

**INDEPENDENT PRICING AND REGULATORY TRIBUNAL**

**REVIEW OF THE LOCAL GOVERNMENT RATING SYSTEM IN NSW**

**Tribunal Members**

**Dr Peter Boxall AO, Chairman  
Mr Ed Willett and Ms Catherine Jones**

**Members of the Secretariat**

**Ms Lucy Garnier, Mr Derek Francis, Mr Anthony Rush,  
Ms Sheridan Rapmund and Mr Austin Harris**

**At Dubbo RSL Club and Event Centre,  
Corner of Brisbane and Wingewarra Streets, Dubbo**

**On Monday, 10 October 2016, at 9.30am**

1 OPENING REMARKS

2  
3 THE CHAIRMAN: Thank you all very much for coming.  
4 I would like to welcome you to this public hearing on  
5 IPART's review of the local government rating system in  
6 New South Wales. I would like to begin by acknowledging  
7 that this public hearing is being held on the traditional  
8 lands of the Tubbagah people of the Wiradjuri Nation.  
9  
10 My name is Peter Boxall and I am Chair of IPART. I am  
11 joined today by my fellow tribunal members, Catherine Jones  
12 and Ed Willett. Assisting the tribunal today are IPART  
13 secretariat members, Lucy Garnier, Derek Francis, Anthony  
14 Rush, Sheridan Rapmund and Austin Harris.  
15  
16 The purpose of this review is to develop  
17 recommendations to improve the efficiency and equity of  
18 the local government rating system in order to enhance  
19 councils' ability to implement sustainable fiscal policies  
20 over the long term.  
21  
22 This review also required IPART to recommend a legal  
23 and regulatory approach to achieve the government's policy  
24 of freezing existing rate paths for four years for newly  
25 merged councils.  
26  
27 In accordance with our terms of reference, we  
28 delivered an interim report to the government in June on  
29 the rate path freeze and in August we released our draft  
30 report addressing all other issues.  
31  
32 The purpose of today's hearing is to outline our key  
33 recommendations from the draft report and to seek your  
34 views on them.  
35  
36 Our draft recommendations aim to improve the current  
37 rating system so that it collects revenue more equitably  
38 and efficiently from ratepayers. They also aim to give  
39 councils more flexibility to better meet the needs of the  
40 community. Our draft recommendations are not designed to  
41 increase the overall rates collected by councils.  
42  
43 At today's public hearing, we have three sessions to  
44 discuss our key draft recommendations.  
45  
46 Session one will cover our draft recommendations:  
47 to give councils the options to use capital improved

1 value or unimproved value in setting rates; and  
2 to remove minimum amounts from the Local Government  
3 Act.  
4  
5 Session 2 will look at our draft recommendations to allow  
6 councils:  
7 to increase rate income over time in line with the  
8 growth in capital investment from new residents or  
9 businesses;  
10 to levy a new special rate for joint delivery of  
11 infrastructure projects with other levels of government;  
12 and  
13 to create new rating categories for vacant and  
14 environmental land.  
15  
16 Session 3 will discuss our draft recommendations:  
17 to modify rate exemptions so eligibility is based on  
18 land use rather than ownership; and  
19 to introduce a rate deferral scheme for pensioners.  
20  
21 A member of the IPART secretariat will give a brief  
22 presentation introducing each session. I will then invite  
23 participants to provide comment on that topic. I ask that  
24 you please limit your opening comments to a maximum of a  
25 few minutes. You may then have an opportunity to provide  
26 further comment, if you wish, subject to time constraints.  
27 Following discussion by those on the panel, I will then  
28 invite comments from the general audience.  
29  
30 Today's hearing will be transcribed. The transcript  
31 will be available on our website next week. Therefore, to  
32 assist the transcriber, I ask that, on all occasions, you  
33 please identify yourself and, where applicable, your  
34 organisation before speaking.  
35  
36 I will hand over to Anthony Rush who will introduce  
37 the first session's discussion.  
38  
39 SESSION 1: Options to use CIV as an alternative to UV for  
40 setting rates  
41  
42 MR RUSH: Thank you very much, Peter. Today I will be  
43 discussing two of our draft recommendations on how councils  
44 can set rates from our draft report.  
45  
46 The first recommendation is our biggest reform  
47 proposal, to give councils the choice of using a capital

1 improved value - or CIV - method of setting rates in  
2 addition to the current unimproved value method.  
3 The second is to abolish minimum amounts from rates if our  
4 recommendation on giving councils choice for CIV is  
5 adopted. These draft recommendations are covered in  
6 chapter 3 of our report.  
7  
8 Broadly speaking, rates are set using two types of  
9 charges - variable charges, which are set as a percentage  
10 of a property's assessed value - and fixed charges which  
11 are base and minimum amounts.  
12  
13 In New South Wales, the variable charge is currently  
14 based on a property's unimproved land value. This is the  
15 value of a property excluding the value of buildings,  
16 structures and other capital improvements. However, our  
17 research has shown that a strong majority of jurisdictions  
18 across Australia and internationally adopt a capital  
19 improved value - or CIV - method for setting local  
20 government rates.  
21  
22 The CIV method includes the value of the land and  
23 capital improvements on a property. Our draft  
24 recommendation is that councils in New South Wales should  
25 be given the option to choose between either the CIV or UV  
26 method at the rating category level.  
27  
28 So why have we reached this draft recommendation?  
29 First, CIV performs well relative to UV in our  
30 analysis against the tax principles. In particular, it  
31 performs well on equity, simplicity and sustainability  
32 principles and it can be more efficient.  
33 Second, analysis and feedback from stakeholders has  
34 shown that CIV is needed to address the key and growing  
35 issue of collecting rates revenue from apartments.  
36 Third, it is consistent with rating practices  
37 internationally and in other states. Around 85 per cent of  
38 countries allow a CIV-type approach and there has been a  
39 noticeable trend towards CIV internationally in the last  
40 10 to 20 years.  
41 Fourth, the majority of stakeholders supported giving  
42 councils at least the choice to use CIV.  
43 Finally, there are substantial benefits to collecting  
44 CIV data that accrue to numerous sectors of the economy.  
45 If these benefits are reported fairly and efficiently, they  
46 could greatly offset the costs of providing valuation  
47 services. In addition, the process of implementing CIV can

1 be done competitively and the costs can be minimised if  
2 implemented gradually.  
3  
4 As discussed, councils currently can levy rates on a  
5 property with one of two fixed charges. The first type,  
6 known as the base amount, is a flat charge that applies to  
7 all properties in a rating category. The second type, a  
8 minimum amount, only applies if the variable charge for a  
9 property is below a certain threshold. These charges are  
10 depicted in the chart behind me.  
11  
12 We recommend that base amounts be retained with no changes  
13 but that minimum amounts should be phased out from  
14 2020. This is because base amounts are more equitable and  
15 efficient. With a minimum amount, all ratepayers with a  
16 property value below a threshold pay the same rates. In  
17 other words, a one-bedroom apartment will pay the same  
18 minimum rate as a three-bedroom apartment, for example. In  
19 contrast, with a base amount, the one-bedroom apartment  
20 will pay lower rates than the three-bedroom apartment.  
21 This is more efficient as the three-bedroom apartment will  
22 tend to receive more benefits from council services and it  
23 is more equitable as it will, on average, have a greater  
24 capacity to pay.  
25  
26 Currently, a number of metropolitan councils are using  
27 the minimum amount as an imperfect tool to raise revenue  
28 from apartments as they are unable to use CIV. If our  
29 recommendation to give councils a choice to use CIV is  
30 adopted, then these councils would be able to raise rates  
31 revenue from apartments without the need to use minimum  
32 amounts.  
33  
34 I would like to finish my presentation by leaving you  
35 with a few questions to motivate the discussion. These are:  
36 Should councils be able to choose between UV and CIV  
37 and is this choice appropriate at the rating category  
38 level; and  
39 If councils are permitted to choose valuation methods,  
40 are minimum amounts still required?  
41  
42 Thank you.  
43  
44 THE CHAIRMAN: Thank you very much, Anthony.  
45 Comments, discussion from around the table. Would  
46 anybody like to go first? Andrew?  
47

1 MR MARTEL: Andrew Martel, NSW Farmers. NSW Farmers,  
2 for rural rates, is opposed to the CIV mainly because we have  
3 some heavy questions about it. What does CIV mean? What  
4 is your method of obtaining CIV? Is it, as normal, with  
5 comparable property sales?

6  
7 THE CHAIRMAN: Anthony?

8  
9 MR RUSH: Yes, it would involve a component of property  
10 sales. It would also involve benchmarking that against the  
11 attributes of actual properties. So it would involve  
12 collecting information on both the land, which is already  
13 done, and information on capital. Then when the properties  
14 are sold, these can be used to inform what the capital  
15 improved value would be across the other properties which  
16 do not sell.

17  
18 MR MARTEL: Therefore, you would require a property  
19 inspection on all farms?

20  
21 MR RUSH: No.

22  
23 MR MARTEL: Well, you would have to, to find out the  
24 infrastructure value of any improvements on the farm.

25  
26 MR RUSH: There will need to be a process to establish  
27 what is on a property. In many cases, and I would say in  
28 the majority of cases, it would not involve an actual  
29 property inspection. Over time, as improvements are made  
30 and changed, these can be linked to other processes such as  
31 development application processes.

32  
33 MR MARTEL: Can you illustrate further what some of these  
34 methods will be without property inspection? I can't  
35 understand how you would value fencing, yards, shedding  
36 without an on-farm inspection. They are all part of the  
37 improved capital value, and housing is another one.

38  
39 MR RUSH: I guess the first question is to what extent are  
40 all of these home improvements going to be captured at the  
41 micro level? Not everything needs to be captured in a CIV.  
42 You don't need to capture the quality of a fence, for  
43 example. You might just --

44  
45 MR MARTEL: I completely disagree with that.

46  
47 MR RUSH: Well, that's fine, but what we are trying to

1 actually capture, just broadly speaking, is what capital is  
2 involved in property, so that will be the main building and  
3 the structures.

4  
5 MR MARTEL: Well, I find that answer incomplete.

6  
7 The other question is: I see you recommended that  
8 CIVs be applied on all properties. Does that mean that the  
9 government intends to move to using CIVs over the whole  
10 system rather than giving a choice between UV and CIV?

11  
12 THE CHAIRMAN: No, the recommendation from us is that  
13 councils be given a choice. That is the recommendation we  
14 are consulting on. What the government does will depend on  
15 their decision after we put in our final report. Does that  
16 answer the question?

17  
18 MR MARTEL: It does in that it is a government decision,  
19 but that does not really illuminate the question really.

20  
21 THE CHAIRMAN: The question is fairly simple because we  
22 have come up with a draft recommendation which is to give  
23 councils in New South Wales a choice between using UV or  
24 CIV and we are consulting on that. One position might be  
25 no, don't give them a choice, stick with UV. Another  
26 position could be no, don't give them a choice, make them  
27 all have CIV. That's what we are consulting on.

28  
29 What the government does is up to them after they get  
30 our final report. No doubt they will be aware of the  
31 consultation process and of the views put forward and that  
32 will be covered in our final report.

33  
34 Is there anything else, Andrew, for now?

35  
36 MR MARTEL: No, thank you. That was it.

37  
38 THE CHAIRMAN: Thank you. Anybody else from around  
39 the table? Diane, would you like to make some comments?

40  
41 MS SAWYERS: Yes, thank you. Diane Sawyers, Mid-Western  
42 Regional Council. The focus of this finding appears to be  
43 directed to the current inequity of the rating of  
44 residential units. While findings might be valid in this  
45 context, the recommendation is not considering how the  
46 removal of the minimums would affect lower valued  
47 properties in rural areas.

1  
2 In the Mid-Western Regional Council area, there are  
3 precincts where values are low. If the option to rate on a  
4 minimum was removed, these properties would pay very little  
5 rates above the base amount. The rates on these very  
6 low-valued properties would go down, as would the rates on  
7 the very highly valued properties, with the properties  
8 which attract a middle-range valuation left burdened with  
9 an increase, notwithstanding that the same services are  
10 utilised by all property owners.

11  
12 The removal of the minimums would not produce an  
13 outcome in the Mid-Western Regional Council area which  
14 would be any more equitable than the current structure  
15 based upon the minimums.

16  
17 The proposed removal of the minimums is viewed as  
18 being counterproductive in the context where two of the  
19 major premises of the review of the local government rating  
20 system are to provide flexibility for councils and equity.  
21 Thank you.

22  
23 THE CHAIRMAN: Thank you very much, Diane. Anyone  
24 else?Shaun?

25  
26 MR McBRIDE: Shaun McBride, Local Government NSW. We  
27 favour the recommendation that councils have the choice to  
28 use either CIV or unimproved value. We have taken that  
29 position from the outset recognising, particularly in rural  
30 and regional areas, that CIV might not be necessary nor  
31 practical or needed. As outlined in the presentation, a  
32 lot of the need is generated by high-rise apartments,  
33 particularly in metropolitan areas and certain areas along  
34 the coast, so we support councils having the option.

35  
36 That is not without precedent. In Victoria, councils  
37 have that option. In Western Australia, I believe that in  
38 the metropolitan areas, Perth and so on, the CIV is used or  
39 they use an alternative to that gross rental value,  
40 I think, whereas, in rural and regional areas, they  
41 maintain the unimproved capital value. So there are  
42 precedents for both systems to operate in parallel and for  
43 councils to have the choice. We are currently supporting  
44 that option for councils. We are certainly not advocating  
45 that it should be mandatorily applied across the whole  
46 state.  
47

1 When it comes to minimum rates, we do not support the  
2 removal of that provision from the Act at this stage.  
3 First, it would only be relevant to councils who opted for  
4 CIV, and then it might make sense, but removing it from the  
5 Act would stop councils who didn't opt for CIV to forgo  
6 that option, so, at this stage, we would oppose its  
7 removal. We think that councils who adopted CIV, if it  
8 were made available in the future, would gradually  
9 transition to removing a minimum rate anyway, so we don't  
10 see a need for it to be enforced in any way.

11  
12 THE CHAIRMAN: Thank you very much, Shaun. Alice?

13  
14 DR HOWE: Thank you, and apologies for the slight lateness  
15 of my arrival. Lake Macquarie City Council is a regional  
16 coastal LGA, approximately one and a half hours north of  
17 Sydney. We support the application of CIV. We don't  
18 believe that there should be an option for CIV or UV  
19 valuation methods. We would prefer one method across the  
20 state. We think that would enable statewide comparisons  
21 and we feel that if CIV is introduced, there would no  
22 longer be the requirement for a minimum to be applied.

23  
24 THE CHAIRMAN: Thank you very much, Alice. Keith?

25  
26 MR BAXTER: Keith Baxter from the Office of Local  
27 Government. I think one of the challenges that has come  
28 out at both the public hearings that I have heard to date  
29 about the CIV/UV question is the notion of choice. From my  
30 perspective in the Office of Local Government, I would be  
31 interested, recognising some of the challenges we have  
32 heard about rural and regional communities regarding the  
33 adoption of CIV, whether, rather than choice, there is sort  
34 of a designated CIV area and a designated UV area.

35  
36 The reason for that is I think there is a challenge in  
37 a rating system about creating certainty, consistency and  
38 understandability for residents. I think if you are in a  
39 situation like metropolitan Sydney where one side of the  
40 street has one valuation methodology and rating methodology  
41 and the other side of the street has a different one, that  
42 raises challenges about the understandability of a rating  
43 system.

44  
45 One of the constant bits of feedback we hear from  
46 councils and from the public is about people understanding  
47 their rates, understanding the basis of their rates,

1 understanding how their rates are being set. There is a  
2 question in my mind about whether choice promotes  
3 understandability and helps set up understandability or it  
4 just adds another layer of complexity.

5  
6 The other thing that I think is interesting, and  
7 I wouldn't mind more conversation on this, is some methods  
8 of the cost offsets of moving to CIV. I know IPART has  
9 suggested that they think that the process might be  
10 affordable with that there. That sort of discussion would  
11 be helpful for government to understand what some of those  
12 offsets might be.

13  
14 THE CHAIRMAN: Thank you, Keith. Jaimie, would you like  
15 to say something?

16  
17 MS LOVELL: Jaimie Lovell, NSW Farmers. Thank you. We  
18 also note in our draft submission, which we will be  
19 forwarding to you shortly, that we think that it is a  
20 little bit messy to provide choice. There are already  
21 situations in regional New South Wales where adjoining  
22 councils rate farmland differently, for instance, and it  
23 does cause difficulties.

24  
25 Of course, when councils individually decide how they  
26 rate, that will always be part of the system that we live  
27 with, so to some extent, those differentials cannot be  
28 avoided in the current system, but adding this aspect of  
29 choice does rather multiply the complexity involved.

30  
31 We also don't support removing the minimum versus base  
32 rate flexibility currently available for councils. We see  
33 that having more flexibility is good. I note Shaun's  
34 comments as well and I think there is some value to those.

35  
36 I think the major objection from our members is the  
37 particular cost of this additional new system, particularly  
38 when IPART also recommends further into its report  
39 collecting that data across New South Wales, even if a  
40 council chooses not to use CIV in its valuations. If that  
41 recommendation was taken up by government, that means  
42 that that data would have to be collected. There would be a  
43 cost involved in creating that data set and that cost would  
44 presumably be worn by ratepayers in some way, shape or  
45 form. We will presumably get to that when we get to  
46 valuation. Thank you.

47

1 THE CHAIRMAN: Thanks very much, Jaimie. Are there any  
2 questions or comments from the floor. Would anybody in the  
3 audience like to ask a question or make a comment?

4  
5 MR ATTENBOROUGH: Good morning. My name is Chris  
6 Attenborough, from Aspect Property. We currently are  
7 contractors to the Valuer General providing unimproved  
8 value services.

9  
10 My question is: the whole premise of this review by  
11 IPART is to create a rating system that provides equity and  
12 efficiency and I am assuming accuracy as well. By going to  
13 a CIV system, I am also of the understanding that the rates  
14 collected by local government will be unchanged based on  
15 this new system; is that correct?

16  
17 THE CHAIRMAN: Yes, this is not about increasing the total  
18 amount of rates; it's the distribution and how it is  
19 raised.

20  
21 MR ATTENBOROUGH: So my question, I suppose, is that  
22 going to a CIV model involves a greater expense and, as  
23 Andrew pointed out, for it to be accurate and efficient,  
24 physical inspections of properties would have to be  
25 undertaken to set a base level of value. Therefore, if the rates  
26 collected by the local governments are not changing, there will  
27 be a significant outlay - and ongoing outlay - to collect  
28 the same amount of revenue. So the question, I suppose, is  
29 what is the point?

30  
31 THE CHAIRMAN: Thanks, Chris. Derek?

32  
33 MR FRANCIS: There are a couple of things that I think can  
34 be described as fallacies with the current system. To  
35 actually calculate unimproved value, you actually have to  
36 collect CIV. What you do is you start with the market  
37 value from a sale and then you essentially subtract the  
38 capital from it to get the unimproved value off the  
39 property's sale.

40  
41 In our own analysis, there will be some fairly small  
42 start-up costs associated with the whole system, but after  
43 that, the running costs are basically no different from the  
44 current system.

45  
46 The advantage of CIV is that each year you get 200,000  
47 property transactions that naturally occur, so you get all

1 the benefit for free under CIV. Under UV, what you would  
2 be doing is you would then have to be going and subtracting  
3 the capital from each one of them to actually get an  
4 unimproved value, so it's a far more complicated system  
5 than a CIV system.  
6  
7 If you do that over four years you would be getting  
8 800,000 transactions, which is essentially 20 per cent of  
9 your whole property database that you are getting under  
10 CIV. For the people who say this is some sort of difficult  
11 or complex system, there is no evidence of that worldwide.  
12 It is used in 85 per cent of the world. There are only a  
13 couple of countries that essentially mandate UV as the  
14 method for collecting local council rates and most of those  
15 countries are actually third world countries.  
16  
17 MR ATTENBOROUGH: Firstly, that is not correct. The  
18 process of undertaking unimproved values is not a matter  
19 of deducting the value of the capital improvements of  
20 every property. It is only in the transactions where that  
21 occurs, making it simple --  
22  
23 MR FRANCIS: Yes, that's what I said.  
24  
25 THE CHAIRMAN: That's right.  
26  
27 MR ATTENBOROUGH: -- to provide valuations on the other  
28 80 per cent of properties that didn't sell.  
29  
30 Secondly, I suppose it depends on the model that is  
31 being proposed as to how the CIV system will work. If it's  
32 going to be an algorithmic-type computer-generated  
33 model, well, that flies in the face of equity because they  
34 cannot capture the attributes of each property accurately  
35 through a computer modelling system.  
36  
37 THE CHAIRMAN: I think the point that was being made,  
38 Chris, and this also goes to Andrew's point, is that, at  
39 the moment, we are taking the market value transactions,  
40 then adjusting to get the UV and then applying that to  
41 neighbouring properties. This, in a sense, would be taking  
42 the market transaction value and applying that to  
43 neighbouring properties on a CIV basis.  
44  
45 So it is not the same, but it is a similar  
46 methodological approach and that is the point we are  
47 making. This is a public forum, so if people have

1 alternate views, we are glad to hear them, but that's the  
2 point we are making.  
3  
4 MR ATTENBOROUGH: But this system will only work if the  
5 data collected for each property is accurate and is updated  
6 regularly to reflect the attributes of that property.  
7  
8 THE CHAIRMAN: Yes, and one difference with CIV and UV  
9 is that if you have a development application or a major  
10 renovation on a property, then that is actually recorded  
11 with the council, so it's relatively easy to update that.  
12 That is one thing.  
13  
14 At the moment, you could collect a market transaction  
15 of a property in a particular street or in a particular  
16 road in a rural area and then an effort is made to deduct  
17 the capital value in order to get the UV, so it is a  
18 similar sort of estimation process.  
19  
20 There are different proposals. One proposal is that  
21 the Valuer General would remain, in a sense, in control of  
22 this process and private contractors would be used, much  
23 the same as they do now. Another proposition is that it  
24 could be contracted out; councils could contract out to the  
25 private sector to get the valuations rather than go through  
26 the Valuer General and just use the Valuer General's  
27 guidelines, so to speak.  
28  
29 These are issues that we are also looking at and we  
30 would, of course, welcome inputs from people and  
31 stakeholders such as you. Thank you very much for that  
32 line of questioning, Chris. That supplements some of the  
33 points that Andrew raised.  
34  
35 Another question or comment?  
36  
37 MS MCKENZIE: I'm Fiona McKenzie from Parkes Shire  
38 Council. I have a question regarding calculating a  
39 specific area under the CIV. We have a lot of areas in  
40 Parkes that are actually older buildings. Some are old  
41 Housing Commission houses that are now being privately  
42 sold, so the value of those buildings is quite low. In a  
43 lot of those areas, there are one-off buildings that are  
44 now becoming quite substantial properties. In either the  
45 sales or the development applications, will that pick that  
46 up and just increase the capital value of that developed  
47 property and not affect the whole suburb or the whole

1 street or the area so that the --  
2  
3 THE CHAIRMAN: The short answer to that is yes. If you  
4 have a street with blocks which are more or less identical  
5 and they have, for argument's sake, relatively low value  
6 old Housing Commission houses on them and somebody buys  
7 one of those blocks and demolishes the residence and puts up a  
8 new residence which is quite expensive, that would be  
9 reflected in the development application and that would  
10 feed through to the CIV; if your council was using CIV, it  
11 would feed through to CIV for that specific block only and  
12 not for the whole neighbourhood.  
13  
14 MS McKENZIE: Okay, so that's right?  
15  
16 THE CHAIRMAN: Yes.  
17  
18 MS McKENZIE: That is what I wanted to check. Obviously  
19 now with the unimproved value it is technically a whole  
20 area. People who have more capacity to pay and to have  
21 better properties obviously get the benefit of being in a  
22 lower valued area. I didn't want to see it go back the  
23 other way whereby people who are less able would then be  
24 affected by improved properties growing around them.  
25  
26 THE CHAIRMAN: That's right. Thanks very much, Fiona.  
27  
28 MS McKENZIE: Thank you.  
29  
30 THE CHAIRMAN: Are there other questions or comments?  
31 Yes?  
32  
33 MS MAXWELL: Thank you. I'm Bronwyn Maxwell from  
34 Dubbo Regional Council. In our submission, whilst we  
35 support the choice for councils being able to have CIV or  
36 remain with unimproved value, we do have questions in  
37 relation to should we be required to maintain capital  
38 improved value for the Emergency Services Levy and for  
39 calculating our growth - our notional growth?  
40  
41 When council returns to having an elected council, as  
42 it may choose to remain on unimproved value, we would be  
43 forced to maintain two sets of valuations through  
44 fortnightly supplementary valuations. We don't see the  
45 efficiency in having to keep two sets, should council  
46 choose to have unimproved value as its rating basis. To  
47 have capital improved values that have to be maintained and

1 kept as a valuation register would mean we would be keeping  
2 and maintaining two valuation registers. And the cost also  
3 to council in having to do that - would there be a cost to  
4 council in having to keep and maintain the second set of  
5 valuations?  
6  
7 THE CHAIRMAN: Yes.  
8  
9 MS MAXWELL: In relation to the minimums, we certainly  
10 support councils having the choice as to whether they have  
11 minimum valuations in place or having to move to base  
12 rating.  
13  
14 For example, in the city of Dubbo, we also have  
15 properties that have extremely high land valuations and  
16 properties in former Housing Commissions areas that have  
17 very, very low land valuations. Currently we levy using  
18 minimum rates and we support councils maintaining that  
19 choice and support minimum rates not being abolished.  
20  
21 THE CHAIRMAN: Thank you very much, Bronwyn. On the  
22 point you have raised about maintaining two valuation  
23 registers, this is an issue and we welcome feedback on it. For  
24 example, let's say the government decided to have a choice  
25 and a council opted to have unimproved valuation, then  
26 under the current recommendations, if the council wanted to  
27 participate in that growth outside the rate peg, which we  
28 also covered, they would need to have CIV.  
29  
30 MS MAXWELL: That's my understanding.  
31  
32 THE CHAIRMAN: The issue of the Emergency Services Levy  
33 is actually outside the scope. That is an issue for  
34 government as to what base they would want to put that on,  
35 so that is outside the scope.  
36  
37 MS MAXWELL: I appreciate it's outside the scope, but it  
38 certainly raises a question for our council - at whose  
39 cost? It is a substantial cost for our valuations each  
40 financial year. We would be effectively doubling the  
41 cost, or more so, because capital improved value, we would  
42 anticipate, would be more expensive per valuation than the  
43 unimproved values potentially.  
44  
45 THE CHAIRMAN: Not necessarily, but potentially, and the  
46 issue about the cost is something that we are consulting on  
47 and your point is noted.

1  
2 MS MAXWELL: Thank you. Another point I would raise is  
3 initially we also had concerns in relation to the shift to  
4 capital improved value on our farmland rating category.  
5 Whilst there would be no additional income for council, we  
6 anticipate it would substantially change which farmer is  
7 paying what based on capital improved value and as to how  
8 those initial capital improved values would be undertaken.  
9  
10 THE CHAIRMAN: There is just one thing to keep in mind,  
11 Bronwyn. The recommendation is that you could rate  
12 differently by category. If the recommendations go forward  
13 as they are and if they are adopted, it is possible that a  
14 council could use CIV in the towns and cities and UV in  
15 farmlands, so that's an option.  
16  
17 MS MAXWELL: Thank you.  
18  
19 THE CHAIRMAN: Are there any further questions or  
20 comments? Would anybody around the table like to have a  
21 rejoinder? Jaimie?  
22  
23 MS LOVELL: Thanks. I would just add to that exchange  
24 that, as Andrew said at the beginning, NSW Farmers supports  
25 UV being retained for farmland rates. We don't have a  
26 position on whether councils feel it is better to rate  
27 residential on CIV. We can see that some councils would  
28 see the benefit of that.  
29  
30 THE CHAIRMAN: Thank you. So Alice, and then Chris.  
31  
32 DR HOWE: In relation to the Emergency Services Property  
33 Levy, regardless of the decision that the government makes,  
34 it is useful for councils to only have to do it once rather  
35 than twice.  
36  
37 In relation to the privatisation or potential  
38 privatisation of the valuation services, Lake Macquarie  
39 City Council believes that there is value in the Valuer  
40 General being in charge of the contractual arrangements to  
41 maintain standards. We don't see any economies of scale to  
42 be achieved by council separately procuring valuation  
43 services.  
44  
45 THE CHAIRMAN: Thanks, Alice.  
46  
47 MR McBRIDE: I would just add to that that we have the

1 same position as Lake Macquarie in terms of the Valuer  
2 General.  
3  
4 THE CHAIRMAN: Thanks, Shaun. Chris?  
5  
6 MR ATTENBOROUGH: Just in relation to the CIV model,  
7 how are properties that are sold as going concerns to be valued  
8 under a CIV model, for example, a hotel which has a  
9 substantial component of business, goodwill and income?  
10  
11 MR RUSH: Could you just say that again? I am sorry,  
12 I didn't catch the end of your question.  
13  
14 MR ATTENBOROUGH: So a CIV model, I am assuming, is  
15 capital improvements on the land which would, by  
16 definition, exclude the goodwill component of a  
17 transaction. For example, a hotel might sell for  
18 \$10 million but the actual capital value of those  
19 improvements on that land may be as little as \$1 million.  
20 From what you said previously, is the transaction going to  
21 be rated on the capital improved value of that \$10 million  
22 because --  
23  
24 MR RUSH: What we are proposing is the capital improved  
25 value of the property given its highest and best use, given  
26 the zoning of the land. So that's what we are proposing.  
27  
28 MR ATTENBOROUGH: Excluding the goodwill; is that right?  
29  
30 MR RUSH: That's correct, yes, just on the business.  
31  
32 THE CHAIRMAN: Are there any other questions or comments  
33 in this session? If not, we will move on to the next  
34 session.  
35  
36 SESSION 2: Allowing councils to increase general income  
37 "outside the peg" and changes to rating categories.  
38  
39 THE CHAIRMAN: Session 2 is "Allowing councils to  
40 increase general income outside the rate peg and changes to  
41 the rating categories", and I'll ask Austin Harris to introduce  
42 it.  
43  
44 MR HARRIS: Thank you, Mr Chair. This second session  
45 discusses rate growth outside the peg, the setting of  
46 differential rates and new rating categories. This covers  
47 chapters 4, 5 and 8 of our draft report.

1  
2 We have recommended changing how council income grows  
3 in response to the increase of capital in a council area.  
4 Increases in capital are increasingly due to new residences  
5 and businesses and broadly approximate the increased costs  
6 imposed on councils by new growth. We have made these  
7 recommendations to promote growth and urban renewal; to  
8 make councils more financially sustainable whilst  
9 maintaining their service levels; to reduce regulatory  
10 burden; and to ensure that council rate growth is  
11 independent of their choice of rating method. Importantly,  
12 it is not our intention with these recommendations in this  
13 chapter to increase average rates per household.  
14  
15 Separately, we have also recommended a new type of  
16 special rate to fund new infrastructure that does not  
17 require outside approval and will not be included in the  
18 rate peg.  
19  
20 We have made these changes because, typically,  
21 population growth outstrips council income growth. As  
22 such, councils have incentives to maximise base and minimum  
23 amounts as a part of their rating structure. For example,  
24 currently fixed charges get added to a council's rate base,  
25 so having higher minimum and base amounts means that a  
26 council is able to maximise income from growth. However,  
27 fixed charges should represent the fixed cost of servicing  
28 all dwellings. Using them for increased revenue generation  
29 runs contrary to taxation principles.  
30  
31 The outcomes of the current growth outside the peg  
32 system are illustrated by the two charts on this slide.  
33 The chart on the left shows a Sydney metro council's income  
34 and property growth over four years if the rate peg  
35 increase is stripped out. The top line shows the growth in  
36 the number of properties in the council area. The bottom  
37 shows the increase in the council's income without any SVs,  
38 and, lastly, the middle line shows the impact of the SV  
39 that the council had applied for.  
40  
41 This chart demonstrates that the current growth  
42 outside the peg system does not work well for growing  
43 councils, which means that councils must approach IPART for  
44 SVs to correct their base rather than for increases in  
45 service provision.  
46  
47 The chart on the right has been created using data

1 provided by Port Stephens in their issues paper submission.  
2 It shows how the rates paid under different rating  
3 structures on a single parcel of land change as it is  
4 turned into to seven apartments. The top shows the overall  
5 rates while the bottom shows the rates per rating  
6 assessment.  
7  
8 In this example, the council receives no additional  
9 income from the subdivision of land unless the base or  
10 minimum is levied; whereas, under our proposed CIV  
11 structure, the council is able to increase their rates per  
12 dwelling to compensate for the increased cost imposed.  
13  
14 Under our proposed changes, growth outside the peg  
15 would be scaled by the percentage change in CIV due to  
16 supplementary valuations. The formula ensures that rates  
17 revenue increases in proportion to the increased costs of  
18 providing services over time.  
19  
20 Our analysis suggests that our new formula delivers a  
21 revenue growth of approximately 1 per cent on average per  
22 year outside the peg compared to the current 0.2 per cent  
23 growth outside the peg that councils received in 2014-15.  
24 This does not mean, however, that councils will get more  
25 rates income if house prices in an LG area go up. Councils  
26 only receive additional funds from growth outside the peg  
27 when new development occurs - where a new apartment  
28 building replaces a stand-alone dwelling or where land is  
29 rezoned, for example.  
30  
31 It also means that the structure of a council's  
32 minimum, base and different category rates does not affect  
33 the size of their growth outside the peg. This means that  
34 councils would not be incentivised to pick one rating  
35 structure over another to maximise growth.  
36  
37 We have also recommended a new special rate for  
38 infrastructure for councils to use in joint projects. This  
39 recommendation would make it easier for councils to partner  
40 with other levels of government. This new special rate  
41 would not be included in a council's general income as it  
42 is not providing core council services and it would not  
43 require regulatory approval by IPART. These special rates  
44 would be completely voluntary for the council and would not  
45 be able to go ahead without council's approval.  
46  
47 For councils that have recently merged, the

1 government's rate path freeze policy limits their ability to  
2 change their rating structures until after the rate path freeze  
3 period. Post the rate freeze period, we have recommended that  
4 councils should have the choice between gradually  
5 equalising rates - sorry, I am skipping ahead of my notes.  
6

7 Most councils requested greater flexibility to set  
8 differential rates. To do so, we have recommended the  
9 removal of the centre of population requirement and  
10 replacing it with two tests either of which a council can  
11 use to set a differential rate. The first is whether the  
12 area is a separate town or village in a non-contiguous  
13 area. The criterion for this reflects the current OLG  
14 guidelines and is likely relevant for rural and regional  
15 councils.  
16

17 The second test is whether the areas are a different  
18 community of interest; that is, within a contiguous urban  
19 area, there are different demand, costs or access to  
20 council services that council could choose to levy a  
21 separate rate.  
22

23 We have recommended protections which promote equity  
24 and transparency to also mitigate against the risk of  
25 councils targeting a particular area for excessively high  
26 rates. Firstly, we have recommended that the difference  
27 between the highest and lowest overall rate in a  
28 residential area be no more than 1.5 times without approval  
29 from IPART. Secondly, we have recommended that to  
30 increase the transparency around differential rates, councils  
31 would be required to publish details of their differential rates  
32 and the rationale both on their websites and on individual  
33 rates notices.  
34

35 For councils that have recently merged, we recommend  
36 that they should have the choice post rate path freeze  
37 between gradually equalising the rates across pre-merged  
38 areas or, alternatively, to make use of one of the  
39 other rate setting methods discussed earlier.  
40

41 Finally, we have recommended a number of changes to  
42 rating categories and subcategories. These include two new  
43 categories of rateable land - vacant and environmental;  
44 allowing businesses to be rateable as either industrial or  
45 commercial; changing the subcategorisation of farmland to a  
46 geographical basis rather than an intensity of use; and,  
47 lastly, setting limitations on how mining rates can be set

1 in relation to other rates.  
2

3 We have also recommended improving the capacity of  
4 councils to set rates temporarily below the rate peg and  
5 also recommended that the Emergency Services Property Levy  
6 should be levied on a CIV basis where this data is  
7 available.  
8

9 I will now hand over to the Chair to open the session  
10 for further consideration.  
11

12 THE CHAIRMAN: Thank you very much, Austin. There are  
13 a number of questions for consideration on the slide at the  
14 moment, and I open up the discussion for comment from  
15 around the table. Would anybody like to go first? Alice?  
16

17 DR HOWE: I would like to point out that Lake Macquarie  
18 City Council congratulates IPART for coming up with some  
19 creative opportunities to increase council revenue. We  
20 note that increasing the rate peg was not part of the terms  
21 of reference for IPART and, to some extent, whatever we  
22 might do could be construed as rearranging the deckchairs  
23 without that overarching consideration.  
24

25 We support the application of CIV to growth and  
26 development within the LGA and we acknowledge the cost  
27 savings to both council and to IPART by doing that. It is  
28 quite a predictable increase in population density and  
29 service delivery requirements that this would seek to  
30 address.  
31

32 We support IPART's recommendation for capturing the  
33 value of public investment in infrastructure, but seek some  
34 clarification about how that will work in practice. Is it  
35 your intention to apply that value capture just to the  
36 component of local government investment or the total  
37 public investment? If it is the latter, we see there is  
38 some risk that the recommendation will shift the cost of  
39 infrastructure from the broad Australian tax base to  
40 specific local communities and will perhaps have the  
41 potential to erode vertical equalisation.  
42

43 We support the introduction of an environmental  
44 category for land but not a vacant category for land. Our  
45 preference would be for vacant land to be a discretionary  
46 subcategory of the other rating categories. We would like  
47 to see provision for councils to apply on a discretionary

1 basis a wider range of subcategories based on land use zone  
2 rather than the more subjective categories such as  
3 community of interest. In our view zoning is a reasonably  
4 good indicator of service delivery, it is less difficult  
5 to determine and less open to challenge. Thank you.

6  
7 THE CHAIRMAN: Thanks very much, Alice. Shaun?

8  
9 MR McBRIDE: We favour the recommendation regarding the  
10 growth outside the peg. We think that is an important  
11 development and probably one of the more significant  
12 recommendations in the report. We still have some issues  
13 with the best way of going about that, but CIV would appear  
14 to provide the best option, the most appropriate path, when  
15 trying to capture the value of growth outside the peg.

16  
17 Do we agree with changing the centre of population  
18 criteria for residential rates? We find that one  
19 problematic. It could be challengeable in contiguous  
20 areas. We are not against it in principle, where it can be  
21 demonstrated there are different levels of service, and  
22 levels of infrastructure provision and so on. So, in  
23 principle, yes, but there are some issues about challenges  
24 to that. I think at a previous meeting, some council  
25 representatives raised the issue of potential manipulation  
26 of rates for political purposes, or something like that.  
27 There were some concerns about that, but perhaps some  
28 checks and balances can be put in place to alleviate those  
29 types of concerns.

30  
31 With regard to new rating categories for vacant land,  
32 we would tend to agree with Alice there about subcategories  
33 of existing categories.

34  
35 Do we agree with the proposed changes to farmland and  
36 mining subcategories? We are still looking into the  
37 farmland and mining subcategories and the implications of  
38 those. Particularly with mining, because of its  
39 significant impact in certain locations, changes to mining,  
40 the rating of mines could have significant transitional  
41 effects in areas where mining is one of the largest  
42 economic activities.

43  
44 THE CHAIRMAN: Thanks very much, Shaun. Andrew or Jaimie?

45  
46 MS LOVELL: I will be brief. On the top question, we  
47 understand why IPART has made that recommendation in regard

1 to the rate peg. We support rate pegging, but we  
2 understand the need for councils to grow their income and  
3 we can see why councils would want to - as I said before,  
4 especially with residential and urban areas - change to  
5 CIV. However, we retain the reservations that we outlined  
6 earlier about CIV in general.

7  
8 In terms of vacant land, environmental land, farmland  
9 and mining categories, if I can roll them up together, with  
10 regard to environmental land, we certainly support that, in  
11 a sense, but we would like some further detail. We wonder  
12 how IPART thinks that that would dovetail in with the  
13 government's new proposed biodiversity reform.

14  
15 We see some value in, say, farmers who have offset  
16 land environmentally being able to have a smaller rate  
17 charge, but it is not quite clear to us yet with that  
18 legislation still in draft form how all of those things  
19 would work together.

20  
21 We certainly, for a long time, have supported mining  
22 categories being better rated to encompass the services  
23 required from councils, so we welcome the recommendation  
24 to make it easier for councils to more effectively levy mining  
25 interests.

26  
27 We have had mixed responses from our members to the  
28 farmland subcategories. There has been some support for it  
29 given that farmers have long held that they pay a very  
30 significant part of the rate base, in general, whilst being  
31 quite a low population of a council, in general. They  
32 often feel that they don't quite get their voice on council  
33 in the annual or regular reviews of the council rating  
34 system, so we can see some benefits there.

35  
36 THE CHAIRMAN: Thank you very much, Jaimie. Diane?

37  
38 MS SAWYERS: I would like to comment on the mining rates  
39 reflecting the cost of council services. In our view,  
40 rates are a tax imposed at a local level and not purely a  
41 fee for service. Councils need the flexibility to set  
42 appropriate rates for their communities and it is therefore  
43 suggested that the Minerals Council's view is one opinion  
44 only.

45  
46 The IPART inquiry found evidence that supports the  
47 Mineral Council's view, but the analysis appears to be

1 based predominantly on pure rating data and there seems to  
2 be no other inquiry as to why the ratios may be in place  
3 within individual local government areas.  
4

5 The basis for Mid-western Regional Council advocating  
6 for flexibility and equity rests on the impacts mining  
7 operations have on the local community and the economy.  
8 The majority of the draft recommendations made in the  
9 report are recommending changes not increased flexibility  
10 and equity. This recommendation is eliminating flexibility  
11 and equity on a local level all for the benefit of reducing  
12 costs for a very small number of relatively short-lived  
13 mines. Mining activity is taking an existing asset from  
14 the local community and it is considered only reasonable  
15 that the local community should benefit from the mine's  
16 occupation now.  
17

18 A mining operation in a local government area is not a  
19 contribution. It is an impact or a result because of its  
20 operation. When a mining operation ceases, there is a  
21 downturn and it affects all aspects of the local community  
22 and everybody living in that local community. By  
23 regulating rates, as recommended at 8.7 of the IPART  
24 report, it takes away local ability and equity to put a  
25 price on mining activity. Thank you.  
26

27 THE CHAIRMAN: Thanks very much, Diane. Andrew, do  
28 you want to add anything?  
29

30 MR MARTEL: Yes, I do, just in relation to the levy for  
31 the special rate for new infrastructure. Whilst we agree  
32 with that, we would like to make the point that such a levy  
33 must be ring-fenced so that it does not interfere with the  
34 future rate pegging of a council.  
35

36 THE CHAIRMAN: Yes, that's what we have in mind.  
37

38 MR MARTEL: That's fine.  
39

40 THE CHAIRMAN: Thank you, Andrew. Next, Keith?  
41

42 MR BAXTER: There are just a few points that I would like  
43 to pick out. The notion of providing some flexibility  
44 about transition and how councils might harmonise  
45 especially in metropolitan residential areas is supported.  
46

47 I think the language of community of interest probably

1 has some other meanings within government and within legal  
2 circles which means that I would suggest it may be worth,  
3 although keeping the concepts of it, perhaps trying to find  
4 some different language and perhaps looking at some of the  
5 issues that Shaun was raising earlier.  
6

7 Likewise, the protections within the community of  
8 interest are welcomed and I think ameliorate some of those  
9 challenges that have been identified there. The challenge  
10 on subcategorisation and more categories is that the more  
11 categories you add in, the more complex you make the  
12 system. I think the balance has to be between making an  
13 equitable system that people understand as well as  
14 increasing the categorisation.  
15

16 That is a very clear balance that needs to happen,  
17 because there are some jurisdictions that have increased  
18 subcategories or other categories and it has gone too far  
19 in terms of rates that have been made for basically policy  
20 reasons of councils because they don't like the nature of a  
21 business. That is where we have very good balance at the  
22 moment because it hasn't landed in that sort of thing, so  
23 any move to increase subcategorisation brings that risk.  
24

25 THE CHAIRMAN: Thank you very much, Keith. Any  
26 or questions from the floor? Andrew, do you want to add  
27 comments something?  
28

29 MR MARTEL: Yes, I wanted to add something too. NSW  
30 Farmers believes that there should be an independent panel  
31 set up for ratepayers to appeal decisions in regards  
32 to rate categories and special variations.  
33

34 I bring this up because, in the old Wellington  
35 Council, which I know is defunct now, something like 500  
36 farmers were paying \$3.4 million worth of rates out of a  
37 total of \$5.8 million - so that is 500 people paying 60 per  
38 cent of the rates. We believe that that was far too high a  
39 percentage to impose on the rural area. There should be a  
40 panel so that if we believe a decision is unjust, we can go  
41 to that panel and have a hearing.  
42

43 THE CHAIRMAN: Thank you, noted. Comments and  
44 questions from the floor? Catherine will ask a question in the  
45 meantime.  
46

47 MS JONES: Shaun, you said you liked the idea of checks

1 and balances. We have so far said 1.5 times from lowest  
2 to highest rates. Do you have any feedback from your  
3 members about whether that's the appropriate number?  
4  
5 MR McBRIDE: There are some concerns around that  
6 particular ratio, but we have not formulated a final  
7 position on that yet.  
8  
9 MS JONES: We would welcome comments from the members  
10 and anybody else who is here on whether or not that is the  
11 appropriate type of check and balance because we are  
12 concerned that it be done in the correct way.  
13  
14 THE CHAIRMAN: Thanks, Catherine. Are there any  
15 questions or comments from the floor?  
16  
17 MR McBRIDE: I would just add something. I didn't  
18 previously comment on the special infrastructure levy.  
19 While, in principle, it looks very positive, as usual we  
20 have some concerns that given that there is a requirement  
21 that it is accompanied by co-funding or a funding  
22 contribution by state and potentially federal government  
23 for the subject infrastructure, we are concerned that it  
24 might build an inherent bias particularly with state  
25 government projects for these types of levies rather than  
26 what might be a council's priorities. Just given that it  
27 is an easier path and given pressure perhaps from state  
28 government for councils to contribute to the cost of the  
29 proposed infrastructure, we are concerned that that could  
30 build in an inherent bias. We will be commenting on that  
31 further in our submission.  
32  
33 With that, there is the potential also for a type of  
34 cost shifting with perhaps infrastructure which should be  
35 fully funded by the state now being subject to a  
36 requirement that council raises funds through a special  
37 levy to contribute to it. So we know they are not the  
38 intentions of the recommendation, but they are perhaps  
39 unintended consequences that do concern us.  
40  
41 THE CHAIRMAN: Thanks, Shaun, for raising those  
42 concerns. Alice also asked a question about that.  
43  
44 At the moment, what would happen is that if a council  
45 wanted to have a special levy for some infrastructure  
46 development, which may or may not be jointly with the state  
47 or the Commonwealth, they would have to apply for a special

1 variation. They have to come along to IPART and apply for a  
2 special variation.  
3  
4 In formulating this recommendation, we had in the back  
5 of our mind that if a council has been negotiating with and  
6 developing a proposal with another level of government,  
7 such as the state level of government, then surely they  
8 should be able to go ahead and do a special levy which has  
9 been part of the development or proposal rather than having  
10 to come to IPART and get us to tick off on a special  
11 variation.  
12  
13 MR McBRIDE: We support that.  
14  
15 THE CHAIRMAN: We thought there were benefits from the  
16 point of view of the council not having to do something  
17 twice, ie, negotiate with the state government and then  
18 come to IPART and not be sure it would be ticked off until  
19 you get the outcome of IPART's deliberation and that you  
20 would just want do that in one step. So we welcome  
21 comments on any concerns and your alerting us to any  
22 unintended consequences.  
23  
24 Yes, Keith?  
25  
26 MR BAXTER: I have a question about the notion of the  
27 growth above the peg. If CIV is not implemented in an area  
28 and we move away from this notion of the dual systems, is  
29 there an alternative base that we could do the growth above  
30 the peg for unimproved valuation councils? Could it be  
31 done on household population or does it require the  
32 adoption of CIV to be able to do the growth outside the  
33 peg?  
34  
35 MR RUSH: I guess I would make two quick points. The  
36 first point is we think the CIV base, as some of the other  
37 participants have noted, is probably the best way to  
38 calculate the growth outside the peg. There are other ways  
39 to do it which could work if we don't go down the route of  
40 collecting CIV data to do this calculation. Those are not  
41 as good, but they could well be better than the current  
42 system, and I'll leave it at that.  
43  
44 THE CHAIRMAN: Thanks, Keith. Are there any comments  
45 or questions from the floor?  
46  
47 MS BENNETT: Jenny Bennett, Central NSW Councils.

1 Regarding the mining rate, our members have some concern in  
2 that regard. There are a lot of different ways that the  
3 impacts of mining are managed by councils through VPAs,  
4 through councils applying for varying funding from the  
5 state and those types of things. It is really quite  
6 complicated and I think the analysis that has been  
7 undertaken in the report does not take into account all the  
8 varying and different ways communities attempt to manage  
9 what are quite significant and in some cases short term or  
10 at least really volatile impacts of mining in a community.

11 We would suggest that a lot more work needs to be  
12 undertaken by IPART before coming down with a  
13 recommendation like that and we would recommend that you  
14 say more work needs to be done rather than coming down  
15 with that particular recommendation. Thank you.

16 THE CHAIRMAN: Thank you, Jenny. Are there questions or  
17 comments? Yes?

18 MR VENERIS: Peter Veneris, Muswellbrook Shire Council.  
19 I have a comment and a question. My comment is that we  
20 agree with the earlier comments made by, I think, the  
21 Mid-Western Regional Council representative about mine  
22 rating. We think that the recommendation departs from the  
23 longer held view about rates being a form of taxation based  
24 on property valuations as an indication of the capacity to  
25 pay; whereas, the recommendation seems to link it to levels  
26 of service.

27 My question is: it was explained earlier that the  
28 recommendation is premised on councils publishing their  
29 rationale for the difference in the rates between  
30 categories on their website and on their rate notices. If  
31 I understand that correctly, it means very much  
32 self-assessment subject to being accountable to your local  
33 community. Do I understand that correctly or is there some  
34 other greater regulation or scrutiny envisaged?

35 MR HARRIS: Yes, it is essentially; the council has to  
36 justify itself and they are accountable to their community.  
37 In that case, it would also just be within that residential  
38 area. So within that contiguous area, if there are  
39 differential rates, it would be up to the council to  
40 justify that to their local population.

41 THE CHAIRMAN: Thanks, Peter. Are there any other

1 questions or comments from the audience? Yes, Jenny.

2 MS BENNETT: Sorry, I have one more question.

3 THE CHAIRMAN: That's fine.

4 MS BENNETT: Just to inform IPART that there is a mining  
5 task force in western New South Wales that is actually  
6 doing a substantial piece of work. It is being undertaken  
7 by state, local government and others and the mining  
8 industry itself. It is looking at this whole issue of  
9 income streams around mining coming into communities. If  
10 you would like to go to them and get some more information,  
11 that could be helpful.

12 THE CHAIRMAN: Okay, that's helpful. Thanks, Jenny. Are  
13 there any other questions or comments? Any other comments  
14 from around the table?

15 That presents us with somewhat of a timetable dilemma  
16 because session 3 is scheduled to start at 12pm, which is  
17 just under an hour and a half's time and there are some  
18 people who are actually just coming for that session and  
19 they will be flying in. An hour and a quarter is a rather  
20 long tea break. I'll just take a couple of minutes to  
21 consult with my tribunal colleagues on a way forward.

22 MR MARTEL: Mr Chairman?

23 THE CHAIRMAN: Andrew, would you like to make another  
24 comment?

25 MR MARTEL: I do, but it's a bit outside the topic under  
26 discussion, but seeing we have time to fill in, I --

27 THE CHAIRMAN: I did have a constructive solution, but  
28 please go ahead.

29 MR MARTEL: This may or may not be such.

30 THE CHAIRMAN: Why don't you make your comment and  
31 then I will offer my solution.

32 MR MARTEL: Mr Chairman, for a long time I have been just  
33 concerned with following the local council, which was the  
34 Wellington Shire Council. This is the first time I've  
35 ventured further than fighting the Wellington Shire

1 Council.  
2  
3 Increasingly, to me the biggest problem with this  
4 IPART system is that, in the long run, it has failed to  
5 address the key issues of sustaining the funding of local  
6 government.  
7  
8 We are still fiddling around with an old system. We  
9 are trying to gradually improve it, but I believe the  
10 system as constituted is broken. It is an old system that  
11 was based on the old feudal system in England with tenanted  
12 farming, and I am referring more to the farming side here.  
13 The English realised that that failed decades ago. I think  
14 it is about time that we put up a blank sheet of butcher  
15 paper and had a look at funding of local government.  
16  
17 As I understand it - I have been told these figures; I  
18 can't vouch for them all - virtually no council is  
19 self-sustainable. They are all relying on state and  
20 federal government money to balance their books. That  
21 leads to a very poor accountability and distribution of  
22 money. I believe that there needs to be a system of  
23 funding, for example, part of the GST or part of the income  
24 tax set aside for local government.  
25  
26 As I understand it, local government expenditure  
27 constitutes something like 1 per cent or a bit less of the  
28 GDP. I don't think it would be a big ask for governments  
29 to set aside a specific amount of money for funding,  
30 guaranteed revenue, whereas, at the moment, every council  
31 virtually is going to the government cap in hand for more  
32 money, more money.  
33  
34 A lot of this has been brought about by the governments  
35 above them pushing more responsibility down to  
36 them continually, continually. They give you those  
37 responsibilities, they pay for them for three years and  
38 then they wipe the payments. I believe it's time for a big  
39 discussion really about the whole system of funding local  
40 government.  
41  
42 THE CHAIRMAN: My understanding is that that big  
43 discussion from the point of view of this government - and  
44 I won't speak on their behalf - took place when they had a  
45 big meeting or convention not long after Barry O'Farrell  
46 was elected.  
47

1 What emerged from that was a number of  
2 recommendations. One recommendation was to establish a  
3 panel of experts headed by an academic at the University of  
4 Technology, Graham Sampson. They made a number of  
5 representations, and one was that IPART was to review the  
6 structure of rates.  
7  
8 Now, when the government gave us that reference, they  
9 made it quite clear that the rate peg is off the agenda.  
10 We are not reviewing whether we should have a rate peg or  
11 not. We are reviewing the structure of rates, in a sense,  
12 given the rate peg, so that's why we are doing that.  
13  
14 It is not really an IPART system. We are happy to be  
15 tagged with lots of things, but it is not really an IPART  
16 system. IPART has been delegated by the government to set  
17 the rate peg and to assess special variations and, from  
18 time to time, we are commissioned to do other things such  
19 as we were to assess whether councils were fit for the  
20 future or not, which we did last year, and now we are doing  
21 this, which is a review of the rating system.  
22  
23 Another point you raised, which is a point that is  
24 often raised, is why not set aside part of the GST revenue  
25 or income tax revenue, or something like that, and assign  
26 that to local government?  
27  
28 There have been a number of reviews of taxation at the  
29 Commonwealth level which go to taxation and one of the  
30 most efficient taxes is the tax such as rates on property. This  
31 is one of the most efficient taxes in terms of raising  
32 revenue because it has the least distortionary effect.  
33 This is, I would say, well-established in taxation policy  
34 and in taxation principles. To ask a Commonwealth  
35 government or a state government to forgo property rates as  
36 a form of financing local government expenditure is quite a  
37 big ask.  
38  
39 MR MARTEL: Just on that last comment, I am not asking  
40 them to forgo property rates; I am saying there should be  
41 some additional set-aside measurement for the top-ups which  
42 occur all across the country, so I am not --  
43  
44 THE CHAIRMAN: Yes, that's understood.  
45  
46 MR MARTEL: Yes, that's fine, but we are still fiddling  
47 with the same system here with a lot of uncertainty into

1 the future.  
2  
3 THE CHAIRMAN: This review of the rating system, as I say,  
4 is within certain constraints. There are a number of  
5 recommendations which I think are more than fiddling  
6 because either strong support or strong disagreement has  
7 been voiced with regard to them. So there is something in  
8 them, right, and it brings forth stakeholders such as  
9 yourself, Andrew, with useful comments.

10  
11 MR MARTEL: I would agree that it is more than fiddling,  
12 but it is still within the system and that's what I am  
13 complaining about.

14  
15 THE CHAIRMAN: Thank you very much for that, Andrew.  
16  
17 I am sorry, I'll just consult again with my  
18 colleagues. We are trying to establish how many people are  
19 not here who wanted to be here specifically for the next  
20 session.

21  
22 What we thought we might do is move to session 3 now,  
23 which is rate exemptions and pensioner concessions. I am  
24 sure there are people in the audience and around the table  
25 who want to make comments. We can do that, then we can  
26 break for morning tea. We can then resume at 12, in the  
27 event other people want to come at 12. That means that  
28 those who want to have their say can have their say and  
29 either come back again at 12 or, alternatively, leave  
30 earlier. If that is okay, why don't we move on with  
31 session 3, which is rate exemptions and concessions. This  
32 will be introduced by Sheridan.

33  
34 SESSION 3: Rate exemptions and pensioner concessions

35  
36 MS RAPMUND: Thank you, Mr Chair. This session is about  
37 exemptions and concessions which are covered in chapters 6  
38 and 7 of our draft report.

39  
40 I will start with exemptions. Our draft  
41 recommendations aim to better target exemptions so that  
42 other ratepayers are not paying higher rates than  
43 necessary. We recommend that eligibility for exemptions be  
44 based upon land use rather than land ownership. We also  
45 recommend that land that is used for commercial or  
46 residential purposes should be rateable. In cases where  
47 land is used for a mix of exempt and non-exempt activities,

1 we propose rates be based on the percentage used for  
2 non-exempt activities.

3  
4 Under our draft recommendations, other ratepayers will  
5 not be subsidising the costs of providing council services  
6 to properties where this is not justified on equity and  
7 efficiency grounds. This will improve the equity and  
8 efficiency of the rating system and more equitably spread  
9 the rating burden across the community. These draft  
10 recommendations also ensure comparable land uses attract  
11 the same rating treatment.

12  
13 We are also recommending that councils' maximum  
14 general income should not be adjusted as a result of any  
15 one-off changes to exemptions from these recommendations;  
16 rather the appropriate mechanism for adjusting the size of  
17 a council's general income is the existing special  
18 variation process.

19  
20 This table provides examples of the likely impact of  
21 our broad recommendations on current exemptions. In line  
22 with our draft recommendation that land used for residential  
23 purposes is rateable, university student or other  
24 accommodation will become rateable in addition to  
25 retirement villages and social housing owned by PBIs.

26  
27 Following from our draft recommendation that land used  
28 for commercial activity is rateable, freight rail lines,  
29 childcare centres charging market rates and commercial  
30 logging in state forests will become rateable.

31  
32 Where land use is mixed, we recommend rates be paid on  
33 the portion used for non-exempt activities. If the  
34 non-exempt land can be separated on a spatial basis, that  
35 area used for non-exempt activity can be identified and  
36 rated. Where the non-exempt land use can be separated on a  
37 temporal basis, rates can be levied according to the  
38 proportion of time the land is used for non-exempt  
39 activities.

40  
41 In order to reduce complexity and regulatory burden,  
42 we are proposing a system of bands and that organisations  
43 seeking an exemption will self-assess subject to council  
44 audit.

45  
46 I will now talk about pensioner concessions. In our  
47 draft report, we propose introducing a rate deferral scheme

1 operated and funded by the state government. Under this  
2 scheme, eligible pensioners could defer payment of rates up  
3 to \$250 per year or an alternative amount set by the state  
4 government. This liability would incur interest at the  
5 government bond rate. It would become payable when the  
6 property ownership changes and the surviving spouse no  
7 longer lives in the residence.

8  
9 A rate deferral scheme has a number of benefits.

10 It better targets assistance in paying rate bills for  
11 cash-poor pensioners at a lower cost to the state  
12 government and no cost to councils. The deferral amount  
13 can be raised above \$250 per year to provide better cash  
14 flow relief to pensioners. It prevents ratepayers who may  
15 have a lower net wealth funding a subsidy to other  
16 ratepayers. It is more sustainable with beneficiaries of  
17 the scheme helping to fund the costs over the long term.  
18 It does not require councils to fund a state government  
19 policy, and it does not narrow the rate base or affect  
20 councils with a high proportion of pensioners.

21  
22 Thank you. I will now hand over to the Chairman.

23  
24 THE CHAIRMAN: Thank you, Sheridan. We have just  
25 received word that Frank Price will be here in about 15 minutes,  
26 but we can continue on now. Are there any comments or  
27 questions from around the table on this section? Shaun?

28  
29 MR McBRIDE: Local Government NSW generally supports  
30 the recommendations on the removal of exemptions. We have  
31 been advocating for decades to have this rating system  
32 reviewed, particularly the exemptions. We have worked on it  
33 in the past and we are pleased that finally there has been a  
34 comprehensive review of the exemptions.

35  
36 We generally support the recommendations that have  
37 been made within this report. There are probably a couple  
38 of areas that we would have liked to have gone a bit  
39 further but, overall, we find it a very positive set of  
40 recommendations.

41  
42 THE CHAIRMAN: Thank you very much, Shaun. Alice?

43  
44 DR HOWE: Lake Macquarie City Council supports the  
45 application of rates to the widest possible rate base in  
46 order to equitably spread the costs of delivering services  
47 to all who use them.

1  
2 While we acknowledge there are legitimate public  
3 benefits from certain land uses, our view is that the  
4 provision of social welfare is not the remit of local  
5 government. Should higher levels of government wish to  
6 provide exemptions or concessions, councils should be  
7 compensated for rates otherwise forgone. In Lake Macquarie  
8 City that's about \$4 million a year that we estimate is  
9 lost from forgone rates on exempt activities.

10  
11 We support the principle that rates are set on land  
12 use rather than land ownership and IPART's proposal to  
13 exempt only the portion of a land parcel used for an exempt  
14 purpose.

15  
16 In relation to rates paid by pensioners, we support  
17 the proposed rate deferral scheme in preference to the  
18 current pensioner concession as we feel this approach  
19 maintains the nexus between the cost of service and the  
20 beneficiary of those services rather than asking the wider  
21 community to subsidise those costs.

22  
23 We acknowledge, however, the sensitivity of this issue  
24 and the reluctance of many pensioners to encumber their  
25 land. We ask IPART to include a secondary recommendation,  
26 namely, should the New South Wales government elect to  
27 maintain the current pensioner concession system the New  
28 South Wales government should fully fund that system.

29  
30 THE CHAIRMAN: Thank you very much, Alice. Yes, Ken?

31  
32 MR WINDSOR: My name is Ken Windsor. I represent the  
33 Combined Pensioners and Superannuants Association of the  
34 Dubbo Orana branch, so I am looking at this from the  
35 pensioner point of view rather than council.

36  
37 Pensioners in the Dubbo regional local government area  
38 currently receive a rebate that was set in 1993. It is a  
39 fixed figure based on 50 per cent of the rate at that time.  
40 It has not been indexed or adjusted since then, so the  
41 concession has been very much eroded over time.

42  
43 I find it odd that this review only appears to be  
44 looking at the ordinary rate and not the total charges  
45 levied by council. Could the service charges on water,  
46 waste, drainage and sewerage also be considered for  
47 concession?

1  
2 IPART's review of concessions for pensioners  
3 identified the possible options of no change, a rate  
4 deferral scheme or an asset test.  
5  
6 In the review of the local government rating system,  
7 rating exemptions and concessions, IPART proposes under  
8 "Concessions for pensioners" that the eligible pensioner  
9 defer payments of rates up to \$250 or any other amount  
10 set by the state government. A deferral is not a  
11 concession. It is more of a liability. The full amount is  
12 to be paid, with interest at the government bond rate. Not  
13 concession - penalty.  
14  
15 Many pensioners stay in the family home until  
16 incapable of self-support and the sale of the family home  
17 is often used to fund entry to a nursing home or other  
18 full-time care facility. The deferral system, which could  
19 cover a 20-year period for some individuals, would  
20 eliminate this possibility and create pressure on future  
21 governments. More pensioners who can't afford their own  
22 final care will be a burden on state, federal or local  
23 government.  
24  
25 No change is not really an option, although if the  
26 principle were to be maintained, brought up to date and  
27 indexed for future years, it would be considered  
28 acceptable. An asset test could also be considered  
29 acceptable as long as the family home is not taken into the  
30 calculation of assets. The value of the home cannot be  
31 considered as an income or improve the ability to pay  
32 rates. If an asset test is implemented, IPART, or the  
33 government, local or state, would still need to consider  
34 the level of concession to be applied. This submission is  
35 for the existing system to be brought up to date and  
36 indexed to the CPI or some other acceptable measure. Thank  
37 you, Mr Chair.  
38  
39 THE CHAIRMAN: Thank you very much, Ken. Moving  
40 around this end of the table, Diane, do you have anything you  
41 wish to say?  
42  
43 MS SAWYERS: Yes, I do have a comment to make in relation  
44 to rate exemption eligibility. It is suggested that  
45 conservation agreements currently sitting at section 555  
46 b1 and b2 should be removed in response to the equity  
47 principle, particularly land which forms part of the

1 environmental offset programs and provision of buffer  
2 areas. Mining companies are putting these lands under  
3 state conservation agreements. The agreements make the  
4 land non-rateable even though mining is often occurring  
5 below the surface and the mining company actually requires  
6 this land to be set aside for buffer purposes between their  
7 mining operations and their nearby neighbours. In the  
8 majority of cases, the mining activities would not be able  
9 to proceed without the buffer areas or environmental  
10 offsets in place. The impact is that the mining companies  
11 are complying with operating consents but, at the same  
12 time, are able to avoid paying council rates on these land  
13 parcels that they are required to own in order to operate a  
14 mine.  
15

16 I think there needs to be a complete and detailed  
17 review of the legislation relating to the circumstances in  
18 relation to mining operations and conservation agreements  
19 so that all other landowners within the region are not  
20 subsidising these mining companies through their rates.  
21

22 THE CHAIRMAN: Thank you very much, Diane.  
23

24 MR McBRIDE: I would like to add that the question of  
25 voluntary conservation agreements has been an issue for  
26 some time for different reasons in different parts of the  
27 state. One of the issues that we - local government - has  
28 had with the voluntary conservation agreements is that  
29 councils have no say in them. Where the parties, the  
30 landowners enter into an agreement with National Parks and  
31 Wildlife or whoever, the councils, from past experience,  
32 are not even consulted on that; it is a fait accompli.  
33 That distorts the rating base in the area. It causes inequities.  
34 People sitting on similar but adjoining blocks of land  
35 who don't have that agreement in place are disadvantaged.  
36 At the very minimum, we would advocate that  
37 it be compulsory for voluntary conservation agreements to  
38 also be signed off by the council.  
39

40 THE CHAIRMAN: Thank you, Shaun. Jaimie, or Andrew?  
41

42 MS LOVELL: Thank you, Mr Chairman. We would support  
43 those comments as well. Generally, we don't have major  
44 problems with the exemptions that IPART proposes. However,  
45 we have noted in earlier evidence to an earlier tribunal  
46 that we have a problem with including land below the high  
47 water mark for oyster leases. I won't repeat that evidence

1 we have briefly given before, but refer you to the evidence  
2 to the tribunal of Caroline Henry, who is the Chair of the  
3 Oyster Committee NSW Farmers. I will leave it there, thank  
4 you.

5  
6 THE CHAIRMAN: Thank you, Jaimie. Andrew?

7  
8 MR MARTEL: Thank you, Mr Chairman. I tend to have a  
9 different view from most people around here, I think, but  
10 I believe that all government properties should be  
11 rateable. The council services them. The government is  
12 going to supply money to the council for all sorts of other  
13 things, so why can't they supply rate money to service  
14 their own facilities? This includes schools and whatever -  
15 freight lines, rail lines, the whole lot, including  
16 National Parks - something like 30 per cent of the  
17 Wellington Shire is non-rateable country, and that is a  
18 huge cost to the shire in rateable income.

19  
20 My memory takes me back to when the government resumed  
21 Tralee station at Bourke. Something like 12 per cent of  
22 Bourke's rates disappeared. You can't expect councils to  
23 operate under these systems. I say again that I believe  
24 that all land really should be rateable with a few notable  
25 exceptions perhaps - like churches, and that seems to be  
26 generally accepted. Basically if the government wants  
27 their land serviced, they should pay the rates.

28  
29 THE CHAIRMAN: Okay, thank you, Andrew. Keith?

30  
31 MR BAXTER: I would point out that there are a range of  
32 exemptions that local councils get regarding state taxation  
33 as well. That is part of the offset deal that the  
34 government makes, so some local councils don't pay state  
35 taxes on their services. Some local government services  
36 don't pay payroll tax, for example. There is a balance  
37 when the state gets exemptions and when local councils get  
38 exemptions. I am not saying where the balance lies, but  
39 there is a balance in that space.

40  
41 I would like to congratulate the IPART on the review  
42 of the exemptions. I think they have done a good job of  
43 analysing what is a very complex issue. I note the  
44 feedback we heard from the hearing on 19 September and  
45 I suspect we will get further feedback today, but I think  
46 the balance and the way that IPART has approached this,  
47 which is focusing on the use of the land, is an

1 intelligent way that I think will be something that the  
2 government can take forward.

3  
4 With regard to the pensioner concession, the issue of  
5 the pensioner deferral scheme I think will probably need  
6 more work based on the feedback that has been received to  
7 date. Something I would be interested in IPART assessing  
8 is how an asset test might work and doing some more work  
9 around an asset test and whether the asset test would allow  
10 a redistribution of the concession to enable better use of  
11 the equity of the concession across the system. Thank you,  
12 I'll leave it there.

13  
14 THE CHAIRMAN: Thank you, Keith. Any questions or  
15 comments from the floor?

16  
17 MS SAUNDERS: I am Rachel Saunders, representing the  
18 Royal Agricultural Society of NSW. It's my pleasure to be  
19 here in Dubbo today amongst the rural communities that  
20 benefit from the work which we do.

21  
22 The Royal Agricultural Society are custodians of Crown  
23 land at Sydney Olympic Park and we make this submission on  
24 the basis that it is worthy of an exemption for rating for  
25 six different reasons.

26  
27 First, an exemption is consistent with its history.

28 The RAS is a statutory entity created by the New South  
29 Wales government and we have run agricultural shows since  
30 1822. It is and always has been recognised as a charitable  
31 organisation and exempt from federal income tax, stamp duty  
32 and local government rates.

33  
34 The Royal Agricultural Society lease with the Sydney  
35 Olympic Park Authority has other systems of payment for the  
36 upkeep of the Crown land and payment for services normally  
37 provided under local government through the payment of  
38 state levies of nearly \$1 million per annum and the  
39 provision for payments into a major repairs fund to  
40 maintain Crown land and the buildings upon the land.

41  
42 Second, an exemption for showgrounds and fairs is  
43 universal and is not novel. The reason why the Royal  
44 Agricultural Society needs to manage Sydney Showground is  
45 to use it for agricultural events such as the annual Sydney  
46 Royal Easter Show and the Sydney Royal fine foods and wine  
47 competitions held throughout the year. Since the 17th

1 century we have found evidence from around the world that  
2 the use of land as an agricultural showground has been  
3 exempt from all forms of taxes.

4  
5 Third, its worthiness as an activity has been proven  
6 because, since 2010, the Easter Show has been recognised by  
7 the Department of Premier and Cabinet as a hallmark event  
8 for New South Wales. Sydney Showground events create  
9 950,700 bed nights per year, and it provides a total  
10 economic contribution generated by our events of  
11 \$616.7 million.

12  
13 Fourth, there is a community need to maintain the  
14 level of grants made by the RAS for the agricultural future  
15 of New South Wales including over 60 rural scholarships and  
16 multiple rural community projects across all of New South  
17 Wales. Last year the RAS operated at a deficit, meaning  
18 any tax burden would diminish its charitable purposes and  
19 ability to support these worthwhile rural projects.

20  
21 The fifth point is that relieving the RAS of a rate  
22 burden is proportional as it does not receive any  
23 government grants, which makes it then sensible to support  
24 the RAS by granting a subsidy in the form of an exemption.

25  
26 The sixth reason is that the activities are truly not  
27 for profit. Any revenue received is used entirely for its  
28 purpose, as defined by the RAS charter as a charitable  
29 institution. The RAS has remained focused on its  
30 charitable purposes for 190 years and requires to be  
31 subsidised by the Australian society through these tax  
32 exemptions.

33  
34 THE CHAIRMAN: Thank you very much, Rachel.

35  
36 I am sorry, Frank, we got ahead of the schedule. We  
37 knew you were on your way, but we thought we would start  
38 and then sort of regroup when you arrived. IPART did a  
39 short presentation to introduce this topic. Would you like  
40 us to go through that again?

41  
42 MR PRICE: No, thank you. I attended the IPART  
43 presentation in Sydney.

44  
45 THE CHAIRMAN: Great. The people around the table have  
46 had a chance to make some contributions, including Ken on  
47 your left, on behalf of the pensioners of this region.

1 Would you like to make a contribution now?

2  
3 MR PRICE: Yes, I would like to, thanks. My name is  
4 Frank Price. I am the CEO of the Royal Freemasons'  
5 Benevolent Institution, an aged care provider and a  
6 provider of benevolent services in our various communities  
7 throughout New South Wales and the ACT.

8  
9 I am here today representing both my organisation as well as  
10 the Aged & Community Services NSW & ACT, or ACS,  
11 which is the peak body representing not-for-profit church  
12 and charitable providers of services in retirement living,  
13 community aged care and aged care in New South Wales.

14  
15 The proposal to remove rate exemptions for  
16 not-for-profit providers of aged care services is not  
17 supported by us. It is also important that we need to  
18 differentiate between the different types of support that  
19 church, charitable and not-for-profit sectors provide in  
20 this sector.

21  
22 I want to talk about aged care facilities and  
23 retirement villages as they are two very different  
24 structures or rather they have different purposes. An aged  
25 care facility, previously called a nursing home, is very  
26 similar to a hospital. An aged care facility in New South  
27 Wales must comply with 144 pieces of legislation. You  
28 cannot simply choose to enter a facility. To enter an aged  
29 care facility, you have to be assessed by an independent  
30 government-run service. Entry is dependent on assessed  
31 needs - a significant barrier to entry.

32  
33 Supply is capped by the Commonwealth government. You  
34 need a licence per bed to operate a facility that attracts  
35 government subsidies, otherwise known as an approved  
36 provider. The Commonwealth government provides over 70  
37 per cent of the funding for the services. The bulk of the  
38 remainder comes from 85 per cent of the residents' aged  
39 care pension to pay for living expenses. This fee is also  
40 regulated.

41  
42 Residents are means tested and, if assessed as able to  
43 pay, they pay for their accommodation by means of a  
44 refundable accommodation deposit. This is 100 per cent  
45 refundable when they leave the facility. If they can't pay  
46 the full price, they will pay a daily accommodation fee.  
47 These prices are also regulated and the use of the funds by

1 aged care providers are once again regulated.  
2  
3 Just some statistics on the cohort of people that live  
4 in aged care facilities:  
5  
6 Over 59 per cent of residents are aged 85 years or  
7 older;  
8 Over 53 per cent of residents have dementia;  
9 Over 83 per cent are assessed as needing high levels  
10 of care;  
11 94 per cent of discharges are due to death and the  
12 other 6 per cent is usually because they go to hospital and  
13 then they pass away;  
14 Around 59 per cent die within six months of admission.  
15  
16 Essentially, aged care providers are providing  
17 end-of-life care on an average government subsidy of  
18 \$165 per day compared with \$1,250 per day in a hospital.  
19  
20 These residents have no need of council services.  
21 Their facilities are self-contained. The cost of building  
22 a new facility is approximately \$250,000 per bed.  
23 Not-for-profit providers supply 65 per cent of aged care  
24 beds in New South Wales whilst for-profits provide around  
25 33 per cent, the remainder being made up by mainly  
26 councils.  
27  
28 The average surplus a not-for-profit provider  
29 generates before tax is \$9,300 per resident per annum. The  
30 average with the for-profits is around \$13,000.  
31  
32 The facilities in regional, rural and remotest parts  
33 of Australia average a surplus of only \$2,069 per resident  
34 per annum which includes community donations, so it is not  
35 all from the revenue that we receive from providing the  
36 service. This is obviously insufficient to cover our  
37 rising costs or appropriate reinvestment.  
38  
39 In 2015, 75 per cent of facilities achieved an average  
40 surplus of \$2.11 per bed per day or \$770 per resident per  
41 annum.  
42  
43 Aged care facilities are like hospitals. They are a  
44 non-discretionary purchase providing low-cost support to  
45 people unable to stay in their homes. There are no options  
46 to pass the rates to the resident. The payment of rates  
47 would reduce services and, in some cases, may lead to

1 closure of facilities.  
2  
3 Like hospitals, not-for-profit aged care facilities  
4 should remain exempt. If the competitive neutrality  
5 principle is applied, then the exemption should be extended  
6 to the for-profit aged care facilities as well, just as it  
7 is in the for-profit hospitals.  
8  
9 I will turn now to retirement villages. Retirement  
10 villages are covered by New South Wales state legislation  
11 with limitation around setting annual budgets with  
12 residents and application of operating costs to the weekly  
13 fees they pay. Around 40 per cent are provided by  
14 not-for-profit providers. Typically, not-for-profit  
15 villages are smaller - around 60 per cent are around  
16 30 units or fewer and around 20 per cent are less than  
17 10 units. This is not the advertised over 55s living.  
18 Average age on admission is 76 years, although many people  
19 are older. Average length of stay is just under eight  
20 years.  
21  
22 The increasing trend is for people entering a village  
23 being frail and needing support and services to avoid entry  
24 in an aged care facility or hospital. It is almost  
25 becoming a halfway house.  
26  
27 The source of income for most residents is the pension  
28 or a governmental allowance. Charitable village operators  
29 discount the prices or do not pass on all operating costs  
30 in order to make the accommodation affordable to low income  
31 people. It is congregate accommodation with opportunity  
32 for separate living and many shared spaces - dining,  
33 movies, et cetera - as well as assistance with most  
34 activities. Most villages contain all required services -  
35 garden/park, pool, library, gym, community hall/spaces,  
36 chapel, cafe, hairdresser, minibus - pretty much reducing  
37 the demand on council services.  
38  
39 Villages provide an affordable accommodation choice to  
40 our older people to downsize which frees up needed housing  
41 for others in the LGA. Village units are not strata units  
42 and not strata titled. They are a licence to occupy. They  
43 are not similar to a unit in terms of market forces. In  
44 keeping with charitable purposes, surpluses are reinvested  
45 or used to subsidise older people who cannot afford the  
46 entry.  
47

1 Villages employ people and generate local economic  
2 activity. If council rates are imposed, they will need to  
3 be passed on to the people living in the village. I am not  
4 sure they can afford it. I know mine can't.  
5  
6 Villages are a community of interest. However, most  
7 not-for-profit villages are very small and it is unlikely  
8 councils would be willing to apply a special rate.  
9  
10 As a minimum, we seek an IPART recommendation that  
11 not-for-profit retirement villages be considered a  
12 community of interest and have a special rate determined at  
13 the local level. Thank you.  
14  
15 THE CHAIRMAN: Thank you very much, Frank. Further  
16 questions or comments from the floor?  
17  
18 MR BURKE: My name is Leon Burke. I am the Chairman of  
19 the support committee for the Dubbo Masonic Village which  
20 is owned by a lot of freemasons, and you have just heard  
21 Frank talking about that.  
22  
23 I have been involved in not-for-profit organisations  
24 in Dubbo for close on 30 years. The village in Dubbo is  
25 built on four different blocks of ground. Originally all  
26 ground was leased to us by the government. Two blocks are  
27 still leasehold and two - the one we bought off St Vincent  
28 De Paul and the one we bought off the Girl Guides - now  
29 have freehold titles. If rates are going to be applied to  
30 two blocks and not the whole four, that will be an awfully  
31 big struggle.  
32  
33 The other thing is that we are a charitable  
34 organisation. I don't get paid, my offsider doesn't get  
35 paid, and I have done this for years. Thank you.  
36  
37 THE CHAIRMAN: Thank you very much, Leon. Are there  
38 any other comments or questions from the floor? Would  
39 anybody else like to add anything? Are there any more  
40 contributions from around the table? Frank?  
41  
42 MR PRICE: I may have missed this earlier on. My  
43 understanding is that the total funding or the total  
44 revenue that councils are to receive, should these and should  
45 recommendations go through, should not vary and should  
46 remain constant. I just want some clarification that that  
47 is actually the case and that it is not the case that the

1 rates that will be paid by current exempt bodies will just  
2 be additional revenue for council coffers.  
3  
4 THE CHAIRMAN: The current draft recommendation is that  
5 if these changes were to be adopted, the rates would not go  
6 up, so they could not be used to increase general rating  
7 revenue.  
8  
9 MR BURKE: Could I add one thing? Our second highest cost  
10 is council charges. We pay water rates and also garbage  
11 rates. Out of a budget of roughly now about \$180,000, we  
12 pay the council about \$30,000 a year. Just imagine what  
13 will happen if rates go on.  
14  
15 THE CHAIRMAN: Thank you, Leon. Are there any other  
16 comments or questions from around the table? Yes, Diane?  
17  
18 MS SAWYERS: I would like to make a comment on the  
19 pensioner concession. It is probably difficult to fully  
20 agree in principle to the draft recommendations due to the  
21 lack of clarity as to what has been proposed, how the  
22 scheme is to be delivered at the local government and state  
23 levels and also the responsibilities of each entity.  
24  
25 In any case, if the rate deferral scheme was to go  
26 ahead, it is considered that councils would be effectively  
27 administering yet another scheme which would prove to be  
28 onerous and complex to manage. As such, it is advocated  
29 that the administrative fee suggested to be collected and  
30 retained by the government should be remitted to councils  
31 instead.  
32  
33 It is also submitted that, under current arrangements,  
34 the pensioner rebate is an expense to councils. If this  
35 expense is removed by implementing the deferral scheme, the  
36 local government cost index would exclude the reductions in  
37 costs. If this situation was to occur, it is advocated  
38 that mechanisms should be put into place so that the amount  
39 is not lost to councils through the rate-capping process.  
40 Currently councils are forced to pay for welfare and  
41 councils should be able to spend that money in providing  
42 services and not lose it.  
43  
44 THE CHAIRMAN: Thanks very much, Diane. Just as  
45 background, what happens now in New South Wales is that  
46 the pensioner concession is funded 55 per cent by the state  
47 government and 45 per cent by councils. This means that

1 councils who have a lot of pensioners in their ratepayer  
2 base actually pay a lot, and much more than some others.  
3  
4 In most if not all other states the pensioner  
5 concessions are actually funded by the state government not  
6 by councils. One option is that the state government just  
7 take over and fund the whole 100 per cent rather than just  
8 55 per cent.  
9  
10 The other option, which is the current draft  
11 recommendation, is that the state government take it over  
12 but have a pensioner deferral scheme. So, in the event  
13 that the state government were going to take over pensioner  
14 concessions - that's in the event that they were - this  
15 would mean that rates for other residents could go down  
16 because they would no longer have to fund the 45 per cent  
17 that they are currently funding. In some councils,  
18 particularly on the coast, this is quite important.  
19  
20 That is basically the background and that is how we  
21 have come up with the draft recommendation. It won't  
22 impact on the rate peg.  
23  
24 DR HOWE: Could I make a comment in relation to costs for  
25 councils of a deferral scheme. We estimate it will be  
26 probably about \$7 million in deferred income to councils  
27 during the period in which a deferral would apply and there  
28 would be no compensation paid back to councils. Regardless  
29 of which way it goes, our estimate would be that there  
30 would be a short-term hit. We support the recommendation,  
31 we think it is more equitable, but just acknowledge that it  
32 will have some impact on council funding.  
33  
34 MR FRANCIS: As a point of clarification, at present, with  
35 the \$250 the council has to fund 45 and the state funds 55.  
36 What would happen is that the state government would fund  
37 the full \$250 so there would be no cash flow hit. In fact,  
38 they would get the money immediately and the state  
39 government would get the money back when the property is  
40 transferred, so the cash flow implication is for the state  
41 government.  
42  
43 There was one other point on the administration costs.  
44 The costs of scheme wouldn't be any different. The current  
45 scheme has to be administered, so the costs of the new  
46 scheme would be exactly the same basically; it would just  
47 be the state government funding the \$250 rather than the

1 45:55 split. We don't see costs being any different at  
2 all, other than the final administration, that would be a  
3 state government issue.  
4  
5 DR HOWE: That is a useful clarification. We did not pick  
6 up from the report that you were intending to transfer  
7 those costs to the state government.  
8  
9 MR FRANCIS: Yes, we are.  
10  
11 THE CHAIRMAN: Under the recommendations, the state  
12 government would have to fund.  
13  
14 MR FRANCIS: Yes.  
15  
16 THE CHAIRMAN: Are there any other questions or  
17 comments? Yes, Bronwyn?  
18  
19 MS MAXWELL: I would like clarification in relation to the  
20 \$87.50 that is currently rendered as a rebate on water and  
21 sewerage in relation to the \$250. Perhaps it was something  
22 I missed in your report, and I apologise if that is so.  
23  
24 THE CHAIRMAN: It doesn't affect it, but we will give an  
25 answer.  
26  
27 MS MAXWELL: So councils will continue to claim --  
28  
29 MS RAPMUND: The water rebates are beyond our terms of  
30 reference for this particular review. We are just looking  
31 at the rebates of the ordinary rate, the \$250; whereas, the  
32 rebate on the water component of rates is a separate matter  
33 beyond this review.  
34  
35 MS MAXWELL: So potentially a ratepayer would be eligible  
36 for a pensioner concession of \$87.50 off their water and  
37 \$87.50 off their sewer, and councils would continue to  
38 claim 55 per cent of that from the state government?  
39  
40 MS RAPMUND: That's correct.  
41  
42 MS MAXWELL: However, then the ratepayer would have  
43 the option to defer \$250 of ordinary rates; is my  
44 understanding correct?  
45  
46 MS RAPMUND: That's right, and the state government  
47 would then remit that to the council for the pensioner

1  
2 MS MAXWELL: I would like then to support the comments  
3 already made by panel members. Is that a cost to council  
4 to have - in 10 years, you would have \$2,500 deferred  
5 potentially against a property and postponed activities are  
6 written off --  
7  
8 THE CHAIRMAN: No, just to clarify, Bronwyn, the  
9 recommendation is that the state take over the  
10 responsibility. So the state would actually pay the \$250  
11 to the council and then it would be sorted out.  
12  
13 MS MAXWELL: Okay, then. Thank you. I have missed that  
14 in your report.  
15  
16 THE CHAIRMAN: Yes, sorry, it was just to be clear on  
17 that. Thank you. Thanks for those clarifying questions.  
18 Are there any other questions or comments? Is that it?  
19  
20 MR McBRIDE: Just in relation to that last point. With  
21 the issue of the water and sewerage subsidy, if the  
22 government were to accept the rate deferral, it would be  
23 quite untidy if that didn't sweep up the water and sewerage  
24 concessions as well --  
25  
26 MS MAXWELL: Yes.  
27  
28 MR McBRIDE: -- as part of an overall support package. So  
29 just in the interests of well, administrative simplicity,  
30 so that you are not running duplicate schemes, they would  
31 need to be rolled together, I would think. Even though it  
32 is outside the terms of reference, and I appreciate that,  
33 in a strict sense, I think in a practical sense, the final  
34 report could perhaps allude to that or somehow draw that  
35 conclusion.  
36  
37 THE CHAIRMAN: Thank you, Shaun, we note that. Are  
38 there any other comments or questions? I think there was  
39 somebody in the second row was on the brink of asking a  
40 question. Yes?  
41  
42 MS BURRASTON: Shirley Burraston, Walgett Shire Council.  
43 I have a question regarding the interest that would accrue  
44 on the deferrals. Who do you envisage paying that?  
45  
46 THE CHAIRMAN: In the event that this were adopted and  
47 that the interest would accrue at the bond rate, that would

1 be taken out of the estate at the end. So, at the end, it  
2 would be all the \$250 amounts plus the interest on it.  
3  
4 MS BURRASTON: Okay, thanks.  
5  
6 THE CHAIRMAN: Thank you for that, Shirley. Okay, is  
7 there anybody else? No? Are there any objections to  
8 wrapping up now? Are there any further comments or  
9 questions? No?  
10  
11 CLOSING REMARKS  
12  
13 THE CHAIRMAN: Thank you very much. This has been  
14 particularly useful and we really appreciate the spirit in  
15 which the contributions have been made. I would like to  
16 thank you very much for taking the time to attend today's  
17 public hearing.  
18  
19 The transcript from today's hearing will be available  
20 on our website within the next week.  
21  
22 We are very grateful for your input to the review.  
23 There is a further opportunity to have your views  
24 considered and that is by making a submission to the draft  
25 report. We will be accepting submissions until this  
26 Friday, 14 October, and I thank those who have already made  
27 a submission.  
28  
29 After considering all of the comments today and the  
30 written submissions received, we will provide a final  
31 report to the Minister for Local Government in December  
32 2016.  
33  
34 Once again, thank you for attending and have a good  
35 afternoon.  
36  
37 AT 11.30AM, THE TRIBUNAL WAS ADJOURNED ACCORDINGLY  
38  
39  
40  
41  
42  
43  
44  
45  
46  
47