NSW

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Productivity Commission,
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HOUSING AFFORDABILITY ENQUIRY.

I submit that housing affordability has seriously diminished, at least in NSW as a consequence of two decades of continuous manipulation of Local Government property taxation ('rates'), together with a continuous diminution of information to ratepayers on crucial council affairs. All the foregoing has been made possible by bad state legislation. Blatant rate rigging is now the norm, with no logical correlation between property valuations and property taxes. Increasing rates acted as a brake on property prices. This nexus is now gone.

Historical background:
It is my understanding that a property development scandal occurred in Victoria in the late 1800s, as a consequence of which, legislation was put in place in the States to prevent a recurrence of the rate-rigging that was its cause. A result of this action was the wide acceptance that property rateable values would be based on Unimproved Capital Valuations (UCV) and that rates of taxation of one percent on residential land, half of one percent on farm land and around two percent on commercial property were the norm. Furthermore, advertisements fro real estate sales had to include a statement of the annual rates. By early 1980's most of these fundamentals were dismantled in NSW at least. Due in part to the enacting, in the late 1970s, of the NSW Government's Section 118(4) of the NSW Local Government Act. This section, written in legal jargon, permitted a council to levy any rate, greater or less than, the General Rate, in any town, village or centre of population. The key words, of course, are 'any'.
An apparent safeguard against abuse by requiring Ministerial approval for a council to apply Section 118(4) proved ineffective. Councils were able to manipulate rates with or without ministerial approval.
By about 1983, real estate agents no longer showed a property's annual rate bill. I presume that legislation was withdrawn.

Difficulty in finding of Public Information Available regarding rating decisions.

Whilst individual rate charges are easily available, rate schedules for council areas are not available over the counter or with rate notices, thus denying one the ability to make comparisons within a LGA. In my own experience I found;

- Photocopying of council minutes in Greater Taree City Council (GTCC) was prohibited. Members of the public who wished to obtain copies had to hand transcribed minutes.

- Rate Schedules. By around 1989, councils no longer issued Rate Schedules with Rate Notices. Schedules were incorporated in Annual Financial Plans for which the public have to pay. ($40 in 2003).

- Authorities for Financial Demands. Our council, GTCC, no longer shows on rate notices the relevant section of the LGA under which demands are made.

Effects of Section 118(4) NSW LGA.

This section was utilised by GTCC from 1983 to 1992. Under the confusion of a forced amalgamation of Taree Municipal Council, Wingham Municipal Council and the surrounding Manning Shire, rating according to land use was avoided, and rating by geographical location applied. Coastal villages, ripe for development, were taxed at one third the rate of Wingham and half the rate of Taree. By 1986, many Wingham residents were being charged over $500 p.a. General Rate while equivalent coastal land was charged around $200 p.a. Further subsidization of coastal ratepayers occurred with the application of 'common charges' for sewage and water supply extensions, even though established towns had already paid once for these services and the coastal installations were 'stand alone' systems with their own specific operating economics.

By the late 1980's, the price of vacant land on the coast had soared from around $30,000 a block to around $120,000, but without proportional increases in taxation. Protests from inland ratepayers were ignored, apart from eventually giving Wingham ratepayers parity with Taree around 1986.

Inquiry into Local Government Rating and Other Revenue Powers and Resources.

In 1988, the then Local Government Minister ordered an Inquiry into rating, and the report was published in April 1990. Among other things, the report proposed that a two part form of taxation be applied to residential land comprising of a Base Charge of 60% and a 40% ad valorem component based on valuation. This amounted to a quasi-poll tax with all the bad characteristics of that type of tax.
In 1993, a re-written Local Government Act was issued, incorporating the Base Charge system, but with the fixed component reduced to 49%. Had the proposed 60% been accepted things would have been even worse, and one wonders whether the authors of the Inquiry Report did any mathematical modelling to gauge the impost.

My modelling, using typical valuations and prices found in our council area, shows appalling discrepancies in the relationships between valuations and General Rates, vis;

- A residential village property, rateable value (Land Value, (LV), is used in NSW) of $17,000, is charged $304 p.a., while a coastal property with LV of $102,000 is charged $626 p.a.
- A property with LV $200,000 would pay $998 p.a whilst nearby coastal blocks of land are selling for onwards of $250,000.

In other words, a six-fold increase in rateable value results only in a doubling of rates, while a tenfold increase in rateable value results in a rate increase of a little more than a factor of 3. These figures would have been a lot worse if the base amount of 60%, as proposed by the Report of Inquiry had been adopted.
By maintaining rates at artificially low levels increases in property sale prices are encouraged.

Rate Pegging.

Rate pegging has been applied in NSW in some form or another for two decades. Successive government spokesmen have claimed that it is 'popular'. Why would it not be popular? If an annual rate bill of $300 -$400 is increased by 3 or 4 percent a year while the total property value increases by 15% and more, a year, the relationship between LV and taxation quickly gets out of kilter. High-value Sydney properties now pay true rates of property tax of as little as **one quarter of one percent** eg. LV around $400,000, general rate around $1000.
In addition the basis of valuations and taxes has been manipulated over the years, with RBF1's, & RBF2's (Rating Base Factors — whatever they might be) while some years, rate pegging has been applied to individual rate notices, in other years, applied to total council valuations.

Comparing city and country property taxation, the aforementioned village residential property, LV of $17,000, pays a true rate taxation of **1.7% of rateable value**, or more than 6 times the rate of Sydney property owners.

Commercial v Residential property.

GTCC is inconsistent in its treatment of commercial and residential land, the former being subject to an 'ad valorem' rate with a minimum of $150 p.a., while the residential land as previously stated is subject to the Base Charge system. This results in residential land having an effective minimum charge of over $300 p.a. which is at least twice the commercial minimum. This is an inversion of taxation principles.

No effective avenue of complaint.

Ratepayer and individual complaints about rate-rigging (an unpopular word) were ignored by council. A complaint to the LG minister was fobbed off. The NSW Ombudsman was specifically exempted by legislation from investigating rating, this being regarded as council policy. The NSW ICAC was also not interested. The issue is a complicated one and although not illegal is unfair and immoral.

Inaction by Institutions.

Whether through ignorance or design, a deafening silence has emanated from the following:

- NSW legal profession;
- NSW Local Government Association
- Real Estate Institute of NSW.

In addition the matter of property taxation appears not to have been addressed by the Reserve Bank, Federal Treasury or members of the think-tank, The Menzies Institute, even though it is fundamental to the relationship between prices and valuations. In fact, I believe that the magnitude of the NSW property 'bubble' is so great that it is, at least, partially responsible for destabilizing the national economy by forcing the Reserve Bank to hold interest rates higher than thy might otherwise be.

Who benefits?

The legalized rate-rigging in NSW over two decades has resulted in windfall revenues for the NSW Government on three counts:

- Stamp duty on property transactions;
- Capital and stamp duties from LANDCOM, its real estate arm, which has long since ceased selling cheap land and charges what ever the market will bear in given localities ($300,000 - $400,000 in outer Sydney suburbs; and
- Land tax from inflated property values.

Other principal beneficiaries are property speculators, the real estate industry, but, worst of all, the system could be seen to be a gift to those wishing to legitimise money.

Summary.

The manipulation of land rates has been legalised in NSW for twenty years and has resulted in gross distortions in the relationship between property values and property taxes. Criticism of the system has been stifled, whether deliberately, or unknowingly. If rates were set evenly and universally, state wide, as a percentage of Land Value (LV) people buying land would have to consider the cost of taxes (rates) on that land as an inbuilt annual cost. That consideration would impact on the decision to buy the land and would create a market that reflected a more realistic price for the land.
It is hoped that an investigation by a Federal Institution might result in identifying the discrepancies between the cost of land and the rates (taxes) payable on that land. Purchasers are being induced to buy land at very high prices and yet the rates they pay are being kept disproportionately low. There is no uniformity in rate charges and worst of all no fairness. Any improvements to the system, which deal in fairness and equality however, will be financially devastating to many who have been drawn into this speculative web.

Mr. F.W. Heuke.