

SETTING THE PACE IN AUCKLAND, NEW ZEALAND

Land-Value Rating Recommended in Official Report

The appointment by the Auckland City Council of a special sub-committee to investigate the whole question of rating as it at present affects that city was reported in our May issue. Our correspondent in Auckland, Mr. G. M. Fowlds, when conveying that news added that literature dealing with the rating of site values, including copies of the 1946 survey of Footscray (*Social Effects of Municipal Rating*) had been sent to city councillors by Dr. R. O'Regan, chairman of the New Zealand League for the Taxation of Land Values.

The sub-committee has now completed its work. Its report, signed by City Councillor Professor V. J. Chapman, reveals once again the economic folly of levying local taxation on the value of land and buildings taken together and, by contrast, the wisdom and justice and beneficial consequences of taking taxes *off* buildings and other improvements.

Wide publicity for the report, which comes out strongly in favour of the rating of site values, has been given in the two Auckland daily newspapers, and as a result, the N.Z. League has established contact with a large number of sympathisers in that important city.

Dr. O'Regan, to whom we are indebted for a copy of the report, advises that it was as a direct result of propaganda conducted by the League, that Professor Chapman first raised the matter of rating systems in the City Council. The League had hoped that presentation of the sub-committee's findings would have stimulated a poll of ratepayers to decide whether or not to adopt site-value rating to be held during the municipal elections in November but the shortage of time makes that unlikely. Nevertheless, a great advance has been secured, and neither the League nor Auckland ratepayers are likely to allow matters to rest.

The sub-committee's observations deserve wide circulation for they are as relevant in Britain (and wherever else local revenues are derived from rates imposed on the assessed composite value of property) as in Auckland. Accordingly we publish this condensed version of the report, modifying it to substitute British nomenclature for the terms used in the original document, and adding crossheads.

DECADENT BUILDINGS AND VACANT SITES

The suggestion that a study of rating should be made arose from the need to re-develop decadent areas in and around the centre of the city, and in this report rating has been examined from the point of view of developing central decadent areas. In considering this issue, a number of other matters also materialised, which are dealt with in this report.

Apart from certain sites in Queen Street, Hobson Street, Albert Street, City Street, etc., there are considerable areas throughout the city, all unproductive in relation to their real value. The re-development of these areas would provide homes close to the centre of the city and greatly reduce our transport problem.

Under the present system of rating, there is a great disparity in the rates on built and on unbuilt land. One important consideration therefore is whether the difference in cost of services to these two classes of property justifies the difference in the scale of rates. The issue is whether vacant or poorly developed properties are contributing less than their share towards city services so that the least desirable class of ratepayers are being subsidised at the expense of those who, having improved their property by high-class building, are now an asset to the city.

So far as road costs and maintenance are concerned it is evident that the owner of the developed property is contributing more than the owner of the vacant section or poorly developed property. There may be as many persons using the road from the poorly developed or slum property as from the high-class residence. There would seem to be no justification therefore for any distinction. In the case of vacant sections, the presence of the road enhances the value of the section and the service is there when a building is placed upon the section . . .

In respect of all other services which a city provides, with the possible exception of garbage collection, the services are available equally to the owner irrespective of whether there is a building or not upon his section. Indeed, the effect of municipal services is to increase land values in their immediate vicinity, the effect gradually diminishing with distance. In this particular instance it can well be argued that land values form an ideal basis for rate payment.

Our present rating system substantially increases the cost of new houses, and the increase is relatively greater the further the house is from the main body of the city. In Footscray [one of the Melbourne suburbs where the old rating system still operates] this factor was analysed and it was demonstrated that increasing distance from the centre brought about a gradual increase of 12 to 25 times as much in rates on houses as the owners would have to pay had the sites remained vacant. The heavy rate on the new building is equivalent to a capital levy on the property. This is a very serious disadvantage under existing conditions of house purchase. In the case of young people they may have great difficulty in finding the money to buy a house.

HOW SOME PROPERTIES WOULD BE AFFECTED

Under site-value rating there is no doubt that the rates of the main city area would increase because they are closer to the municipal services and enjoy better ones. The owners of such sites are generally in a strong position to absorb an increase in rates, and also the increase can be countered by building better buildings upon the property and thus benefiting themselves. This is a highly desirable effect in so far as it promotes high-class development of the heart of the city. If there are property owners in the area who cannot do this then from the point of view of city development it is desirable that such properties should pass into the hands of those who can . . .

It must be remembered, however, that residential houses generally carry lower rates on the site-value basis. This saving benefits particularly the middle and lower income groups and it means they have more money to spend on goods in shops. Under the present system it is mainly the higher income group who benefit and much of their saving will not be spent in shops but rather in things such as investments. Under site-value rating the shops should therefore benefit in trade even though they may have higher rates.

With site-value rating the owner of a vacant section is faced with a high rate payment without any revenue coming in from improvements to cover the charge. This increases the number of owners willing to sell or else to build upon the site. Any increase in homes will eventually tend to reduce rents so long as it commences to overtake any population increase. If houses are wanted, then it is logical to take the taxes off them and put them on the sites and so encourage building.

Strong financial firms can have their investments in valuable land or else in buildings and machinery. The former investment does not confer any major benefit upon industry since no materials are consumed or need replacement. The latter creates demands and stimulates related industries. The present rating system penalises such firms and gives a bonus to those firms whose capital is largely invested in land. It also gives a bonus to poorly developed factories and penalises the highly improved factories.

The site value of the land is a direct result of the presence and activity of the whole community, and particularly of the local body representing the community. It can be argued it is just that the local body should obtain its revenue on the basis of the community-created value of the land.

Site-value rating makes no levy on the results of individual effort or initiative. In fact, it encourages individual effort.

Site-value rating promotes employment because it encourages building and other land improvements . . .

Site-value rating checks high land prices because it is a direct deduction from land value [*i.e.*, the rent that can be privately enjoyed—Ed., L. & L.] and also it discourages land being held for speculation.

SOME COMMON OBJECTIONS ANSWERED

The present system [of rating land and buildings alike] is more in accord with the principle of "ability to pay"; in other words, those who can afford to develop properties are more likely to be able to pay heavy rates.

This is only partly true in the case of those who invest in property. It is quite untrue in the case of the owner-occupiers, who form the majority of our citizens. A young, newly-married couple acquire a site and no sooner have they built a home on it than the rates payable under the present system increase about five-fold. Such people are clearly penalised and the rating inhibits building.

Site-value rating is inimical to ordered town planning because it stimulates disorderly and undisciplined building and other improvements.

This, of course, can take place only under a weak local body because municipal and town planning authorities have ample legal power to control development.

Site-value rating discourages the making of fine gardens.

Residential properties generally have their rates reduced under the site-value system and this should encourage owners to lay out gardens. It certainly discourages the use of vacant sections for garden purposes, but such sections should have houses on them.

Site-value rating causes a rise in farm valuations near spreading urban areas.

The present rating system frequently results in properties in the urban area being unused or grossly under-used because the system penalises, by penal rates, those who do use land to its full potentialities. The home builder is therefore forced further and further away from the centre, the city sprawls and municipal costs for transport, water, sewage and streets soar excessively. Site-value rating restrains this.

Site-value rating gives a special advantage to industries established in rural areas.

This is actually to be commended because decentralisation of population is in every way desirable. Suggestions have already been made in Auckland for the development of satellite towns in order to overcome the transport problem.

CONCLUSIONS AND RECOMMENDATIONS

It seems evident that a change to the site-value basis of rating would bring about development of the central decadent areas and reduce the present tendency to spread. It

could be argued that no change should take place until building restrictions are removed so that owners can develop decadent and vacant properties. This is possibly short-sighted as it may take some years before a change in rating can be brought about. If some of the money, men and materials that are to be expended in developing the Otara Block were to be diverted to clearing and rebuilding the central decadent areas the city would be vastly improved; equal accommodation would be made available and no transport problems would be created, nor would it cost the area more as a whole. Rating on site values can only be introduced or repealed by a poll of ratepayers and this would need to be organised by a body of ratepayers. It is not regarded as the function of the City Council to organise such a poll.

V. J. CHAPMAN, Chairman.

The first Act enabling local authorities to levy rates on site values was passed in 1896, and these powers were strengthened by the amending Act of 1911. The progress so far made is shown in the fact that out of 288 local bodies (cities, boroughs, towns and counties), 190 levy their rates on site values. Of these at least thirty are within and immediately surrounding the Auckland District. Will now Auckland City follow their example and the example also of Wellington, the Capital, and Dunedin and Christchurch and Invercargill which are among the eleven cities that rate land values?

TEN TOWNS IN CAPE PROVINCE

Councillor E. J. Evans, of East London, gives us the latest details of the municipalities in the Cape Province which distinguish between sites and buildings in the levy of the rates, so as to reduce the rate on buildings and correspondingly increase it on the site value. The municipalities are ten in number, the latest to "join the ranks" in thus reforming their local taxation being the two small towns of Saldanha and Vredenburg. The list is as follows (basis of the rates is the capital value) and it will be noticed that Kimberley levies its rates on site values only, *i.e.*, with complete exemption of buildings.

	European Population	Rate in the Pound on Site Values	Building Values
De Aar ...	4,194	18d.	1½d.
Despatch ...	4,500	9d.	2½d.
East London ...	25,701	20d.	2d.
Fish Hoek* ...	6,000	9d.	3½d.
Goodwood* ...	12,000	8d.	2d.
Kimberley ...	23,575	24d.	—
Parow* ...	21,000	4 1/8 d.	2 1/8 d.
Saldanha ...	650	6d.	1½d.
Vredenburg ...	1,150	6d.	2½d.
Worcester ...	11,000	5½d.	2½d.

* Suburbs of Cape Town.

In our records heretofore we had not included De Aar, Despatch and Worcester and the news of them is gratifying.

In the Cape, under optional powers conferred by the Ordinances of 1917 and 1918, local authorities may levy their rates either (1) on the total value of land and buildings taken together; that is at an equal poundage on land and on buildings or (2) by rates at a different poundage on site values and buildings respectively or (3) by levying on site values only, all buildings exempted. Officially these three options are described as (1) "flat rating" (2) "composite rating" and (3) "site rating." How (2) came to be so described is strange and it is somewhat confusing since the word "composite" is generally used to mean the joining of two things, as when