



The Hon. Fiona Phillips MP
Chair
House of Representatives Standing Committee on Regional Development, Infrastructure and Transport
PO Box 6021
Parliament House
CANBERRA ACT 2600
By email: rdit.reps@aph.gov.au
19 November 2025

Dear Mrs Phillips

Submission to the Inquiry into Local Government Funding and Fiscal Sustainability

Thank you for the opportunity to make a submission to the inquiry.

Prosper Australia is an economic research organisation focused on the role of land in the economy. We have a long history of research into property taxation.

Our submission relates to local government own-source revenue.

We recommend the Committee recognise the advantages of site-value (i.e. land-value) rating over capital-value rating for the local government revenue base. Site-value rating is both more equitable and more economically efficient than capital-value rating: it is more progressive, better reflects the benefits from local government activities, and encourages greater investment and faster housing supply.

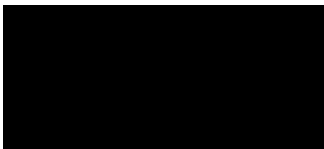
We also submit that development contributions and value uplift capture should be used more extensively by local government, or by States on their behalf, but that funding of local government by higher levels otherwise be limited in light of local government already having access to the most efficient and equitable tax revenue base.

We encourage the Committee to keep this context in mind when considering issues arising under current funding arrangements and assessing proposals for change.

Our submission is attached.

We would welcome the opportunity to appear before the Committee to elaborate on these points and take questions on these and other matters before the inquiry.

Kind regards,



Dr Tim Helm
Director of Research and Policy
Prosper Australia

Prosper Australia submission to Inquiry into Local Government Funding and Fiscal Sustainability (House of Representatives Standing Committee on Regional Development, Infrastructure and Transport) – 19 November 2025

Introduction

Prosper Australia welcomes the Committee's examination of local government funding and the relationship between local government and other tiers of government.

Our submission outlines three key points in relation to local government rating:

1. Site value rating is a more equitable (progressive) revenue base than capital value rating;
2. Site value rating better aligns who pays with who benefits from local government activity; and
3. Site value rating improves investment incentives and supports housing supply.

We add two further points:

4. Development contributions and value capture should play a far greater role; and
5. Commonwealth or state funding should not displace efficient and equitable local revenue sources.

In considering inter-government transfers and the efficiency and equity of various revenue bases we urge the Committee to recognise these points. They are explained below.

1. Site value is a more progressive rating base

Applying rates on the basis of site or land value (henceforth SV) is more vertically equitable – i.e. more progressive – than using capital value (CV). This is because wealthier households tend to own a disproportionate share of high-value land, while lower-income households generally occupy smaller dwellings with lower land values.

An analysis by Jesse Hermans and Cameron Murray in *Australian Tax Forum* (Hermans and Murray 2021) showed that the ratio of SV to CV ratio for Victorian residential properties rises with household income.¹

This means SV rating reduces the rates burden for lower-income households compared with CV rating, and increases it for higher-income households.

By minimising the impact on households facing cost-of-living pressures, SV rating can help reduce the political and affordability concerns associated with increasing local government revenue.

2. Site value rating more equitably reflects the distribution of benefits

SV rating is also more equitable when viewed as a 'beneficiary pays' tax for local government.

Rates do not operate as quasi-user charges for council services (as they are sometimes framed). This is because they are not passed through to households via rents or home prices; a large body of economic evidence shows that the tax burden remains with landowners. At the same time, the

¹ Murray and Hermans (2021), Land value is a progressive and efficient property tax base: Evidence from Victoria, *Australian Tax Forum*, 36(2), June, <https://search.informit.org/doi/abs/10.3316/informit.272682180609940>

value created by council expenditure on infrastructure and services is capitalised into land values.

Landowners therefore both bear the cost of rates and receive the gains from local expenditure. The 'user charge' residents pay for higher-quality council services goes to their landlord (for renters) or the prior owner (for homeowners), not to councils.

SV rating therefore aligns payment with benefit: those who benefit most from public investment contribute proportionately to its cost.

CV rating, by contrast, penalises owners who improve their land while allowing owners of vacant or under-utilised land to contribute relatively little. Because council service and infrastructure costs do not decline materially with low land utilisation, CV rating shifts the cost burden onto productive investment, and away from properties that benefit passively from the availability of local services.

3. Site value rating encourages greater investment and more housing supply

By penalising improvements, CV rating reduces the return to improving land, discouraging development and increasing the relative return to land banking. This slows down redevelopment and new housing supply, and makes it more difficult for developers to provide affordable housing. By forcing local governments to service more dispersed areas, it also raises long-term infrastructure costs.

Consistent with other evidence on capital value taxation, Hermans and Murray (2021) found in their analysis of ratings base changes in Victoria that using SV rather than CV was associated with a 20% increase in the value of new dwelling construction.

This demonstrates how the rating base matters in the context of barriers to housing supply.

The detrimental effects of CV rating are most pronounced for rural and regional local governments, which are more likely to face financial stress and socio-economic disadvantage. This is because the rate in the dollar and penalty to capital investment is higher in these areas.

Two Victorian examples illustrate this. Buloke Shire, which covers a highly disadvantaged area, imposes residential rates in 2025-26 at 0.4860 cents per dollar of CV (a tax rate of 0.486%). The City of Melbourne, by contrast, imposes 2025-26 residential rates of 0.195 cents per dollar of CV (a tax rate of 0.195%). The effective tax on housing investment in Buloke Shire is therefore around 250% higher than in the City of Melbourne.²

This investment penalty and disproportionate effect on lower-income areas of CV rating is entirely avoidable with SV rating. Any proposal to encourage CV rating to alleviate perceived political difficulties must be cognisant of this.

4. Development contributions and value capture should play a greater role

Council and state governments around Australia under-tax the beneficiaries of new infrastructure and favourable rezoning, with the value created by these decisions not adequately captured for public benefit. The result is that general ratepayers cross-subsidise growth-related infrastructure, while windfall gains accrue to private landowners.

² Buloke Shire Council Annual Budget 2025/26, <https://www.buloke.vic.gov.au/annual-budget-2025/26>; City of Melbourne, How your rates are calculated, <https://www.melbourne.vic.gov.au/how-your-rates-are-calculated>

Councils will be unable to meet growing expenditure demands while this cross-subsidy remains in place without imposing politically difficult and unfair rates burdens on general ratepayers.

The first priority for funding growth infrastructure should be to utilise developer contributions to the fullest extent possible consistent with the principle of full-cost recovery.

States should socialise windfall rezoning and planning gains and direct a portion of revenue to local governments to fund growth infrastructure and improve incentives to enable land development and housing supply. Models such as the ACT's Lease Variation Charge show that this is feasible and efficient.

Economic evidence is clear that appropriately designed developer contributions and value capture charges do not penalise investment, but are instead capitalised into lower land prices.³ These charges can also reduce incentives for speculative landholding and lobbying.

5. Rate capping should not lead to greater vertical transfers

Debates over rate capping and expanding local government responsibilities raise questions about the appropriate role of inter-governmental transfers. Whatever arrangements are used, the overall distribution of revenue effort should be as economically efficient as possible, which means utilising the land value base.

Taxes levied by States and the Commonwealth, such as payroll tax and personal income tax, reduce investment, employment and productivity. Land taxes and land-based rates do not.

For this reason, increased state or federal transfers should not replace efficient local revenue sources. Vertical transfers generally substitute efficient taxation with less efficient taxation, worsening the national tax mix.

The Committee should consider this principle when evaluating inter-government transfers in the context of local government fiscal sustainability.

Conclusion

Efficient and equitable local government funding is possible using the land base.

This means promoting continued or wider use of SV rating, and expanded use of developer contributions and value capture instruments.

Local governments already have access to more efficient and equitable taxes than States or the Commonwealth, and encouraging these to be used to the fullest extent possible will support a more efficient and productive national tax system.

Prosper Australia encourages the Committee to keep this context in mind when considering problems with current funding arrangements and assessing specific proposals for change.

³ Murray (2018), Developers pay developer charges, *Cities*, 74, April,
<https://www.sciencedirect.com/science/article/abs/pii/S0264275117301051>