



LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL TERRITORY

STANDING COMMITTEE ON PUBLIC ACCOUNTS

(Reference: [Inquiry into the methodology for determining rates and land tax for strata residences](#))

Members:

MRS V DUNNE (Chair)
MR M PETTERSSON (Deputy Chair)
MS B CODY
MR A COE

PROOF TRANSCRIPT OF EVIDENCE

CANBERRA

WEDNESDAY, 4 JULY 2018

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Secretary to the committee:
Dr B Lloyd (Ph: 620 50137)

By authority of the Legislative Assembly for the Australian Capital Territory

Submissions, answers to questions on notice and other documents, including requests for clarification of the transcript of evidence, relevant to this inquiry that have been authorised for publication by the committee may be obtained from the Legislative Assembly website.

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Amended 20 May 2013

The committee met at 9.01 am.

MANNS, MR ROD

THE CHAIR: Good morning, and welcome to the second public hearing of the inquiry by the Standing Committee on Public Accounts into the methodology for determining rates and land tax for strata residences. Today the committee will be hearing from three witnesses who provided submissions to the inquiry: Mr Rod Manns, submission No 7; Mr Kerry Atkins, submission No 72; and Mr Jack Evans, who provided submission No 97 and a supplementary submission.

Before we begin, I would like to advise witnesses that today's proceedings will be recorded and transcribed and are subject to parliamentary privilege. After the hearing you will receive a copy of the proof transcript from the secretary of the committee for comment. I will ask each witness if they have read and understood the pink privilege statement.

Mr Manns: I have, thanks.

THE CHAIR: Thank you, Mr Manns. Our first witness today is Mr Rod Manns. Would you like to give a brief summary of your submission? Yours is moderately lengthy, and it has a few attachments. Would you like to set the context for that submission?

Mr Manns: Sure. My concern is with the policy behind the change in ratings methodology, as much as anything else. I own a unit in Canberra, so I am affected by it, but I am more concerned with the broader implications for unit holders generally. I struggle to understand the government's rationale for the new policy.

As I have outlined in my submission, there seem to be two aspects to that. Firstly, units were not paying enough rates compared to houses, and I have not seen any evidence to support that contention. Secondly, I think the new methodology is illogical. It takes into account the property owned by people other than a unit owner—that is, all the other properties in a unit complex—in order to calculate the rates for an individual unit holder. That does not apply to houses. It is not logical at all. It is unfair. It subjects pretty much all unit owners to the highest marginal rate. Ninety-five per cent of unit holders are now paying rates at the highest marginal rate, whereas around 10 per cent of house owners pay at that rate.

That is really the substance of my concern. I am happy to answer any questions about that. I would add one more point to my submission, bearing in mind the changes that the government has made in the most recent budget in an attempt to ameliorate, in part, the transition to the new methodology and the removal of the \$100 per unit transitional rebate that applied last year.

The government has, quite bizarrely, fiddled around with the marginal rates. It has increased the lowest marginal rate and decreased the highest marginal rate. The decrease in the highest marginal rate is obviously of benefit to unit owners because 95 per cent of them are now being hit by that rate. But the unfortunate consequence is

that the owners of the least value house blocks now have a higher increase in their rates than the owners of the highest value house blocks.

I do not know whether you saw the *Canberra Times* publication of rate increases by suburb. The lowest increase in rates for houses is in Forrest, at 0.7 per cent. In fact, some of those properties will actually have a decrease in their rates for the coming year as a result of this change. Ordinary suburbs like Giralang, for example, are having an increase of around eight or nine per cent. It is a completely nonsensical approach. So I go back to the problems with the government's approach.

THE CHAIR: Mr Coe, do you have any questions?

MR COE: Yes. As a unit owner, did you get any information or anything sent to you by the government that attempted to justify the change?

Mr Manns: No, not directly. I am aware that the government published various statements, and I have given a bit of a summary of those in my submission—mostly after the event, I have to say. I have had considerable correspondence with the Chief Minister and Treasurer and his directorate, in which I have been given a bit of a moving feast of justifications. But as an ordinary ratepayer, in advance of the change coming into effect, I did not receive any detailed information about the implications of the change.

MR COE: Do you have a view as to the impact this will have on the rent that tenants in units will pay?

Mr Manns: I am not in that business. Self-evidently, if the expenses associated with a rental property go up, I would expect that an owner of such a property would attempt to recoup at least some of those from tenants.

MR COE: In terms of the complex that you live in, what government services are delivered? Do you get rubbish collected from your complex?

Mr Manns: Yes, we do. As with other larger complexes, we have hopper systems rather than individual bins. For a complex of 80 units, we have four garbage hoppers and four recycling hoppers that are emptied once a week. It is a more onerous system for the residents than if you had your own individual bin.

I have a bit of a bugbear about the recycling aspect. We get about a quarter of the recycling capacity that the equivalent number of standalone houses would have. To be honest with you, I am not particularly interested in the argument about whether units get the same municipal services as houses. There are swings and roundabouts there. I would actually turn the question around the other way: is there anything that the government can point to about providing government services to unit residents that justifies a more onerous and burdensome rates regime for unit owners than for house owners? I have not seen any such justification.

MR COE: What is the point of having a progressive rating system if, as you said, 95 per cent are in that top bracket?

PROOF

Mr Manns: Frozen out of the tax rate.

MS CODY: Mr Manns, you are an owner-occupier of a unit?

Mr Manns: Correct, yes.

MS CODY: I wanted to double-check that, because we hear from both sides.

Mr Manns: Yes, sure.

MS CODY: You talked about the system not being right or fair; I cannot remember your exact words.

Mr Manns: Logical or fair.

MS CODY: Okay. You also talked about the fact that houses in Forrest had a smaller increase in their rates than, say, houses in Giralang.

Mr Manns: That is for the coming year, as a result of the changes that the government has made in this year's budget.

MS CODY: Isn't that because the AUVs are rising in some of those—

Mr Manns: No. It is because the government has reduced the top marginal rate, which does give some benefit to unit owners, because now 95 per cent of them are being hit by that rate. It also means that the biggest, most expensive blocks of land, which have the majority of their rates calculated also at that higher rate, are actually seeing a reduction. So it is a reduction in the amount per dollar—

MS CODY: Are you aware of the average rate for units versus houses?

Mr Manns: I have probably seen the figure. I could not quote it to you now.

MS CODY: My understanding is that it is \$1,400 for units and \$2,000 for houses.

Mr Manns: Probably, but the obvious reason for that is the one you just touched upon. The value of land that a unit owner has is much lower than the value of land that a house owner has.

MS CODY: I am finding it a little bit difficult to follow what you are saying here. You are saying it is not fair that units pay this new change that happened in 2016-17 because they are not the same as houses. Is that—

Mr Manns: I will make it simple. The value of the land associated with my unit is 140-odd thousand dollars. There are not very many house blocks in Canberra where the owner would own land with such a limited value. I pay rates on \$140,000—the value of land that I own, but I am charged at the rate, cents in the dollar, that applies to the value of the whole block of \$7.9 million. So I pay at the highest marginal rate. A house block owner with a similar value of land would pay at the lowest marginal rate. That is the inequity.

MS CODY: You are saying that we should go back to the old system?

Mr Manns: The old system was fair. It only took—

MS CODY: Because you were paying less rates?

Mr Manns: It only took account of the value of land that the individual property owner owned. No other consideration was brought to bear—not the value of the land owned by his or her neighbours in the whole block. If you live in a house in a street, you do not get charged a marginal rate based on adding up the values of the house blocks of your neighbours.

MS CODY: It is the individual value of your land, yes.

Mr Manns: That is right.

THE CHAIR: This is the difference between—

MS CODY: And this is the same—

Mr Manns: Why should that occur for units?

MS CODY: Do you know what equivalent bracket your rates bill puts you in?

Mr Manns: Yes, the highest marginal rate: being charged at the highest marginal rate, as in cents in the dollar, because that is calculated on the \$7.9 million value of the whole block.

MS CODY: The whole block?

Mr Manns: Yes.

THE CHAIR: It is the difference between—

MR COE: In effect, you would be in the zero to \$150,000 category—

Mr Manns: I was.

MR COE: That is right; therefore paying about 0.3 per cent.

Mr Manns: Correct, yes.

MR COE: But now you are in the \$600,000-plus category, by and large?

Mr Manns: Yes.

MR COE: And paying double that?

Mr Manns: Yes.

MR COE: Paying 0.6 per cent?

Mr Manns: Yes. I gave you my rates notices in my submission. The land valuation charge went up by 115 per cent as a result of the change.

MR COE: That is right; 0.29 per cent to 0.61 per cent, or something like that.

Mr Manns: To around 0.6, correct.

MR COE: In effect, your marginal ratings factor has doubled—

Mr Manns: Correct.

MR COE: as a result of this policy change.

Mr Manns: That is correct.

MR COE: Yet your land value has remained the same.

Mr Manns: Correct.

MR COE: And your land usage and property rights have remained the same.

Mr Manns: Correct. The other point that I would make is that if I were a single owner owning that whole \$7.9 million block, I would pay rates at that top marginal rate, but I would pay one lot of fixed charges, which are now a very substantial part of the average person's rates bill.

In a unit block, I am now paying at that top marginal rate, but the government is getting 80 times the fixed charges, because every unit owner pays that, no matter how small their unit is. I have calculated that under the new system a single owner of that block would pay about 36 per cent of the rates that the combined 80 units will be paying. Where is the logic in that?

THE CHAIR: Under the previous rating system did you pay a fixed charge?

Mr Manns: Yes. That part of the equation has not changed. The amount has gone up but it has always been there.

MS CODY: The fixed charge is still the same.

Mr Manns: It has always been there.

THE CHAIR: In summary, Mr Manns, what would be your solution to this issue?

Mr Manns: As I said I think the old system was fair. However, if the government has a revenue challenge that it needs to meet, and it is not getting enough in total from rates to meet that revenue challenge, it needs to have a proper look at the whole rating system and come up with a methodology that will raise the revenue needed but

PROOF

distribute it fairly across all properties. It should not just target unit owners for massive increases without any logic or justification. I have suggested in my submission, because that is such a major thing, that it would be wise to have an independent inquiry or review, and not just have it done in the backroom of treasury and announced after the event.

THE CHAIR: Something so that ratepayers could see the workings out.

Mr Manns: It needs to be transparent. People need to be able to put in their views. If there were going to be a big change from, for example, marginal rates to fixed rates, people would need to see what the implications of that were. Something as major as that would have to be taken to an election, I would suggest, and the government would need a mandate for it.

THE CHAIR: Mr Manns, thank you very much for your submission, your attendance here today and your succinct answering of questions. You will be sent a copy of the *Hansard* transcript. If there is anything that you want to clarify, you can do that through Dr Lloyd. Thank you very much for your attendance today.

Mr Manns: You are welcome.

ATKINS, MR KERRY

THE CHAIR: Good morning, Mr Atkins. Welcome to this day's hearing of the inquiry into the rates methodology. Have you had an opportunity to read the pink statement?

Mr Atkins: Yes.

THE CHAIR: Do you understand it?

Mr Atkins: Yes.

THE CHAIR: Mr Atkins, could I ask you to summarise briefly the methodology that you are proposing for the assessment of rates?

Mr Atkins: I live in Infinity Towers in Gungahlin. I am a retired architect and civil engineer, so I have a positive mindset. When I see a problem, I like to investigate and find solutions. All I really know about the rates system in Canberra, since I am fairly new to the place—although I have worked here in four different things since the 60s—is that there is a problem. I know there is a problem because of the whinges I get from my family and friends.

I have looked at this for many years. In the 70s I was development director of a company called Home Units Australia, which built multi-storey units, mainly in Sydney but in a couple of other places as well. We had the reverse problem. It seemed to me that unit owners paid quite small rates compared to individual property owners.

I have been thinking about this for quite a long time. I am not here to criticise anything. All I have done is to make a submission on what I believe is a solution to the problem. It is based on, hopefully, what the valuer already does on unimproved land value. I take it that when the valuer values in the ACT, if a property is slated for medium or high-rise development, there is a floor-space ratio attached, and the value of that land will take into consideration the floor-space ratio that applies to it.

With land, there is unimproved land value. Every unit, like my little unit, has a footprint on the land that it sits on. In my case it is a big development; it is 430 apartments sitting on a block of land that the valuer has valued. My footprint on that land excludes the common areas, and, insofar as floor-space ratio is concerned, it excludes the balconies. It is the actual in-wall area that I occupy. My little bit of apartment is a proportion of the total built area on the property. I have a footprint which is a proportion of the total land.

I am saying that, to make things equitable for both single-use land and multiple-use land, you need to add a percentage to the value of the land. I have roughly approximated five per cent per floor-space ratio. If you have a floor-space ratio of three to one, let us say, you take the valuer's value and add 15 per cent, and that becomes the new unimproved land value. My particular little area, divided by the total built area of the property, becomes my proportion of that amount of money. That is then my new unimproved land value, to which the rates are then applied, and the rate

that happens will depend on the value of my equivalent piece of land.

For my little unit in Infinity Towers, instead of being on the highest rate under the present scheme, I would be on the lowest rate, because it is a small one-bedroom apartment. The penthouse on top is going to be on the highest rate. If you use my method you get the same equity for medium and high density as you do for single dwellings. It seems to me that that fixes all the problems, and it makes it equitable for all.

Quite honestly, I do not know how the ACT government provides the services it does for the income it earns. I can only assume that the government wants to earn more income. A large part of that, I can only assume, is rates for the city. If you need to increase the total income you are getting, you can do that by adjusting the particular percentage that you apply to a floor-space ratio on medium density.

THE CHAIR: That is predicated on every unit being allocated a share of the land before it is multiplied by the rating value—

Mr Atkins: Yes.

THE CHAIR: rather than the other way around.

Mr Atkins: Yes.

THE CHAIR: Your proposal would therefore take into account the common areas, and there would be some compensation for the fact that you share common areas. How does that work?

Mr Atkins: I actually do not think that is relevant. If you think about it in kindergarten terms, if you have a house on a property, you have land around you. If you live in a unit, you have common area—you have a lobby, and whatever you have got. There are bits of land outside, but it is all common area. That is part of your yard, if you know what I mean.

I do not see that it is relevant to take common area into consideration at all. The floor-space ratio should not include balconies. I think it can distort the calculation if you take balcony area into consideration as well. That is why I have come back to the view that the area within your walls is the equivalent footprint to the land.

MS CODY: You said not to include balconies. I note that in some multi-unit or medium density you have ground-floor apartments that have courtyards.

Mr Atkins: Yes.

MS CODY: Would that be the same principle?

Mr Atkins: Yes.

MS CODY: I just wanted to double-check that I was understanding everything you were saying.

MR COE: The crux of the issue is whether you divide then calculate, or calculate then divide. That is in effect the change that the government made of late. They calculated the total rates and then divided by the units, as opposed to what they did before, which was to divide the units and then calculate the rates and apply the marginal factors thereafter. What you are proposing, in effect, works on reversing the change that the calculation occurs after the division, after the—

Mr Atkins: Yes, my calculation—

MR COE: After that proportion is worked out, as you said to Mrs Dunne.

Mr Atkins: My calculation depends on establishing the proportion of my land, which is my built area, over the total built area for the building. When you establish the proportion, you then calculate to see what your equivalent land value is, and then you apply the rate. That seems to me to be the logical way to go about it.

MR COE: That is right. However, for that process, in effect, that would mean that properties around Canberra would have to be revalued significantly?

Mr Atkins: Probably totally.

MR COE: Because valuers are already trying to factor in what the highest permissible use is on a particular block.

Mr Atkins: Yes.

MR COE: For some of those, if the valuers have either got it right or have a calculation or methodology that is similar to what you have just articulated, it might result in a very similar calculation to the AUV.

Mr Atkins: I somehow do not think so, quite frankly. However the valuer comes to a value, say, of Infinity Towers, they might come to a land value of \$11.9 million, however they do it.

MR COE: That is right, and that is a bit of a mystery in and of itself.

Mr Atkins: And they might be right or they might be wrong. If they are terribly wrong, we are going to complain about it. But if it is in the normal parameters then we just go ahead and do our calculation, and it is easy.

MR COE: But under your system what would be the underlying land value at the moment? If it is not actually on the highest and best permissible use, what would actually be the underlying land value that then, in effect, gets multiplied by the floor space?

Mr Atkins: I do not see that that matters. It is the valuer's land value. It is all based on—

MR COE: At the moment the land is being calculated based on how it is used.

PROOF

Mr Atkins: I do not think you could get a higher and better use than on Infinity Towers' land. There are 430 apartments.

MR COE: You could have done 450 or 470; the point is—

Mr Atkins: Yes, sure.

MR COE: that, likewise, somebody could have done 300 there, and somebody would have said, "That was the maximum."

Mr Atkins: Its highest use is what ACT government is prepared to approve.

MR COE: Right; but do you still think that having a land value which is based on that then has the multiplier attached to it as well?

Mr Atkins: Yes.

MR COE: As well?

Mr Atkins: Yes, because you will find that if—

MR COE: So not having a generic land value?

Mr Atkins: you use my method and do not increase the value by a percentage, when you finish the calculation, the penthouse on top of the building, on the 22nd floor, which might in rough terms compare to a development or something in Forrest, is going to pay substantially less rates than the single dwelling in Forrest. I know that. I have done calculation after calculation on Sydney places. Mind you, I am going back 40 years.

THE CHAIR: Surely, Mr Atkins, yes, the penthouse will still pay less rates than you would in Forrest, but there is much more land associated with a house in Forrest of similar proportions, and seeing that rating is based on land—

Mr Atkins: What I found fairly consistently, if you just take the penthouse, is that invariably, on my method and using your rates, they will both be on the same rate but the penthouse's footprint—in other words, the equivalent amount of land and the equivalent unimproved land value—will be less. So the penthouse will still pay less dollar rates, probably, than an equivalent property or single dwelling in Forrest.

THE CHAIR: But also pay substantially more than—

Mr Atkins: But will be paying substantially more than under the old calculation.

MR COE: It might be a proportion of the land but it is still dependent upon what the underlying land value is, as to—

Mr Atkins: Of course.

MR COE: That is the big vagary here, as to how you actually value that—

Mr Atkins: But that means you have a vagary happening now, because—

MR COE: I agree. I am not denying that.

Mr Atkins: You will always have a vagary because, at the end of the day, it is somebody's opinion. Nobody knows what the value of any piece of land should be. It works on statistics, assaying and all sorts of things, and somebody comes to a view.

MS CODY: Often it is about what people will pay for the block of land, surely?

Mr Atkins: Every five years or whatever it is, in New South Wales, you get your new land value and it has gone up 250 per cent, and you say, "Yippee."

THE CHAIR: That is not what people are prepared to pay, in a sense, because in an established suburb where there are no undeveloped blocks, there is no real measure of what unimproved land value is because all the land is improved.

Mr Atkins: Yes.

THE CHAIR: Once you have developed the entire suburb then the valuer's dark arts come in, to be pejorative—

Mr Atkins: But they still—

THE CHAIR: No-one really understands how valuers value things.

Mr Atkins: But they still come to a view on the land value of that property, be it right or be it wrong, and that is the basis on which the rates are charged. All I am saying is that, by my method, in my view, it becomes equitable for all, and, if it is structured properly, it will earn increased income for the government. As time goes on, and the proportion of medium and high density to single dwellings perhaps goes up, the government's income goes up, as it should.

MS CODY: Can I ask a follow-on from Mrs Dunne's very early line of questioning? She asked about common areas, and you said that that probably should not come into the calculations. Can you expand on that a little bit for me?

Mr Atkins: The problem with common areas is that, as a proportion regarding what I call the built area, that is, the amount I occupy, it varies enormously from development to development. For instance, in a group of townhouses that a friend of mine was looking to buy off the plan, the amount of common area for that particular development as a proportion to the built area of the townhouse he was looking at is much more than Infinity Towers.

The best way to treat it, to be equitable, is not to take it into consideration, and take only the built area into consideration. It is possible to take the balcony areas or courtyard areas into consideration, if you like; it is just that if I am a property developer and I want to develop a tower of buildings, and the floor-space ratio is five

to one, I do not take the balcony areas into consideration. That is not part of the floor-space ratio, any more than the common area is; it is just the built area. It seems to be equitable to only deal in unimproved land value and built area, and total built area for a complex.

THE CHAIR: Thereby being consistent across the various approval processes. If you are approving a built area here in a particular way, therefore, what you are saying is that for rating value, you should use the same calculation.

Mr Atkins: Yes.

THE CHAIR: Okay, that makes sense.

MS CODY: You talked a lot about New South Wales. Are you an owner-occupier currently, or is your unit—

Mr Atkins: I have a one-bedroom apartment in Infinity Towers. That is where I live.

MS CODY: I just was not sure if it was owner-occupied or—

Mr Atkins: I was here in 1957 as a student. I was here from 1961 until 1965. One of the most recognisable ones that I built is Russell Offices, the Defence offices. Only two—what I call the wedding cakes—are left. I built the first seven buildings, and lots of other things around town. I then spent most of my professional life in Sydney.

MR COE: Have you actually calculated this or modelled this on a building somewhere?

Mr Atkins: No. I actually did an exercise 40-odd years ago. I took the built areas of three of our high-rise apartments and did a very rough exercise, and that is when I came to the conclusion that, if you could find equivalence between an apartment and a house, the apartments were doing very nicely, thank you, from a rate point of view. I only actually finalised my thinking on this when my son started to complain about his rates, and I started thinking about it. My attitude to a problem is to investigate and find a solution.

THE CHAIR: Thank you very much for your attendance here this morning, Mr-Atkins. As with the previous witness, Dr Lloyd will send you a copy of the proof transcript when it arrives. If there is anything that you feel that you need to clarify, you can take that up with Dr Lloyd, the committee secretary.

Mr Atkins: Okay.

THE CHAIR: Thank you very much for your attendance.

Mr Atkins: Thank you.

EVANS, MR JACK

THE CHAIR: Good morning, Mr Evans. Welcome to this hearing of the public accounts committee inquiry into the rating formula for units. Could I draw your attention to the pink privilege statement, which I think Dr Lloyd has drawn to your attention before? Could you indicate whether you have read and understood this statement?

Mr Evans: Yes, I have, thank you; it does not present any problems at all.

THE CHAIR: Mr Evans, you have put in a submission, and a supplementary submission which the committee has received. Could you briefly summarise for the committee your thinking, especially the variations in the summary, which is pretty much hot off the press?

Mr Evans: Sure. I live at Landmark Apartments in Barton. Basically, the situation is that the change that was made in the 2017 budget, in terms of the methodology under which the valuation-based charge is determined for strata properties, to me has a fundamental flaw. In a sense the arrangements that have been introduced in this year's budget go somewhat towards reducing, at least, most of the problems but they do not eliminate them. Quite frankly, I do not see how they can be eliminated, short of the ACT adopting a single valuation-based charge. It does not matter then, to use Mr Coe's example before, whether you do the total and then divide, or divide and then do the calculation.

I put quite a bit of work into identifying this. The major problem, I would say, is the situation where you have two strata properties with equivalent AUVs at the moment, and probably very similar improved values as well, yet one will be charged a much higher valuation-based charge if it is in a bigger complex than one that is in a smaller complex. This is because, obviously, the larger the complex, the higher the complex's AUV; therefore more of the higher rates, up to the highest rate of the valuation-based charge, are applied to that complex and therefore the pro rata.

This year's budget is as close as you will get to an admission out of the government that they got it wrong 12 months ago. The reduction from 0.6013 in the top rate down to 0.57 does have a major impact on the large complex issue, but it does not remove the problem. As I said, you can only remove the problem if either you eliminate the tiered levels of AUV values or you just have a single rate.

Thinking about that, in terms of what has been identified as the government objective, in terms of why they went down this path, their view is that compared to freestanding dwellings, stratas are not paying their fair share of rates. That is an issue on which I have deliberately not bought into the argument. I have said, "Okay, given that that is the base on which the government is looking at this issue, where can we go to from there?"

Having identified and satisfied myself that the current methodology cannot be fixed, and that the problem can be reduced, as happened this year, expecting that that top rate relative to the base rate will not go higher at some stage in the future is, to me,

roughly equivalent to taking a troupe of Irish dancers out into a minefield and asking them to perform, and not expecting you are going to get explosions all over the place.

Having said that, given my 20 years experience previously in the public service, and in a consultancy business of 30-odd years, I looked at some options that I believed would be feasible. The supplementary submission identifies two options. One of them is based on retaining the unimproved value as the basis of rating, and the other one is taking the government's base position and saying, "Why can't you look at putting rating on improved values?"

I listened with great interest to the discussion with the previous person who appeared. With the second one, I think very much that there is the possibility of getting away from valuations as the rule. If you are going to look at the possibility of charging rates on the basis of improved value then, as you identified at one stage, you have the opportunity of saying, "Let's relate it to what actually happens in terms of real transactions when buildings, apartments and houses, are bought and sold."

Using that as the initial base for each individual property, and recognising that properties are not sold every year or every several years, it is about developing indexes, one for houses and one for strata properties, on which you could then adjust the improved value between when a sale happens and when a significant improvement occurs. That is basically the second of the two options I have identified.

I freely admit that in both cases they are not perfect solutions. Quite frankly, in terms of dealing with this particular issue, you are never going to get a perfect solution. But I believe that, with appropriate investigation and detailed analysis, you could get them to be a better fit than the current system, and probably deliver a better outcome in terms of the government objectives than what the current arrangements do.

THE CHAIR: Apart from coming up with the model, have you actually modelled it across, say, a large complex? Do you live in a complex?

Mr Evans: I live in—

THE CHAIR: You live in Landmark; that is right.

Mr Evans: Landmark, with 282 apartments. It would probably have one of the land to apartment ratios that is at the higher end of the scale in the ACT, rather than anything else. I must admit I had trouble accepting the idea that you could have a rating system based on just the land area within the footprint of the actual apartment. In that sense I think the current arrangements have a better grasp on it than what was being suggested before.

Part of identifying the biggest problem with the 2017 changes was because of what happened to Landmark. For every Landmark apartment, the valuation-based charges in 2017, many of which were in the lowest bracket of 0.29 or whatever it was, were all, after the new change, the new methodology, being charged at a touch under 0.6 per cent, within a hair's breadth of the top maximum rate, because everything was calculated based on the AUV for Landmark in the entire complex, which is \$51.6 million.

Obviously, I was not happy with what happened; my own rates went up by over \$1,000 last year. Even more, the further I dug into this, the more I became concerned about the fact that—not so much for me; at one level I accept that whatever happens I am going to end up paying more and more as every year goes by—at the lower end of the scale, the people who are starting out, as I did 50-odd years ago, find it tough when they are in their first house, and every little bit counts for them. Suddenly, if I work through and identify that if I am in a small complex of, say, 10 or 15 units, compared to being in a massive complex like Landmark, I find that my rates end up being significantly different for what should be a like-for-like basis. That, to me, is grossly unfair.

In that particular case it is not about the argument of houses versus units; it is about one unit compared with another. In my original submission, I used the example—it did not take me an awful lot of effort from allhomes—of a two-bedroom apartment across the road from Landmark in Blackall Street, worth probably 50 per cent more than a one-bedder in Landmark. But the one-bedder in Landmark ends up paying more in rates than the two-bedder across the road.

THE CHAIR: Because of the size of the land associated with it?

Mr Evans: Yes, because of Landmark's overall AUV compared with the other size. The other complex is not tiny. It has about 100 apartments in it.

THE CHAIR: Governor Place, is it?

Mr Evans: Yes.

MR COE: Are you proposing that this scheme would apply to individual homes as well as to apartments, or will this just be for apartments?

Mr Evans: I am proposing that it would apply across the ACT to everything: houses and units. With the first one, if you stick with the AUV, basically all it does is say, "Go back to the old system and just have a supplementary factor in the equation," which I have described as a supplementary strata rate. You get the number for your VBC bill under what would have been the 2017 arrangements and then apply a factor on top of that. That could be a dollar amount; it could be a percentage. Those might vary across the brackets or it could be a combination of the two. Obviously, I do not have the database to try to manipulate an exact answer for that. I am certain you could get an answer that would be better than what the current arrangement is.

MR COE: But if you went to the average improved value, any system is going to have anomalies. You could have a situation where you have two 700-square metre blocks in, say, Giralang, as was mentioned earlier. One has had an owner that has poured money into it and one owner has not. They could get treated quite differently. Is that fair?

Mr Evans: I have taken account of that. In the example you have quoted, say they are worth, at a point in time when they were both equivalent, \$500,000, to pick a number. One owner has poured another \$500,000 in. The way I envisage it would happen is

that that would be added to the valuation of the property over time. Whilst the initial three-year averaging process happened, the indexation would not apply to that but it would apply to the base \$500,000, as it would to the other one. That difference would be progressively factored into the calculation of the two rates.

The other thing that I have suggested is there would be provision to allow owners to request a review of their improved value. If, for example, the owner who had poured \$1 million into the property had grossly overcapitalised and he or she said, "It's not worth a million, it's worth \$700,000", there should be some sort of provision to allow them to request that there be a valuation.

The concept that I have outlined briefly is to allow them a window to do that, say, no more frequently than once every five years from either a previous valuation or when the property was sold. At their cost, a valuer on an approved list is engaged. They provide a valuation. That is reviewed by a separate panel of three of the approved valuers and they decide the new valuation.

If the argument of the owner were accepted and the panel of three said, "Yes, we think the property is worth only \$700,000", the rates from then would be set at that \$700,000 figure and the indexation would apply in subsequent years until it was again affected, either by being sold or the five years having passed, and the owner could then ask for another evaluation.

MS CODY: Would it be up to the government to value each—

Mr Evans: No. Part of what I have tried to do is to take the subjective part out of it. Valuers are authorised now, so it would be someone from that panel of authorised valuers who would do the initial valuation. Three others from the panel would do the review, and decide. The government would subscribe to accepting that decision.

MS CODY: Every individual property would need to be valued—

Mr Evans: No. Obviously, there will be a teething problem in terms of, say, a property that had not been sold for a long time. Other than that it would be based on actual sales and the actual index that had happened in the period since that sale had happened. There may be somewhere that clearly does need to be valued in the initial phase, but the idea and the objective would be to get that down as low as possible.

THE CHAIR: What is your background, Mr Evans? You said that you were in a consultancy.

Mr Evans: I did an economics degree. I joined the public service initially in what was then the department of trade and industry. I spent most of my public service career in the department of transport. I resigned when I was first assistant secretary of the land transport policy division to set up a consultancy business with a parliamentary draftsman who I had done a lot of work with over the years. We have run a reasonably successful consultancy business over the last 30-odd years. A couple of other people who worked with me in the department joined us over time. Now we are fading off gently into the sunset.

PROOF

THE CHAIR: Winding down.

Mr Evans: Yes, trying to; but between the internal machinations of Landmark and issues like this, I find I am very busy at times.

MS CODY: As you stated, people will pay what they want for a block of land, which can skew an individual price for each individual block of land. I do not need you to go into the specifics now, but have you also thought about how that may affect your proposal?

Mr Evans: You would set up areas where you would have enough transactions so that the index itself would not be skewed by, say—

MS CODY: We have Mr Fluffy blocks, for example.

Mr Evans: Yes.

MS CODY: People really want to buy those because they can build a brand-new house in a suburb they love.

Mr Evans: Sure. Again that is only the land part of it. You would have to add the construction element as well. First of all, you would need to have an aggregated area that is sufficiently large that you have enough transactions so that the odd one or two—the Mr Fluffy example—would not distort it too much. Also, I do not see it changing from the three-year averaging practice that applies at the moment. Both of those factors would help to smooth out the line of the indexation movements.

THE CHAIR: Thank you very much for your time and for your submissions, Mr Evans. Dr Lloyd will provide you with a copy of the proof *Hansard*. If there is anything you want to clarify, you can take that up through Dr Lloyd. Thank you very much for your attendance this morning.

Mr Evans: Thank you very much.

THE CHAIR: I thank witnesses for their attendance this morning. The third public hearing for this inquiry will take place next Wednesday, 11 July, between 9 am and 10 am. I now close the hearing.

The committee adjourned at 10 am.