

Affordable Land in WA

1. Land speculation in WA as in other countries, has led to serious unintended consequences which have disrupted economic systems. In particular the cost of land for urban present day use is highly inflated as it becomes priced for future use.
2. Tax is mainly derived from labour and profits and some is used for infrastructure such as roads, transport and schools. This increases the value of land so that landowners get improved profit from infrastructure largely paid for by workers and businesses.
3. Local community development is inhibited due to the large amount of vacant land left undeveloped over a long period of time in residential areas. In 2014 The City of Joondalup reported 1200 vacant residential lots. The resulting loss of revenue from families requiring local services is estimated at \$31 million per annum.
4. The practice of developers skipping to areas further from the city leads to more rapid urban sprawl and more expensive provision of services such as public transport, roads, power and water supply.
5. Disincentives can be applied by governments to discourage land speculation and advance the rate of development. These could include Differential Rating, progressive property tax and/or time specific building requirements.
6. Other countries have applied restrictions on overseas speculative investment in residential land (Indonesia, Malaysia, Canada) while progressive taxes on land profits have been used to provide affordable housing support (Malaysia).
7. The need for land to be available and affordable for community purposes such as schools and churches may require special provision in taxation legislation changes.
8. These concerns and recommendations are prepared for consideration by local, state governments and other interested groups.
9. These issues have been extensively discussed in:
 - a. The WA Legislative Assembly Community Development and Justice Standing Committee Report No 8, 2011 "A Fading Dream- Affordable Housing in W A".
 - b. DCA: Current Rating Options- WALGA Report 2007

Attached:

"Land Speculation: What Is It Bad For?" Fred Foldvary, Progress Report Nov 3, 2006

"Land Speculation in Perth" Urban Development Institute of Australia, WA Division Inc
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Patrick Smith, John Hollywood, Rodney McAtee, Gerry O'Brien, Joanna Sadowska

A group of concerned citizens.

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The Progress Report

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Land Speculation: What Is It Bad For?

November 3, 2006 Posted by **Fred Foldvary** under **Progress Report, The Progress Report**

Editorial

Land Speculation: What Is It Bad For?

by Fred E. Foldvary, Senior Editor

The cause of every major business-cycle depression is land speculation. This fact was discovered by the American economist Henry George 120 years ago.

Speculators buy land because they expect the price to go up in the future. While waiting for the price to go up, speculators do different things with land.

Some land speculators buy raw or underdeveloped land and just let it sit until they think the time is ripe for development. When many speculators are doing this in some area at the fringe of a city, often developers skip around them to areas further away from the city. That creates land-wasting urban sprawl, which then requires more roads and longer water pipers and makes it uneconomical to have public transportation. In other cases, when speculators are buying land within a city they expect to be developed soon, development instead shifts to other, less expensive, areas, and the speculators lose out. Society also loses, since that area can stay relatively undeveloped even though it is within the city.

Other land speculators buy land in order to develop, expecting the rise in land value to be a big chunk of their profits. That works out well for the first ones to do it, but at the end of the land boom, when many developers are building and hoping to cash in on the land bonanza, the land value stops rising. Those who bought near the top don't get the land gain profit, and even worse, when the real-estate market crashes, the developers end up with empty houses and office buildings, and shopping centers they where they built but folks aren't coming. The go broke, can't pay back their loans, and the banks fail, making the economy fall even more.

So the reason land speculation causes depressions is that it raises the land price too high for those wanting land for actual use. Speculation adds to the demand for land, making prices go even higher. Land becomes priced for future use, not present-day use. So those wanting sites for residences, offices, hotels, factories, and shopping centers, slow down their investing. Also, during the boom, interest rates that were low start going higher as the central bank (in the US, the Federal Reserve System) reduces the growth of the money supply, increasing interest rates. With costs rising and investment in machinery and construction down, the economy grinds to a halt. Workers get laid off, which then decreases demand, and the economy falls into a recession.

So what causes the depression is the reduction in investment in real estate and other capital goods, caused by rising interest rates and land prices. When the economy falls into the depression, real estate prices and interest rates fall, and now investment becomes profitable, and the recovery starts. For this to happen, the old bad debts have to be cleared, otherwise

the financial system is clogged with bad debts, as it is now in Japan, and the new enterprises can't get the credit they need to get going. It also helps a lot if the barriers to new investment are taken down – that means eliminating restrictions and taxes on enterprise.

What makes land speculation dysfunctional – a cause of economic trouble – is not really the speculation itself, but the tax system in which it takes place. The tax systems in the world today mainly tax labor and profits. Some of the tax money goes to build public works, such as subways, freeways, streets, roads, public utilities, parks, security, fire protection, and schooling. These push up land values. So landowners get a government subsidy in the form of increased rent due to infrastructure that workers and businesses, not the landowners, are paying for. So land speculators profit from this forced transfer of wealth from workers to landowners, if they guess right on where new development will go.

There is another intervention behind the market-hampering speculation, and that is, cheap and easy credit. Land is bought with borrowed money, and when the government stimulates the economy by over-expanding the money supply, it provides the fuel for land speculation. Later, when the central bank fears this excessive money is causing price inflation, they reduce money growth, interest get hiked up, and this stops not just speculation but also investment, as noted above.

How to stop this crazy cycle? Two things are needed. First, squeeze the profit out of land speculation by having the community or the government collect the land rent. Land values won't go up if the owners don't get the future higher rents. Secondly, stop gushing money into the banking system. But this is hard to do with central banking, since there is no way to know exactly how much to increase the money supply. So let the market do it with free-market banking, where the banks issue private bank notes according to the market demand for them. (See my October 1997 editorial, "Inflation, Employment and Money" in the **Progress Report Archive**.)

To stop disruptive land speculation, we need free banking and the public collection of rent. Land speculation along with currency troubles due to unfree banking created the collapse of the economies of East Asia. Land speculation is now heating up in the American economy. When will society learn?

What's your opinion on land speculation and how to stop it? Tell The Progress Report what you think!

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Fred Foldvary

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DISCUSSION PAPER

USE OF DIFFERENTIAL RATING TO DISCOURAGE THE HOLDING OF UNDEVELOPED LAND



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1. INTRODUCTION

Dominic Carbone and Associates (DCA) were appointed by the Western Australian Local Government Association (WALGA) to investigate current rating options, and/or amendments to the Local Government Act 1995 and its applicable Regulations, to allow for rating of vacant land to discourage landowners from withholding land from development.

1.1 Background

The North Metropolitan Zone of WALGA, at its Meeting held in November 2007, adopted the following motion.

“A request for the North Metropolitan Zone of WALGA, to seek WALGA support to lobby the State Government to amend the current legislative provisions in relation to differential rating, to enable different rates to be applied on the basis of length of time a property has remained in an underdeveloped state”.

The WALGA Governance and Strategy Policy Team considered the above motion and resolved as follows:

“That the Governance and Strategy Policy Team develop a Discussion Paper and/or Info Page survey canvassing opportunities to introduce flexibility in the differential rating system for distribution to the sector for comment, with resultant feedback to be considered by the Governance and Strategy Policy Team for a recommendation to be prepared for the State Council meeting”.

The City of Joondalup reported to the North Metropolitan Zone Meeting in November 2007, of its concern at the amount of vacant land in the City that has remained in an undeveloped state for an extensive period of time in the residential area, and in particular, the Joondalup CBD.

The City is keen to see that vacant undeveloped land is developed as expeditiously as is possible. The applying of a differential rate as a penalty that is higher than the normal rate may serve to discourage the holding of land in a vacant state for extensive periods.

The City believes that the differential rating provisions should be amended to allow for a differential rate to be applied on the basis of the length of time that a current owner has owned the property while it has remained in an undeveloped state. Such an arrangement would allow for the escalation of rates over a number of years.

1.2 The Purpose of this Discussion Paper

The purpose of discussion paper is to provide information relative to the following:

- Principles of Taxation.
- Rating State by State.
- The Systemic Sustainability Study.

- Basis of Rating in Western Australia.
- Land Valuations in Western Australia.
- Land Tax in Western Australia.
- Government Controls and Incentives
- Differential General Rate in Western Australia.
- Differential General Rate with a Minimum(s) in Western Australia.
- Differential General Rate based on time the land remains undeveloped.
- Covenants.
- Development Incentive Policy.

2. PRINCIPLES OF TAXATION

The main form of revenue that Local Governments raise is rates, a system of property taxation based on the value of land.

Common principles apply to, and underpin, the imposition of any system of taxation on communities including rates.

- | | |
|----------------|--|
| Equity | - Taxpayers with the same income pay the same tax, wealthier taxpayers pay more tax. |
| Benefit | - The concept that there should be some relationship between the tax paid and the benefits received. The benefits should not necessarily equal the tax paid. |
| Ability to Pay | - In levying taxes the ability of the taxpayer to pay the tax must be taken into account. |
| Efficiency | - Does the tax produce the desired results? If tax is designed to change consumers' behaviour, and the behaviour changes, the tax is deemed efficient. |
| Simplicity | - The tax must be understandable, hard to avoid, and easy to collect. |

Local Governments must balance the application of the principles to the policy objectives of taxation, the need to raise revenue through tax, and the effects of the tax on the community.

3. RATING STATE BY STATE

The Australian Local Government Association provides the following information in relation to property rates in Australia.

3.1 Western Australia

In Western Australia land is valued by the Valuer General's Office (a State Government agency) and those values are forwarded to each Local Government.

Two types of values are calculated:

- (i) Gross Rental Value (GRV) for urban land/buildings; and
- (ii) Unimproved Value (UV) for rural land.

To calculate the rate bill, councils multiply a rate in the dollar by the land value. The 'per dollar' rate is determined by the level of revenue the council wishes to raise, and is dependent on their proposed budget.

There are provisions for councils to create differential rates to shift the revenue raising effort to certain sectors of the community, ie commercial property. Also, councils can create "special area rates" for specific services to a particular group of properties.

There are also a small range of "service charges" which can be set by councils for specific services like community security, which whilst not specifically referred to as rates, do go towards the total revenue capacity of a Local Government body.

3.2 South Australia

In South Australia, the Local Government Act 1999 establishes an autonomous power for local councils to levy rates on property owners or tenants, based on the value of their properties.

Total rates cannot exceed the amount determined to be raised in the council's budget (however this is not limited by the State in any way), and the council must adopt valuations for the entire area before setting the rate in the dollar. A range of options are available to councils in setting rates, including:

- Setting a minimum rate;
- Having a fixed charge apply to all properties plus a rate;
- Differential rates for different categories of land use; and
- Two tiered rating (applying a different rate above certain property values) to ensure that the incidence of rates best matches the capacity and needs of the community.

3.3 Queensland

Queensland general rating system works on a "capacity to pay" basis, with the unimproved value of the land being the determinant for "capacity".

Unimproved valuations are determined by the State Government so that council has no influence over the value used for rating.

Councils have a number of methods they can use to gather general rates from the properties in the local government area.

- (i) General Rates – Where the same rate in the dollar is applied to all land valuations in the area. A minimum can apply.
- (ii) Differential Rating - Where land can be categorised by the local government and a different rate in the dollar applied to each category.

Other ways to class land for differential rating categories include: land ownership and occupancy, valuation levels, location, land use, etc.

A local government must receive some rates from either a general rate or differential general rate on properties.

- (i) Queensland local governments can also use special rates to bring in moneys from some property owners who receive services that others do not. An example might be canal levies, rural fire levies, and special road upgrade levies.
- (ii) Separate rates where a flat dollar rate, or a rate in the dollar, is applied to all properties in the area for a service. This could be a green or brown environmental levy, civic amenity level, or road levy.

3.4 New South Wales

Approximately half of New South Wales local government revenue is raised by rates on land. The rate is based on the unimproved capital value of land. There are four major rating categories:

- (i) Residential;
- (ii) Commercial;
- (iii) Agricultural; and
- (iv) Mining.

There is also the option of inserting subcategories under these headings. A different rate may apply to each category or subcategory. Councils may also apply minimum rates.

New South Wales is subject to rate pegging, or rate capping. This means that the Minister for Local Government annually determines the amount by which councils can increase their general revenue, therefore rates do not necessarily increase in line with land values. Councils may seek special variations beyond this limit by application to the Minister.

3.5 Victoria

Council rates can comprise up to three components, namely municipal charges, garbage charges, and rate in the dollar.

Councils begin the rate process by determining any municipal and garbage (service) charges in order to recover part of a council's administrative cost, and the cost of providing waste collection and disposal services respectively.

Once these discretionary charges have been accounted for, councils determine the rate in the dollar by dividing the balance of the required budget revenue by the total value of all rateable properties in the municipality.

The rate in the dollar is then multiplied by the value of a property (using one of three valuation bases) to establish the amount to be paid by each property owner. This amount is known as the general rates.

General rates are added to any municipal and garbage charges set by a council to determine the total rates payable on a property.

Contrary to popular belief, rising property values have no impact on council revenue collection. As noted above, council budgets are pre determined to meet expenditure requirements. However, movements in market value of a particular property may lead to an increase in the size of the rate bill for that particular property, relative to its increased value.

Each Victorian council chooses one of three valuation bases for their municipality, being Capital Improved Value (CIV), Site Value (SV), or Net Annual Value (NAV). The common process for calculating each of the three valuation bases is as follows:

- Every two years council valuers have a statutory requirement to conduct a review of property values based on market movements and recent sales trends.
- Council valuers undertake a physical inspection of a sample of properties.
- The total value of the municipality is used as the base against which a council strikes its rate in the dollar.
- The rate in the dollar is multiplied by the CIV, SV or NAV value of the property, to determine the general rates on each property.
- The Valuer General is responsible for reviewing the total valuation of each municipality for accuracy before he certifies that the valuation is true and correct.

CIV - Refers to the total market value of the land, plus the improved value of the property, including the house, other buildings and landscaping, as determined by a valuer.

SV - Refers to the unimproved market value of the land.

NAV - The annual rental a property would render, less the landlord's outgoings (such as insurance, land tax and maintenance costs), or 5% of the CIV for residential properties and farms. The value is higher for commercial/industrial and investment properties.

3.6 Tasmania

In Tasmania, local councils levy rates on property owners or tenants based on the value of their properties.

Total rates cannot exceed the amount determined to be raised in the council's budget (however this is not limited by the State in any way), and the Council must adopt valuations for the entire area before setting the rate in the collar. A range of options are available to Councils setting rates including:

- Setting a minimum rate;
- Having a fixed charge apply to all properties, plus a rate;
- Differential rates for different categories of land use; and
- Two tiered rating (applying a different rate above certain property values) to ensure that the incidence of rates best matches the capacity and needs of the community.

3.7 Australian Capital Territory

Calculation of rates for different types of property is as follows:

(i) Standard Properties

$$FC + ((AUV - \$22\,000) \times P)$$

The amount of rates payable has two components, a fixed charge (FC) and a valuation based charge for each rateable property. Each property is liable for the fixed charge, together with the valuation based charge. The valuation based charge is calculated using a rating factor, or percentage (P), and the average of three previous years unimproved land values of the property (AUV). There is no liability for the valuation based charge on the first \$22 000 of the AUV.

(ii) Unit Properties: $FC + (((AUV \times UE) - \$22\,000) \times P)$

Rates for units that are part of a registered Unit Title Plan are subject to a similar calculation that is applied to all other properties. Each unit is liable for the fixed charge (FC), together with the valuation based charge. The valuation based charge for each unit is calculated using the average of three previous years unimproved land values (AUV) of the entire Unit Title Plan, which is multiplied by the individual unit entitlements (UE). The rating factor, or percentage (P), is then applied to the individual unit portion of the AUV that exceeds \$22,000 (rate free threshold). There is no liability for the valuation based charge if the individual unit portion of the AUV is \$22,000 or less.

(iii) Fixed Charges (FC) and rating Factors (P)

There are different fixed charges and rating factors for residential, commercial and rural properties.

3.8 Northern Territory

Rates can be levied on the basis of a rate in the dollar times the land value (with or without a minimum being payable). Differential and flat rate per parcel rates can also be levied, along with a combination of these rates methods.

A Municipal council can adopt as a method of determining the assessed value of all rateable land in its area using:

- (i) The unimproved capital value;
- (ii) The improved capital value; or
- (iii) The annual value;

as it appears in the valuation roll of the Valuer General.

Municipal councils can also raise a 'local rate', based on the assessed value of the rateable land for the purposes of defraying costs on functions or repaying loans on functions.

4. THE SYSTEMIC SUSTAINABILITY STUDY

The Western Australian Local Government Association's (WALGA) - SSS Report states:

“Alternative local taxation methods to replace or augment the current property rates system were considered at length by the Revenue Working Party. The conclusion from these investigations is that the property rates continue to offer the most effective and efficient local taxation system available”.

5. BASIS OF LOCAL GOVERNMENT RATES IN WESTERN AUSTRALIA

Local government rating is regulated through Sections 6.28 to 6.82 of the Local Government Act 1995 (the Act). All land within a local government district is rateable land with the exceptions, as specified in Section 6.26 of the Act.

The basis for local government rates is the unimproved value (UV) for land used predominately for rural purposes, and gross rental value (GRV) for land used predominately for non rural purposes. Local governments set a rate in the dollar in order to achieve rating equity, and to raise the revenue required to meet their projected shortfalls.

Local Governments can utilise differential rating; minimum payments, specified area rates, service charge, discounts and concessions to adjust the rates burden. Local Government rates are a property tax based on land or rental value and broadly reflect the “ability to pay”. The rates imposed are not a fee for service.

6. LAND VALUATIONS IN WESTERN AUSTRALIA

The main legislation for the valuation of land relevant to this Discussion Paper is as follows:

- The Valuation of Land Act 1978; and
- The Local Government Act 1995.

6.1 The Valuation of Land Act 1978

The Valuation of Land Act 1978 provides for the valuation of land in Western Australia.

The Valuer General's Guide to Rating and Taxing Values describes the Valuer General's role in providing valuations used by rating and taxing authorities, in accordance with the provisions of the Valuation of Land Act 1978 (the VLA). The VLA empowers the Valuer General to conduct general valuations based on Unimproved Values (UV) and Gross Rental Value (GRV).

Unimproved (Land) Values (UV's)

A new UV is determined each year for all land within the State, and comes into force on 30 June. UV is defined in the Valuation of Land Act 1978, and in some cases, it is a statutory formula. As a broad guide the following applies:

- Within a Townsite

For land situated within a townsite the UV is the site value of the land. In general, this means the value of the land as if it were vacant with no improvements except merged improvements. Merged improvements relate to improvements such as clearing, draining and tilling.

- Outside a Townsite

The UV of land outside a townsite is valued as if it had no improvements. In this case, the land is valued as though it remains in its original, natural state, although any land degradation is taken into account.

If the UV cannot reasonably be determined on this basis, it is calculated as a percentage of the value of the land as if it had been developed to a fair district standard, but not including buildings. This percentage is prescribed (where it applies) by the Valuer General from year to year and is currently 30%.

- Exceptions

There are certain exceptions to the above for which the Valuation of Land Act 1978 provides statutory valuation calculations for UV based on formula, for example a fixed rate per hectare, or a multiple of the annual rent.

These exceptions include: mining tenements, leases under the Land Administration Act 1997 for the purpose of grazing, leases under agreement acts, and land held under the Conservation and Land Management Act 1984.

- Strata Titles

Section 62(1) of the Strata Titles Act 1985 provides that for UV the Valuer General must value the whole of the land subject to a strata plan, as a single parcel in single ownership. The rating and taxing authority is required to apportion the value in proportion to the unit entitlement, which is shown on the registered strata plan.

Section 62(2) of the Strata Titles Act 1985 provides that each lot in a survey strata scheme shall be valued as a separate parcel of land.

- UV Valuation Methodology

Market based UV's are determined by reference to the land market at the date of valuation. All sales relevant to the predetermined date of valuation are investigated, and where considered necessary, the parties interviewed.

Unsuitable sales, for example between related parties, or those with special circumstances, are discarded. By this process, fair and reasonable criteria is established for the fixing of values.

Gross Rental Values (GRV'S)

The primary definition of GRV under the Valuation of Land Act 1978 is as follows:

- GRV

Means the gross annual rental that the land might reasonably be expected to realise if let on a tenancy from year to year, upon condition that the landlord is liable for all rates, taxes and other charges thereon, and the insurance and other outgoings necessary to maintain the value of the land.

A GRV is determined on the basis that the rental includes outgoings such as rates and other property expenses.

As most commercial rentals are negotiated net of outgoings, these need to be added to the net rental to equate to the statutory definition.

The introduction of the Goods and Services Tax (GST) has impacted on the determination of GRV. Where property rental payments are subject to GST, they represent a tax payable by the property owner, and as such must be included in the Gross Rental Value.

Where an annual rental cannot reasonably be determined, then the GRV shall be assessed value. Assessed value is defined in the Valuation of Land Act 1978 as set percentage of capital value, currently fixed by regulation at 5%.

For example, vacant residential land for which no rental value can be determined is currently valued on the basis of 5% of its total capital value. Capital Value is defined as the capital amount from which an estate of fee simple, in the land might reasonably be expected to realize upon sale, provided that where the capital value of land cannot be reasonably determined on such basis, the capital value of such land shall be the sum of first, the unimproved value of the land and secondly the estimated replacement cost of improvements to the land.

Land used for residential purposes only must be valued on the basis of rental value. Any other land with a relatively low rental value in comparison to its capital value may be valued as if it were vacant land.

- GRV Valuation Methodology

A database of rental evidence is assembled from information obtained from property managers, owners, and other sources.

A schedule of properties rented at the date of valuation is prepared for the area to be valued.

The rented properties are inspected and the rents analysed (for example deductions for furniture included in the letting).

Unsuitable lettings, such as those between related parties, are discarded so that the final list is acceptable as the basis for the determination of fair gross rentals, as illustrated by actual market dealings.

From the analysis of actual rentals, the fair gross rental of each property is established, after making allowances for any special features or detriments.

The GRV normally represents the annual equivalent of a fair weekly rental. For instance a GRV of \$10,400 represents a weekly rental of \$200.

6.2 The Local Government Act 1995

Part 6 of the Act incorporates provisions for the rating of land in Local Government districts.

The Local Government Operational Guidelines Number 2 - Changing Methodology of Valuation of Land, states as follows:

“In implementing suitable rating systems Local Governments should observe the principles of:-

Objectivity

As far as possible, the predominant use of land should be reviewed and determined on the basis of an objective assessment of relevant criteria. External parties should be able to understand how and why a particular determination was made.

Fairness and Equity

Rating principles should be applied fairly and equitably. Each property should make a fair contribution to rates based on a method of valuation that appropriately reflects predominant use.

Consistency

Rating principles should be applied, and determinations should be made, in a consistent manner. Like properties should be treated in a like manner.

Transparency

Systems and procedures for determining the method of valuation of land should be clearly documented and available for the public to inspect. This is fundamental to the 'good government' principle upon which the Act is based. The right to govern accompanies the obligation to do so openly and fairly.

Administrative Efficiency

Rating principles and procedures should be applied and implemented in an efficient and cost-effective manner."

7. LAND TAX IN WESTERN AUSTRALIA

Land Tax is an annual tax which is based on the aggregated taxable value of all land held in the same ownership at midnight on 30 June before the year of assessment. Land owned in the name of an individual, or individuals, and is the usual place of residence is exempt from tax. Other exempt land is detailed in Section 20 of the Land Tax Assessment Act. The current Land Tax Rates are as follows:

TOTAL TAXABLE VALUE OF THE LAND		EFFECTIVE FOR THE FINANCIAL YEARS 2008/2009 AND 2009/2010
Exceeding \$	Not Exceeding \$	Rates
0	300,000	Nil
300,000	1,000,000	\$0.09 for Each \$1 in Excess of \$300,000
1,000,000	2,200,000	\$630.00 + 0.47 Cents for Each \$1 in Excess of \$1,000,000
2,200,000	5,500,000	\$6,270.00 + \$1.22 for Each \$1 in Excess of \$2,200,000
5,500,000	11,000,000	\$46,530.00 + \$1.46 for Each \$1 in Excess of \$5,500,000
11,000,000	And Upwards	\$125,830.00 + \$2.16 for Each \$1 in Excess of \$11,000,000

The value of the land is based on the "unimproved value" of land, that is, its market value under normal sales conditions, assuming that no structural improvements have been made.

Land within the Perth metropolitan region and townsites throughout Western Australia is assessed on the "site value" basis, which includes merged improvements such as drainage, filling, excavation, grading, and retaining walls. Each year the Valuer General determines the unimproved value of all land in the State.

The Taxable value for land is the lesser of the current unimproved value of the land, or 150% of the previous year's unimproved value. The capping of the value was introduced from the 2009/2010 year.

The Land Tax Legislation and rates could be amended to include vacant land in a separate category. The rate in the dollar could be increased significantly to provide a disincentive to hold vacant land, or even a different rate to apply on the length of time a property has remained in an undeveloped state. Changes to the Land Tax Legislation will ensure that there is uniformity or consistency throughout the State, and the State Government is better placed to use the tax system to achieve broader policy objectives.

The release of land is managed by the State Government. The Western Australian Planning Commission (WAPC) is the statutory authority with state wide responsibilities for urban, rural and regional land use planning and land development matters. The WAPC administers the Metropolitan Region Scheme (MRS). The scheme is the statutory basis of controlling land use and property development in Perth.

8. GOVERNMENT CONTROLS AND INCENTIVES

The landowner, or property developer, vary in size, structure and function, and may take the form of individuals, corporations and financial institutions. A developer takes into account a number of factors in order to make development decisions, and these are purchasing, financial, holding and construction costs, occupancy demand, interest rates and inflation. All these factors will influence the development or project profit.

Governments are able to influence the decision of developers with the aim of discouraging land speculation, and advancing the time of the development. The complexity, costs and time requirements associated with the approval process, act as a disincentive for developers.

Property taxation, in particular land tax and rates levied by local governments, may be a medium for encouraging a quicker development response and discouraging land speculation; this is dependent on the impact these taxes have on the developer(s) in relation to holding costs of land.

9. DIFFERENTIAL RATE IN WESTERN AUSTRALIA

Section 6.33 of the Act allows local governments to impose differential general rates to shift the revenue raising effort to certain sectors of the community. Local governments could rate on the following land uses, or a combination of zoning/locality, and land use.

- Residential
- Commercial
- Industrial
- Rural
- Vacant Land
- Other

Changing to differential land use rating would allow local governments to offer different rates in the dollar to the above groups.

Vacant land could be set at a higher rate in the dollar to discourage landowners from withholding land from development.

The use of differential rates makes the rating system more complex, but not enough to make the rating method hard to understand, avoid or easy to collect. A number of Western Australian Local Governments currently use the rating method.

10. MINIMUM PAYMENT IN WESTERN AUSTRALIA

Section 6.35 of the Act allows a local government to impose on any rateable land in its district, a minimum payment which is greater than the general rate, which would otherwise be payable on that land. The setting of minimum rates by local governments ensures that all rateable properties make a reasonable contribution, irrespective of the property valuation; this in effect is a flat charge per property.

11. DIFFERENTIAL GENERAL RATE WITH MINIMUMS IN WESTERN AUSTRALIA

Section 6.35 (6)(c) of the Act states for the purpose of this section, a minimum payment is to be applied separately, and in respect of each of the following categories.

“(c) To each differential rating category where a differential general rate is imposed.”

12. DIFFERENTIAL GENERAL RATE BASED ON TIME THE LAND REMAINS UNDEVELOPED

The local government rating system in Western Australia is based on the value of the land, whether unimproved or gross rental values, determined independently by the Valuer General. The categories of rates and services that can be imposed under the Act are all land value based. Local governments are able to utilise differential rating, minimum payments, specified area rates, service charges, discounts and concessions, to adjust the rate burden imposed.

The introduction of a differential rate based on time the land remains undeveloped will make the rating system more complex, and could offend a number of taxation principles such as equity, benefit and simplicity. Whilst the intent is clear, the application may prove difficult.

The City of Joondalup, in its report to the North Metropolitan Zone of WALGA, states:

“The City believes that the differential rating provisions should be amended to allow for a differential rate to be applied on the basis of the length of time that a current owner has owned the property while it has remained in an undeveloped state. There should be the flexibility to enable a differential rate to apply on a tenure basis to be defined by the local government, which could be a sliding scale with a differential that escalates over a number of years.

An arrangement like this would enable a local government to give latitude in the first couple of years to provide genuine developers, who have every intention of developing the property, with the opportunity to do so without undue penalty. A differential rate could then be increased over a number of years effectively penalising those who have not made progress towards undertaking a development in a reasonable timeframe.

The one difficulty that would need to be controlled is where ownership is deliberately manipulated to avoid a differential rate. There may need to be some safeguards provided that mean, that for the purposes of differential, a change of ownership has not taken place unless there has been a substantial change in ownership, which would exclude situations where ownership was changed from one corporate entity to another but the shareholding has remained unchanged, or where it has moved from personal ownership to corporate ownership, or vice versa, but the persons involved are the same”.

Some issues that need to be addressed in relation to this rating option are:

- Date of commencement, would it be retrospective?
- When a property is sold, does the obligation and arrangement carry on?
- “Genuine Developer” may require defining.
- If the intent of the owner is to develop, what proof needs to be provided, who decides that the proof is sufficient?

The proposal requires amendments to the Local Government Act 1995, along similar lines as those proposed for land tax, refer Item 7. The proposed legislative amendments would allow each local government to determine if, how, and when the law would apply in their locality.

The table below contains information relating to a sample metropolitan local government that utilises the differential rating system, and that have adopted a differential rate in the dollar for vacant land.

**ANALYSIS OF DIFFERENTIAL RATING OF VACANT LAND
2007-08 RATING INFORMATION**

	GRV				UV				RATE TYPE				MINIMUM				TOTAL			
	Rate in \$	No. of Properties	Rateable Value \$	Rate Revenue \$	Rate in Cents	No. of Properties	Rateable Value \$	Rate Revenue \$	Rate in \$	No. of Properties	Rate in \$	No. of Properties	Rateable Value \$	Rate Revenue \$	Rate in Cents	No. of Properties	Rateable Value \$	Rate Revenue \$		
LOCAL GOVERNMENT																				
CITY OF GOSNELLS																				
Commercial Vacant	13.55	34	508,850	68,949					606	2	2,380	1,212		36	511,230	70,161				
Industrial Vacant	15.55	69	948,306	128,496					606	0	0	0		69	948,306	128,496				
Kennel Area Vacant	13.55	0	0	0					606	0	0	0		0	0	0				
Residential Vacant	13.55	1,399	9,389,171	1,272,235					606	890	2,980,795	539,340		2,289	12,369,966	1,811,575				
Total Vacant	15.02	1,502	10,846,327	1,469,680	0	0	0	0	0	892	2,983,175	540,552		2,394	13,829,502	2,010,232				
Total All	22.530	273,991	273,991,850	23,918,511	271	249,340,550	594,404	0%	0%	15,386	95,016,288	9,323,916	6%	38,187	618,348,688	33,836,831	6%			
Percentage	7%	4%	4%	6%	0%	0%	0%	0%	0%	6%	3%	6%	2%	6%	2%	6%	6%	6%		
CITY OF MELVILLE																				
Commercial Vacant	7.1	12	624,850	44,364					550	13	48,250	7,150		25	673,100	51,514				
Residential Vacant	7.1	955	16,483,163	1,170,304					550	234	1,432,596	128,700		1,189	17,915,759	1,299,004				
Total Vacant	967	17,108,013	1,214,668	0	0	0	0	0	0	247	1,480,846	135,850		1,214	18,588,859	1,350,518				
Total All	33,464	526,555,124	34,120,253	0	0	0	0	0	0	6,927	47,329,556	3,475,850	4%	40,391	573,884,680	37,596,103	4%			
Percentage	3%	3%	4%	4%	0%	0%	0%	0%	0%	4%	3%	4%	3%	4%	3%	4%	4%	4%		
TOWN OF KWINNANA																				
Residential Vacant	20.0729	460	2,913,535	584,831					630	353	950,000	222,390		813	3,863,535	807,221				
Special Residential Vacant	20.0729	8	45,796	9,193					630	3	516	1,890		8	45,796	9,193				
Commercial Vacant	20.0729	2	59,250	11,893					630	0	0	0		5	59,250	11,893				
Town Centre Vacant	20.0729	4	217,750	43,709					630	0	0	0		4	217,750	43,709				
Service Commercial Vacant	20.0729	6	40,000	8,029					630	1	550	630		6	40,000	8,029				
Special Rural Vacant	20.0729	78	625,350	125,526					630	0	0	0		79	625,350	125,526				
Rural Vacant	20.0729	7	133,800	26,858					630	10	17,180	6,300		7	133,800	26,858				
General Industrial Vacant	20.6384	56	514,432	106,171					630	1	1,350	630		66	531,612	112,471				
Light Industrial Vacant	20.6384	1	3,150	650					630	1	1,350	630		2	4,500	1,280				
Parks and Recreation Vacant	20.0729	1	14,000	2,810					630	4	8,000	2,520		5	22,000	5,330				
Total Vacant	623	4,587,063	919,670	0	0	0	0	0	0	372	977,586	234,360	4%	995	5,544,659	1,154,030	4%			
Total All	5,528	68,227,736	7,369,201	327	358,787,300	3,386,876	0%	0%	0%	4,939	26,646,113	3,111,570	8%	10,794	453,661,149	13,867,647	8%			
Percentage	11%	7%	7%	12%	0%	0%	0%	0%	0%	8%	4%	8%	4%	9%	1%	8%	8%	8%		
CITY OF MANDURAH																				
Residential Vacant	9.5	4,161	80,844,000	7,680,000					700	2,268	13,023,000	1,588,000		6,429	93,867,000	9,268,000				
Special Rural Vacant	9.5	215	7,846,000	726,000					700	82	566,000	57,000		297	8,212,000	783,000				
Business Vacant	9.5	155	4,241,000	403,000					700	37	151,000	26,000		192	4,392,000	429,000				
Mand. Ocean Marina Resid. Vacant	9.5	89	4,658,000	443,000					700	0	0	0		89	4,658,000	443,000				
Total Vacant	4,620	97,389,000	9,252,000	0	0	0	0	0	0	2,387	13,740,000	1,671,000	18%	7,007	111,129,000	10,923,000	18%			
Total All	21,570	343,309,000	29,786,311	0	0	0	0	0	0	14,380	92,921,000	9,308,000	15%	35,950	436,230,000	39,094,000	25%			
Percentage	21%	28%	28%	31%	0%	0%	0%	0%	0%	17%	15%	18%	15%	19%	2%	25%	28%	28%		
CITY OF COOKBURN																				
Commercial Vacant	10.831	26	524,800	56,843					794	6	11,120	4,764		32	535,920	61,607				
Industrial Vacant	10.831	313	5,061,550	588,085					794	79	479,855	62,726		392	5,541,405	630,811				
Residential Vacant	10.288	1,487	14,465,990	1,488,218					506	840	3,286,608	425,040		2,327	17,752,598	1,913,258				
Total Vacant	1,826	20,052,340	2,113,146	0	0	0	0	0	0	925	3,777,593	492,530		2,751	23,829,923	2,605,676				
Total All	20,497	296,582,963	20,348,527	1134	904,210,000	1,410,149	0%	0%	0%	12,050	284,884,437	6,230,950	1%	33,681	1,485,677,400	27,989,626	9%			
Percentage	9%	7%	7%	10%	0%	0%	0%	0%	0%	8%	1%	8%	1%	8%	2%	9%	9%	9%		

**ANALYSIS OF DIFFERENTIAL RATING OF VACANT LAND
2007-08 RATING INFORMATION**

	RATE TYPE															
	GRV			UV			MINIMUM			TOTAL						
	No. of Properties	Rateable Value \$	Rate Revenue \$	Rate in \$	No. of Properties	Rateable Value \$	Rate Revenue \$	Rate in \$	No. of Properties	Rateable Value \$	Rate Revenue \$	Rate in \$	No. of Properties	Rateable Value \$	Rate Revenue \$	
				Cents				Cents				Cents				
LOCAL GOVERNMENT																
CITY OF SWAN																
Residential Vacant	147	2,746,336	266,779						2,069	9,235,280	1,597,268		2,216	11,981,616	1,864,047	
Total Vacant	147	2,746,336	266,779						2,069	9,235,280	1,597,268		2,216	11,981,616	1,864,047	
Total All	30,458	274,422,164	37,406,147		4,754	2,805,665,354	7,185,496		5,514	144,850,717	3,788,900		40,726	3,224,938,235	48,360,543	
Percentage	0.5%	1%	1%		0%	0%	0%		38%	6%	42%		5%	0.4%	4%	
CITY OF JOONDALLUP																
Residential Vacant	1,441	21,932,532	1,703,412						189	1,015,214	106,801		1,630	22,947,746	1,810,213	
Commercial Vacant	19	334,950	26,014						1	7,250	565		20	342,200	26,579	
Total Vacant	1,460	22,267,482	1,729,426						190	1,022,464	107,366		1,650	23,289,946	1,836,792	
Total All	51,831	668,640,931	51,930,667		12	55,786,011	249,720		6,969	45,398,101	3,881,550		58,712	769,825,043	56,061,937	
Percentage	3%	3%	3%		0%	0%	0%		3%	2%	3%		3%	3%	3%	
Percentage average	8%	8%	10%		0%	0%	0%		12%	5%	13%		8%	5%	9%	

An analysis of the information contained in the table reveals the following:

- Vacant land on average represents 8% of rateable properties, 5% of valuations, and 9% of rate revenue.
- The rate in the dollar for vacant land ranges from 7.1 to 20.6387 cents.
- The ability already exists in the Local Government Act 1995 for local governments to adopt a differential rating system, and further more, to utilise a rate in the dollar that could act as a disincentive for landowners from withholding land from development.

13. COVENANTS

A covenant is an obligation in a deed, by the seller, upon the buyer of real estate to do or not to do something; such restrictions run with the land and are enforceable on subsequent buyers of the property.

When a subdivision is created, the local government may wish to ensure that the land is developed within a reasonable time. Time covenants relate to when the construction of a dwelling or building must commence, to the time within which construction must be completed.

Planning Bulletin 91 - Estate Covenants - Residential Subdivisions, published by the WAPC, supersedes Planning Bulletin 38, and details the concept of restrictive covenants. Restrictive covenants may be created:

- By a deed setting out the terms of the restrictive covenant;
- On a transfer of land form containing the words creating the restrictive covenant; or
- On plans of subdivision under Part IV(a) of the Transfer of Land Act.

An instrument creating a restrictive covenant may be registered on the certificate of title for the land, burdened or benefited by the restrictive covenant.

The WAPC or the local government may require the applicant to enter into a restrictive covenant as a condition of subdivision.

Section 143(c) of the Planning and Development Act 2005 states:

“How Commission is to deal with plan of subdivision.

- (c) Approve the plan of subdivision and require the applicant for approval to comply with such conditions as the Commission thinks fit before the diagram or plan of survey will be endorsed with the approval of the Commission.”

Section 148 further states:

“Without limiting Section 143, the Commission may impose a condition under that section that requires:

- (a) Development to be integrated with the subdivision of the lot, as specified by the Commission where, in the opinion of the Commission, such integration is necessary because of the size of the lots and potential impact in the amenity of the locality”.

It can be argued that the delay in the development of the land has the potential to adversely impact on the amenity of the locality, thus a condition of subdivision may be a time covenant.

14. DEVELOPMENT INCENTIVE POLICY

Each Local Government may provide incentives, which encourage development on vacant land where it can be demonstrated that such development provides significant benefits to the community.

14.1 Incentives

Local Governments may consider providing efficient facilitation services for all projects, enabling developers to be confident that the proposal will proceed without unnecessary costs and delays. The facilitation offered may include provision of information, strategic and technical advice, and fast tracking approvals within the statutory limits.

Other incentives may include:

- Provision of council services at a reduced rate for a given period to offset the cost of private works or services.
- Acting on behalf of a group of individuals to progress the development.
- Reduction of local government fees or charges for development applications to encourage strategic or major developments. Such rebates will be decided by Councils on the merits of the individual proposal(s) and should be justified based on the strategic, economic and community benefits that will accrue from the development.
- Variations of town planning scheme provisions.

14.2 Policies

Examples of policies may be viewed on the following websites:

www.claregilbertvalleys.sa.gov.au/webdata/resources/files/rate_rebate_for_vacant_land.pdf
www.forbes.nsw.gov.au/files/2817/file/economic_development_incentive_policy_residential_development
www.kingston.vic.gov.au

15. CONCLUSION

The Discussion Paper details the areas that were investigated relating to the possible introduction of a differential rate, based on the length of time a property remains underdeveloped. The option introduces a new element of time into a property tax system. The Systemic Sustainability Study concludes that property rates continue to offer the most effective and efficient local taxation system.

Governments are able to influence decisions of landowners and developers with the aim of discouraging land speculation, and advancing the time of development. The complexity, costs, and time requirements associated with the approval process act as a disincentive. Developers take into account a number of factors that will influence their development, such as purchasing, financial, holding and construction costs, occupancy demand, interest rates and inflation. Property taxation, such as land tax and local government rates, may be a medium for encouraging a quicker development response, however they must have a significant impact on the holding costs of the developer.

The introduction of a differential rate based on the time a property remains underdeveloped requires an amendment to the Local Government Act 1995, if indeed responsibility of development lies with local governments. If such a responsibility rests with the State Government, then amendments to the Land Tax Legislation could also be an option. The release of land is managed by the State Government, and the Western Australian Planning Commission is the statutory authority with state wide responsibilities for urban, rural and regional land use planning, and land development matters. Amendments to the Land Tax Legislation will ensure that uniformity or consistency throughout the State. The State Government is better placed to using the tax system to achieve broader policy objectives.

Local Governments may develop an incentive policy to encourage the development of vacant land in their localities, by providing efficient facilitation services to developers by providing information, strategic and technical advice, and fast tracking approvals. Other incentives may include provision of council services at a reduced rate, acting on behalf of a group of individuals to progress development, reduction of local government fees and charges for development applications, and variations of town planning scheme provisions. Assistance provided should be justified based on the strategic, economic and community benefits that will accrue from the development.

An analysis of the sample metropolitan local governments that utilise the differential rating system reveals that vacant land, on average, represents approximately 8% of rateable properties. The rates in the dollar levied range from 7.1 to 20.6387 cents for the sample local governments. While the table measures vacant land in total, this includes recent subdivision approvals, as well as vacant land held by owners or developers over a long period of time, thus the extent of the problem remains unclear. It may be appropriate for a survey to be conducted by WALGA to ascertain the above.

16. REFERENCES

- (i) Western Australian Local Government Act 1995.
- (ii) Western Australian Valuation Land Act 1978.
- (iii) WALGA Systemic Sustainability Study.
- (iv) ALGA "The Collection of Property Rates in Australia".
- (v) LANDGATE "Valuer Generals Guide to Rating and Taxing Values July 2009".
- (vi) Department of Treasury and Finance website:
"www.dtf.wa.gov.au/cms/content.aspx?id=174".
- (vii) WAPC Planning Bulletin 91 - Estate Covenants Residential Subdivisions.
- (viii) Western Australian Planning and Development Act 2005.
- (ix) City of Gosnells – 2007-2008 Financial Statements.
- (x) City of Melville - 2007-2008 Financial Statements.
- (xi) City of Kwinana - 2007-2008 Financial Statements.
- (xii) City of Mandurah - 2007-2008 Financial Statements
- (xiii) City of Cockburn - 2007-2008 Financial Statements.
- (xiv) City of Swan - 2007-2008 Financial Statements.

- (xv) City of Joondalup - 2007-2008 Financial Statements.
- (xvi) Clare and Gilbert Valleys Council - Rebates of Rates for Vacant Land Policy
- (xvii) Forbes Shire Council – Economic Development Policy
- (xviii) City of Kingston – Strategic Development Incentive Policy.
- (xix) City of Joondalup - Rating Report.