LEGISLATIVE ASSEMBLY FOR THE
AUSTRALIAN CAPITAL TERRITORY

STANDING COMMITTEE ON PUBLIC ACCOUNTS

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

Members:

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

TRANSCRIPT OF EVIDENCE

CANBERRA

WEDNESDAY, 4 JUNE 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 2.07 pm.

DANIEL STUBBS,

DAVID TENNANT and

JIM PURCELL

were called.

THE CHAIR: Ladies and gentlemen, thanks for attending this afternoon for the Standing Committee on Public Accounts hearing into the Rates and Land Amendment Bill 2003. We begin with a little bit of housekeeping.

You should understand that these hearings are legal proceedings of the Legislative Assembly, protected by parliamentary privilege. That gives you certain protections, but also certain responsibilities. It means that you are protected from certain legal action, such as being sued for defamation for what you say at this public hearing. It also means that you have a responsibility to tell the committee the truth. Giving false or misleading evidence will be treated by the Assembly as a serious matter.

Please speak clearly into the microphones. You will be recorded today and will be provided with a transcript later for verification, but if you speak clearly the system will pick it up better and we will not have any errors or a need for correction later. The other thing you might do is give your names on the first occasion that you speak, so that we can record you accurately. Who's going to kick off?

Mr Stubbs: I'll kick off. I might just do the introduction, to get it out of the way. My name is Daniel Stubbs. I am director of ACTCOSS, the ACT Council of Social Service.

Mr Tennant: David Tennant, director of Care Financial Counselling Service and the Consumer Law Centre of the ACT.

Mr Purcell: Jim Purcell, executive director of Council on the Ageing (ACT).

THE CHAIR: Gentlemen, welcome. Over to you, Daniel, for an opening statement.

Mr Stubbs: Thanks for the opportunity to come and speak to the committee and also thanks for the opportunity to allow us to all present together. We felt that our submissions and perspectives on this matter were so similar that it was important for us to come together and present our perspectives together, in one go, and have a bit more of an opportunity for interaction on these difficult issues. I will start and then the other representatives will provide presentations as well.

The first thing that we'd like to recognise about this proposed tax change is that there's nothing socially equitable about this tax change. It's not done on any basis of social equity and it's worth recognising that fact, that you could be very wealthy and living in a house of very high and escalating value in the ACT and be keeping your rates to stay the same in real terms over a very long period of time. We believe that those real freezes are done to be made politically acceptable or palatable to the voters, if you like.

What tends to happen when people hear about this rates change is that self-interest kicks in fairly quickly, whether we like to admit it or not. People think, “Okay, I’ve been in my home for the right amount of time and I’ll stay there and my rates won’t increase in real terms.” That’s what people tend to think as soon as they hear about this proposed rates policy. As I say, there’s nothing about social equity to do with this.

We also believe that, in fact, it needs to be thought of as a form of land tax. If we think of it that way, because although rates are somewhat romantically linked to the idea of rubbish collection, roads and that kind of thing, it goes into the general revenue bucket and it’s another way of raising revenue. We believe that ideally an overhaul of rates would need to actually be done together with an overhaul of land taxes generally if we’re going to be genuine about looking at these forms of taxes.

We believe quite strongly that taxes need to be directly linked to means, and this doesn’t do that. As I’ve said, there’s nothing socially equitable about this approach. We would ideally like to see all taxes reviewed and overhauled to consider the means, as in people’s ability to pay. But at least when we’re reviewing taxes and changing taxes, we should use social equity and vertical and horizontal equity measures as a key reason by which we might change taxes.

Taxes need to be directly linked to people’s means. It’s not about taxing unearned income, which is what this is about. We’d like to see the documentation on other models. We don’t have another model, but we know that Treasury has at least three others. There was serious consideration of a number of other models and this is the one that they came out with. Now, that’s not consultation; that’s, “Here’s the model and what do you think of it?” There was no consultation on this approach.

There’s a range of reasons why we raise concerns about this and one of the more obvious ones is about the fact that many people need to move, based on social reasons or economic reasons, and moving house is already a high cost. People tend to incur higher mortgages, stamp duty and a range of other costs when they have to move, whether it be for a social reason or for their own personal reasons.

This may also result in forcing people out of their current region or out of their current community because the AUVs will have increased in their current community around them and they will have to go somewhere else. It will, potentially, not allow people to live near the services and amenities which they would rely on because, of course, those houses closest to services will have the greatest increase in AUVs.

It’s not clear how landlords will be treated. We are particularly interested in how landlords who don’t even live in the ACT will be treated. Our assumption with the current policy is that landlords, assuming there’s no turnover of that property, as in they don’t sell it, will continue the same real rates, regardless of the fact that they may have their renters turning over fairly regularly. I’d be interested if anyone on this committee—particularly you, Mr Chair, given that you’re on the Estimates Committee—has heard of any reports on the administration costs of this new form of rates.

Just some other minor matters. The CPI used to index is a higher rate of CPI than is used for other forms of grants to the community or pensions, which is worth noting. I think the general CPI used for grants this year was 2.5 per cent and I think rates will be attracting a CPI of 3.2 per cent.

I'd like to leave it there and hand over to my other two colleagues and then we'll have questions after that.

THE CHAIR: Daniel, thank you. We will move on to David Tennant of Care.

Mr Tennant: Our perspective is rather more focused than my colleague from ACTCOSS. It's right that ACTCOSS would take a broader view of the social implications. As a service delivery agency, we're rather more focused on the impacts of the current rating system in comparison with the proposed system on our client group. Just to give the community some context for that, in the last calendar year Care saw or responded to approximately 2,000 new requests for assistance and, predominantly, those are low income people. Just over 60 per cent of those people had incomes of less that $20,000 per annum.

Not surprisingly, we see a disproportionate number of people who are in rental accommodation and, more particularly, in public rental accommodation. But it has always been the case because of the mix of people in the ACT that we also see a large number of people who are buying their own properties and at many stages of life. I think across all of our statistics, about 20 per cent of the people we see live in homes that are their own or that they're purchasing with the assistance of a financier.

With that as the background context, we've focused our comments to Treasury on some quite specific issues. One is the impact of a move to acknowledging long-term residency that may have an inadvertent consequence of making it more difficult for people to move at points in their life where they might need to be considering the shift to more appropriate accommodation, whether that be because of health or age concerns or just the fact that their families have grown up and moved on.

If the impacts of rate increases are only felt at the point of moving, then that may mean that people are making conclusions that they should stay in properties that are inappropriate for their means and circumstances when they would otherwise be better served by moving to more appropriate and affordable accommodation.

So, in the same way that there's a consequence of people being rated out of their properties, it's equally at another point in their life inappropriate to force them to stay in properties that are no longer affordable for them. We note that the Treasurer has indicated that portability of long-term residency might be an issue that can be considered. It would be terrific to know the detail of how that might work and precisely how it is that you might deliver a system of that type.

I'd suggest that a way of doing that is not necessarily by tagging it to pension recipients or health care card holders. It more appropriately needs to connect with the financial and physical needs of consumers at that point in their life where they might be considering such a move.

The other issue that we have been quite interested in is the impact of concession systems. Although the Treasury's papers suggest that the ACT's concession system is more generous, comparatively, than some others, the benefit that it delivers, being capped at $250, cuts out at a relatively low level in comparison to the costs of ACT rates. We think more thought needs to be given, both in the context of this review and in the fact that we've been reviewing concessions more broadly, to exactly how that concession system attaches to need and delivers appropriate outcomes.

Quite clearly, there's nothing of that type in the proposed changes. In fact, an ideal outcome would be to apply no cap. I think in the Treasury's papers there was at least one jurisdiction where that didn't apply. But, failing that, at least making sure that a cap can move with the same indicator, being the CPI that rates are intended to move, at least allows it to keep pace with changes in the market.

We've made some other quite specific comments about the impacts of the credit market for low income people and on the issues involving the ACT homes loans portfolio, but they are quite specific matters and we don't necessarily feel any need to present on them unless the committee has got questions specifically about those things.

THE CHAIR: David, thank you. Mr Purcell?

Mr Purcell: Thank you, Mr Smyth. I think we need to recognise that the ACT is going through a fundamental demographic change at the present time in that the numbers of older people are growing rapidly. I guess what that means for us as a community is that we're going to have more retired people in our community than we have ever had in the past, and retired people are generally on a fixed income and therefore don't have the capacity to make significant changes to their housing accommodation, unless it is at an equal level or at a lower level.

One of the motivators for people to move to more appropriate housing is the cost of that housing, as well as it being accessible and adaptable-type housing, that is, that it's built specifically for older people. But people take into account all of the costs. One of the costs that they do take into account is, of course, the rates. Often people are motivated either to buy or not to buy based on that particular cost, even though that is only a small proportion of the cost. So what COTA is most concerned about is that there could be an unintended consequence associated with this proposal, in that it may motivate older people to remain in a home which is no longer appropriate to them.

I note also, as David did, that Mr Quinlan has indicated that there may be some capacity for portability, but we don't know the detail of that. Until we do know the detail, it would be remiss of me to talk about what that might be able to do. I would also comment on the current concession that is available to pensioners. That, as David said, is capped at $250 and that, in this day and age, with the rate of rates, isn't a great deal of money.

The other issue I want to discuss, of course, is the rates deferral and the fact that very few people defer their rates at the present time because they don't want to create a debt on their estate. COTA has had no joy in trying to promote the scheme amongst older people. It's simply not taken up. But the question, I guess, that needs to be asked is that, if people do defer their rates and continue to live in the house, whether that rates deferral will be on the CPI basis or the AUV basis. I simply don't know the answer to that question.

But in discussing concessions, we do know that the Chief Minister's Department is undertaking a concessions review at the present time and we don't see that this particular rates policy has been linked in any way to that concessions review. In our submission, we have indicated that perhaps there ought to be some linkage to that concession review and the current arrangements proposed to be put into place with this amendment bill.

We're also concerned that there doesn't appear to be any linkage between the proposal and the proposed social plan that the ACT government is developing as well. I would link that, as I say, to that fundamental change we're going through at the present time with the demographic shift in the ACT.

Mr Stubbs: On the concessions, it's probably worth noting here, as we've noted in the Estimates Committee, that that concessions review has been going on for two years now and ACTCOSS believes that concessions are actually absolutely crucial to this discussion, because of the absolute inadequacy of the current concessions. When you can pay $2,000 in rates, as Jim and David have said, a $250 concession, when you've lived in Ainslie all your life, for example, is not really particularly helpful.

THE CHAIR: Gentlemen, thank you. I will start the questions. Daniel, you asked whether any questions were asked about the administration costs. Members might correct me if I get this wrong, but I think we asked this question when the Treasurer appeared before the committee many weeks ago. I recall his answer being that it would be absorbed, that it won't be a significant factor, and therefore no additional resources had been put aside to administer the scheme, because they expected it to be quite simple.

Mr Stubbs: This is before this committee?

THE CHAIR: That was before this committee, yes.

MS TUCKER: Also, when he came up with this idea of potential portability, and that was the first time, I think, that had been spoken about, I said, "What's the detail of that?" It wasn't developed at that point in time. In fact, it probably was the first time it had come up. I also said, "You need to come back with that detail, but also the administrative cost of that."

There are equally arguments that there are environmental reasons for not stopping people from moving house to smaller dwellings, if that's appropriate. The Treasurer didn't seem to be willing to apply portability to that area because, of course, it would be very difficult to determine, really. I think that the administrative costs of that would be huge as well, because you've got to make then a determination whether or not there's an environmental benefit to a person able to move, et cetera.

I also asked did it go through the Office of Sustainability and the answer was that it hadn't, or it had but it hadn't been commented on. So there really has been very little detail given to this committee on that particular issue and we're always looking for that detail.

Mr Purcell: Sure.

THE CHAIR: David, does Care receive many requests for assistance that grow out of an inability to pay rates?

Mr Tennant: Specifically, not on rates. The main drivers of financial difficulty that would see people come to an agency like Care are life changes that people can't predict, like illness, loss of employment, death in the family. But increasingly, as Mr Purcell said, we're now grappling with the questions in the community sector as well of how we respond with an ageing community, and the statistics that Care has collected have shown a definite drift towards greater numbers of people over 50 years of age who need our assistance and who are retiring carrying significant amounts of debt, and they don't necessarily have the skills or the flexibility on fixed low incomes to be able to respond to changes as they get older.

There's a disproportionate impact of ill health at that end of your life than there might be if you were still able to return to the work force. So rates will be one of the issues that might come up when people are grappling with those types of financial difficulties. It tends to be only one of a set and a small part of that set of problems. I have to acknowledge that the ACT Revenue Office has made extraordinary attempts to tag responses on deferral to the need of the consumer at that particular time, that is, allowing people who need that assistance to get access to it is thoughtfully done and sensitively delivered.

That's not necessarily the same as saying that what's delivered is exactly what's needed. One of the things that we have alluded to in our brief letter to the Treasury is to say we perhaps need to have some greater flexibility about how we might deliver relief under the Financial Management Act from time to time. We work on presumptions that property prices will always rise, and we've certainly just lived through a period where that was something you could rely on and predict with a great degree of certainty. But it's in recent memory in the territory where there have been some quite significant dips in property prices.

When I first started at Care in the mid-1990s, there were pockets of communities in Canberra where property prices dropped by as much as 30 and 40 per cent in a matter of a couple of months. It only takes one or two mortgagee sales in the same street of a particular suburb to change the way that property prices are viewed in that suburb. So we have a particularly—brittle is the wrong word, but we have a community that's sensitive to changes that can happen quite quickly and quite dramatically.

I think delivering a system that not only allows sensitive entry to deferral, but deals with the accumulation of rate arrears in an appropriate way is also important. I think it's dangerous to just let rate arrears accumulate up to, sometimes, in excess of $10,000, without necessarily having any flag where somebody says, "Why is it so large and what should we now do about it?"

Mr Purcell: Just to comment a little further on that, Mr Smyth: COTA gets requests every day for advice and assistance in relation to housing and housing financing. Up until recently, there were no opportunities for people to access the equity in their homes by way of a reverse equity mortgage whereby you didn't repay the principal while you were alive or while you were in that property. But there are products available now where retired people can access the equity, and that's been fairly popular.

That would seem to be at odds with the fact that people don't like to defer their rates. However, the principal reason, I think, is that people see no benefit to them in deferring their rates, whereas by accessing some equity in their homes they are able to do other things with the money. Some of them might use it to pay rates, but they will do other lifestyle things with it, so it's an odd situation.

THE CHAIR: So it's using your money rather than owing a debt to the government.

Mr Purcell: That's right.

THE CHAIR: If you get requests every day on housing and housing finance issues, does the payment of rates come up in those discussions?

Mr Purcell: Yes, it does. A lot of people talk to us about how they can move to more affordable accommodation or access that equity that's grown in their house over the 20 or 30 years that they have had it. Generally, as I've mentioned to the Estimates Committee, people want to remain in their neighbourhood. They don't necessarily want the four-bedroom, two-bathroom house on a quarter-acre block. They want a more manageable property, but in the same neighbourhood. If they can achieve that at about the same rate or access some of the equity that they own so that they can use that equity for further lifestyle things, they will do so. One of the concerns that we have about this is that it will deter people from doing that.

MS MacDONALD: Daniel, you talked about there being no social equity in the rates changes. Do you believe the current system is socially equitable?

Mr Stubbs: We don't, but we believe quite strongly that when you make a massive change like this the opportunity is there and we believe that that needs to be a key reason for any review of taxation or any tax change. We don't believe that that was the basis for doing this tax change. The evidence that we have or the data we have in front of us suggests it was done to find a way of making rates a very good growth tax for the ACT, and that's what the numbers seem to indicate, that this will be a significant growth tax in the future, but also one that is politically palatable, as in when people hear about it they think, "Well, I'll stay in my own home and I'll be okay." I hope that answers your question.

THE CHAIR: Daniel, on page 3 or 4 of your submission you make the comment that in the first year of operation of the new system general rates revenue is expected to increase by 8.7 per cent, which you lifted from budget paper 3. The final sentence says, "As the rating system is an off-budget measure, there appears to be no financial explanation available." Is your concern that the system is just a revenue-raising exercise, or is there another reason for that sentence?

Mr Stubbs: That's our observation. Our observation is that it is a revenue-raising exercise. I think it was entered into in good faith, that some work needed to be done with the rating system, but what we're presented with indicates to us that it is about providing a very high growth tax for the ACT.

THE CHAIR: Again, I hope I don't misrepresent the Treasurer, but there have been claims that this will bring them a huge windfall and he has consistently denied that, saying that he didn't believe that to be so. The current system, whatever failings it might have, does allow at times for rates to go down; so, as some property values decrease, you pay a decreasing amount in rates. This is a system where everybody's rates will go up every year at a minimum of CPI, which strikes me as being somewhat unfair.

Mr Stubbs: I could be wrong, but if someone is moving into a new suburb, they could get the benefit of new rates, but people staying can never go down.

THE CHAIR: Can never go down, correct.

Mr Stubbs: But when you're getting the new rating system on moving into a place, if it had just gone down you would get the benefit of that. I'm happy to be corrected on that, but that's our understanding.

THE CHAIR: That would be my understanding of it as well, except what it means is that in the main, if you stay where you are, you're always going to pay higher rates because they will go up CPI every year. You made a point about the use of different CPI rates. Should the CPI be applied consistently. If the government's giving and the government's taking away, they should use the same rate.

Mr Stubbs: Yes, and there are different measures of CPI that are presented by the Australian Bureau of Statistics and Treasury and different reasons given for that. My understanding of the reason for using this one is that often the general CPI basket doesn't include housing costs, whereas this one probably does. Nevertheless, we're talking about a fairly sizeable difference in that the money that the government gives out, I suppose, or spends has a different indexation attached to it than the money that it brings in.

THE CHAIR: A question for all three gentlemen. We've done some work comparing different rating systems with different cities across the country and they all seem to be different. According to ACTCOSS, is there an ideal rating system operating somewhere in the country or round the world?

Mr Stubbs: I'm sorry, we haven't done that research.

THE CHAIR: David, are you aware of any?

Mr Tennant: I'm not, I'm sorry.

THE CHAIR: Jim?

Mr Purcell: No, I'm not aware of any such research, but the view of older people generally is that they believe that they ought to pay their fair share and will continue to do so; but in terms of a better rating system or something that's absolutely equitable, I couldn't comment on that.

Mr Tennant: Perhaps at a general level, there are also different measures of things like poverty and it's disappointing that when there have been reviews of poverty so much of the debate has centred on the measure that you're using. The fairer systems, and a rating system included, actually have a capacity to respond to need.

One of the things that perhaps the system fails to do is to have sufficient flexibility to actually tag to need. It delivers some benefit for people not being rated out of their own suburbs, and we've all acknowledged that in our comments; but at other points in the needs scale, like when you may need to move to more appropriate accommodation, when your income changes and you might need to take advantage of a concession system that's fair, there isn't that flexibility, and that's where we think some extra work needs to be done.

THE CHAIR: There being no further questions, thank you very much, gentlemen.

DENIS LOVELL was called.

THE CHAIR: The committee calls Mr Denis Lovell, a partner in McCann Property and Planning, to speak to the committee. Denis, did you hear the reading of the warning?

Mr Lovell: No, I didn't.

THE CHAIR: All right. I just need to read this so that you know your rights. You should understand that these hearings are legal proceedings of the Legislative Assembly, protected by parliamentary privilege. That gives you certain protection, but also certain responsibilities. It means that you are protected from certain legal action, such as being sued for defamation for what you say at this public hearing. It also means that you have a responsibility to tell the committee the truth. Giving false or misleading evidence will be treated by the Assembly as a serious matter.

Mr Lovell: Thank you.

THE CHAIR: What you say today will be recorded by Hansard and a transcript will be provided to you later for verification. Please start by identifying yourself and stating why you are here. If you want to give us an opening presentation, that would be good.

Mr Lovell: Thanks, Brendan. My name is Denis Lovell. I am a partner with McCann and Associates, or McCann Property and Planning these days. I'm a property valuer by trade. I've spent the last 30-odd years doing that and a couple of years in the middle of it teaching in the property course at the Canberra Institute of Technology. In 1995, I was involved in the review of the ACT rating system, which was a fairly comprehensive review which I'm sure you've all seen. Indeed, some of the recommendations of that have been implemented.

I thank you for letting me appear here because one of the things I wanted to do, rather than just commit to writing what I saw as being the issues with this proposed new system, was also to be available to give the committee, if it felt it needed it, some feedback as to the practicalities of the new system. It just seems to me that what we're creating is going to become a can of worms and we will all wonder why we ever took the lid off it. I think we don't need to do that.

As a teacher, you never do a handout until after you've finished because people tend to read ahead, but I thought maybe it might be smart to give you what I propose to talk to. I only really wanted to go through and do dot points and just talk to them.

THE CHAIR: That would be fine.

Mr Lovell: It tended to be a bit more than that.

MS MacDONALD: I think it depends on the intent of the teacher as well.

Mr Lovell: It probably does, too. As a rule, I never gave anything out until the end of the lecture. It also kept them there. I thought that was another good thing. Is it best that I just read through it?

THE CHAIR: If you want to run through it, go for your life.

Mr Lovell: It seems to me that the key issue, which is the fundamental issue with all taxation, is that of equity and efficiency and you need to understand that no system is capably both, that invariably whenever you get into a system it's going to have inequities or it's going to have inefficiencies.

The key value is always the sum of money to be extracted and the base from which it's drawn is relevant only to the extent that it identifies who pays. The rest is taken care of by the rate in the dollar that's levied. At the one end we have a simple, really efficient, tax which is a straight poll tax. We're going to need $125 million and there are 125,000 ratepayers, let's just make everybody pay $1,000 a year—simple, efficient, nothing to be entered into, it's done.

At the other end you have a rate that reflects people's ability to pay. This has generally been applied by linking a person's capacity to pay with the value of the real estate they own. Now, it's not necessarily true, but it's been the linkage. At this level the improved value—note that's improved; not land value, not average unimproved value, but improved value—is the whole of the land to be rated.

Again, you still only require $125 million, so you simply take the total improved value of the city, divide that into the $125 million and it will give you a rate, apply that rate to how much a person's property is worth and away you go, there's a number. This approach, whilst it appears more equitable, is far less efficient and extremely expensive to implement.

Several states in Australia, and in this report we identified them, use improved values or variations thereof—assessed annual values, net annual values. At the end of the day, nobody really assesses the improved value properly and you get trade-offs for efficiency. You can't physically get around and do 125,000 improved values a year, so you mass appraise it and you just average out the numbers across suburbs. So you start from an error and that only makes it worse.

A compromise between improved values and the poll tax is a valuation based on land value. I should just highlight one thing with the improved values as well: it's a tax on enterprise. The person in one block who actually does their house up, extends it and does wonderful things to it and invests in the community pays a higher rate of tax than the person who sits there and does absolutely nothing. So it's inequitable in that respect; it taxes enterprise.

So the compromise between the improved values and the poll tax is a valuation based on land value, and this just simply gets us to a point where we say, "Let's get the buildings out of the road." People who own land, it still tends to cluster. I mean, you're more likely to find wealthy people in Griffith than you are Macgregor. That's not to say there aren't wealthy people in Macgregor, but you're more likely. So, in the overall scheme of things, we can pick up more rich people at that end of the world and the land values there tend to be higher.

Our review in 1995 suggested a two-tiered system, a system that said, “Let’s take a base charge and get 50 per cent of our rate revenue out of that and let’s use the ad valorem or the value-based approach for the other half.” It got applied to a degree. It currently is in there, as I understand it, and it accounts for about 35 per cent of the total rate take. So it’s getting there, and it gives us a tax-free threshold of about $19,000. I could be wrong in those numbers; no doubt Treasury can tell you exactly what they are.

But it would seem to me that you could go to 50 per cent and raise the tax-free threshold to 50 grand or whatever the number might me and it has a lot of benefits because it smoothes out a lot of the variations. Bear in mind that we still only need $125 million. So, in theory, we don’t need to crank this thing; we just need to keep drawing our 125. The use of the second half of it on the ad valorem system gives us a balance between efficiency and equity. Land values are pretty easily assessed on a mass appraisal technique. The land doesn’t tend to change and the relativities don’t tend to change.

It’s important to note that the average UV concept was introduced as a smoothing mechanism after the initial report. In large part, it hasn’t really done that. Because things have gone up really severely in some areas—in south Canberra, for instance, the land values have gone significantly higher than they have in Macgregor, if I can keep using that as an example—it hasn’t really smoothed things at all. People are still getting substantial jumps. The main reason for that is because we’re collecting too much money out of the ad valorem system.

I think you identified with the people before, Brendan, that rates fluctuate, they go up and down, under the existing system and there are always going to be winners and losers. The rates payable between industrial, commercial, rural and residential at the moment are all in the one pot, but in some areas there has been differential rating introduced, where the government has taken the view that we wish to take 20 per cent of our rate take out of the commercial/industrial sectors and 80 per cent out of the residential and, no matter what, we will always take that, no matter what the values are in those relevant sections.

If there are substantial rises in the commercial area, or substantial falls in the commercial area, more to the point, those losses, those reductions in income streams don’t get passed on to the residential sector. So you can quarantine where the rates are paid by simply differentially rating and determining what the balance might be. It might 80:20; it might be 70:30.

In Queanbeyan, this has been used, and I use the issue there. They’ve had this since the early 1970s. It has got a bit out of kilter there to the extent that the industrial and commercial in Queanbeyan pay significantly more rates than the value of their property. Their rate in the dollar is quite significantly different to get the amount of rates and it acts as a disincentive to investment. That could happen if you get the rate wrong, so it’s a question of balancing the rate as you go.

One of the things that have come out has been the difference between what the land’s actually worth and what it’s assessed at. This has been highlighted in the Duffy and

Chapman land sales, and we've seen blocks of land selling for $250,000, $400,000 or $500,000 when the land values assessed on them are under $100,000 or under $200,000. We should see that as being just highlighting an error in the system.

The way the values have been assessed in the past whatever number of years hasn't kept pace with where the land values have actually gone, and that's a systemic problem. You only need to go to Macgregor and look at unimproved values on substantial blocks with great views at $112,000, yet across the road they're selling blocks of land that are 400-square-metre courtyards with no views at all for $150,000. They're wrong by factors of at least half, some of them by double. Chapman and Duffy just prove that to us.

We've known it all along, but it doesn't really matter as long as they're wrong across everybody. It's when they get wrong in one part and not in another that they become an issue. What we find is wherever there is a surfeit of vacant land sales, the values tend to be more on the ball. But where there are long established areas with no land sales, the values tend to be too low. That suits a lot of people because what happens is that nobody objects to the value because it's too low, and so therefore you get less administrative work. So there's almost an argument there to keep them low and not have to worry about things.

You should be aware of a recent case in Hunters Hill where one-off land sales had been used by the state valuation office and the valuer-general in the application of land values in the area and he got rolled in the Land and Environment Court—the old one swallow doesn't make a summer argument, so the fact that one block sells for that shouldn't mean that the whole suburb is worth that.

I'm almost of a mind that they had enough sales to prove it. Certainly, in Duffy and Chapman we have enough sales now to prove that the land value there is $200,000 for a block of land. We know that. It's not one sale; it's a dozen sales. The difficulty is going to be if we put $200,000 on those, but in Stirling we leave the values at $100,000. That's where the issue is going to arise.

In my view, the rating system is one which is perpetually in flux and in which there will be winners and losers all the time, depending on the vagaries of the market. At best, we can hope for some rationalisation and control of the adverse impacts and large rate shifts through the collection of a substantial portion through the fixed charge.

My only comment on the system as we have it proposed is that I just don't see what it adds to efficiency, equity or simplicity in the rating system. It has a number of unintended consequences, I believe. If you think about people's passages through home ownership, they start at the household formation stage and get a unit or something like that, and then at the family stage they have a house, and then at the empty nest or retirement stage they go back to a unit and they move through these various stages of home occupation.

That, to us, has got a lot of benefits to society that we don't want to lose. I recently had to do a valuation in Turner and I came across this house—it was a little guvvie house—that the people had moved into new in 1951. They were still there in 2002. They had raised their children there, who had all left, and there they sat in this little three-bedroom guvvie house on a 1,500-square-metre block of land in Turner, estimated value about $700,000.

They were a Housing Trust tenant from 1951 to 1981. They bought the house off the Housing Trust in 1981 and they now, in 2002, sit on an asset of $700,000. I suspect they didn't pay $700,000 in 1981. So any talk about these poor little old people being shunted out through the rate take or anything else like that we should view in perspective. There will always be people who will have opportunity thrust upon them and will end up in quite good circumstance by virtue of being wherever they are in the one house.

I would think that they haven't added significantly to the community capital by sitting in one spot in a house on a block of land that doesn't really reflect the highest and best use of that land for 50 years. Certainly, in my view, they shouldn't be treated any better than the people who moved out of the big house, or out of the unit in Turner into a house in Turner and back into a unit in Turner. Where's their problem? They've moved around and they've paid stamp duty along the way.

The issue also in terms of stamp duty is a bit of a sleeper. I don't know how much we've done the sums on this, but if at any stage this exercise stops people from transferring from one form of housing to another, even at a 10 per cent number, we lose a potential $9 million by my calculations on stamp duty every year, just because people don't transfer. That's only a 10 per cent reduction.

In summary, if it's the government's intention to cap the rate increases to CPI, then they should just do that. The 2,500 new households that we create every year in Canberra add, effectively, 2 per cent of growth over and above CPI. What the government is saying is that we still only need $125 million, but if we grow it at CPI plus 2 per cent it's still not enough for us. Given that, of those 2,500 properties, 1,000 of them are going to be in the redevelopment area, you would think, since government is not spending much money in there, that it's even more profitable.

I noted on the radio program when the Chief Minister and the Treasurer were on that the comment was made that nobody really talks about rates over dinner parties. That's quite right; they don't. You don't talk to your next door neighbour about what rates they pay and you don't talk to the neighbour across the road about what rates they pay, but I'll tell you this: if you change the system so that I'm paying 20 per cent more rates than the guy that lives across the road from me on the same block of land with exactly the same services and everything, and the only reason he pays less is because he's lived there longer than me, then it will be dinner party conversation talk, and I think it will be dinner party conversation talk for all the wrong reasons.

So, simply, it's not the best, but if it's not broken we shouldn't be trying to fix it. Thank you very much for that; that's it.

THE CHAIR: Denis, thank you. You seem to have a little interest in and a bit of knowledge about rates. Are you aware of where this system might have been tried anywhere else in Australia?

Mr Lovell: I asked that question when we had the briefing in this building, upstairs, several months ago and the answer was given that the City of Brisbane may have used it. I've certainly not encountered it anywhere. Indeed, anywhere I've looked in New South Wales, the trend has been far more towards the 50 per cent flat tax, 50 per cent ad valorem tax. Everybody seems to be going for that sort of mix as being an optimum number. But I've certainly not encountered it.

THE CHAIR: Is there, in your opinion, a better system that we as a committee could look at? Is there a jurisdiction that does it better than the ACT?

Mr Lovell: No, I'm sorry, I can't define "better". More equitable, more efficiency—

THE CHAIR: You talked about equity and efficiency. Is there a system somewhere around Australia or, indeed, around the world that is more equitable and more efficient?

Mr Lovell: I heard you ask that question earlier and I commented to a chap I was sitting with over there that probably only in the province of utopia are you going to find a system that is both equitable and efficient. They're conflicting concepts and it's a trade-off always between them as to which one you adopt.

MS MacDONALD: So you're arguing that we should stay with the current system.

Mr Lovell: Yes, I would argue to stay with it on the basis that there are not enough narky things in it that you can't fix through some other form of safety net, through some other form of government assistance, whether it be deferment of rates. I think the deferment of rates as it currently exists is great. It bothers me that only 71 people use it, but anyway.

MS MacDONALD: Do you think there's an issue with the fact that people can't actually plan for what their rates are going to be in the next 12 months?

Mr Lovell: No, I don't think so. To what extent do people plan those sorts of things anyway? I can't plan my electricity bill, either, really. I've got some control over it, but I can't plan it. No, I don't think so. And predictability. If we want a CPI rise as a safety net issue, why don't we just do a CPI rise? Why do we have to burden it with all this other stuff? Is it because we want rate growth? If we want rate growth, why do we want rate growth if 2,500 new dwellings a year adding 2 per cent over and above CPI to the rate base isn't enough?

MS TUCKER: Having the flat rate at 50 per cent, as you are suggesting, is that equitable?

Mr Lovell: No more equitable than 35 per cent. It has its impacts. It's a question then of how far you raise the bar for the tax-free threshold. You don't just do it and leave everything at 19 grand. You say, "Okay, if the flat rate charge is now going to account for half our rate take, then the rate-free threshold is going to go from 19 grand to 60 grand," or whatever the number is. And then there's going to be a whole swag of people who will just pay the flat rate and nothing else. The value of their land will become irrelevant. That will happen a lot in strata developments, I would expect.

MS TUCKER: In what?

Mr Lovell: In strata developments where you take the unit entitlement and you bring it down and find that the rateable unit entitlement is $31,000. At the end of the day it works better for those sorts of things because you actually extract more rates out of your users on a base number.

THE CHAIR: In all your years in the industry, are you aware of people making their decision to buy or sell based on the rates? Is it a driving determinant in what people do?

Mr Lovell: I've not sold real estate, so I've not ever been in that end of the world. Certainly, I've never had it thrown at me as a reason a sale fell over, because the rates were too high. It may often fall over because the valuation is not high enough, but no. I think perhaps the real estate industry would be the best people to answer that.

Just going back to your query about other systems, I know that the City of Port Phillip, as Victoria is all on improved values, attempted to do improved value assessment and improved value rating and found they couldn't do it, certainly not do it in any efficient sort of a way. They had people fundamentally driving down the streets of Port Melbourne just looking at the houses from the streets and writing a number on a piece of paper as to what it was worth in order to determine people's rates. I think that that's not necessarily a system we want to get towards, either. We've got a system that's fairly good as it stands at the moment and doesn't create too much dinner party talk, so it must be doing something right, so leave it alone.

THE CHAIR: You raise the issue of, say, the block in Macgregor versus the block in Dunlop. Is there the opportunity now for a fundamental re-evaluation of all the blocks in the ACT? Is that necessary?

Mr Lovell: That happens every year, in theory. It's just that the relativities don't seem to change much. I guess the point I'd be making is that the relativities today are no more right than the relativities were last year and the relativities will be next year. They swing and they move. Yes, in an ideal world, you'd say, "Good, time to revamp Macgregor and get the numbers up." Likewise, the same could be said of Kaleen. I can remember that in 1994 houses in Charnwood were selling for the same as houses in Kaleen. Now, that's almost a nonsense, but it was that sort of market. We're almost at that sort of market again now.

THE CHAIR: But at the other end of the cycle.

Mr Lovell: At the other end of the cycle; it has just changed again. You know that if you have two vacant blocks of land, one in Macgregor and one in Kaleen, the one in Kaleen would probably attract a higher value.

MS TUCKER: Have you ever seen in your study rating systems that take into account environmental questions so that, for example, you would pay less in rates if you had a house that was environmentally best practice, or you didn't require so much garbage to be collected, water use, power use or whatever, so that there were pricing signals attached to rates relevant to environmental impact? Have you ever seen that anywhere?

Mr Lovell: No, I don't know that anybody could. Most jurisdictions still operate on land values. As I say, there are some that operate on improved values, but most operate on land values, which, of course, takes all those wonderful things out of the equation.

MS TUCKER: Yes, I understand that. I was just interested to know, because you have looked at the question so thoroughly over the years, if you'd seen that brought into the rating system anywhere.

Mr Lovell: No. The closest they get to it is in the heritage areas of Sydney with the requirements of heritage acts that are to be taken into account. So, notwithstanding the value of the land vacant, you either have regard to the fact that it sits in a heritage zone or the building is in a heritage zone, or whatever; those sorts of issues come into play. But I haven't seen the environmental one, no.

THE CHAIR: Can you name a council that does that in Sydney?

Mr Lovell: All of them, I would imagine. The heritage act is applied through the valuation of land act and it is one of the requirements to be considered. That would happen here in Reid, for example, where there's a blanket heritage conservation over it.

THE CHAIR: Are you betting on that?

Mr Lovell: No.

THE CHAIR: I'd be surprised if it did. You make in your submission the suggestion that we should have a higher base charge, up to 50 per cent, with a corresponding higher tax-free threshold. Does that help perhaps a self-funded retiree, a superannuant or a person on a pension in, say, an older suburb where the land values have gone through the roof?

Mr Lovell: I haven't done the numbers; I don't know. Again, I would have thought that those self-funded retirees or anybody who is having difficulty paying the rates has a system available to them at the moment which is generous by any measure, and they choose not to use it. I don't know that you can change the system to pick up those people.

MS MacDONALD: I may have missed this before. If the proposed system were brought in, do you think that it would be a disincentive to buying and selling?

Mr Lovell: I don't think there's any question about that. It won't be in the first instance, but as the numbers get greater. We have to understand that the average unimproved value moves at a rate greater—we'll just deal with land value for the minute—than CPI. If you track that over any number of years you'll see that there's a gap. So you go two years, three years, five years down the track and suddenly there's a gulf.

People should never be forced to move out of their suburb—people, school kids, relationships, friends, all those sorts of things. Really, you can fix the thing, I would have thought, by making sure that suburbs have a range of housing available to people. But this is a positive disincentive to moving, no question. If I'm going to move across the road from a four-bedroom house to a two-bedroom townhouse and my rates here are going to be 80 per cent of what my rates are going to be over there, why would I move? I might as well just close the doors and not heat the two bedrooms.

THE CHAIR: There being no further questions, thanks very much.

Mr Lovell: Thanks very much.

JAMES DICKINS and

DENIS ROBINSON

Were called.

THE CHAIR: Welcome, gentlemen. I'll read you your rights, and then you get to make an opening statement.

You should understand that these hearings are legal proceedings of the Legislative Assembly, protected by parliamentary privilege. That gives you certain protections but also certain responsibilities. It means that you are protected from certain legal action, such as being sued for defamation, for what you say at this public hearing. It also means that you have a responsibility to tell the committee the truth. Giving false or misleading evidence will be treated by the assembly as a serious matter.

Mac, would you like to make an opening statement on behalf of the North Canberra Community Council?

Dr Dickins: I'm James MacGregor Dickens, I'm here as chair of the North Canberra Community Council. My colleague, Mr Robinson, is going to do the talking. He is a member of our committee who has made a study of the bill. So if I may, I'll hand over to him. If there are some questions, maybe I'll be able to help.

THE CHAIR: Denis, please identify yourself for tracking purposes, and then give your submission.

DENIS ROBINSON was called.

Mr Robinson: Denis Robinson, committee member of the North Canberra Community Council. The committee invited the council to make a submission. Our submission, Mr Chairman, is a fairly simple and straightforward one. The council considered the bill and supports the intent of the legislation.

In 2001, 12 per cent of the population of North Canberra was aged 65 and over. This figure of 12 per cent in North Canberra, as a whole, rises in particular parts. Thirteen per cent in O'Connor and 14 per cent in Lyneham are 65 and over—and, of course, the proportion of the elderly is rising. Empirical evidence suggests that the majority of those over 65 own their own homes.

We see that the proposed measure has a number of advantages over the present system. The method of assessing rates for long-term owners, in line with increases in the consumer price index, will be of particular advantage to retired residents who do not wish to be forced out of the longstanding occupation of their homes by rates rising faster than the CPI.

Particularly in the older parts of Canberra, where some land values are rising sharply as developers purchase existing homes for demolition and erection of large—and also dualoccupancy—dwellings, the new rating system will give stability to the established residents who wish to remain in their homes. Importantly, the measure will give a degree of certainty to the size of home owners' rates, which will allow them to budget for the amount, with some precision. They will be shielded from the effects of high sale prices achieved for nearby properties.

It has been countered by some that an adverse effect of the proposed measure will be to discourage long-term owners from moving to smaller, more suitable, accommodation as they age, or their families depart.

In our view, the main impediment to their moving will not be the increase in rates a move may entail, but the amount of stamp duty required on the purchase of another dwelling. The increase in land rates will be relatively small and will be met annually. However, the stamp duty to be paid on purchase is large and immediate. On a property purchased for around $300,000, the stamp duty payable can be of the order of $12,000, which is very significant.

It is unlikely that stamp duty will be eliminated as a source of government revenue. It is a growth tax and importantly, I think, for any government, it broadens the tax base. We note that in the last financial year, stamp duties were the single largest source of government revenue—exceeding the revenue from rates by a considerable amount.

When the cost of stamp duty is added to the cost of conveyancing, building inspection and other costs associated with purchase, the rate increase for a new dwelling purchase seems to be of a lower order of significance. What we are saying is that, when people in existing homes are contemplating moving, for whatever reason, there will be many other significant costs they have to face and the additional rates that may be payable will be of a minor order.

The proposed measure, as we see it, is reasonably easily understood. It is simple to implement and is of considerable advantage to existing home owners who wish to stay in their homes. Therefore, we think it has a fair measure of community support.

THE CHAIR: Thank you, sir. You say it has a fair measure of community support. Has it been discussed at the council?

Mr Robinson: It's been discussed in the council.

THE CHAIR: Is the council endorsing the intent of the new bill?

Mr Robinson: Yes.

THE CHAIR: Is the issue of stamp duty, in your opinion, the real detractor from moving—the fact that, as you say, it's large and immediate?

Mr Robinson: It is—for a very human reason. A property is advertised for sale at a certain figure. A mental calculation then has to be made before you arrange a loan—before you contemplate whether you're able to purchase that house. You need to take into account the other items. In most cases, stamp duty would be the largest additional item on top of the sale price of the house. It is not something that is given to you. You must look at it and calculate it, together with conveyancing costs. It is important.

MS TUCKER: I understand the arguments you've put, and thank you for putting them. I'm interested to know how you respond to the counter-argument where people do want to move. I know you're saying that stamp duty is a significant cost, but that is something you deal with at the time of selling and buying.

You said that the rates are insignificant. If you have a fixed income, even though it doesn't seem like a huge amount of money—this is certainly the argument put by some people—rates are a considerably onerous burden on people. It is something they have to keep paying, and it's significantly more than if they stay where they are. That is an important factor in a lot of people's minds. You don't agree with that? The ongoing cost of rates is obviously something you have to deal with indefinitely.

Mr Robinson: A virtue of the government's intention on rates is that you will have a very good idea of what your future rates are going to be. You know that, if the cost of living is going up currently around the order of 3 or 4 per cent, the burden of rates next year is not going to be so much greater than this year. In other words, you know roughly what the order of it is and you can plan for it. Under a system based on unimproved value, it's merely a guess as to what the rates are going to be. People prefer to go for safety and security, knowing what their commitments are going to be, rather than the unknown.

THE CHAIR: Has there been discussion at the council on people raising the issue of being forced out of their homes by rate increases? Is that an issue that crops up constantly?

Dr Dickins: Yes, it is. It comes up frequently. There's a strong feeling in the community about the high level of rates. There are pensioners, for example—someone was talking to me a few weeks ago—who are very concerned about their rates situation. I won't speak about the business of putting it off until you're dead. That is a kind of charity that most people don't wish to be involved in—and there's a high interest rate. I don't want to speak about that.

MS TUCKER: What was that about the deferment that you were just speaking about? I didn't hear what you said about deferments.

Dr Dickins: It's probably pretty well known to you that there's a way of deferring your rates—but people just don't like to be involved in it. Perhaps I could comment that North Canberra isn't full of rich people. It's not that kind of place. There are a lot of people who have been there for a long time, who have moved from other places. It's not one of the rich areas of Canberra. Especially in the last two years—as it has everywhere in the city, not only in this area—there's been a large increase in land prices.

People don't feel they're sitting on goldmines. Many people want to stay in their homes. It's not as though a lot of people want to go into something smaller. Probably, it's more the other way around—they'd rather go into something larger—but I won't go into that.

THE CHAIR: That is interesting. Your feeling is that most people would rather stay in their existing home, rather than getting something smaller? You might have raised a family, the family has left and you're in a three or four-bedroomed house.

Dr Dickins: There comes a time, because of physical difficulties. Apart from the growth of physical difficulties, most people don't want to suddenly divest themselves of a house because their children have grown up and left. There are many other things people want to use their houses for, including, for instance, having their grandchildren stay with them when they visit—or using an extra room for a study. You know, there isn't a terrible feeling that they want to move. Four bedrooms are unusual. They don't want to go from a three-bedroomed house to a two-bedroomed house, or from a two-bedroomed house to a one-bedroomed house. There's not a great desire in that direction.

I'll finish up by saying that people don't feel they're sitting on a goldmine. For people who have made themselves comfortable where they are, the increase is not meaningful, because most of them are not going to realise the gain. There's a time when they might move to a retirement village. They've then got to find the money for a unit in a retirement village, which are often very expensive. There isn't a whole group of people sitting on something which is worth a lot of movable, ready cash.

Mr Robinson: To add to that, most older people that I've come across do not like great change. If they can stay where they are until their day is done, that's the way they prefer it. A concrete example of this is Masson Street, Turner. It runs west from Northbourne Avenue, parallel with the pine break. On the corner of Northbourne Avenue and Masson Street, there's a new 10-storey block.

There is one house left in Masson Street, and it is alongside the 10-storey block. The sole occupant is a very elderly gentleman who refuses, point blank, to move. I am sure there's no other house left in Masson Street—they're all units. I am sure that particular house would be worth a small fortune, but he doesn't want to move. At his age, should he be forced out by ridiculously high rates, and have to move into other accommodation? That is one of the questions your committee faces.

MS TUCKER: It is. The other point that is put, though, as I think you're aware, is that some people do want to move. They don't want to have the big block, the garden and the big house to look after—it's all become too much for them. They want to stay in their community because, as you said, they don't want too much change. So they've got their community around them.

I understand you're arguing that this is not as significant an issue as stamp duty and so on, but the argument is put that that will be a significant factor in their consideration of moving to a place they would be better able to manage. The rates would be different. The rates will not be so different right now but, a few years down the track, you could see a significant difference. That is a factor they would take into account.

I guess it's a matter of different needs. I understand what you're saying—that some people don't want to move—they want to stay in the big house. But other people get very depressed about having to stay in a place they can't manage. That's a concern people have expressed to the committee.

Mr Robinson: Therefore, I think the question there is: are the additional rates they might have to pay a major imposition? That will vary of course, but, by and large, it depends on what happens to the market.

MS MacDONALD: You've touched on the issue of knowing, for the future, how much the rates are going to be. A comment was made earlier, when I asked whether or not this person believed that was an issue. The comment was "No"—that your electricity and other rates fluctuate and you don't know what they are going to be. Do you have any comment to make about that, and about the differences?

Mr Robinson: Only that your other rates—electricity, water, sewerage et cetera—are paid quarterly, and so is your telephone. You have an idea of how much you're going to pay, s because you know your usage. You know jolly well that, during the current burst of cold weather, your gas, or whatever it may be, is going to go up.

Your land rates are paid annually—they can be spread over a period. You like to know, or have some idea of, what you must put aside to meet them. Under the CPI system, you have a very fair idea of that.

MS TUCKER: I know you didn't want to talk about it, but do you have a comment to make on why the deferment option isn't taken up?

Mr Robinson: Which option?

MS TUCKER: Deferment of rates, until after death. Have you ever talked about that with the North Canberra Community Council?

Dr Dickins: People feel that it somehow lowers their prestige. It's interesting.

Mr Robinson: They feel they're going to meet their maker a lot sooner.

Dr Dickins: Do you have figures?

MS TUCKER: That option is not taken up very much.

Dr Dickins: I don't know whether you've got any figures that you're working on but we only know it from what you might describe as our network.

MS TUCKER: Yes, that's what I'm asking.

Dr Dickins: Our network is probably better than statistics. People are very averse to it.

MS MacDONALD: Is some of that because they don't want to put the imposition on their children?

Dr Dickins: Probably, sometimes.

Mr Robinson: They're losing power, they're losing control over their future. In a few words, I think that's it.

Dr Dickins: They don't like to be in debt.

THE CHAIR: I suspect Mac's closer to the truth. I feel it is the perception of being in debt. It would annoy most people that perhaps they owed the government some money.

By the same token, in those areas where people may choose to take up the option of the deferral, it's against a background of enormous increases in the value of the properties. We've told Dad to spend the inheritance, rather than leave it to the kids. There must be an acknowledgement that the values of those blocks are going up. You're quite right, Mac—you can't spend the appraisal of the value of your block, but it is an asset you own that, in many cases, particularly in the inner suburbs, is worth an enormous amount of money.

Mr Robinson: I don't know how enormous they are. There are not too many blocks in North Canberra going for more than the Chapman block for $600,000-odd, which is interesting.

THE CHAIR: It is interesting, but I suspect that's an anomaly. It was a block of 3,500 square metres

MS MacDONALD: It was a very large block—it was a one-off.

THE CHAIR: Most of the blocks in Turner aren't 3,500 square metres.

Dr Dickins: No, they aren't.

MS MacDONALD: Most of the blocks in Chapman and Duffy aren't going for that amount either.

Dr Dickins: I don't know. Only in very particular cases are they so enormous.

THE CHAIR: Gentlemen, thanks very much.

NOEL McCANN was called.

THE CHAIR: Noel. Welcome. I will read you your rights. You should understand that these hearings are legal proceedings of the Legislative Assembly, protected by parliamentary privilege. That gives you certain protections but also certain responsibilities. It means that you are protected from certain legal action, such as being sued for defamation, for what you say at this public hearing. It also means that you have a responsibility to tell the committee the truth. Giving false or misleading evidence will be treated by the Assembly as a serious matter.

I ask you to identify yourself for the purposes of the transcript that is being recorded. Would you like to make an opening statement?

Mr McCann: Yes. My name's Noel Edward McCann. I'm here in my capacity as President of the Property Council of Australia (ACT). I accept the responsibilities you've read out to me. The opening statement is that the Property Council doesn't really understand what the government's trying to achieve here.

We haven't yet seen a declaration from the government as to how many cases are finding it difficult to meet their rate payments. We haven't yet seen if the opportunity of exploring other avenues of being benevolent to people who find it difficult to pay their rates under the current system has been tested.

We believe the current system delivers equity as best it can. The government sets the budget of how much money it wants to collect from rates; the valuation system distributes how each of us pays and, as a benevolent society, we should look at opportunities to give relief to people, even if it is only in deferment. I appreciate what the previous people were saying in their submission about there being a sense of pride. However, there's also a sense of equity of rate relief and capital gain when the property is sold, when paying the deferred rate payment.

That's basically where the Property Council's at. We don't believe the system needs to be changed. What we need to look at is the people who are finding difficulty in paying, and how that can be delivered, with the most respect to those people.

THE CHAIR: You make the comment, in the second dot point of your submission, that it will change the split between commercial and residential. Is that a major problem?

Mr McCann: Nobody likes paying rates, and nobody likes paying any more taxes than they have to. Part of that is a mathematical model. I guess the Treasury could say it entails mathematical follies, too.

We don't see the shift, in itself, as a major problem, because there has been a significant shift since local government. We didn't have differential rates under the Commonwealth system. Therefore, there is a burden placed in the commercial sector of greater revenue collection, compared to when the Commonwealth system was the one rate per dollar unit of unimproved value. The real issue we are trying to highlight is that here is yet another shift, and a cost to business.

MS TUCKER: You were here for the last witnesses?

Mr McCann: Part of it.

MS TUCKER: Do you want me to put the argument, or did you hear it? Basically, they were supporting the legislation because they felt it gave them some security; that, for older residents in particular, this was an important thing for their state of mind; that, at the moment, their perception is that it is so out of control—and this would give them more security and certainty. What's your response to that?

Mr McCann: Firstly, I respect their opinion. Personally, I feel I'm lucky because I've still got parents and I understand the issues. Most of us, in my age group, would be in the same position—fortunate to have parents and understand the issue.

However, merely fixing the rate for existing ownership is not going to solve the problem of pride or distribution. Sooner or later, there's going to be animosity because of the lack of equity between adjoining owners. There'll be a perception of, "Why am I paying more just because you're older than me?" or, "Why isn't there a better system to deliver relief?" We're talking about 8 per cent of the population who are over 65, who might find difficulty. Are we talking about half of those who find it difficult to pay their rates because they're in older suburbs—or newer suburbs?

I heard part of the conversation about Chapman. Even in Duffy, $300,000 or $250,000 for vacant blocks is going to be a significant shift in the unimproved values. They're a reasonable test, or an unreasonable test—that will sort that out.

The Property Council is not against finding a system to help those who cannot pay the full amount. But this is a system that says, "Whether you can pay, or you can't pay, you get it." That's not equity.

MS MacDONALD: You're saying that there's going to be animosity because people are paying differential rates. But the people who will pay a different rate will know the rate that they're going to be paying when they move in.

Mr McCann: That's not a justification for it. I spent 10 years as a valuer for the Valuer-General's Department in New South Wales. I can tell you that people argue about the level of values from one property to another. There is animosity if the valuers haven't got the equity of value right. You know, they check valuations down the street, to make sure they're all equitable.

The mere fact that somebody, who is already a resident of Canberra, might know that, if they buy a property, they're going to pay more rates than somebody who doesn't move, will only mean that they might say, "Well, I'm not going to move from the suburb." That's what this might do.

That has a burden on revenue collection, in stamp duty. It might even have revenue impacts in respect of the government being able to keep up the land supply that it should. Therefore, the whole lot will be lost to New South Wales, because they have a system where they cap it at CPI.

MS MacDONALD: You're arguing that it would be so much of a massive disincentive that people would not change properties?

Mr McCann: I'm not giving you an iron-clad guarantee that that will happen—I'm going to tell you that people don't like paying any more than they have to. That's the fundamental principle. Right?

MS MacDONALD: Yes. People would rather not pay anything at all.

Mr McCann: People normally change because of the location, because of family needs for schooling, or because the building no longer suits them. Changing the building where you live is the simplest thing to change in real estate. If it's not location or other family commitments, like school, changing the building is easy, in relative terms.

People might tend to sit, to not churn the market and not get the highest and best use for land across the territory. There may well be a leakage out of the territory, even more than what's gone on in the past five years.

MS MacDONALD: You don't think it will be an incentive to people to change, to buy a new property—on the basis that they will know what the rates will be in future years?

Mr McCann: No.

MS MacDONALD: So you don't think there's a problem with not knowing what your rates are going to be from year to year?

Mr McCann: Let me put a caveat on the "no" to the question I just responded to. In the next three years, it's not going to matter a tinker's curse—it's going to be a couple of dollars, tens of dollars or maybe even $100. In 10 years time, it's going to have a significant impact. You're going to get me sitting here—or you sitting in your house—on a certain rate that's been pegged, with you getting the benefit and not sharing the capital gain back when you sell it, compared to somebody next door who is looking to buy that. The significant rate difference could be an impediment to anybody in your street to sell, rather than simply renewing the buildings.

MS MacDONALD: You don't think there's a problem with the fact that the current system is a lottery and that people don't know what rates they are going to pay from year to year?

Mr McCann: I refute that it's a lottery. Unimproved value systems have been around since Henry George. The issues in Australia of changing and fiddling with the rating valuation base, fiddling with how you might charge in differential rates, and so on, is a 30-year phenomenon. But we keep coming back to unimproved values; we keep coming back to trying to cap the growth of the overall values; and we keep coming back and asking, "How best can we serve the people who find it difficult to pay?"

Are we talking about 1 per cent of the population of 125,000 to 130,000 households? There's not 1 one per cent of them asking for relief at the moment. Are we asking for

10 per cent? Are we suggesting that maybe there's a latent 10 per cent there, that's yet to be realised? Treasury can't tell us. We asked them, "What's the demand?" We understand the concept that our parents are growing old in suburbs that used to be cheap and are now rising. Canberra's population has doubled from when I came here 30 years ago.

THE CHAIR: You say in your submission that the Property Council believes the government should consider how other jurisdictions calculate their rates. Is there a jurisdiction you're aware of that has a fairer system—or the fairest system in Australia? We've done some research, and we find that there is a fixed rate.

Mr McCann: We, as the Property Council, sought advice from other jurisdictions. I personally have an interest in these things, with my valuer background, being a past president of the Institute of Valuers.

Certainly New South Wales has an issue of capping at CPI. That's caused a major problem in most local government areas through the lack of infrastructure being able to be funded through the rates system. On one hand, it might be fair but, on the other hand, we've got this infrastructure shortfall occurring and ballooning out.

In Canberra, we have a system that developed probably five or six years ago where we try and smooth the value increases in the suburbs. We've got differential rates where commercial pays more than residential. In my view, that system is pretty fair.

In other jurisdictions, there's rating on the house value, so if you've got a $300,000 house you pay less than somebody who's got a $600,000 house, irrespective of how much the land's worth—whether it's worth $300,000 and the house is worth only $300,000 because it's run down, or it's a redevelopment site.

Other jurisdictions charge on a rental value being not more than nine-tenths of the fair average rental value of the property. So there's a diverse number around the area. New South Wales and Queensland—the very minimum that I know intimately—keep coming back to unimproved value. We've got the best system because of the smoothing.

THE CHAIR: Are you aware of any jurisdictions that have tried this system before—where part of the community gets a fixed rate, and part of the community has a rate that grows?

Mr McCann: No. I'm not aware from research, or from asking the question of Treasury or the Revenue Office. They couldn't respond, other than that they don't know either.

THE CHAIR: I note that, in your submission, you make the point that, if this does lead to any lessening of turnover of properties, the downside for the government is that they therefore lose stamp duty. Is the possibility there that what they make up on the swings they lose on the merry-go-rounds?

Mr McCann: There could be a shortfall in sales in the next couple of years, because people start to get very concerned about what it's costing. But, as I say, I don't think it's going to be a significant variation. In the five to 10-year period, I think we'll see that gap opening up. We've been through a significant market growth. It might ease off, as you would expect—markets fluctuate.

Subject to a significant number of job losses in the short term, you can't expect the market to turn down significantly—unless interest rates escalate again, like they did in the early 1990s.

Our overall view is, therefore, that there is a lot more risk associated with reasonable collection of revenue by this system, because it has outcomes that we don't yet fully understand but expect. Our view is that the system's not broken—that, if it's not broken less than 1 per cent of the population, then why are we changing it?

THE CHAIR: Thank you, Noel.

Sitting suspended from 3.42 to 4.00 pm.

BARRY RAISON was called.

THE CHAIR: Mr Raison, I will just read this to alert you to your rights. You should understand that these hearings are legal proceedings of the Legislative Assembly protected by parliamentary privilege. That gives you certain protections but also certain responsibilities. It means that you are protected from certain legal action, such as being sued for defamation for what you say at this public hearing. It also means that you have a responsibility to tell the committee the truth. Giving false or misleading evidence will be treated by the Assembly as a serious matter.

We are recording, so would you speak clearly into the microphone. Perhaps you could start your presentation by stating your name and why it is that you appear at the committee today, and then you might like to give us an opening presentation.

Mr Raison: Thank you. Barry Raison from Curtin, a resident in Canberra since 1969 and a valuer involved in rating. I was the Chief Valuer ACT for what is now known as the Australian Valuation Office for 20 years and since then I have been doing some private practice, including assisting in at least one of the revaluations.

Why I decided to make a submission was that I couldn't see how the proposed scheme was fairer than the existing one. It's full of problems. I think it will cause more inequity than the present one and I'm surprised it's got this far.

THE CHAIR: Well, would you like to expand on that? How do you see that it will cause more problems than it solves?

Mr Raison: Well, it will stop some people from moving—a lot of people. People will think, "My rates are going to go up when I go to another locality because the more recent revaluation will apply." You will have inconsistencies in the one street, in the one suburb. You will have neighbours paying different levels. It will backfire because there will be less property sales, there will be less stamp duty. Probably end up having to increase the rates because of the lower revenue being collected from other sources.

THE CHAIR: Right. You also say in your submission that you feel although there will be some beneficiaries, that is, the long-term owners, they will suffer as well because they will effectively lose the option of moving. Do you truly believe that's a major problem for those people?

Mr Raison: Certainly. I would be a major beneficiary. I am arguing against myself. I have been there for 30 years and I would very much like to keep paying the same level of rates. But I also want to have the choice, and I don't want to stop other people having that choice.

THE CHAIR: All right. Is there a fairer rating system? You have come out of that industry. Is there a fairer rating system to your knowledge anywhere round Australia that we could look at?

Mr Raison: I am sure there is and I think that's probably part 2 of the exercise. I mean, what you need initially is a quick fix for the short-term but you need a complete review of the rating base. But I'm not familiar with the latest.

We had a major seminar in 1980 represented by Valuers-General from all round Australia and the equivalent of the rating authority was then part of the Commonwealth government. They were all represented. Papers were produced—this is my copy. It should be in the library somewhere; if not, you are welcome to borrow mine. But the conclusion then was that improved value, capital value it's also known as, ICV, or rental value are both fairer than unimproved value, unimproved value in its various forms—it can be land value, it can be site value, it can be unimproved value, but it's a hypothetical definition.

I am sure there have been inquiries since then. I have got copies of inquiries that were made in the 70s and 80s. Almost every state had an inquiry into the rating system, and there have probably been a lot more since. The people to ask are those Valuers-General who meet every year and perhaps get them to assist.

The Victorians are pretty strong in rating systems. They have a municipal valuers association. I have got a paper here produced by their then president, which I will give you. I will give it to you now.

The issue never dies; it's Australia-wide. Every time there is a revaluation anywhere in Australia there is a protest. There are a few examples in that folder of the consternation that has been caused, particularly in Canberra, by revaluations. It's nothing new—it happens every time, no matter what system is used or how much the valuation changes. Sometimes the values hardly change but the rate in the dollar changes, so everybody screams.

Another problem with the current proposal is that the rate in the dollar is fixed. Well, I don't know how you can do that and still comply with the Commonwealth Grants Commission requirements and balance a budget. But as I have tried to explain, the purpose of rating is to recoup enough money to run the city, and it's related to the capacity to pay—that's where the property value comes into it. But if you have a fixed rate, I don't know how you're going to do that.

Another problem with unimproved value, land value, site value, has been highlighted by a recent High Court decision. I mention that in my submission but since then our journal has produced a couple of articles on it, and I will give you the whole journal. It is called the Maurici decision and it's in Sydney, where it says that you can't use isolated land sales as the basis for unimproved value. This was for land tax in New South Wales. I am surprised at the decision but it's law now.

The basis in Canberra has always been land sales if they exist. The problem has been that there haven't been many. This has been highlighted in recent months by the bushfires. Just by coincidence, this journal, which I will give you, has articles on the Canberra bushfires as well. There are some good articles, including one by De Castella.

But the land content of a house sale appears to be different to the land value of a vacant block, and that's why the Maurici case rejected the land sales. But in Duffy, for instance, there are blocks of land being sold for $300,000 and houses were being sold at about the same. So people are prepared to pay almost as much for the land because they can put their own design, start from scratch, modern equivalent, as against adapting an existing house.

The land content of that $300,000 house sale might be $150,000 to $180,000 if it's analysed, in the process that is used by valuers in analysing the house sale. But that's a very nebulous process; it's a matter of opinion how much you put on the house, how much you allow for depreciation. Opinions differ on those things. So you get an extreme difference where the unimproved value on one basis might be 180,000 and on the other basis it might be $300,000. So there is something wrong with unimproved value as a system in the first place.

If the system was improved or capital value, the value on both bases, as land or as a house, would be $300,000, so there would be no argument. Also people know what their house is worth, they don't know what their land is worth. An improved value or a rental value is more understandable to the public. They also have a fairly good idea what the rental value of a house is, and both systems are used elsewhere and overseas.

There are various systems that are used. There are some places that don't have it related to property, and I wouldn't be against those. But they were very unpopular in England when Mrs Thatcher decided to bring in a poll tax. The answer was to get rid of Mrs Thatcher. But it could have been a fair system.

MS MacDONALD: You have talked about the situation with Duffy and Chapman in terms of the blocks being sold for the same price that they would be sold for if they had a property on them. There is an advantage, however, isn't there, in terms of buying a block like that because if they were to actually move to a suburb, decide to actually buy a property for the block and then knock over the house, that would be an additional cost which they don't have to pay for now with the—

Mr Raison: Only if they were choosing to build their own house. But if they were choosing to use an existing house it would be far cheaper to buy the improved property. But they would also be faced with a higher rates bill on this system. If they paid their $300,000 for the vacant block of land, and if the Maurici case was ruled not to apply to the ACT, which is possible—as definitions in some jurisdictions are different—they might find themselves paying rates on $300,000, where their neighbour who has been there for 20 years is paying it on $150,000.

MS TUCKER: So what will happen if you have got that happening? How do we work that out now in Canberra? When the next valuation occurs and you see a block without a house for $301,000 and one with a house for $300,000, how does that figure—how do they work it out?

Mr Raison: Well, the valuers will have to make a decision. I suggest you ask them that question. I don't know the answer. I have always preferred land sales as evidence. We have had tribunal cases which have said that land value, even in another suburb, is better evidence than improved value. But that was before this decision. So they may reject land sales in established suburbs. They are okay in new suburbs. But the government valuers, with legal advice, may decide only to use improved sales. We used to have a lot of arguments with using improved capital sales years ago.

MS TUCKER: As a basis for the value?

Mr Raison: Yes.

MS TUCKER: Yes. I have asked that question in this inquiry of several people, including the government, and it has been written off immediately that it's ridiculously expensive and administratively impossible to have a valuation system that is based on improved value.

Mr Raison: No—

MS TUCKER: Is that what you are talking about when you say improved value?

Mr Raison: Yes. It's not impossible. It's impossible to have it exact. It has got to be a very general thing, and I use the term of broadbanding. You can't be too specific. You can't go into every veranda and every pergola and things like that. You have got to have a general level that applies. And if the same rate applies to every property between $300,000 and $400,000, for instance, you get rid of that problem except at the borderline. I don't know what the answer is there—some sort of cushioning of it. Whether it's $301,000 or $299,000 might be a major problem, but there would be an answer.

Another criticism of improved value which has come out in America is that people are inclined, particularly in some of the remote country areas, to let their house go to reduce its value and reduce its rates. So you can build in an assumption that you assume average conditions, so that anything extra special or anything extra bad gets ignored and you just treat them as average. But that is another way of doing it. It can be done.

In South Australia where I came from initially the water rates used to be done on improved values and they didn't seem to have any problem. People would walk the streets doing them—they wouldn't sit down at a computer doing it. But they used to assess a capital value with reasonable accuracy because they didn't have to have it exact.

MS TUCKER: No.

MS MacDONALD: Can I ask: with the new system, how much more work would there be for valuers?

Mr Raison: With?

MS MacDONALD: The new system if it was to come in.

Mr Raison: With the—

MS MacDONALD: Proposed system.

Mr Raison: Yes, the government's proposed system. I don't think it would be any more work for valuers. They are still providing the values. The argument is going to come in the amount of rates that are paid. They will still have to provide values at whatever date you require. If you switch to an improved value rate basis there may be more work the first time when you are getting all the data, all the records, about every property, but from then on it won't be so bad.

MS MacDONALD: Is it possible there would be less work with the proposed system?

Mr Raison: I don't think so. I think it would be the same. The values still have to be supplied. It's a matter of whether they are used or not. You might have two properties side by side, one rated on the 1980 figure plus indexation and the one next door on the 2010. That's extreme.

MS TUCKER: Can I ask: I think you said that a poll tax was a reasonable option. Did you say that?

Mr Raison: I'm not against it. I think—

MS TUCKER: You're not against it. I thought that was the same amount for everyone, regardless of income. So how is that equitable?

Mr Raison: Well, it can be related to income. I think it is fairer if it is related to income. It's a type of income tax. I mentioned what I believe to be the two main principles of rating: one is to collect enough to run the city—it's just not a general revenue tax, it's meant to pay for something; it's to pay for municipal services. The other one is the capacity to pay. A straight poll tax wouldn't reflect the capacity to pay unless there were concessions and exemptions. But related to income, it would. And I believe parts of New South Wales have a mixture, so much per head and so much per property, but I don't know. And I think that's the second leg—you have to have this full study.

MS TUCKER: We have got a fixed proportion, haven't we, so—

Mr Raison: A very low, a ridiculously low, proportion—$19,000.

MS TUCKER: Yes. So that's a bit like a poll tax—a part of the rating system is like that.

Mr Raison: Not so much. Poll is per head. It's a property tax, not a poll tax. Poll means that if you had five people in the house, well you would pay five—

MS TUCKER: I see.

Mr Raison: So that can be very difficult for the Smyth family.

THE CHAIR: It may well have been 20 years ago when 12 of us lived in the same house, yes.

MS TUCKER: That's right. You were a neighbour, weren't you, so you would know.

Mr Raison: But there would have to be an upper limit. So it might apply up until 5, and 5 to 12 is the same.

THE CHAIR: Barry, you mentioned in your submission that the present rating system could be retained but it does have some flaws. And you mentioned the formula with a base rate of $19,000 is considered to be obsolete. Why?

Mr Raison: Well, I don't know what it's meant to reflect in the first place unless it was meant to be the lowest level of value. But it was a result of a review done in 1995, and I don't think anything was as low as $19,000 then. I would say $100,000 would be the starting point in a formula like that.

THE CHAIR: All right. And the three-year averaging is an unnecessary complication?

Mr Raison: I can't see any point in a three-year averaging. It might soften the increase in some cases, but it's only making it appear to people that their value is not as high as it is. It is the current one that counts. The rate in the dollar should go down as the value goes up. So I don't think the average achieved anything.

THE CHAIR: All right. You then go on to say "Nevertheless, the current system appears to be far superior to the proposed one." On what grounds would you make that statement?

Mr Raison: Well, the present system works. I don't think the proposed system will work for a start because of the unfairness. The criticism of the present one this time and perhaps in previous revaluations is that certain areas went up by more than others did. Well, that happens. That's the price you have got to pay for living in those areas. And that's another way where improved value or rental value overcomes that problem.

I just use the old example of an elderly couple still having their house in Braddon. I had better update the figures, but perhaps that's worth $400,000 total. And then their son has got a property in Conder also worth $400,000. But the Braddon person has a land value of $350,000, which they pay rates on, and the Conder person has a value of $100,000, which he pays rates on. One is paying more than treble the rates of the other one on an unimproved value system, whereas if it was improved or rental, that would be taken into account; they might have similar values.

MS TUCKER: The argument put against that today was that is a tax on enterprise, because if you are rating the people who have improved their block, then you are taxing enterprise.

Mr Raison: That's getting back to the American problem in reverse, perhaps, where they tried to get reductions by allowing their property to dilapidate. Here you are saying you would get taxed because you put more into it.

MS TUCKER: Well, that's an argument that was put today.

Mr Raison: That is an argument, but the broadbanding helps to overcome that.

MS TUCKER: Have you seen in any rating system an accommodation of the actual behaviour of people in terms of their use of resources or services, such as the rates varying according to, for example, how much garbage is taken from a house?

Mr Raison: A user-pays type of system?

MS TUCKER: Yes, bringing that into the services aspect of it a bit. I mean, we already do that with water.

Mr Raison: Well, starting to do that would be charging to go to the tip and things like that.

MS TUCKER: As well, yes, but actually in rates?

Mr Raison: I don't think you could do everything on that basis—the library and education; they are all built in there, aren't they?

MS TUCKER: And roads. I just wondered if you had seen this. I have heard that somewhere has done it with garbage, but I haven't been able to find where. So that wouldn't be so hard?

Mr Raison: No, I don't know where, but I would suggest it has just been done as an extra. They probably still charge municipal rates and they charge you for garbage as well.

MS TUCKER: As well, yes. I mean, that is about trying to change behaviour through the pricing within rates for environmental reasons, obviously. So, giving the rates a different function.

Mr Raison: And then you would find people would try and get around that. They would dump their rubbish. They would have to pay for the tip anyway, but you might find them dumped somewhere where they shouldn't be dumped.

MS TUCKER: Yes, sure.

MS MacDONALD: You have said that the current system works and you don't think the new proposed system would work. Do you see that there are any problems with the current system whereby people don't have certainty as to how much they will pay from year to year?

Mr Raison: Yes, there is always that problem. I think it would help, as I have mentioned in the submission, if the assessment is sent out at the same time as the revaluation—you get a notice saying your property has been revalued to so much, and you have got 30 days to object. But you don't know what the rating assessment is going to be, you don't know what the rate in the dollar is. Under the new system you might if it's a fixed rate, but now the rate in the dollar doesn't get set until the budget. But you need to know the impact it is going to have. Your value might double, but the rate in the dollar should halve. Plus a bit of cost of living adjustment perhaps. But the end result is that you should be paying just slightly less.

The rate in the dollar should take into account the increase in values. The problem is that some suburbs might go up by 20 per cent, others might go up by 50 per cent. Some might go down, and that will be a problem in the proposed system. If something goes down, your rates bill won't go down, but it could under the present system. It does happen, and it is predicted—

MS TUCKER: There seems to be an assumption underlying most of this debate that that won't happen.

Mr Raison: I hope.

THE CHAIR: Well, it won't happen in the new system. Your rates won't go down in the new system.

MS TUCKER: No, but values won't change; the values won't start going down at all.

Mr Raison: But the impact is so different in various suburbs. If you look through those various tables that have been published, I would challenge the accuracy in some cases. That's another problem, and I can't criticise my fellows, but they are mass produced. It's now an exercise in speed.

When I was involved, it used to be spread over a three-year program while we were doing other work. We would spend one year preparing for a rating valuation, getting all the costing information, analysing sales, another year applying it, and another year handling the objections and the appeals. Now it is all done, instead of three years, in three months I think. And it has to be done every year. We were doing it every three years. That was changed because of the effect of the impact of the change in values.

When values were changing rapidly the difference over some three-year periods was staggering but, again, the rate in the dollar should have taken it into account. It shouldn't have mattered that much. If your value trebled, the rate in the dollar should have dropped sufficiently to cover that.

MS MacDONALD: Should it be the case that if the value of your property goes down, that your rates go down?

Mr Raison: Not necessarily. You would hope it would, but the costs may go up—the road making or the library or something else, one of the factors in your rates account, might go up.

MS MacDONALD: Sorry, you would hope it would as somebody who is actually going to get the bill and therefore you would hope that they would actually get a drop in the rates?

Mr Raison: You would think you would, yes.

MS TUCKER: There would be arguments against it.

MS MacDONALD: Yes.

THE CHAIR: Members, we need to move on. Are there any final questions?

MS TUCKER: I know we do. I just wondered: do any of the articles that you have given to the committee cover the improved value system?

Mr Raison: Yes, but some of them are 20 years old. I don’t have up-to-date information.

MS TUCKER: Okay. It is just something for us to look at. Thank you.

THE CHAIR: Mr Raison, thank you very much.

Mr Raison: Thank you.

PETER JANSEN was called.

THE CHAIR: The committee now calls Mr Peter Jansen. You have heard the warning so I will not read it a seventh time for you. Peter, if you would state for the *Hansard* your name and the capacity in which you appear and perhaps you would like to make an opening statement for the committee.

Mr Jansen: Yes, thank you, Brendan. Peter Jansen from the Property Owners and Ratepayers Associations of the ACT Inc. I am president of both those associations. The proposed system is in two parts. The first part is that existing ratepayers' rates should not go up by more than CPI. We don't have a problem with that. It does correct a lot of problems in the old system so we don't have a significant problem with that. What we do have a significant problem with is the concept of new owners paying significantly more in rates for the same services as their neighbours.

Ted Quinlan, when he spoke to the Public Accounts Committee last month, said, and I quote, that "the new system is not about revenue, but fairness and equity". Well, we would say to you that the case is exactly the opposite. It smacks totally of being about revenue and particularly the second part of it addresses very little the concept of fairness and equity.

He also laboured at that Public Accounts Committee hearing that the concerns expressed by some in the community—and I think he called some of them scaremongers—were that you would have neighbours paying significantly more than others and that it would be a simple matter of adjusting a factor in the rating formula so that this would be minimised or didn't happen at all. Ted hasn't given any more explanation of that. We have contacted him on a number of occasions to provide some more information, but that factor is 0.7852 I think at the moment.

There are people in the community at the moment who are looking to purchase a house. If those people settle that purchase after 30 June this year, at this point they do not know what their rates will be in the year 2004-05. But they will be affected by the new legislation if it is passed. So we are concerned that Ted is saying one thing but to us the opposite seems to be the case.

About a week ago, or last week, there was an article in the *Canberra Times* where Ted said that his system was first rate. Basically he has adopted what I would call a bullying approach to the members of the Assembly by saying, "If you don't pass this new system, the old system will apply with all its inequities and problems, and there'll be hell to pay at the next elections."

Basically, the old system was scrapped by Ted Quinlan last year when he said the old system will no longer apply, we will take the rates of 2001-02 and we will add CPI to those rates for 2002-03. That is the system we have at the moment, so the system we have at the moment is 2001-02 rates plus CPI, not any other system. For the next financial year, 2003-04, that system will continue under Ted's proposed system, and that will mean that 2003-04 rates will be 2002-03 rates plus CPI. Given that, there is absolutely no urgency, there is absolutely no pressing need, for any new system to be decided in the short term.

The effects of any new system won't be felt to 2004-05 anyway revenue-wise. Therefore, we would put the proposition that if one has a full and independent inquiry on a rating system, there is plenty of time to do that and implement it before 2004-05. And even if one didn't wish to implement it before 2004-05, you could still have next year's rates plus CPI again. So that there is really no urgency; there is no need for the haste.

There were some recent figures—and I am addressing most of my remarks to the second part of the proposed system—published in the *Canberra Times*, an article that Crispin Hull put out, that looks at the effect of what the new rates would be for new owners in different suburbs—I think he picked two suburbs per area—in the first year of operation. And he had new owner surcharges varying from between a 21 per cent increase to a neighbour to—I think this was the highest—a 47 per cent increase to a neighbour in Chifley. So those are fairly significant increases.

Those increases, I understand, are based on the average UV increasing up to the end of this year by 20 per cent. That seems a high figure, but when you look at last year's average UVs, they increased by 24 per cent. When you look at the year before average UVs, they increased by 29 per cent. So a fairly conservative assumption, I would say.

We have taken those figures and we have said, "Okay, given that, what would happen to rates in a three-year period?" And I noticed the Northside Community Council didn't see that there would be significant problems with the second part of the new system because the rate increases wouldn't be significant. However, if we extrapolate those figures to three years, we find that in Ainslie, for instance, in three years time one neighbour will be paying 88 per cent more in rates than a next door neighbour. That is, a new owner will be paying 88 per cent more in rates for a property of the same rateable value. In Palmerston that would be 57 per cent and in Chifley it would be 93 per cent. So those are significant increases.

These are figures that we have had developed. Certainly, people can discuss some of the assumptions we have made in those figures but I make the point that we are producing figures. We have had no figures from the Treasurer, we have had no figures from the Revenue Office, we have no indications. People who are looking to purchase property in the ACT at the moment have got no idea what their rates will be in 2004-05 and they need to know now.

There will be undoubtedly a rush of real estate transactions to complete before the end of this financial year by people wanting to make sure they don't pay the increases should the new system be implemented. I am already aware of cases, four cases in fact in the last few weeks, of people who have made the deliberate decision not to take a chance on our rating system and purchased their property in Queanbeyan. They prefer to live or invest in Queanbeyan than pay rates under a system in the ACT which has been described often to me as bizarre. They would prefer to live in Queanbeyan or invest there or surrounding areas of New South Wales, pay the New South Wales government the stamp duty, the New South Wales government any land taxes that may or may not accrue, but still have all the benefits of living in Canberra.

I agreed with the phrase that it really is a bizarre aspect of the system. That is notwithstanding that the first part of the system, the CPI increases, solves a lot of the problems that the old system used to have.

THE CHAIR: We might move to questions. I notice in your submission you think that this will have a bad effect on investment in the ACT. Is there any work or any numbers available to say what sort of effect that will be?

Mr Jansen: Well, it is interesting you ask that. I mean, I go on anecdotal evidence of what people tell me, and I talk to people every day of the week and they talk to me about where they are going to live and where they are going to invest. The Queanbeyan example was the best example I can give.

In terms of resources, we look at the ACT Revenue Office. I notice the PAC asked the Revenue Office what research was done into investors and what effect it would have on the rental market in Canberra, and I note that the response was that some research had been done but it wasn't in a presentable form to give to the PAC. I hope you have either received that or are about to receive it. But certainly, from my discussions with the Revenue Office, I am not aware of any such research or figures. But certainly I go on anecdotal evidence and what people tell me.

MS MacDONALD: Do you believe that it's going to affect investment?

Mr Jansen: Absolutely. Without a shadow of a doubt. Because—

MS MacDONALD: You don't think there is an advantage to landlords in knowing what their rates will be?

Mr Jansen: There is an advantage to landlords in knowing what their rates will be. I have no problem with the first part of the system. It's the second part of the system that is the problem. Landlords that have the rental properties: gradually people do tend to move away from rental property as they get older. They don't want the worry of having a rental property, those sort of things. And to replace them, new investors come in to top up the market to whatever levels. It will act as a deterrent to new investors coming in. They look at the bottom line and they say, "What's the return I'm going to get from this investment?" and if they can get a better return elsewhere, if they can see themselves as doing better elsewhere, they will do so. There is that factor. There are the cold hard facts and figures that one can calculate.

MS MacDONALD: Can I ask about that? What if they are looking at a property where the rates are based on how affluent the suburb is—they are looking to buy into a suburb and it has become an affluent suburb but didn't used to be; it is now more established and it has become affluent and therefore it has a higher rate. Surely that means they can charge more rent so therefore the level of return on their investment is the same?

Mr Jansen: Not necessarily so. I know of one case where an owner is receiving a net rent after government tax and charges and expenses, but not interest, of 2.5 per cent and the property was in the above average rental market. The owner said that's not producing a good enough return and they sold that, invested in New South Wales, and they are getting 8 per cent return. So that's the sort of calculation we mean.

MS MacDONALD: So you are saying that people will go and purchase a property in Queanbeyan to invest and to rent out even though Queanbeyan mightn't be the place that people actually want to rent in?

Mr Jansen: For an investor the bottom line is what is their return? The return is a combination of the rent they receive after all expenses and the capital gain on the property. If investors perceive their return to be less than what they might get elsewhere, when it becomes a significant enough difference they will go elsewhere. But that is one part of the calculation.

The other part of the calculation is the perception of a market, the confidence in a market, how people feel about owning an investment in a particular location, how they feel about the government, whether they feel that they are being screwed or not on rates and taxes. They take all that into account and they will say, "Hang on, we are being screwed here. Why should we, because we invest, be penalised by paying 50 per cent more or 80 per cent more?" as is shown in the figures I have for three years. Why should they do that when they can take their dollar elsewhere?

THE CHAIR: Is there a better system somewhere around the country or around the world?

Mr Jansen: There are better systems. And in fact it is interesting. I spend a fair bit of my time now in Eurobodalla shire where I have a home and they have just changed their rating system, making the rating structure fairer to all. I notice what they are saying here is more councils along the coastal fringe have adopted or are adopting the base change method of rating structure, as it delivers the most equitable levying of rates over time. Basically what they are doing, as in many other areas in New South Wales where they have had significant increases in land values because of the population shift to the east coast, is adopting a system whereby 50 per cent of the rates revenue in total is a fixed charge and—

MS TUCKER: Can you say that last bit again? I just didn't hear you.

Mr Jansen: Fifty per cent of the rates revenue is by way of a fixed charge on rates and 50 per cent is by way of a variable charge. That is a system that the review in the ACT in '95 recommended. That is a system the previous government was moving towards. I think we were at the figure of 36 per cent when Ted Quinlan changed the system to his current one last year. I think the previous government declared it was going to go to about 40 per cent.

There are anomalies in any system, but that above any other system seems to be the one that most people have either adopted—most councils or governments have adopted—or are moving towards. That does give a fair amount of certainty. It has some warts, but the warts are in terms of people who feel they are being rated out of areas, and there are ways of addressing that. It hasn't been done very well in Canberra in the past, but there are ways of addressing that.

THE CHAIR: That seems to be the nub of the problem. How do you stop people from being rated out of an area?

Mr Jansen: Well the first part of the system does that very well, and we don't have any problems with that, where people just have a CPI increase. That's a very good system. If this system is not about revenue but about fairness and equity, then the second part of the system wouldn't apply. However, if you just add a CPI forever and a day, it would create more inequities within the system.

THE CHAIR: Okay, if you start with a CPI increase annually system, how do you stop it from becoming inequitable if you see that creating problems in the long term?

Mr Jansen: Basically what happens is that if you have CPI each year, then as people buy in newer areas you can have a difference building up. So people buying brand new property in an area can be paying rates at a different level than the older people.

MS MacDONALD: Have your associations actually met to talk about the proposed system?

Mr Jansen: It seems to be a constant question I get from certain quarters, and I have learnt to accept that question. But yes, we do. We meet often and—

MS MacDONALD: No, I said have you met to discuss the proposed system?

Mr Jansen: Yes, we do. We have and we do. And we have a newsletter every month. I think you are on the email list, and if you have read it you will know that that's what we do.

MS MacDONALD: What have been the outcomes of those meetings?

Mr Jansen: Basically, our submission is one of the outputs of those meetings.

THE CHAIR: So if you had a recommendation to the committee it would be to follow the Eurobodalla shire model?

Mr Jansen: No, if I had a recommendation to the committee, what I would do is I would look at the references being given to the committee, which is to look at the system and report back by 17 June. What I would say to the committee is that my recommendation would be to say, no, it's not acceptable but we can work towards developing a better system with proper consultation, perhaps in a more independent way, and in the meantime the rates for 2004-05 should remain as being those for 03-04 plus CPI.

THE CHAIR: Peter, thanks very much.

JEFF CARL was called.

THE CHAIR: The committee now calls Mr Jeff Carl. You should understand that these hearings, which are legal proceedings of the Legislative Assembly, are protected by parliamentary privilege. That gives you certain protections but also certain responsibilities. It means that you are protected from certain legal action, such as being sued for defamation, for what you say at this public hearing. It also means that you have a responsibility to tell the committee the truth. Giving false or misleading evidence will be treated by the Assembly as a serious matter. Mr Carl, in what capacity do you appear before the committee? Would you like to make an opening statement to the committee?

Mr Carl: Thank you, Mr Chairman. I am the chairperson of the Weston Creek Community Council. The community council understands that the new rates proposals have been suggested to overcome the difficulty of some people with limited means being unable to pay rates on their principal place of residence. This difficulty arises through a substantial increase in the average unimproved value, the AUV, which far exceeds the consumer price index or CPI increase, as is occurring in some parts of Canberra now.

We have some difficulties with the government's proposal. The first difficulty is that the proposal might not help the very people that it is intended to help. In years of low inflation it is acceptable, but in years of high inflation, as in the mid-1980s, it is foreseeable that the CPI increase could be more than the increase in the average unimproved value. Secondly, long-term owners do not get any rate relief if the CPI is zero or negative. Rather, their rates continue at the previous year's figure. Thirdly, there is also no benefit to long-term owners if the AUV decreases, as occurred in the mid-1990s in Canberra.

This is not in the submission we made, as such—it is an elaboration or an extension of it. I have copies here if you wish them. The government's proposals are a one-size-fits-all approach, wherein it is apparently presumed that all owners have the ability to pay their rates. The end result of these difficulties is that often the well off in our society will benefit most because often they will be living for long periods in the suburbs and neighbourhoods that have the highest increases in AUV, yet their rates increase will be capped to a comparatively low level.

No protection in the proposal is offered to owners who have limited means. Rates on a large number of properties under the proposal will bear little relationship to the actual costs involved in providing services to the block and the government will be foregoing a large quantity of revenue that can never be recovered. Also, neighbours in roughly equivalent properties could be paying vastly different amounts in rates, since one of them could be a long-term owner. That is likely to be a divisive factor within our community.

A number of local authorities around Australia, such as the Gold Coast City Council and the South Sydney City Council, have the option for owners with limited means to defer a proportion of their rates. These owners must occupy the property and be holders of a pension card, a health care card or a seniors card. On the Gold Coast, owners can defer that part of their rate that is in excess of the city's minimum general rate, which is currently $480 per annum. For example, an owner of a Queensland seniors card with a general rates bill of $600 would be entitled to defer $120.

South Sydney City Council, on the other hand, offers eligible pensioners a 50 per cent reduction in their rates and service charges, up to a maximum reduction of $250 per annum. Pensioners can also defer payment of the current year's rates but these deferred rates are subject to daily interest charges. For both the Gold Coast and South Sydney councils, the deferred rates will be accumulated, or will accumulate as a debt against the property, to be settled when the property is sold or transferred.

The ACT Government's proposal is effectively a form of rates remission, since the increase in rates when compared to the previous year's rates, is capped to the previous year's CPI number, and any amount greater than the CPI is the amount remitted. As I mentioned before, there is no upper limit on the CPI number. Brisbane City Council has a remission system with rate capping for owner-occupied domestic properties, which caps any increase in general rates to a maximum of 7.5 per cent based on the previous year's rates. That means that, if the rates increase is more than 7.5 per cent, the amount greater than 7.5 per cent is granted as a remission.

Rate capping, which is automatically applied, continues for as long as at least one of the owners remains in occupation. If the owner sells or moves, the compounding benefit of the cap is lost and a new starting amount is set. That system appears to be an improvement on the ACT Government's proposal because there is a finite cap on any rates increase and the increase is related to the improved value of the property, not on the CPI number.

In summary, the advantage of the ACT Government's current proposal is that, provided people continue to live in the same property for 12 months or more, rate increases are foregone, except for increases in rates tied to the consumer price index. That is a substantial concession to Canberra's ratepayers. On the other hand, the foregone revenue is a substantial loss to the ACT Government. The proposal also restricts the ability of future treasurers to raise or lower revenue as circumstances warrant, without a change in legislation. It also means that people living in similar properties with similar real values may pay very different amounts in rates, which raises the question of equity and fairness.

A deferred rates proposal means that all rates levied are subsequently collected, even though there may always be amounts outstanding to be collected. The proposal has equity and fairness and it does allow affected people to defer selling their property until a more convenient time. The deferred rates proposal also allows more equity in the sense that, because all the rates imposed are ultimately collected, the burden on other sources of revenue is reduced. That is not the case with the government's proposal.

The Weston Creek Community Council suggests that rating systems used by other local authorities, such as those mentioned previously, be investigated. It is possible that a different solution exists that provides the ACT Government with a more stable revenue base, is more equitable regarding rates for similar properties and does not severely impact on owners with limited means as the existing proposal will do.

MS TUCKER: If I understood you correctly, you are proposing deferred rates payments?

Mr Carl: It is a possibility.

MS TUCKER: Did you not realise that we already have that option in the ACT?

Mr Carl: I did not realise that. It was not covered in the 119-page piece of legislation.

THE CHAIR: And it is not well advertised.

MS TUCKER: We have that option, but it is not being picked up very much. People have commented that it is not working because ratepayers are not picking it up. The reasons given for that vary, but they can be related to people feeling that they are incurring some sort of debt, or that they want to keep the full property value for their children if there is an inheritance or charity issue, or whatever. We actually have that potential, but it is not being picked up at the moment. We are not sure whether that relates to advertising. You commented earlier that the CPI was a bit of a blunt instrument, is that right?

Mr Carl: Yes, it is.

MS TUCKER: Do you have any other ideas? This Committee could look more broadly at different rating systems or, as the last witness suggested, there could be a further independent inquiry of some kind into a better rating system. Is it your view that this proposal could create a disincentive for people to move? That is what some people have said.

Mr Carl: It could act that way, depending on what the inflation rate was and where you wanted to move. If you have a 10 per cent or a 12 per cent inflation rate, why would you want to move, particularly if you have been living on your existing property for two, three, five, or even 15 years. You have had a large concession already; the average unimproved value of your property has probably increased substantially; yet your rates have been pegged initially. Obviously, inflation would not have been at 10 per cent or 15 per cent for that time. It might only have been in single figures, or low single figures for that time, so you would have had a considerable concession.

MS MacDONALD: Do you not see it as a benefit to property owners and potential property owners if they know for certain how much their rates will be—a certainty that they currently do not have?

Mr Carl: It is an advantage to have certainty. Brisbane City Council has certainty too by capping it at a maximum of 7.5 per cent, based on the improved value of the property, not on a CPI increase that may not reflect the actual increase in the property. It is possible to have an inflationary process when the average value of property is falling.

THE CHAIR: You seem to be stating in your submission that the taxation system, or the revenue raising system, is not the way to provide assistance to those in need and that we should separate out the system. You concentrated on the deferral process. However, the current deferral process has been taken up only by 71 families in Canberra. I take it that council did not know about that process.

Mr Carl: No.

THE CHAIR: So it could be a problem with advertising. People just might not be aware of the system.

Mr Carl: I suggest there is a big problem with advertising and people are not aware of it. A number of pensioners and aged people—I should say people with limited means—are members of our council. No-one mentioned this at any of our meetings, and no committee members know of it.

THE CHAIR: When your committee discussed the matter did it view as a problem the fact that people would have debt hanging over them? North Canberra Community Council put it to us that its members did not want to be in debt to the government and they did not like the fact that, when they were gone, somebody would be taking money out of their estate.

Mr Carl: We canvassed that idea in the closing comments in our paper. Yes, it could be seen as a death duty. It is an unfortunate term to use, but it could be seen as that. I suppose in a large number of cases you could say that a lot of people who benefit from large inheritances are often benefiting from their parents' work and not the work that they have done, and that perhaps they do not look after the inheritance as well as their parents would have wanted.

MS TUCKER: Maybe we should have death duties.

MS MacDONALD: We are not having that argument today.

THE CHAIR: We are not asking you about that. That is Ms Tucker's personal opinion.

Mr Carl: It is a personal opinion, yes. But we recognise that it is a concern for some people.

THE CHAIR: Is it a problem that has been raised at the community council? Over the years I have attended a few of your meetings and I have never heard anybody mention rates, or the inability to pay rates, as being a problem. Is it an issue that is raised often at the council?

Mr Carl: It is not an issue that has been raised at the council. As a result of the recent fires in Weston Creek, blocks in places like Chapman and Duffy are selling for at least double the initial or originally assessed unimproved value. People are becoming scared, and those who are living in adjacent blocks are worried what their rates will be next year.

THE CHAIR: But up until this point—

Mr Carl: It has never been an issue.

THE CHAIR: Prior to the unusual circumstances in January it has never been an issue for council?

Mr Carl: No, not to my knowledge.

THE CHAIR: The problem for an area like Weston Creek is that you have a rapidly ageing population. In the discussions that council had on this issue, what did people see as being the real problems that they will have to face as they age and want to stay in Weston Creek?

Mr Carl: The main problem is that there is nowhere available for them to buy. If they sell their house they cannot buy or stay in suitable accommodation in Weston Creek. Our rating system will not change that to any great degree, but that is another issue to be dealt with.

THE CHAIR: Was the view expressed that there would be a time when people wanted to move into different sorts of accommodation?

Mr Carl: Yes.

THE CHAIR: North Canberra Community Council representatives said that they thought most of the people to whom they had spoken were quite happy to stay in one place. They conceded that some would move but they said that a lot wanted to stay. Did any council member comment on what people's circumstances are likely to be?

Mr Carl: Over the last couple of years large numbers of people who have attended various meetings have said that they—and in some cases their partners—are sick of living in four-bedroom or five-bedroom houses that are too big to look after, but they do not want to leave the community.

MS MacDONALD: There could be differences in the size of houses in North Canberra and the size of houses in Weston Creek.

Mr Carl: Yes, I suspect that a lot of houses in North Canberra would be somewhat smaller than that.

THE CHAIR: Was it the intention of those folk to stay in Weston Creek if they could?

Mr Carl: They want to stay in Weston Creek with their friends and community.

THE CHAIR: But they lack suitable and affordable accommodation?

Mr Carl: Yes, that is correct. It is not that they do not want to sell or do not want to move; it is just that there is nowhere to move, short of going to Gungahlin or southern Tuggeranong and putting them out of their community.

THE CHAIR: Tuggeranong is a fine community to live in.

Mr Carl: I have nothing against Tuggeranong; it is just that they would be a long way from the support networks that they have developed over the last 25 to 30 years.

THE CHAIR: Given that there is a deferral system—you would not know it was there because governments do not push it—and although we heard from groups earlier such as CARE and COTA that when people approach the rates office or the revenue office they are treated well and assisted, is part of the answer to this problem to get the government to push that option harder, advertise it and let people know it is there?

Mr Carl: I think that is part of the problem. Perhaps we also need a minimum rate. I know that at present $19,000 comes off the average unimproved value and then the rates are worked out. Perhaps we should have a minimum rate and we should adjust the system a little, much as the Gold Coast council might do, where everyone pays a guaranteed minimum rate and the excess can be negotiated if you have limited means.

CRAIG BRIGHT and

KEN ROBERTS

were called.

THE CHAIR: The committee calls the Real Estate Institute of the ACT. You should understand that these hearings, which are legal proceedings of the Legislative Assembly, are protected by parliamentary privilege. That gives you certain protections but also certain responsibilities. It means that you are protected from certain legal action such as being sued for defamation for what you say at this public hearing. It also means that you have a responsibility to tell the committee the truth. Giving false or misleading evidence will be treated by the Assembly as a serious matter. Would you both identify yourselves, tell us in what capacity you appear before the committee and then give us a brief overview of your submission?

Mr Bright: I am a director of the Real Estate Institute of the ACT and I am also a national board member of the Real Estate Institute of Australia.

Mr Roberts: I am chief executive of the Real Estate Institute of the ACT.

Mr Bright: Mr Chairman, you would have received our submission to the inquiry. In summary, we have reviewed our submission and we believe there are some important points that we need to bring to your attention. We believe that the proposed bill will have a number of effects on the ACT market. First, we believe that it will be far less attractive for investors wishing to invest in the ACT market. The leasehold system in Canberra is already heavily burdened by the existing rates and land tax system and the high stamp duty levy.

The ACT is amongst the three highest states in relation to the payment of stamp duty and levies on our median price. We also have some of the highest general rates per capita than any other capital city in Australia. We also believe that there will be an increased burden on, and inequity in, the market. Based on the proposed formula, it is inevitable that rates will increase, even though rateable values may well decline in the future. This will also cause inequities in the market with ratepayers paying different amounts for essentially the same services.

We believe that a social impact will also develop under the current system. Any deferred excess can be taken from proceeds of the sale of the property, whereas under this proposal, the end cost would be passed on to the new owner of the property. We believe that, because of ongoing costs, it will cause a further drop in home affordability in the ACT. No doubt there will also be a rental impact on the market, as we currently have the second highest median rent for apartments and units than any other capital city in Australia.

If there was a supply glut, as is occurring at the moment in both the Sydney and Melbourne CBDs, as with any other impositions, such as the introduction of the GST and increases in land tax that will ultimately be passed on to tenants or consumers in general. As the market progresses that is an inevitable fact of life. Based on the current formula we believe that rents could rise as much as $15 to $35 per week for the average unit dwelling over a period of 12 to 18 months. That would also affect people in lower income brackets and young families trying to upgrade properties. There is the potential for a dramatic increase in tribunal cases for the determination of fair market rents, thus burdening the tribunal and government resources even further.

In summary, we believe that it is an unworkable bill. The REIACT believes that, as a result of this bill, the government's revenue base would ultimately be eroded as the bill would discourage investment in the property market. That has the potential to impact negatively on forward estimates and government spending programs. We also believe that Treasury does not appear to have undertaken sufficient modelling to determine the impact of the bill on the broad demographics of the ACT property market.

THE CHAIR: Thank you Craig. Why did you state that this bill could result in an increase in rents of as much as $15 to $35 per week?

Mr Bright: Under our current rates and land tax system in the ACT we are already suffering some interstate resistance to investment. As investors turn properties over, or purchase further properties, a higher rates system will ultimately increase their costs, and it is inevitable that they will try to pass on those costs to the end consumer.

THE CHAIR: Is there an ideal or preferred system somewhere else in Australia or the world?

Mr Bright: Mr Quinlan has indicated to us on a number of occasions that the ACT is coming from a very narrow revenue base. We understand that your greatest source of revenue is the landowner. We have some issue with being so heavily reliant on home owners or property owners. We are also concerned about a rather political issue—that is, that a lot of these amendments will result in former owners tax imposts having to be paid by new property owners. We would have thought that any increases in taxes would have been via some organisation such as ACTEW, which catches the general population, but there seems to be a constant barrage on landowners.

Let us take, for example, costs in the ACT generally, which had an increase in stamp duty rates. The Northern Territory government, in its last budget, actually decreased its rates. The Labor government in New South Wales has just started decreasing its stamp duty rates. We believe we are just parcelled with New South Wales, which could result in people living or investing cross-border.

THE CHAIR: You referred earlier to the residential land base rate and said that $19,000 was now unrealistic, given that there was no such block anywhere in the city.

Mr Bright: That is right; there has not been for a long time.

THE CHAIR: On what do you base that $40,000? You said earlier that, because there is no parcel of residential land anywhere in the ACT with a value of $19,000, you believe that that figure should be increased to a base rate level of at least $40,000.

Mr Bright: We took into account the realistic figures indicated previously. Several years ago you could work out a compatible calculation.

THE CHAIR: You state under the social impacts part of your submission that young people with expanding families, recent retirees and empty nesters and older persons will be affected by this legislation. Are you getting feedback from your agents as to whether people have thought about and discussed this issue, or have members of the institute discussed this issue?

Mr Bright: I have had some feedback from our members to the effect that there is concern in the community. Whilst this bill will help those who wish to stay in their homes, in reality the average property is turned over every seven to 10 years, based on people's needs—for example, the increased needs of expanding families and the reduced needs of retirees. So it is not realistic to state that, in most cases, people will stay in their homes for 20 years.

MS MacDONALD: Do you see that as an issue, given that there is no certainty what rates will be in any given year? Investors cannot factor in what rates will be in any given year. It depends on the fairly intricate formula that is developed and determined by Treasury. So we have no knowledge of what will happen.

Mr Bright: I am not sure whether this is much different. Increased costs will be deferred, but we do not believe that there is a great deal of accountability there.

MS MacDONALD: So you do not acknowledge that some certainty will come with the new system?

Mr Bright: We acknowledge that, if someone stays in his or her home for a period of time, there will be a benefit. However, we believe that investors will take a second look at the market because, over a period of time, they will not be terribly happy about the fact that an owner-occupier who is living in exactly the same dwelling next door could potentially be paying 30 or 40 per cent higher rates. So it really comes down to the yield of the property. I know that certain social implications are involved, but I think the government must also bear in mind that the property industry drives or is a large part of this town. The last thing you would want to do is discourage investment in Canberra.

MS MacDONALD: Let us take as an example my suburb of Chifley. Over the last few years land values in Chifley have skyrocketed. Let us say that you decided you liked a house in Chifley and you purchased it. I am sure that, prior to purchasing it, you would look at Chifley and say, "I like it because it is a trendy place in which to live." I have to say that Chifley is a fantastic place to live. You would then say, "I will purchase there on the basis that it is a good location. I will purchase it as an investment, knowing what the rates will be, and knowing that I will be able to get a decent rent for it, because of its location." Do you not think that would be an attraction to investors? They will look at a property and say, "I know what the costs will be, but I know that I will be able to get a decent rent for the property?"

Mr Bright: I do not believe that. Investment in property, by its very nature, has a finite period. Investors will buy and sell depending on the market. It is all very well for an investor to have a fixed increase during a period of ownership. However, investors will lose part of their capital growth when potential purchasers become aware of the proposed rates increases. That will inevitably become a factor in property negotiation.

So, effectively, you are robbing Peter to pay Paul. Whilst they have certainty during ownership, when they ultimately want to sell that property, any other investor or home owner wanting to buy that property will factor that rates increase into the negotiations. So does the investor ultimately gain?

THE CHAIR: And without investment we get a tightening in the rental market?

Mr Bright: We already have a vacancy factor of 1.9 per cent at the moment.

Mr Roberts: The current vacancy rate for the March quarter is 1.9 per cent.

THE CHAIR: What would you expect the normal vacancy rate to be?

Mr Bright: In a normal market we would probably expect between 3 per cent and 4 per cent. So it is probably half.

MS MacDONALD: You are saying that somebody might not purchase a property for investment because he or she will be thinking about when it will be sold in a few years time?

Mr Bright: No, I am saying to you—

MS MacDONALD: That is what you said.

Mr Bright: Ultimately, that could be the case. I am saying to you that what they may pick up during the period of ownership we believe they will lose when they sell the property. It stands to reason. If an investor is looking at a property that initially had rates of $2,000 and, when he goes to buy that property it has rates of $5,000, that has to have a negative impact on the negotiation of the ultimate property price. I cannot imagine you walking into a property saying, "My goodness, the rates on this are now $5,000 a year, not to mention the land tax. I need to negotiate down somewhat the price of the property." Where does the investor ultimately pick up the certainty?

MS MacDONALD: Under the current system is there any guarantee that it will not go up to that amount?

Mr Bright: I would hope not.

MS MacDONALD: Is there any guarantee?

Mr Bright: No, there is no guarantee.

Mr Roberts: But there are certain trends and business factors that one takes into consideration in the overall picture.

THE CHAIR: And you do not differentiate between two houses because everybody is being treated the same?

Mr Roberts: Under the proposed system, if they are side by side, which one are you going to look at?

MS MacDONALD: If they are side by side the rates are fixed only if you have purchased a house and you have been living there for a number of years. The benefit applies only to those people who have been living there; it does not apply to new purchases.

Mr Roberts: Yes.

THE CHAIR: The historical data in your submission is the best data that I have seen. On page 2 of your submission talk you talk about “owners of Tudor houses with small footprints and overhangs” and “Malaysian 16th century Portuguese dwellings with narrow fronts and lengths of up to 100 metres”.

Mr Bright: But that is fact.

THE CHAIR: I know that it is fact. The point you make in that part of the submission is that you do not believe the government understands how the market works because it has not done its numbers.

Mr Bright: If anyone can show us evidence of modelling we would be delighted to see it.

THE CHAIR: I have been asking for months and I now have a chart and a graph.

Mr Bright: Let me give you an example. We looked up some of our historical data. In 1997 the median price in Canberra was $162,000. The median price in Canberra now is $246,000, which represents an increase of 10.4 per cent per annum over that period. Based on a formula referred to in Mr Crispin Hull’s article in the *Canberra Times*, we modelled that on base rates starting at $2,500. In a period of seven years those rates would increase to approximately $5,000. So, over a seven-year period, the rates would double.

Over a 10-year period the rates would move to $6,700. One has to ask questions and I would be happy if someone could answer them. We already have a system which everyone would have to agree is extraordinarily high based on the systems of any other capital city in Australia. We have properties in Forrest—and I cannot even refer to the inner south—where people are paying double or triple the rates that people are paying for similar properties in areas like Toorak or Bellevue Hill, which is ludicrous. That must have an amplifying effect over a period of time.

MS TUCKER: I was not quite sure what you meant when you said something earlier. You said that you would prefer to see the burden carried more widely across the community. I thought you were saying that tenants should have to carry that burden. Is that what you were saying?

Mr Bright: No.

MS TUCKER: What were you saying? I would have thought it would be pretty obvious that they would carry it anyway. In fact, you say that in your submission. So what are you actually saying?

Mr Bright: We were probably referring as much to the fire levy as we were to this bill. Historically, landowners in the ACT have borne the brunt of any additional levies or increases in costs. You can argue that that is passed on to tenants down the track, but its full value cannot be passed on. A number of our landlords—and I can quote examples from our office—have had diminishing yields over a number of years. You would have to admit that the land tax impost, certainly in the inner south, is quite prohibitive. It is not unusual now for a property in the inner south to attract $5,000 or $6,000 in land tax. Properties that we manage are showing owners a net 1.52 per cent yield. That cannot go on indefinitely.

Mr Roberts: If you couple that with the proposed system you answer your own question.

The committee adjourned at 5.18 pm.