LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL TERRITORY

STANDING COMMITTEE ON PUBLIC ACCOUNTS

(Reference: Inquiry into the Rates and Land Tax Amendment Bill 2003)

Members:

MR B SMYTH (The Chair)
MS K MacDONALD (The Deputy Chair)
MS K TUCKER

TRANSCRIPT OF EVIDENCE

CANBERRA

WEDNESDAY, 30 APRIL 2003

Secretary to the committee:
Ms S Mikac (Ph: 6205 0136)

By authority of the Legislative Assembly for the Australian Capital Territory)

Submissions, answers to questions on notice and other documents relevant to this inquiry which have been authorised for publication by the committee may be obtained from the committee office of the Legislative Assembly (Ph: 6205 0127).

The committee met at 3.30 pm.

THE CHAIR: I call the meeting to order. We welcome the Treasurer again, to speak to his Rates and Land Tax Amendment Bill. I ask whether the Treasurer has an opening statement he might like to make to the committee.

TED QUINLAN,

MARK MULLINS and

TU PHAM

were called.

Mr Quinlan: I don't have a statement but I'll say a few words. First of all, please be assured this is not a scheme designed to be a massive rip-off or to generate great volumes of additional funds. This is about trying to ensure that people are not, as they have been, rated out of the area in which they've lived for a long time. It's a scheme designed to buffer people against redevelopment, because their area happens to have become desirable.

I haven't got the figures in front of me but a case in point is that, in the last land valuation assessments, one of the areas that increased generally in the 30s, heading up to 40 per cent, on the three-year rolling average, is the Weston Creek area. On the rolling average that was up to 30 per cent. On the given year, a couple of suburbs were 50 per cent, or over 50 per cent. That 50 per cent is going to roll through their three-year average for the next couple of years.

The three-year average is still, for some suburbs, over a 30 per cent increase in land value. For example, the suburb of Duffy had an increase last year of 50 per cent and a rolling average of 30 per cent. So you know where their average is going next year, don't you?

That valuation predates the post-bushfire sales, which have seen blocks in Duffy sell for $230,000 $240,000—and $260,000 for premium blocks. I think that revaluation of land is going to cascade through Duffy and Holder.

Chapman is even more remarkable. Of the dress circle blocks, one is selling for $690,000. Another one I know of is selling for $600,000. It is also going to cascade through that area. Even though Chapman's got some very nice homes, and very valuable homes, it's got some fairly basic stuff as well—and the same with Duffy and Holder. Many people are going to be paying a lot more in rates. No matter what you do, unless you have a CPI system that impacts upon people and not on the max—not on the gross but rather on the individual—we're going to get differential increases. We've seen differential increases.

We've done some quick calculations. I won't guarantee these. You may have some suburbs over the last couple of years—last year and this year—with combined rates increases up to 19 per cent, 18 per cent, 16 per cent or 15 per cent, because their areas have become desirable and land values have gone up. They're not flash suburbs—take Chifley and Charnwood.

MS MacDONALD: Chifley is a very flash suburb, Mr Quinlan—I live there.

Mr Quinlan: I didn't know that. Mawson and Page—suburbs where people have settled and lived for a long time—are, all of a sudden, desirable for potential redevelopment—they are ideal for redevelopment or whatever. This is going to affect everybody in those suburbs, and we're trying to protect them.

THE CHAIR: Does that not mean, though, given that your opening comment was that this is not designed to be a massive rip-off or to gather great volumes of additional funds, the impact of it will be that that is exactly what will happen?

Mr Quinlan: No, it isn't, but it depends on the same factors that prevail now. We have a rates bill that contains a couple of formulae for classes of land. Within that bill a multiplier is specified. Previously, the gross rates take has been managed, or contained, by adjusting that multiplier. With land values increasing at a faster rate than CPI, that multiplier has come down and down. It's within the goodwill, the province, political nous or desire of the government of the time to choose to cap gross rates at CPI. That's not a legislated provision, it is a decision made by the government in its budget process, or its overall financial management processes.

In the future, it will be within the province of the government to change that formula, but the formula will still exist for the assessment of all rates. What we are proposing is that people who have lived continuously in an area would get a term residency rebate. So all rates would still be calculated on the formula, and there would be a term residency rebate.

Commonsense dictates that the level of rates is, and will continue to be, a component in people's decision making as to whether they change residence or not. So there will always be pressure upon governments to not allow that comparative line to just float up on today's multiplier. It could make more than it has made before and it could more truly reflect the value of the land in question. However, we make a significant amount of money out of the churn and change in the housing market. Therefore the government, even if it isn't being sympathetic to people buying houses, will, purely out of commonsense, for reasons of financial decision making, manage that line down and keep it reasonable, whilst still allowing the value of properties in a given area to be reflected in the rates.

I live in Weston but, if I suddenly decided that I ought to be living in Forrest or Barton, I'd have to take into account the fact that I'd be living in a much more valuable property—one that is valuable to the city, because property belongs to the city as far as we're concerned—and I would pay higher rates. That situation will continue.

THE CHAIR: Getting back to the question I posed, has any work been done by Treasury to estimate what the huge increases in land values will do to the take of the government on this? You're starting with a base of CPI for existing tenants at 3.2 per cent this year, but those residents who move after 1 July will of course pay more. So this scheme must raise more money.

Mr Quinlan: Yes, but it's a year to bed in, so the rate multiplier to be set is yet to be decided.

THE CHAIR: I am sorry. I understand that this year's take will be 3.2 per cent.

Mr Quinlan: Yes.

THE CHAIR: Based on these figures, as of 1 July next year, anybody who moves within the next 12 months will be paying substantially more than their neighbour.

Mr Quinlan: That's right.

THE CHAIR: Have you done a calculation as to how much extra revenue the government will earn in the year 2004-05?

Mr Quinlan: No, we haven't. We can't do that until we make a decision as to what the rating factors will be, within the bill, in a year's time.

THE CHAIR: The incoming government brief from Treasury suggested that "further discussions, briefing, and detail modelling would have to be undertaken before this proposal can be implemented." Was detailed discussion, briefing and modelling undertaken?

Mr Quinlan: Pretty well, yes.

Dr Mullins: Detailed modelling was carried out over a number of months, using a number of rating options. Yes, that modelling has been done. To answer the question, I'm not totally sure what specific models, or what modelling, you're asking about.

THE CHAIR: The government has presented one model in its bill. Were other models considered for changing the rating system for the ACT?

Mr Quinlan: Perhaps I can suggest to you, Mr Chairman, that, despite the fact that that was contained in a briefing someone wrote for us a year and a half ago, what we're talking about here is a CPI line. And we're talking about a maximum line on AUV if, in fact, the formula remains absolutely unchanged.

To do any modelling at all, you have to say that, at this level and at that level, there'll be that much difference. This is not rocket science. It is fairly basic stuff—there's only one multiplier. In future, the government will decide in each year how much of that they think they ought to take, as it has done. It depends on the formula you set.

The formula has been set at CPI while we develop the system. The formula has been reset annually. I'm presuming that, whether I'm long gone or not, the formula will continue to be reset annually, because this factor will be a determinant not only as to the level of churn in the housing market but the level of investment in the housing market. Governments have to make that conscious decision. You can model an infinite variety of answers in-between there, and the answer will be the number you first thought of.

THE CHAIR: Except that you can't tell us what revenue you expect to gain from your new rating system.

Mr Quinlan: At this point in time, I'm not targeting to gain any more revenue under the new system than we have under the old one.

THE CHAIR: You will still limit your take to CPI?

Mr Quinlan: No. I'm not making that commitment either.

THE CHAIR: So you will make more revenue?

Mr Quinlan: The option is open for me to make more revenue. The option is open for that line to certainly be higher, and more reflective of the value of the land people are taking up, than the protected line.

THE CHAIR: But you don't know.

Mr Quinlan: Well, I do. I'm trying to explain it to you. You could do this on the back of an envelope.

THE CHAIR: I've got the back of the envelope. I've got your graph.

Mr Quinlan: Draw yourself an infinite number of lines in between those two, and you've got your model—it's a matter of choice.

THE CHAIR: But you've never bothered to work out the impact of this. You started by saying this is not a massive rip-off of cash. Potentially, it could be, though.

Mr Quinlan: As could the current system.

THE CHAIR: No. The current system, which was put in place by a previous government enactment, was that we would always limit the total take to CPI. Your system is not limited to a total take of CPI.

Mr Quinlan: Whatever you did before is not necessarily what this government has to do, I would hope.

THE CHAIR: I did not make that statement.

Mr Quinlan: You had a system in place—we inherited that system—that would pretty well give you that line. It gives you that line. If you want to model the legislation as it's in place, then you've got a rates based on unimproved value line.

To imply in your questioning that there's been no research done is wrong. What I'm trying to say is that the piece of research, or analysis, you might be referring to is of no value or consequence if you can't grasp it by these words: All we're doing is setting a ceiling on existing properties at CPI, and others will increase by whatever the government decides they will increase by, as is the case now. It's no more complex than that. It's not complex.

THE CHAIR: You suggest your system will be more equitable. Can you explain how, when two ratepayers own properties of similar value and one has purchased after 1 July and is therefore paying higher rates in the following year, that is equitable?

Mr Quinlan: It's no less equitable than people in Forrest paying more rates than people in Charnwood.

THE CHAIR: Except that people paying rates in Forrest would pay them relative one to the other. There will not end up being great disparities between properties of the same value, next door to each other, in Forrest.

Mr Quinlan: People in Forrest are paying greatly different mortgages from each other. You see, the equity is that, at any given time, you know what you're buying. It doesn't mean you are insulated from occurrences. Let's take some of the potential areas. I notice that the Real Estate Institute was predicting that Narrabundah would be the next big thing, and, to some extent, we've seen land values already going up in Narrabundah.

Narrabundah is a large suburb with a lot of people who have lived there for many years. A few people decide that that's where they want to live, because it offers them amenities they desire—proximity to various services, entertainment or whatever. Their activity in the market starts sending the land values of Narrabundah through the roof, as has happened in other suburbs. I think it's entirely inequitable that all the other residents of Narrabundah have their rates dragged up by that activity. That to me is a far less equitable process than trying to maintain things.

Look at the stages of Yarralumla, when it grew. A lot of folk were either bought out or rated out of Yarralumla because of people buying houses at very high prices and bulldozing them. Boom, boom! Yarralumla's values went through the roof.

Let's talk about Deakin. In fact, this proposal started, for me, in a discussion with a resident of Deakin, who has since passed away. She spent her last few years living in much smaller premises because she was rated out of Deakin—she had been there for years. She was a public service pensioner, who had not earned big money. She was paying over $5,000 a year in rates, which is $100 a week. She couldn't afford it.

I thought that was wrong. It was truly wrong, because this person had lived in that suburb for 30 or 40 years. She was on a modest income. She never held an exalted position but was a great contributor to the community. She didn't pursue a highly-paid career, although she could have. That person had to sell out because she couldn't afford to live in Deakin. It was only a matter of three years until she passed on. That is wrong.

THE CHAIR: There is in place a system of waivers or deferrals, and I understand that the number of deferrals is less than 80. Is that not a better way to go—to offer people the ability to stay in their premises, should they choose to do so? At the same time, they are gaining the increased land values, because these properties have gone up. When the property is eventually sold, if not the individual, then the estate will certainly gain a benefit.

Is it perhaps a failing of the current system that we haven't advertised enough to make people aware of the system of deferrals or waivers? Would that not be a better way than having a system that will see those who have cheaper rates versus those who pay more expensive rates?

Mr Quinlan: I've certainly discussed that with people who could help to shed some light on the phenomenon that people don't want to take up rates deferral. It is a psychological factor, I guess, that people don't want to be effectively selling off the house piece by piece. Even though they might be aware that the kids are going to flog it two weeks after they pass on, and liquidate it, there is quite clearly within people a total aversion to effectively selling off their house bit by bit. They are reluctant to concede that, as a pensioner, they're only going to live so long. They want to ensure that they won't have sold off, or deferred, the whole value of the house before they shuffle off this mortal coil.

To perhaps support the contention you're leading to, one person I discussed it with suggested that the attitude may change as the baby boomers come through, because they've got a whole different attitude towards what they're going to give their kids. It is a "give you an education and kick you out" Attitude. The T-shirts say, "Spending my children's inheritance". The baby boomers might not cling to the family home.

At this point, there's no evidence as to that. I don't think it's a case that people are not aware of it—I think that, having paid for it, people don't want to be effectively selling off the family home while they're still in it. Certainly the concessions that are available will remain available.

MS TUCKER: I'm interested to know whether you consider that this proposal will be creating a disincentive for people to move.

Mr Quinlan: Yes, I believe it will, in some cases. The incentive to move, in the case I referred to in Deakin, was purely rates. We can't go back and undo the whole problem since that time. Had this lady been protected for some time, then she would not have moved. That would have been one movement that didn't take place.

The chairman referred to equity. As Treasurer, I'm very happy to receive revenue from people moving house. However, I don't think this community should be drawing its revenue from people who are forced, by the inequities I see, into moving. I don't think we should be doing that.

MS TUCKER: I understand that argument.

Mr Quinlan: I would be prepared to entertain suggestions from the committee as to how we would facilitate the movement of people who genuinely want to move, and somehow insulate them against that.

Let's assume we have someone in Deakin—the suburb in point—paying astronomical rates, who wants to move to a smaller place in Deakin. Under this system, which would have been operating for some time, there would be a disparity between those properties which are protected and those which are reflective of the true value.

I think there is room to provide for dispensation to allow that sort of movement but not others—not just random choice. "I want to move from Weston to Forrest". If you live in Forrest, you pay Forrest rates.

MS TUCKER: The concern that's been expressed to me is that there are environmental and social reasons to have a situation where people can move easily if they want to—and you would want that to happen. The example you gave was that of a dwelling that's larger than they need, but they want to stay within their community.

There's going to be a real disincentive for that to occur because of the cost being that much higher. That's important, because you want buildings utilised appropriately. I take the point you made this morning that not everyone's going to want to move into a smaller dwelling when they get older—but some people will want to do so.

There can be community reasons for people wanting to move. They may want to be closer to family, or whatever. It could be that that would not be possible because of the situation this proposed scheme will create. For many people in the community, that seems to be a serious flaw in your proposal.

Mr Quinlan: As I said, I would be prepared to entertain a proposal to ensure that we could give dispensation to people in that given situation.

MS TUCKER: How would you do it? Suppose I'm wanting to move into a smaller dwelling, for reasons that are seen to be socially desirable, and I am supported in that move. I might want to buy a smaller house, or I might want to be closer to my kids. In that situation, you would have a system whereby the rates of the house I bought wouldn't change. You think you could do something like that—is that what you're saying?

Mr Quinlan: I would think so.

MS TUCKER: What would be the cost of administering something like that? It could be quite complex.

Mr Quinlan: There would be a cost. Frankly, I don't believe there are going to be too many of those cases. There'll be some, and there'll be some on the fringe that try it.

MS TUCKER: The cost of stamp duty is already an issue for people moving house, but you're saying you don't think many people will want to move. I believe many people want to move, for various reasons. Sometimes they just want to get away from neighbours. Ask the real estate people—I'm sure they'll tell you why people want to move. People like to move.

Mr Quinlan: Within the current tax structure, and in the absence of an alternative, I don't think we can accommodate people moving away from neighbours, barking dogs or loud hi-fi systems.

MS TUCKER: This may appear to be a dumb question, but why don't we have a ratings system that looks not at the unimproved value of the land but at the quality, or price, of the houses and the capital invested in them?

Mr Quinlan: I could defer to Dr Mullins, who has knowledge of this.

MS TUCKER: Does anyone do that anywhere?

Mr Quinlan: It has been done.

Mrs Pham: Yes, some city councils do that.

MS TUCKER: Was there a problem with that?

Dr Mullins: That's essentially a rating system based on the improved value of the property. There's quite a big cost in setting that up. The ongoing administration of it is somewhat larger than under the current system. The system has operated in some councils in Australia. How successful it has been, I don't know, but it does exist—and it has existed.

MS TUCKER: Wouldn't that deal with these equity issues? The older person in the little house that's not improved in Forrest, or somewhere, would seem to be one of the examples.

Mr Quinlan: It would make some difference, but they're still sitting on a very valuable block of land. In fact, some of those properties with houses on them are valued at the price of the land. It would be an administrative nightmare. If you did it on improved value, then you would have to value all premises regularly. You couldn't just value blocks, and you couldn't have only a zonal-type valuation to come up with the AUVs.

MS TUCKER: Must you always look at the unimproved value? That is based on the market at the time. Market forces will always shape our rates system when it comes to the value which the government decides, to determine rates.

Dr Mullins: Only if you move.

MS TUCKER: I know that's the case with this proposal, but I mean just normally. I don't know a lot about this, but you always determine rates based on the value of the land. Is that right?

Mr Quinlan: Yes.

MS TUCKER: The value of the land goes up because people speculate. For all sorts of reasons, values go crazy—and they have now.

Mr Quinlan: Take landlords, for instance.

MS TUCKER: As a result of that, we've got a big problem now with affordability, right across Australia. Why isn't it possible to determine rates separate from that, to some degree, so that you're dealing with these problems? Has anyone ever tried to do that?

Mr Quinlan: Well, I'm sure you're not talking about flat tax.

MS TUCKER: I don't know what I'm talking about—I'm asking a question. I'm not pretending I know the answer. You've thought about it much more than I have.

Mr Quinlan: The simplest system would be a flat tax—the same rate everywhere. Take city services. *Y*ou're one user of city services. It is $850—take it or leave it. Yet that's not a very progressive tax, is it? We have a fixed element within the tax and the tax is progressive. I would suggest unimproved land value is the best balance between administrative capability of being implemented and a progressive tax based on capacity to pay—not only capacity to pay but relative utility, derived from where you live in the city. I would suggest that that's the best way. It's the most commonly used and probably the most appropriate method.

MS TUCKER: You could have a progressive system. A progressive system wouldn't have to be a flat tax or a regressive system. I'm interested to know how you can separate this system of rates from the market forces so that you're looking at questions of equity within our society when determining the rating system.

MS MacDONALD: But improved value wouldn't separate it from the market forces at all.

MS TUCKER: No, I'm not saying improved value would answer it in any way in any way.

Mr Quinlan: I can't conceive of one.

MS TUCKER: I'm not talking about that now. That was a question I asked before. I'm moving on now to a totally new system which takes that into account. Are there any systems around the world that have dealt in a more radical way with the equity issues we're grappling with?

Mrs Pham: Throughout many years, we have looked at at least four or five reviews of the rating system. The last and more comprehensive one, at the time of the former government, looked at all the rates systems imposed in councils across Australia—and we looked at some overseas. While some councils in Australia use improved value as a base for rates, there are only a few of them. Each system has its pros and cons. If you use improved value, whilst it may be more equitable, the costs of administering the system are very high. When you're talking about improved valuations, it's about $200 per house. That $200 per house has to be considered as a cost to ratepayers.

There are situations where people, for example, renovate inside the house. So you actually calculate the valuation of renovation—the upgrading of the bathroom or kitchen—into the improved valuation. So it's not an easy system to implement. When you look at everything on balance, the current system of unimproved value is widely accepted as a better system.

MS MacDONALD: For those reasons, would a valuation based on unimproved value, as opposed to improved value, therefore be a more stable system to look at? If you went with improved values, you'd have to do assessments much more regularly.

Mr Quinlan: And far more detailed assessments. Valuing unimproved land is difficult enough, without valuing houses.

MS MacDONALD: You get into the real estate market there.

THE CHAIR: Mr Quinlan, how many people are affected by the dilemma of an inability to pay their rates? Given that less than 80 people have applied for a deferral or waiver, how many people are in the situation where they're being forced out of their homes?

Mr Quinlan: I can't tell you how many are on the margin of that—how many are finding it difficult. I can't tell you how many pensioners there are whose quality of life is impacted by the fact that they're paying $100 a week rates. I know of an old guy in Deacon who is staying there. He is not affected—he's going to stay. He's paying $100 a week in rates.

THE CHAIR: If we do not know how many people are impacted, we don't know how many people can afford to pay these rates. Certainly not everybody who lives in Deakin is a pensioner, or on the edge of a pension, where they might not be able to pay their rates.

Mr Quinlan: No.

THE CHAIR: Is there a problem with future cash flows of the territory? You say on page 13 of your submission to the revenue inquiry that the future revenues of the ACT look like either remaining static or declining. Has any work been done on this, to determine what the impact will be on the future revenues of the territory?

Mrs Pham: Are you talking about the impact of deferment?

Mr Quinlan: What I was going to say is that we have a system that says that the rates take will be the rates base today increased by CPI and maybe a bit more, depending on the decision of government. That is as precise as it gets.

THE CHAIR: So it's as certain as that?

Mr Quinlan: Well you have to fill in the blanks yourself. It is not a case of me saying, “I am leaving blanks.” You have to say, “When I am Treasurer, I will do the following if I inherit this system; when I am Treasurer, I will do the following.” Okay, if you do the following you would probably have a rates take of not much more than you have got today.

THE CHAIR: But this will, based on the work I have done, actually increase government revenues significantly over the next 10 years. And given the work done by others, some estimates are that because of your new rates system, government revenue from rates will double in the next 10 years or so.

Mr Quinlan: Yes but that’s the scaremongers, that’s not people who—

THE CHAIR: That’s not the work that I have done in my office; and looking at the rates here and there, some suburbs have gone up 50 per cent this year.

Mr Quinlan: Yes, but we have said it will be necessary for governments to still make the conscious decision as to the makeup of the rates formula and the level of increase in rates on the unimproved value each year anyway. It will be necessary to do that because there are more influences than just the money grab that you are talking about that we want to make on rates. It is a matter of income on turnover within the market. It is a matter of ensuring that we have still got people that want to invest in housing stock. We also want people investing in housing stock to pay their dues, but you have got to find a balance. That’s what tax is about. Yes, you have calculated the theoretical maximum—you have calculated the theoretical maximum based on the current legislation. That’s what you have got, and that’s the theoretical maximum.

THE CHAIR: We have done it based on very conservative estimates of property growth. The implications for multiunit and retirement villages: how have they been considered in the application of this bill?

Mr Quinlan: We have got a whole raft. Once you start getting into this you do get into a level of how do you manage the process.

Dr Mullins: In terms of unit developments, whether they be strata type or other types of unit development, the legislation has covered off how this system will operate in terms of that. In terms of retirement villages or retirement developments, it is anticipated that the legislation will operate as it currently operates, and there won’t be any adverse impact on retirement villages as a result of this.

THE CHAIR: How can you guarantee that?

Dr Mullins: In terms of retirement villages?

THE CHAIR: Yes.

Dr Mullins: One, it depends on the structure of the retirement villages themselves, under what legal structure they are created. We will have to, one, identify what the legal structure is, and there are a number of legal structures I can think of right now as to how one could put together a retirement village and in what format it is going to run with—is it going to run as a unit title or as a strata title; is the ownership going to remain with the body corporate and people are going to be able to take out a term lease or a natural life lease on the unit or whatever you call it? How these structures are put together will depend on how they are treated because part of this depends on who the ultimate owner is.

In a retirement village structure the ultimate owner can be a myriad of different entities. In a lot of the newer ones certainly the ultimate owner isn't the person residing in the unit. The ultimate owner is a body corporate and the people take out effectively a term lease, and the term lease being the term of their life essentially.

THE CHAIR: Except in your legislation, for a body corporate or a group of units, you now say each unit within the unit subdivision will be deemed to be a discrete parcel of land for rating purposes. How can you do that? I mean, rates are levied on the unimproved value of a block, not on a building. You are now going to apportion to the building a parcel of land, a discrete parcel of land, for rating purposes.

Dr Mullins: You need to look at the overall structure here, and the overall structure will still be that the parcel of land on which this is erected will be valued and will have an unimproved value or will have an AUV, and that AUV will be apportioned through each unit title that sits on that parcel of land. Now, what we are saying is that that AUV will probably move each year up or down, depending on the market at the time. If you have got 100 units sitting on a parcel of land and 10 of those units or eight of those units have changed hands in that year, those eight units will have a calculation based on their portion of the current AUV. So the rates will be the AUV, then there will be a distribution through that. So what we are saying in essence is that that parcel of land will never have a rates take that actually equals the AUV because there will be a number of alternative rating outcomes within that one parcel of land.

THE CHAIR: Have you got advice from the Government Solicitor as to whether that is allowable?

Dr Mullins: Yes we have.

THE CHAIR: And the Governments Solicitor said that this is—

Dr Mullins: This has been subject to lengthy discussions and, yes, that is an acceptable and a legally valid way of structuring it.

THE CHAIR: So we will have multiunit plans with people living side by side, sharing common walls, paying different rates?

Dr Mullins: Again, as the Treasurer pointed out, this is going to be a product of what decisions are taken through time but it will effectively be a microcosm of a suburb where potentially—and it depends on how it ultimately works—you could have two houses side by side paying different rates. Likewise, looking at the unit as a microcosm of that suburb, you could have two units side by side paying different rates.

MS TUCKER: Just generally on the question of how we can deal with this issue of rates, you may be aware that ACTCOSS has suggested that you should be looking at a system that is based on the incomes of a family or people living in houses; that a rating system should be related in some way to that. Have you given consideration to that?

Dr Mullins: No.

MS TUCKER: No. Has anyone done that anywhere in the world that you know about? Is that something you think about?

Mrs Pham: If you base your system on the income of the family it is a form of income tax.

Dr Mullins: An issue with rates is—

MS TUCKER: You can have concessions—rate concessions.

Mrs Pham: We do have.

Dr Mullins: We do that.

MS TUCKER: Yes, I know you do. So you can't determine the rates because that is a tax—is that what you are saying? So you can't do that in the territory but you can have concessions. So, in terms of the equability of this proposal and the issues that have been raised of concern for people, you have said you would think about looking at ways that you could mitigate the impact of this on people that felt they had to move. Would you deliver that in the form of a concession, an ongoing concession? Is that how you would do that?

Mr Quinlan: I don't think I would consider that, Ms Tucker. In terms of trying to have a means-related rate, at the end of the day I don't think that is workable.

MS TUCKER: Okay, so you don't want to look at that question when you are determining rates but you are willing to look at special consideration for people that had to move for good, apparent reasons—

Mr Quinlan: Yes.

MS TUCKER: whatever you work that out to be. I am just wondering how you would do that. How would you provide that assistance? Would that be by concessions?

Mr Quinlan: Yes. Let us take the rawest of cases. You say, right, you are living here in Ainslie and you want to move over there in Ainslie, and you satisfy the criteria that you are really moving for environmental reasons, Ms Tucker. Then we could say, well, for your particular base we will count your term residency and you will carry your term residency credit with you.

MS TUCKER: Okay, thanks.

THE CHAIR: I notice that the solid graph that is the basis for this system seems to indicate that in the first year of operation you will lose $15 million of revenue, or is the graph actually just mismarked?

Mrs Pham: Yes, I think the graph is out.

Mr Quinlan: I don't intend to lose $15 million worth of revenue.

THE CHAIR: Sorry?

Mr Quinlan: I don't intend—

THE CHAIR: Well, you say you don't intend to, but your graph would indicate that it drops from about $97 million to about just above $80 million.

Dr Mullins: What that graph endeavoured to do was to look at systems in very much the purest operational sense. The graph looked at the previous government's system very much in its purest operational sense and compared it to the proposed system, again in its purest possible sense. Now, when talking about "purest sense", the previous government's decision was that there was a policy decision taken year on year that rates would not increase beyond CPI but, if that policy decision wasn't taken, the rates take would be subject to the prevailing markets and prevailing AUVs, which is the purest outcome from that system.

THE CHAIR: All right. But your graph says that the government is going to take a $15 million hit in the first year of the operation of the system. Is that true or not?

Dr Mullins: No, it's not going to—

THE CHAIR: Well, the evidence presented to the Assembly of the work done tells me that—

Dr Mullins: That graph doesn't actually say that and, no, there won't be a $15 million reduction in the rates take in the first year of operation.

THE CHAIR: It doesn't say that?

Dr Mullins: It doesn't say that.

THE CHAIR: Well it says that in 02/03 the take from rates under the proposed system is $80 million.

Dr Mullins: No, that graph was—

THE CHAIR: And that the proposed, from the current legislation, was somewhere closer to $97 million. It seems to me you are losing $15 million.

Dr Mullins: No, that graph was comparing purist systems; it wasn't comparing actual revenue takes. It was comparing what the purest outcome would be of one system compared to the purest outcome of another system. It was not designed to compare actual dollar takes.

THE CHAIR: So is there a graph that shows actual dollar takes?

Dr Mullins: Is there a graph that shows actual dollar takes?

THE CHAIR: Yes.

Dr Mullins: There have been projections made, looking at, again, the purest possible outcomes of a system, but, then again, it is just purist economic modelling; it doesn't take into account policy decisions.

THE CHAIR: Can we see those projections? Up until now we have been told that it is only a graph that exists but now we know that there is a graph and projections.

Dr Mullins: There is a graph—and that is what it is; it is a graph—which is a variation of that graph.

THE CHAIR: Can we see the graph that is a variation of this graph?

Dr Mullins: Yes, I haven't got a problem.

THE CHAIR: Okay. You are now saying that you don't intend to take a $15 million loss in the first year of operation, and it seems a fairly consistent loss across the life of the 10 years presented here. I mean, the way I see it, if everybody who doesn't move is paying at least CPI, and everybody who does move then pays the unimproved value as an increase, which I assume will increase in the majority of years, your system therefore must earn much more income for the government than is indicated by this chart. I cannot see how you would earn less than the existing system.

Mr Quinlan: Neither can I, so we will get back to you on that. We will just try and elucidate—

THE CHAIR: Or have you just mislabelled the graph? Are these two lines back to front? I would have assumed there would be an immediate jump in the income because some people will be paying extra over and above CPI. Perhaps you could get back to us.

Mr Quinlan: Yes.

THE CHAIR: Given that you said that you believe there would be a disincentive to move, and given your submission to the revenue inquiry that things like rates and stamp duty and conveyancing et cetera are either going to be static or remain, have you done any impact analysis of what this will mean for revenue in the ACT in the future?

Mr Quinlan: We have got the maximum impacts it could have.

THE CHAIR: And they are?

Mr Quinlan: It could be in 2004-05, another $5 million; 2005-06, $8 million; 2006-07, $12 million; 2007-08, getting out there, $17 million.

THE CHAIR: So that is extra revenue through the rates. Has any work been done on if people choose not to move, what it will do to your conveyancing charges?

Mr Quinlan: Sorry?

THE CHAIR: Has any work been done on if people choose not to move? As you have said, there is now the disincentive to move. How will that affect your stamp duty?

Mr Quinlan: It would decrease it, Mr Smyth.

THE CHAIR: Do we know by what proportion?

Mr Quinlan: Well, I don't know how you would estimate that; I just don't know how you would estimate it. The Queensland experience says that when they set up systems like this it didn't affect it at all.

Dr Mullins: That is correct.

Mr Quinlan: But we will assume that there will be something.

THE CHAIR: All right. Will there be thought given to some assistance to, say, families that need to move to larger premises? They are not moving to a more salubrious suburb. I mean, you may choose to move within Richardson or Gowrie or Chisholm simply because you want a larger house because you have had some more kids and you want to keep the kids in the same school and go the same church and use the same shops. They will be disadvantaged simply because their families have grown. Is there any consideration given to assistance to those groups?

Mr Quinlan: I would have to say no. I would have to say that once you get to that stage, if you have got too complex a system then it is not going to work. We might actually promote the extension business in that case, because that is what I would do if I lived in Richardson and wanted an extra room. It would cost you too much—it would cost you $10,000—to move house. If you are only moving house within the same suburb purely for size and for no other reason, then unless there is some very abnormal constraint, I am sure that your problem could be addressed at the current premises.

THE CHAIR: Well what about inappropriate housing practices that may arise—large families staying in small houses, older people staying in large houses? What about people who acquire a disability and who need to move? Will there be some form of assistance given to them where they may need to move to a specially built house, a one-level house?

Mr Quinlan: Yes, I think you can accommodate those sorts of things. A lot of houses are retrofit and people stay where they are, but I am sure you could accommodate—we welcome a suggestion on that.

MS TUCKER: Has this just come up now? We have asked you these questions and you have said that you think that you can accommodate that.

Mr Quinlan: The question of people wanting to move within suburbs has been mooted anyway. That is a question that has arisen. What do you do when you want to knock the system, when you don't want this system to happen and you want to find something wrong with it? First of all you start talking about the maximum figures—that the absolute maximum is just going to cost a huge fortune, and it may do. That will then stop people moving. And all of a sudden unfortunately the debate loses sight of those people we are really trying to protect.

MS TUCKER: Well, to be fair, I think that is an obvious response to your proposal. I am no expert on this but you just look at it. I am not trying to be critical or negative or find something to yell about. I would love not to have to yell about it.

But the point is that it is an obvious problem. Now you seem to be saying, "Well, we can deal with that problem." You are saying that has just come up in response to public comment. I have asked what are the costs of that? If you are proposing a system, I would have thought you should have had that worked out in advance, with the costs of it, because otherwise how can you know whether this is reasonable? It seems to be mitigating the downside of your proposal.

I understand what you are trying to address, the problem you are trying to address, and I don't think anyone would disagree with you that it is a problem. But in terms of this being a solution, we need to know what will it cost to deal with this; who will it apply to? The questions that we are asking now are of interest to the community.

Mr Quinlan: What I say to that, though, is that all of the concessions that you might ask for are no cost concessions, aren't they? They don't cost us anything in comparison to the current system.

MS TUCKER: Well, you are saying that you could—

Mr Quinlan: Because you are saying that we want to make the same take from people rather than an extra take. So in terms of comparison to the current system—

MS TUCKER: But you have got to decide who you are going to give that to. You are creating a separate class of person who this won't apply to. So we have established that you are going to do that. So then the question is: who are included in this class of people or persons or whatever, and what is the administrative system that is going to work out who will be exempted? It just seems to me it should be something that you would have worked out when you put this proposal up. We need to see that detail and the community needs to see that detail.

People can think, “Okay, if I have got a disability, I can be exempted from this system.” I don’t think people knew that before today and so that’s something. If you want community support or Assembly support we need to understand what it is that you are offering here in detail and also what it will cost to administer it versus looking at different ways of trying to bring more equity into the rating system.

Mr Quinlan: Okay.

THE CHAIR: Can the committee have a list of the proposed concessions that you are willing to offer against this bill?

Mr Quinlan: Yes.

THE CHAIR: Did these issues not come up during your consultation in the lead-up to the production of the bill?

Mr Quinlan: Yes, certainly the issue of people moving within the area came up and was discussed and we said yes, we can accommodate that. I don’t think that is a major difficulty at all. That didn’t, from our perspective, present an insurmountable problem at all. We just said, yes, we should be able to do that.

THE CHAIR: So you are now saying moving within the area can be accommodated?

Mr Quinlan: We are saying we can accommodate. People that needed to move for no other reason; we don’t want people to be forced out of their homes. We don’t want to be forced—

MS TUCKER: No. You want people to be forced to stay there.

Mr Quinlan: To stay in them—yes, that’s right.

MS TUCKER: Exactly.

Mr Quinlan: Yes, but if people are moving by choice then they are making a choice.

MS TUCKER: So what if I want to move for environmental reasons because I am filling up a house I don’t need to fill up. Will I get a concession?

Mr Quinlan: No, I think we have to set criteria that are based on need.

MS TUCKER: Well, that is where you have those questions about the overall impact of this on sustainable housing policy. How does that fit with the Office of Sustainability? Has this proposal gone through that office in terms of its meeting the benchmarks for sustainable housing?

MS MacDONALD: Can I ask in relation to that what do you mean—

THE CHAIR: Well, perhaps we could do sustainability first and then move to you, Ms MacDonald.

Mr Quinlan: No, we haven't referred it to it as a—

MS MacDONALD: Just in relation to that: so what you are saying is that, yes, you would be looking at applying concessions but they would be means tested?

Mr Quinlan: Well, I think the best way I could put it would be circumstance tested.

THE CHAIR: So do those criteria and circumstances exist now or do you go away now and work them out, given we have raised issues—

Mr Quinlan: No, they don't exist in detail.

THE CHAIR: They don't exist.

Mr Quinlan: No.

Mrs Pham: Can I add that we do have concessions that are currently available for pensioners and they are very generous concessions. So for a pensioner or a low income group, for any tax measure, including a rates system, there are already provisions for the Treasurer to provide further concessions if there are compelling circumstances. Either we could provide guidelines and criteria to suit a particular group or we could consider these cases on a case-by-case basis, depending on the government policy.

THE CHAIR: And that will apply to the new system as well?

Mrs Pham: Yes.

THE CHAIR: That is the current system and—

Mrs Pham: Yes, that's right.

THE CHAIR: it is the intention to apply it to the new system if it is passed?

Mrs Pham: Yes. Under the current system there may not be a guideline regarding waivers of rates. However, if people have very difficult financial circumstances, and they cannot pay rates, they always can apply to the government to either have the rates concession or the tax waived.

So there are ways and means within the Financial Management Act for the government to provide that concession should circumstances come to the government's attention that the government policy systems have unintentional consequences, and that happens for any tax measure, including the rates system. Sometimes there are unintentional consequences and the government then can address these consequences.

THE CHAIR: Could the committee please have copies of the existing provisions and the guidelines for the application?

Mrs Pham: For the concessions?

THE CHAIR: For the current concessions to the current rates system.

MS TUCKER: Well, it's $250 isn't it, or 50 per cent? Is that it?

Mrs Pham: Eligible pensioners who were eligible before July 1997 can have half of their rates rebate; new pensioners after 1 July 1997 have the maximum rebate up to $250 per year. They are the current concessions and they are provided automatically through the system when you are identified as a pensioner. And then on top of that you could have what we call a "hardship provision". We can provide a concession, a waiver of tax, under financial hardship. No-one who provided evidence to the office of real financial hardship would be rejected.

MS MacDONALD: I was just going to ask you: it is 25 to 5 and we were supposed to finish the public part of this hearing at 4 o'clock. We still have a private meeting to hold.

THE CHAIR: I have just realised that the time has slipped away. I have one last question. Has any work been done on the impact on the rental market? The institute tells me that you get about 4 per cent of the houses in an area available for the rental market, and it is currently about 0.7/0.8. The rental market is very tight and rental prices are going up. I think it is a reasonable assumption to say that new rental properties will be built after the introduction of this new system. Is there any work that has been done at all on what effect this will have on the rental market and the costs that therefore are passed on to renters?

Dr Mullins: Some limited work has been done on it and that work suggests that the impact at worst will be minimal and at best will be almost non-existent. It is a marginal impact at worst.

THE CHAIR: Can we see that work?

Dr Mullins: It is not exactly in a format that is simply just presentable but—

THE CHAIR: I am happy to receive it in a format that is presentable, if that is easy.

Dr Mullins: Yes.

THE CHAIR: All right, thank you. Are there any further questions? Treasurer, thank you for you and your—

Mr Quinlan: Just one last piece of information the committee ought be aware of is that, in anticipation of this system and the commitment that the incoming government made to it, the Assembly last year accepted an across-the-board CPI increase in rates to apply as an interim and, I understand, anticipated that a similar thing would occur for this year to allow the 12 months lead-in necessary in the implementation of this system.

The committee should be aware that there have been in that two years considerable variations in the rate of increase in unimproved values and that a reversion to the old system, CPI capped and all over the three years, may still involve increases in some areas of 25 per cent in rates. For example, say, the suburbs of Chifley, Macgregor, many of the Belconnen suburbs. Because we have held down rates in anticipation of this and are forced to go back to the old system, then that will be the consequence next year. I would suggest it might be a political issue next year.

THE CHAIR: Does your list include the suburbs where rates might go down?

Mr Quinlan: Yes, it does.

THE CHAIR: And what suburbs would they be?

Mr Quinlan: O'Malley, Yarralumla, Red Hill, Griffith, Reid—want any more?

THE CHAIR: Yes, keep going. Could we have that list—

Mr Quinlan: Barton—

THE CHAIR: Could the committee please have that list, Treasurer?

Mr Quinlan: No, you can't. It is not a difficult calculation for you to do, and I will get people to do it for you, but this has been knocked up as a working paper in my office. You will accept, I am sure intuitively, that there is a problem where there have been increasing land values in some areas. We have held them down to CPI. If we go back to the old system then there will be that level of increase as a consequence, just in applying the system, or reverting effectively to the old system.

THE CHAIR: Perhaps more work should have been done on the new system before it was presented to the Assembly.

Mr Quinlan: Well, perhaps those that had problems with it should have brought up those problems some time ago instead of waiting till the last moment when the legislation was brought down.

THE CHAIR: Perhaps there should have been greater consultation and a greater time period set aside for that consultation to occur.

Mr Quinlan: I am very happy to—

THE CHAIR: Treasurer, I am happy to go on for another 20 minutes if you wish.

Mr Quinlan: I am happy to have that debate in the lead-up to the next election, Mr Smyth, when these rates come through.

THE CHAIR: Well, maybe we will. Threats to the committee I think aren't acceptable, Treasurer. But thank you for your attendance and that of your staff and members of the Public Service.

Mr Quinlan: Thank you.

The committee adjourned at 4.39 pm.