent with over thirty other municipal studies of Melbourne, done in different decades, and at various times of the traditional business cycle. In each study, the only variable to change was the municipal rating base, and in each case after the change, a significant increase in building activity took place.

It was particularly curious to observe that, not only was there increased building activity, especially housing, but that there occurred also a significant increase in the value of housing built. The studies suggest that once housing is no longer taxed at the municipal level, homes of significantly greater value have been constructed. (The Group noted also that the demand for this form of municipal rating came from ratepayers themselves.)

Example 2. Rating Systems and Victorian Manufacturing.

Figure 3 is extracted from page 2 of the Australian Bureau of Statistics (ABS) publication number 8203.2, Manufacturing Establishments; small area statistics, Victoria, released 15th October 1986.

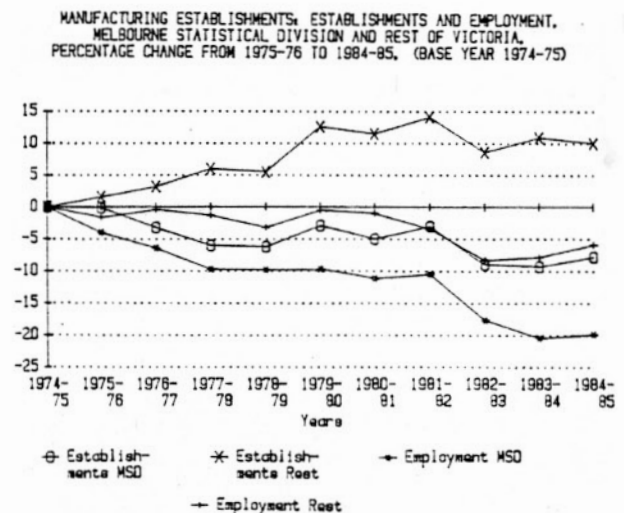


Fig. 3 Original ABS chart, as shown

The ABS chart, figure 3, reveals that manufacturing in Melbourne declined steadily over the ten years 1974 to 1984. (Averaging 9%)

The SRD Group, to show the effect of different rating systems, if any, broke down further this chart, by plotting separately, for the Melbourne Statistical Division, the same ABS data for site rated, as against CIV taxed municipalities. The Melbourne Statistical Division accounts for over 80% (ABS figure) of total Victorian industrial activity, so the group did not continue further in breaking down the whole Victorian figures. Figure 4.

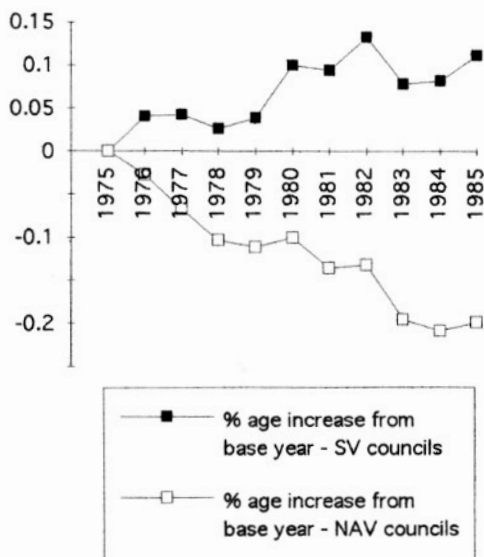


Fig. 4 Melbourne manufacturing growth by rating system.

It was found that the decline in manufacturing was markedly different depending upon the rating system used by council. Indeed, in council areas rating site value, the number of manufacturing establishments actually increased by 10%. In council areas taxing buildings, manufacturing establishments declined by 20%.

Example 3. A Study of the Suburb of South Melbourne.

South Melbourne, as the name probably indicates, is one of Melbourne's oldest suburbs, very much

inner suburban. In the early 1960's, the suburb was considerably run down and very much in need of some sort of revival. For whatever reason, not known to this group, pressure mounted in 1963 for a change to the method of council rating. Building statistics for south Melbourne after this time clearly show what happened. Figure 5. (Fig.5 appears at the end of the paper.) Some of these figures have also been charted, figures 6 and 7.

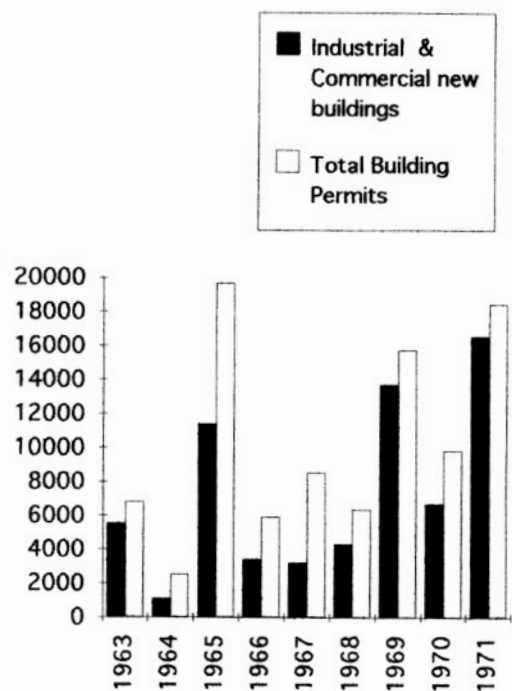


Fig. 6 South Melbourne building permits issued, by value \$000's

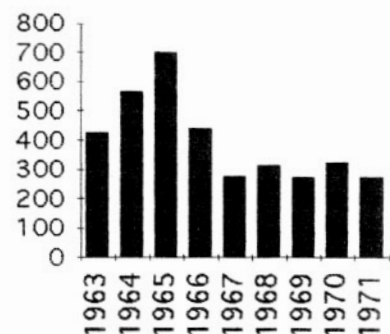


Fig.7 Sth Melbourne alterations and additions \$000's

After 1964, the trend in the value of permits, in all categories, is clearly upwards. There is a noticeable declining trend however for the value of alterations and additions. This is significant, and can be explained by the fact that it has become more economic for property owners to replace, renew or rebuild, rather than alter or add to existing structures. (Note that the figure for "other new buildings", 1965 of \$7.362 million included \$7 million for the then new National Cultural Centre. Being non recurrent in nature, it distorts that years figures.)

It is important to recognise that the rating change appears to have been the catalyst for the urban renewal that took place in South Melbourne after 1964. Interestingly, residents of Melbourne would be aware of the Melbourne CBD council's constant attempts in the 1970's to annex a fair part of the South Melbourne area under its own border. Could the two events have been linked ?

Research Conclusions.

It can be seen that there is a measurable difference in economic performance between site rated as against CIV taxed municipal areas.

Economic performance is measurably greater in site rated areas, compared to CIV taxed areas.

In particular, results are tending to indicate that economic development in Melbourne has followed the site value rate.

Implications for Environmental Economics.

Some of the implications of this unique research may already have occurred to the reader. The implications are worth outlining in detail.

Urban renewal

Rating land value has implications in the area of urban renewal. In Melbourne, site rating has clearly been an incentive for the better use of the land area. The importance of promoting urban regeneration is obvious if Melbourne is to avoid some of the slum

development seen overseas, particularly in the United States. It is highly likely that rates could be pitched at such a level to promote the more efficient use of land and also help promote urban in-filling, as distinct from the problem of urban sprawl; a problem that few cities are yet to solve.

Energy.

Delivering community services to a more compact city, has implications also for the better use of resources generally, whether this be energy resources, land, or community services themselves.

In particular, new buildings take advantage of the latest and most modern environmental standards, with obvious savings in energy efficiency and promotion of solar power uses, in preference to existing technologies. This would also be a great incentive to designers and architects, who could assist builders in the creative use of the latest and most energy efficient building techniques. Significantly, urban renewal puts people to work.

Changing economic and environmental behaviour.

The groups studies have measured differences in economic performance between different councils, dependent upon the municipal rate in use. Of course, this measurement is nothing more than a reflection of the economic choice made by property owners under different systems of municipal taxation. Therefore of wider significance is the possible use of municipal rates to change the behaviour of ratepayers in a direction that is more environmentally sustainable. Importantly, this could be done by government, using the rates, to actually increase the choices and profitability, not only of property owners, but all ratepayers in general and the wider community. This is a potential win / win situation.

Country areas and decentralisation.

Municipal rating is a feature of local government. If, as seems the case, rating can have such a substantial impact, then councils have within their grasp a powerful tool in which to promote local development. For country areas in most parts of the world now trying desperately to stem the increasing drift to big urban centres, a different rating structure may be part of the answer.

(Country areas continued.)

SRD Group research has also been done for country Victorian municipalities, where similar patterns were recorded as has been seen in Melbourne. This was particularly significant in that development, or the lack of it, in country centres can only originate from the country centre itself. Municipal rating has had some effect here.

It is now recognised that one of the biggest threats to our environment comes from poverty itself, and the seemingly ever widening disparities of income between rich and poor. There is unquestionably a link between how a community uses its land, and the wealth that that community generates. As regards environmental policies, the area of municipal rating has been overlooked for too long.

Year ended 31st December	New Dwellings	Industrial & Commercial New Buildings	Other New Buildings	Alterations and Additions	Total Building Permits
Buildings Tax-free	\$000's	\$000's	\$000's	\$000's	\$000's
1971	1,074	16,561	568	275	18,478
1970	664	6,705	2,157	323	9,849
1969	774	13,738	980	273	15,765
1968	1,273	4,315	464	314	6,366
1967	4,274	3,212	776	277	8,539
1966	1,128	3,421	922	440	5,911
1965	218	11,402	7,362	702	19,684
Buildings taxed					
1964	522	1,098	354	566	2,540
1963	124	5,528	736	424	6,812

Fig. 5 South Melbourne building statistics, as listed in ABS catalogue publication No. 8703.2, issued annually