

# ***Land value only fair rating base***

*by Godfrey R. A. Dunkley*

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An overview of the principles of municipal rating would be appropriate at present in view of the misconceptions and resultant emotions being stirred up by rapidly circulating miss-information both in the press and on Email.

The annual rating of all property within the municipal area provides the main source of revenue for the good governance or management of civic affairs for the benefit of all who live or work within that local authority area.

Miss-management of civic affairs or insufficient revenue to allow management to provide for and maintain necessary services, free movement of people and traffic, sanitary and healthy living and working conditions has a negative impact on all the citizens.

Even people fortunate enough to live in affluent and clean suburbs are not immune to conditions that breed in poor and deprived areas. It is in everyone's interest that the municipality be empowered with sufficient revenue to provide a healthy environment for the development of body, mind and spirit and the restoration of the dignity of all citizens.

To the above end it is necessary that a healthy municipal budget be provided for. A major part of municipal expenditure and income relates to the provision and payment for services. The supply of electricity and water should be self-supporting; paying running costs and repayment of capital costs, leaving a small excess to go into general funds.

The major part of general funds should, however, come from all businesses and individuals enjoying the advantages arising from all the various factors provided by the totality of that community. Payment should be in direct proportion to the benefits enjoyed

There is an accurate "barometer" that continuously values the benefits of each individual site or location on an equitable and unbiased basis. It takes into account the proximity or distance from employment and schools, including their perceived quality, from shopping centres, libraries, sports facilities, to name but a few, and the type, ease and cost of transport. This barometer values the services and infrastructure provided by municipal expenditure in the past and present, together with a speculative estimate of future advantages to be provided by the presence of the community as a whole, both positive and negative.

This barometer of benefits enjoyed by residents or business is the free market value of the land or site of every property, excluding improvements thereon. This is naturally based on the market price assuming willing buyer and willing seller. This takes into account the difference in value between identical houses in say Clifton and Mitchell's Plain, or on a larger site in Constantia. When the value of the improvements is taken away from the total market value, the remaining site value is a fair measure of the advantages to be enjoyed by occupation of that site.

Since the market has already taken into account all known factors it is no longer necessary for municipalities to differentiate between different suburbs, townships or business and industrial areas. A constant rate in the rand should be applied across the board, with few exceptions.

A legitimate exception would be to rate private owner / occupier dwellings at say 35% less than industry and business as the latter are able to offset their rates against company taxes.

A further point for consideration is to assist the poorer people by giving a base-line rebate of a fixed amount to everyone irrespective of size and value of property. The rateable value would be the valuation roll value (or market value of land only) reduced by say R7500.00 irrespective of size and value. However any excess should not be refundable.

There is an important point to consider when deciding on an equal percentage rating on all domestic sites or business sites. There seems to be a misconception that high value suburbs should be treated more favourably than others as their land is so expensive. The fact that buyers are prepared to pay high prices for a property and then pay the building societies approximately 15% to 20% per annum on the value of the land or site for the next twenty years, indicates that the market values the benefits provided by the community. Why then, should they not pay to the municipality, representing the community, that which rightfully belongs to the community?

The community has no legitimate claim on any improvements on any site be it residential or business. It is in the interest of the community that every property owner should be encouraged to improve or rebuild on the site, thereby injecting capital into the community and creating new employment. It has often been shown that rates based on land values only, exclusive of the value of improvements thereon, is indeed both good and fair. Site Value Rating, (SVR) has been proven to be the most just system and the one that gives greatest incentive towards economical development, employment and social stability.

Far from being pioneers into uncharted territory, these municipalities are in fact following the lead of most of South Africa. The former Cape Town, prior to being divided up, and Port Elizabeth were the only two major cities in South Africa still being handicapped by total value rating, commonly known as Flat Rating.

Studies have shown that Cape Town and Port Elizabeth were growing at only half the rate of the average growth of those towns on SVR. Seventy percent of all property rates collected by local government in South Africa came from those on SVR and only ten percent from those on Flat Rating. The remainder came from those on Composite Rating, where the rate was higher on land and lower on improvements. These studies were based on official figures given in the "Municipal Yearbook", over a period of twenty-five years, from 1951 to 1984.

Similar studies in USA, by Dr. Steven Cord, showed that where rates were shifted away from improvements, even to a small degree, those towns showed a rapid growth compared to nearby towns in the same economic region.

Prof. Mason Gaffney reported on the adverse effect which Proposition 13 had in California. This limited the percentage that could be collected from land values and resulted in severe budget restraints. It caused the collapse of their education system, law enforcement and the security of society. Unemployment increased and so did crime. Building of prisons became the main growth industry.

More than half of the towns and cities in Australia are on Site Value Rating. Ref. "Land Value Taxation Around the World", Second Edition, Edited by Dr. R.V. Andelson, 1997, Robert Schalkenbach Foundation.

Morally, collecting the rent of land or SVR is the only legitimate form of raising local government revenue. Value is given to land by the gifts of nature together with the presence of, and infrastructure and services provided by, the community. This value is not dependent on what the individual does with the land. This value should be the subject of rating. The improvements which arise from the effort and capital applied by the owner should not be rated.

The main opposition to a change from improvement rating to SVR normally comes from slumlords and land speculators who are able to hold land out of use whilst contributing little to the community which gives land its value. With the introduction of SVR they will be forced to put their land to better use, with resulting benefits to society. Those who are uninformed about the benefits to themselves and society as a whole, fall easy prey to the glib words of the slumlords and a small number of others who benefit from the present system, often at the expense of those who occupy less valuable properties.

In many cases, those in the least affluent suburbs are paying three times as much in rates as those in affluent suburbs, taken as a percentage of market value. Where is the justice in that?

In summary, Land Value Taxation is by far the better system.