INDEPENDENT PRICING AND REGULATORY TRIBUNAL

REVIEW 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, Ms Letitia Watson-Ley and
Mr Austin HarrisAt

SMC Conference and Function Centre, 66 Goulburn Street, Sydney

On Monday, 19 September 2016, at 9.30am

OPENING REMARKS

THE CHAIRMAN: Good morning and welcome. Thank you all very much for coming today and I'd like to welcome you to this public hearing on IPART's review on the local government rating system in New South Wales. I would like to begin by acknowledging that this public hearing is being held on the traditional lands of the Gadigal people of the Eora Nation.

My name is Peter Boxall and I am the Chair of IPART. I am joined today by my fellow tribunal members, Ed Willett and Catherine Jones. Assisting the tribunal today are IPART secretariat members, Lucy Garnier, Derek Francis, Anthony Rush, Sheridan Rapmund, Letitia Watson-Ley and Austin Harris.

The purpose of this review is to develop recommendations to improve the efficiency and equity of the local government rating system in order to enhance councils' ability to implement sustainable fiscal policies over the longer term.

This review also required IPART to recommend a legal and regulatory approach to achieve the government's policy of freezing existing rate paths for four years for newly merged councils.

In accordance with our terms of reference, we delivered an interim report to the government in June on the rate path freeze and in August we released our draft report addressing all other issues.

The purpose of today's hearing is to outline our key recommendations from the draft report and to seek your views on that.

Our draft recommendations aim to improve the current rating system so that it collects revenue more equitably and efficiently from taxpayers. They also aim to give councils more flexibility to better meet the needs of their communities. Our draft recommendations are not designed to bring about a windfall increase in rates collected by councils.

At today's public hearing, we have three sessions to discuss our key draft recommendations.

Session 1 will cover our draft recommendations to:
Give councils the option to use capital improved value or unimproved value in setting rates; and
Remove minimum amounts from the Local Government Act.

Session 2 will look at our draft recommendations to allow councils to:
increase rate income over time in line with the growth in capital investment from new residents or businesses;
levy a new special rate for joint delivery of infrastructure projects with other leaves of government; and
set different residential rates.

Session 3 will discuss our draft recommendations to:
modify rate exemptions so eligibility is based on land use rather ownership; and
Introduce a rate deferral scheme for pensioners.

A member of the IPART secretariat will give a brief presentation introducing each session. I will then invite participants to provide comment on that topic. I ask that you please limit your opening comments to a maximum of a few minutes. You may also have an opportunity to provide further comment, if you wish, subject to time constraints. Following discussion by those on the panel, I will then invite comments from the general audience.

Today's hearing will be recorded. The webcast and transcript will be available on our website next week. Therefore, to assist the transcriber, I ask that, on each occasion you speak, please identify yourself and, where applicable, the organisation you represent, before speaking.

I will now hand over to Anthony Rush, who will introduce the first session's discussions. Thank you,

SESSION 1: Option to use CIV as an alternative to UV for setting rates.

MR RUSH: Thanks very much, Peter. Today I will be discussing two of our draft recommendations on how councils can set rates from our draft report. The first is our biggest reform proposal: to give councils a choice of using a capital improved value - or CIV - for setting rates in addition to the current unimproved value - or UV - method.

The second recommendation I will discuss is to abolish minimum amounts for rates if our recommendation of giving councils the choice of using CIV is adopted. These draft recommendations are both covered in chapter 3 of our draft report.

Broadly speaking, councils set rates using two types of charges: the first are the variable charges, which are set at a percentage of a property's assessed value; and the second are fixed charges, which are base amounts and minimum amounts.

In New South Wales, the variable charge is currently based on a property's unimproved land value. This is the value of a property excluding the value of buildings, structures and other capital improvements. However, our research has shown that a strong majority of other jurisdictions across Australia, and internationally, adopted capital improved value method - or CIV - method for calculating local government rates.

The CIV method includes the value of land as well as capital improvements of the property. Our draft recommendation is that councils in New South Wales should be given the option to choose either the CIV or UV method at the rating category level.

So why have we reached these draft recommendations? First, CIV performs well relative to UV in our analysis against tax principles. In particular, CIV performs well on equity, simplicity and sustainability principles and it can also be more efficient;

Second, analysis and feedback from stakeholders has shown that the CIV is needed to address the key and growing issue of collecting revenue from apartments.

Third, it is consistent with rating practices internationally and in other Australian states. Around 85 per cent of countries allow a CIV-type approach and there has been a noticeable trend towards CIV internationally over the past 10 to 20 years;

Fourth, the majority of stakeholders supported giving councils at least the choice to use CIV;

Finally, there are substantial benefits to collecting CIV data that improve numerous sectors of the economy. If these benefits are apportioned fairly and efficiently, they could greatly offset the costs of providing valuation

services. In addition, the processes influencing CIV could be done competitively and the costs could be minimised if the CIV is implemented gradually.

As discussed, councils currently levy rates on a property with one of two types of fixed charges. The first type, known as the base amount, is a flat charge that applies to all properties in a rating category.

In the second type, a minimum amount applies only if the variable charge for a property is below a certain threshold. These charges are shown in the chart behind me. We recommend that base amounts be retained with no changes, but that minimum amounts should be phased out from 2020 onwards. This is because base amounts are more equitable and efficient.

With a minimum amount, all ratepayers with a property value below a threshold pay the same rates. In other words, a one-bedroom apartment will face the same minimum rate as a three-bedroom apartment, for example. In contrast with the base amount, a one-bedroom apartment will pay lower rates than the three-bedroom apartment. This is more efficient as the three-bedroom apartment will tend to receive more benefits from council services and it is more equitable, as it will, on average, have a greater capacity to pay.

Currently a number of metropolitan councils are using minimum rates as an imperfect tool to raise revenue from apartments as they are unable to use CIV. If our recommendation to give councils the option to use CIV is adopted, then these councils will be able to raise rates revenue from apartments without the need to adopt high minimum amounts.

I would like to finish my presentation by leaving you with a few key questions to motivate the discussions. These questions are:

Should councils have the choice to use CIV or should a single valuation method be adopted?

Is the option to provide choice at the rating category level appropriate?; and, finally,

If councils are allowed to use CIV, are minimum amounts required in any circumstances?

I'll now hand back over to the Chairman to begin the panel discussion.

THE CHAIRMAN: Thank you very much, Anthony. Who would like to start from the panel? John?

MR COMRIE: Thank you, Peter. My name is John Comrie. I am from South Australia and I have a reasonable understanding of what happens elsewhere. I am certainly very comfortable with the recommendation that has been put. I think minimums are problematic. My experience, not just in South Australia but in other states, is that councils having high minimums invariably means that, in low-value properties, people are effectively paying a higher tax rate relative to people with high-value properties. I think, from an equity point of view, it is pretty hard to justify that.

Perhaps just a brief comment in terms of capital value. I am aware of what the panel said a couple of years ago. In most states - certainly in South Australia and in other states - where there is a choice, overwhelmingly councils have gradually shifted from unimproved value to capital value. So where a choice has been issued, people say, "Hmm, let me look at the issue", but gradually, by and by, councils have crept towards capital value, and I am not aware of any councils that have ever gone from capital value back to site value. They look at the issues, look at the implications and decide, yes, it is best for them. Subject to a few checks and balances, because, obviously, you don't want a big dramatic change in winners and losers, those councils that have done the modelling and have thought about it have invariably ended up saying, "Capital value is the way to go."

THE CHAIRMAN: Thank you very much, John. Simon, would you like to comment?

MR GILKES: Simon Gilkes. I am the NSW Valuer General. As I said at the previous hearing, I have no particular preference for whether rates should be levied on site values or capital improved values. I appreciate the arguments that IPART has made and can see the value in many of those.

I also think that both site values and capital improved values can provide a good basis for rating; indeed, capital improvement values are used in - as has

been pointed out - many, many jurisdictions very successfully. There is some cost penalty in the production of those valuations. It is somewhat more expensive but not dramatically so once the system is established.

My only real caution about the recommendation is around the implementation and the need to plan that very carefully and think through very carefully the costs of the implementation and how that can be minimised.

One of the features of capital improved values is that to end up with values that are realistic and actually reflect the improvements requires very substantial data infrastructure and, at the moment, that simply does not exist in New South Wales. Parts of it exist in a range of places. Different companies, for example, have databases with some of the information. Councils also hold a lot of information, but, based on some inquiries we made in 2013, many councils hold it in a way which is not really accessible. So there is a need to convert the data from the form that it is held, quite often manually, into data that can be used in a database to produce the valuations.

As I said, once that infrastructure is in place, the capital improved values can be produced efficiently and effectively. That is done in other states in Australia, notably Victoria, but it has taken some time for them to get to the high quality database that they have now - a number of valuation cycles. So my big caution is around the implementation process.

THE CHAIRMAN. Thank you very much, Simon. I'll now ask Andrew, and then maybe, after that, one of the councils. Andrew?

MR BUTCHER: I would like to thank you, IPART, for the opportunity to respond --

THE CHAIRMAN: Sorry, Andrew.

MR BUTCHER: Sorry, Andrew Butcher. Campbelltown City Council is where I work. Today I am representing the NSW Revenue Professionals. The RP is an industry group consisting of revenue practitioners from across the state and it aims to facilitate best practice for all councils. As practitioners, we implement government and council policy and through direct dealings with community we are at the coalface in hearing their concerns, so we see this as an opportunity to bring those two things closer together.

In regards to CIV, we agree with the option to use capital improved values over unimproved values. Capital values provide a strong correlation between ratepayers' ability to pay and also capacity to pay due to their capital investment. We do not think that a ratepayer's decision to have, say, a granny flat would be altered on the basis that they may incur a change in their land rates and we also believe that such shifts would be minor in the land rates.

CIV will have better outcomes for councils with high levels of strata developments, which Anthony noted before. For other land, the distribution of rates across areas within each council could be adversely affected as properties with higher values will pay more than those with lower values. However, this impact can be reduced through the use of base rating, also recommended in the draft report.

We have some concerns regarding the cost of implementing the CIV values, as Simon mentioned today and at the previous hearing. However, as this methodology has not yet been determined, we would seek to recommend a simple method that is easily understood by the community, is robust and has minimal impact on the Valuer General. The NSW Revenue Professionals claim would like to work with government and the VG in determining the methodology,

What is particularly important is that CIV creates a mechanism for councils to align growth through capital investment with their rating structures, and that is highlighted in the report. Eventually we see that CIV will need to be the standard across New South Wales to accommodate the Emergency Services Property Levy and rate setting outside the peg and therefore help councils to be more sustainable based on capital investment growth in their areas.

THE CHAIRMAN: Thank you very much, Andrew. One of the councils and then Vincent. Yes?

MS FLAVEL: Fran Flavel, from Port Stephens Council. Thank you very much for the opportunity. From our point of view, the whole package of proposals represents a very

strong, and I believe well-supported, shift and is very much necessary.

To address specifically the questions there, I don't think that CIV should be mandated because I think a mix depending upon what your individual LGA looks like is probably the best way to obtain something that is equitable. So by rating category, yes, I think that's appropriate.

We do think that the practice of applying minimums is antiquated and should be removed from the system, so we are supporting that as well. I question a little bit the gradual introduction of these things. Taking in point that the infrastructure needs to be in place, defining "gradual" becomes an issue.

We looked at this as the whole package as well, so with cost, yes, the valuations will cost more. We don't see that as a particular issue because if you look across things like the exemptions being removed, it sort of balances itself out on the modelling that we have done.

What is an issue, though, is who is going to manage the process of objections to valuations and merit-based values? Any gains that you might get from this could very well be eroded away over time if you end up having to have fights with your ratepayers all the time. One of the advantages of the Valuer General's situation at the moment is it's arms-length for the councils. That is a comment that I think is worth putting on the table. Thank you.

THE CHAIRMAN: Thank you very much, Fran. Now Vincent and then Wayne.

DR MANGIONI: Thank you, Peter. Vincent Mangioni, from the University of Technology. I undertook a PhD on this topic examining rating and taxing systems around the world between 2007 and 2012. I have looked at the rating systems in New Zealand, the United States, Canada, Denmark and the United Kingdom. In the work that I undertook, during that period, I noted that, as pointed out earlier, a number of rating systems in a number of jurisdictions have transitioned to capital improved value over the past 20 years and have retained options for dual base. They include New Zealand. We have Denmark this year - where I spent quite a considerable amount of time - moving to capital improved value. South Africa moved to capital improved value, and we have a number of jurisdictions, as has already been pointed out, that have moved to capital improved value as the primary base.

I might just add some comments to those of the Valuer General, who was absolutely correct in pointing out that there will be additional costs in moving to a capital improved value system. However, it is pointed out in the report that one of the rationales for the transition and giving councils the option in moving to CIV is that happens in many of the highly urbanised local government areas.

My PhD examined the processes that valuers were undertaking. I worked with 25 statutory valuers here in New South Wales and found that in the main, in the highly urbanised areas, they were, in fact, starting with capital improved value as the first step of the valuation process. Due to the very limited number of vacant land sales, they would commence with capital improved highest and best use and strictly added value of improvements back to land value.

In effect, many of the attributes that we have referred to that need to be monitored are being monitored on an annual basis in determining the land values that are used for rating and tax purposes in New South Wales. Where the additional cost will be is formalising those, ensuring that they are maintained and that we are more consistent in the way the valuers undertake the stripping back, the information, the way it is coordinated, so there will be additional costs in undertaking that.

However, the actual process of capital improved value or the determination of CIV is well established in many parts of Sydney already, so I dare say that whilst there is a transition period, it is not something new at all; it is not a blue sky transition.

THE CHAIRMAN: Thank you very much, Vincent. Wayne, and then Jane.

MR ROGERS: Thank you, Peter. My name is Wayne Rogers, Director of Corporate Services Blacktown. I came here this morning knowing that I would be at odds with most of the group here, but I'll put my case anyway.

Firstly, a little bit about Blacktown. Blacktown, until recently, was the largest council by population in New South Wales and we are still about the second largest. There are a few characteristics that distinguish Blacktown from other councils. Blacktown is taking quite a fair share of Sydney's future population. Think of a land area roughly the same as the Eastern Suburbs. We are yet to develop an area that size and take a lot of development through Blacktown.

Some of you might have heard the Minister for Planning, Minister Stokes, the week before last, talk about his view of Sydney's development being more of a Barcelona model than a Shanghai model; in other words, not too much high-rise development but closer to the terrace-style houses with backyards. That's predominantly what Blacktown's growth is at the moment.

I have worked with Blacktown for almost 12 years. For the most part, our development was about half and half, with half greenfield and half brownfield. We have seen a very big shift from brownfield to now about 80 per cent greenfield. When we run some modelling based on some of those characteristics - while we fully see the benefits of what is proposed - they don't give us an advantage and possibly give us a disadvantage.

I might deal with minimum rates first and then come back to the valuation method. Blacktown has probably the highest minimum rate in the state. Our minimum rate is $918. The simple reason our minimum rate is high as it is is that, back in the 1990s, Department of Housing properties, which back then were about 10 per cent of our rating base, had a very low rateable value, which meant, on any other rating structure, it would have had a lower rate. A decision was made by the then elected council to put the minimum rate as high as they could and we have effectively just applied rate pegging every year after that.

One of the things that distinguishes Blacktown - and some of our older retiring councillors remind me of this - is that it was part of the city's old Department of Housing poorer suburbs, separated by new release areas, and we are now moving into a tale of three cities with CBD development.

If we were to abandon our high minimum rate and if we were to go to a 50 per cent base charge and 50 per cent ad valorem, we would see 69 per cent of properties have an increase in rates and 31 per cent would have a decrease. Of the 69 per cent of rates which would go up, 26 per cent would go up by no more than $1 a week; 23 per cent would go up from $1 to $2 a week; and 20 percent would go up by $2 to $3 a week. On the other side - the 31 per cent that would have decreases - 19 per cent would have a reduction from zero to $3; 11 per cent would have a reduction from $3 to $6; and 1 per cent would have a reduction of $6 to $10 a week. If you're trying to associate it on a weekly basis, those movements are not that huge.

I mentioned before the Department of Housing properties. If we went from a minimum rate to the Department of Housing rate, the Department of Housing would pay about 10 per cent less rates. Most of their properties are in that lower value category. They already don't pay the stormwater charge of $25 per property, and they would be exempt from the emergency services levy. So this is a big sort of shift from the Department of Housing to other parts of the city.

We have found that, over time, when we had a greater proportion of infill development, the minimum worked the best. A typical unit development in Blacktown would attract something like additional rates of $150 per annum under ad valorem and $918 under base.

I fully respect everyone's view about the equity basis, but I would have to say from our point of view, over the 10 year-period from 2013 [sic] to 2014, over half of the state's councils had an SRV - we didn't. Effectively our high minimum has meant our average rates stayed high and we have not needed to go for a rate rises. We estimate the cost of our last SRV - our only SRV - which was a very simple renewal, was $100,000 without any start time, consultation and public workshops. If you added start time, it would be more than that. I respectfully ask - I can understand what I hear about equity and stuff like that - that in our case we would be able to retain at least the minium rate.

The second point I want to talk about is CIV. I opened this by saying I was a bit surprised myself. We attempted to do some modelling based on the 48 suburbs in Blacktown by taking a sample of recent sales for each

suburb - so it was a sample size of about 500, which is probably reasonably significant - to try and estimate what would be the shift or the uplift in average values from going from an unimproved value to a CIV. We found the average was a ratio of about 2.47. The average value went up by 2.47. That said, though, across each suburb there were wild variations and they didn't always follow. Where they did, though, was in the older areas where land was basically being redeveloped for higher density development and we saw an uplift of about 5 to 5.5, whereas, in the greenfield, which is 80 per cent of our development, we saw an uplift of around 1.3 to 2.8 - we followed the average.

If there is not an increase in values from going to the CIV of 4 from 11 per cent in the greenfield area, we are actually worse off by going from a UV to a CIV. To put it simply, the mix between the biggest increase in values in the developed areas versus the undeveloped areas sees the greatest uplift in the developed areas, meaning CIV won't be to our advantage at the moment. That will progressively change and that's why I would suggest retaining the option of the choice of unimproved versus CIV.

I do say, though, we have done a fair bit of modelling and we will continue to model right up till submissions close on October 2016, but, at this point, we are not seeing that the CIV would help us at the moment.

The last point I wanted to make about CIV is growth, or subdivision ratings, is an abnormally large part of our business. We used to receive an extra 0.75 per cent of income each year from growth. It's now about 1.5 per cent. We used to take on 1,000 new properties. We are doing 3,000 a year, and again that's in a greenfield area.

For CIV to work for Blacktown - I've spoken to IPART about this - there actually needs to be a two-step process. The first process is when the parent block is subdivided and we get the uplift from the old unimproved to the new unimproved - that is one step. To go to CIV, though, and to get a material benefit from that, we would need to issue a third rate notice, which is when the house is being built at the time of the occupation certificate. The longer that takes to happen, then that figure I've talked about of 11 per cent needs to be higher. If we can issue the rate notice effectively at the time of the occupation certificate, it would work; if not, then there is a loss of income.

THE CHAIRMAN: Thank you very much, Wayne. I call on Jane,and then Greg.

MS FITZGERALD: Thank you, Chair, Jane Fitzgerald from the Property Council of Australia. I think I might have been a lone voice at the last hearing, but I feel like I've got half a supporter in Wayne over there.

The Property Council does not support a shift to capital improved value and that is for two fundamental reasons. Firstly, as a matter of principle, it seems that IPART is trying to solve what I might loosely describe as the apartment problem by shifting the whole system to capital improved value. It seems to us, regardless of what other jurisdictions are doing, that the current system is working potentially but for the apartment problem that has been described, and I don't express a particular view on that.

We had some modelling done in 2012, and we are having some modelling updated around that, which we will make as part of our submission, Mr Chairman, and share that with IPART. But we are concerned that there will be a substantial inflationary impact if there is a shift and that, of course, that will ultimately be passed on to the end ratepayers. It won't just be large property owners, it will be lessees and other people who are sharing in that inflationary impact.

We also continue to have serious concerns about the transition costs associated with moving to what would be a dual system with the IPART recommendation. We wonder, at a time when there are vast competing priorities, whether the tens of millions of dollars that it might take to shift to running two registers would not be better spent. We wonder at the uncertainty that it would create for ratepayers in terms of there being a dual system and we would be interested in better understanding how that is being managed in a transitional way. I have not seen much commentary about how that process is being handled in other jurisdictions in Australia.

We are also doing a little bit of modelling about one of the points that Wayne just touched on - that is, the

relative volatility of capital improved value as opposed to unimproved value. We are at a preliminary stage at the moment, but we are graphing how that might look over a period of time. Again we would be happy to share that, but we would agree, I think, with the thrust of what Wayne was saying, that it certainly looks more volatile from our perspective and that if part of the agenda that IPART is seeking to implement is to make councils financially sustainable over time, having a more volatile system may not be the best way to go.

The final point I would make, whilst noting that we don't think it is within IPART's terms of reference, relates to the draft recommendation concerning the emergency services levy. The treasurer has been explicit in her commitments that those people who are paying the emergency services levy now won't pay more and, in fact, should pay less. We would be interested to see how that would be achievable with a shift to a capital improved value method of valuation. We think that people would end up paying more with that shift and that would be entirely at odds with the commitment that the treasurer has given. I might leave it there at this point.

THE CHAIRMAN: Thank you very much, Jane . I call on Greg and then back over to Cherie and Greg.

MR DYER: Thank you. Greg Dyer from the City of Parramatta. Unlike Blacktown, our growth is coming from densification, so a move, we believe, to CIV as an option is certainly a viable one from our perspective and one that we would support. It is more likely, we believe, to give rise to equity and fairness within our rate base as our population grows and the need for services is basically population based rather than property based, in our view. As I say, we are experiencing strong population growth and this would be a fairer way of determining the rates per ratepayer.

The removing of minimums, in our view, in conjunction with the use of CIV is also supported and would provide a fairer system.

We also would agree with the comments relating to implementation and the need for transparency across our ratepayer base in terms of that implementation process. So we would seek the views of our community in determining which of CIV or UV should be applied in our circumstances. I think that's an appropriate thing that we should undertake to hear from our community in relation to that issue and obviously to provide full transparency as to the implications for rates and so forth across our communities.

THE CHAIRMAN: Thank you very much, Greg. We'll move to Cherie, and then Greg.

MS MUIR: I'm Cherie Muir from the Randwick Council. I am the revenue coordinator. Randwick is an advocate of CIV. We have a residential minimum that could be called high, not as high at Blacktown, but this year it is $752 and half of our city pays that. We are an infill developing council and we are getting our growth from units. In half of our ratepayers paying that, they are only contributing 27 per cent of our overall income, so it is no accident that we are at $752. We have been very strategic in getting it there and increasing it.

It is our view that units, just because they are less than a house, doesn't mean that they absorb more or need more services. As a statistic, 80 to 85 per cent of all of our illegal dumping is in around unit blocks. There is certainly stormwater system capacity, and then there is the resident parking scheme, so residential parking occurring around the unit blocks. So we are big advocates and we definitely struggle to levy a fair amount of income from apartments. We welcome CIV, especially as we are part of a merger proposal that is to happen any day soon, and CIV could help in bringing those three councils together. Thank you.

THE CHAIRMAN: Good, thank you very much, Cherie. Greg from Sutherland Council.

MR HAYES: Greg Hayes, Manager of Finance from Sutherland Council. Sutherland is very much in favour of the introduction of the CIV method. Unfortunately we are one of the councils that is looking for an apartment solution. The majority of our growth at the moment is all through high density. At the moment we have multimillion dollar properties, such as penthouses, paying the same amount as a one-bedroom property or a one-bedroom unit being on a minimum rate.

Obviously to introduce the CIV, we don't see then the

need for a minimum, so we support that proposal as well. If it wasn't to come I think we would have to move to the base rate methodology. We see also that the introduction of CIV would tie in better with the recommendation to introduce CIV for the ESPL. Again we see the nexus there not on land value.

Just a bit further to what Vince said earlier, on our last general valuation, we did have discussions with the valuers. We were actually told the same thing - that the starting point for a lot of the properties we had were capital improved value and stripped out to get the land value - so that capital improved value must be around somewhere.

We also have some quite large commercial centres where we don't believe that the current valuation method matches what it would be on an equity basis if we were to go to CIV, so on the premise of equity, we certainly support a CIV.

THE CHAIRMAN: Thank you very much, Greg. I now move to Keith from OLG and then Shaun McBride from Local Government NSW.

MR BAXTER: Keith Baxter from the Office of Local Government. We welcome the report and thank IPART for the hard work they have done to date on the draft report and the recommendations.

There are a few points that I would just ask IPART to think about, going forward. One would be about the simplicity of running dual systems. One of the challenges at the moment for the community is to understand the basis of a valuation, to understand the basis of a rating system and whether there is an added complexity that comes from a choice by councils in whether a resident moves from one council to another, say, moves from capital improved value to unimproved value, and just whether the added flexibility it gives the councils is appropriate for the offset of its simplicity. I think the OLG agrees with the minimum fee base and the CIV process. There is no need for minimums going forward with that sort of thing.

The other issue that will be crucial, if there is to be any acceptance of CIV, is the issue of the implementation and the issue of the implementation costs and complexity, as raised by the Valuer General earlier, and also the implementation in terms of to try and smooth the impacts on individual ratepayers. You don't want a situation where individual ratepayers are having significant swings in the move to valuation base. You want to try and provide a level of certainty for ratepayers about what that would mean. Those are some of the issues that we would welcome IPART's thoughts on or giving further consideration to, but, on the whole, it has been a very useful discussion to date, so thank you.

THE CHAIRMAN: Thank you, very much, Keith. Now Shaun from the Local Government Association.

MR McBRIDE: Shaun McBride, Local Government NSW. At the outset, I would like, on behalf of our organisation, to commend IPART on the draft report. The report has addressed a great many of the issues that local government has been raising for years. We certainly welcome the inquiry and are certainly pleased with many of the findings and recommendations of the draft report.

We were, predictably, disappointed that IPART did not address the broader issue of rate pegging and perhaps the concept of streamlining the special rate variation process, but we understand that was outside the terms of reference.

Moving on to the subject matter at hand, we strongly advocate councils having the choice to use CIV. That was contained in our submission. We appreciate that there are certain costs involved and complexities and there are transitional issues, but based on the comments that others have made, from international and interstate studies, it seems to me that New South Wales will have to bite the bullet eventually and come into line with best practice. I think we just have to accept that, yes, there are costs and complexities, but the step will have to be taken at some stage.

While I appreciate the comments made about the linkages to ESPL, the value of the improved property is much more relevant to the Emergency Services Property Levy than an unimproved value, so we can certainly support a lot of comments that have been made so far.

We think a CIV would help remove the rating discrepancies and inequities that have been discussed this

morning. We can see - that's why we think there should be a choice - that outside the metropolitan area many councils may not find a compelling need to adopt that methodology at this stage. They may not see any benefits to them from the extra expense. We have noted that, in other states like Western Australia, for example, rural land is valued on an unimproved basis and urban lands are valued on a CIV basis. We think the ability for councils to opt in is important. Yes, so that is basically it.

When it comes to the minimum rates, we understand and appreciate the arguments that have been put forward in the report and the comments that people have made around the room, but we also realise that a lot of councils have rating structures and policies that have built up around minimum rates and it would be best to not cause too much disruption in any transition to that because that could have a lot of unintended consequences. Wayne has pointed to some of those. We would just make that point, but we would expect that rather than mandating that minimum rates be abolished, with the ability to use CIV, councils would progressively opt out of using it and see that it is irrelevant. So, over time, it would probably disappear anyway. Thank you.

THE CHAIRMAN: Good, thank you, very much Shaun. We will now call for questions and comments from the floor. We have a roving microphone. Who would like to go first?

MR GOOLEY: My name is Dennis Gooley, from the City of Ryde Council. I will touch briefly on rate pegging to say that the reason for the need to look at our rating structure is because of the deficiencies of rate pegging, and I know this is outside the scope of what this is all about. I think the introduction of CIV will alleviate the concerns because it will improve the above-the-peg growth for council with apartments. But for councils without apartments, it will not change anything for them, and I don't think the solution you are proposing will help those councils without a large number of apartments.

I think, therefore, that, yes, if a council adopts CIV, minimums should be abolished for those councils, but where they adopt to retain land value - and that's why I'm suggesting land value be an option - they should also be able to retain minimums, unless some other solution can be found to increase their above-the-peg growth. I can see discrepancy evolving over the years where, for councils with apartments, their above-the-peg growth will be much higher than councils that don't have apartments and there will be them and us - those in the city and those in the country. Thank you.

THE CHAIRMAN: Thank you very much for that contribution, Dennis. Anybody else?

MR BAILEY: Thank you, Mr Chairman. I am Mike Bailey from the Council of Social Service of New South Wales. Our primary concern with this change was initially whether there would be a disproportionate impact on low value apartments. However, your staff have been good enough to provide us with some analysis which suggests that abolishing minimum amounts and coupling that with a change to CIV would actually see low-value apartments better off in terms of the total rates that would be paid across New South Wales. On that basis, we are very supportive of the change and we would just urge for that analysis to be included in the final report. That might prove very useful.

Finally, our other concern would be around allowing councils to engage independent market valuers to calculate the capital improved value of land. Our view is the Valuer General currently provides an experienced, well-informed, evidence-based and independent land valuation service that is clearly at arms-length from councils themselves, so we support retaining the current system in that respect.

THE CHAIRMAN: Good, thank you very much, Mike. Is there somebody over on the right? Yes, up the back.

MR MILLS: Good morning. I am Gary Mills from Mosman Council. I would like to put some perspective around base rating. Mosman Council was an early adopter of base rating in the 1993 Act and they have a 53 base amount which they charge all residents. That base amount is $171 a quarter at 50 per cent. So we could safely assume - and we are the fifth highest rating council in the state - that everyone else would be paying somewhat less than that. I don't think $171 is a family budget-breaker. The 50 per cent level, I think it's quite manageable.

My concern is that in moving to some of the issues

that are proposed by IPART, we are introducing high levels of complexity, and what I have found in my 30 years is the public don't understand rates. They feel very emotive about it. They think rates are too high, but they are clearly not. If we are the fifth highest rating council, I just don't see how they can draw that conclusion.

A simplicity issue is really something that should be the driver. Every three years when we have had revaluations, people read in the papers that their values are going up by 20 per cent and, therefore, their rates are going up 20 per cent. That hasn't changed forever and it is not true. If you are starting to bring new levels and new complexities in, I don't think that's going to help the situation.

The third and final thing is that in introducing new levels, the industry itself has trouble attracting staff with the requisite knowledge to be rated professional. If we are changing between councils, then we are running the risk of making it even more difficult to get the right start. Thank you.

THE CHAIRMAN: Thank you very much, Gary. Is there anybody else in the audience? Yes?

MR CUMMINGS: Thank you, Mr Chairman, I am Doug Cummings from the Lake Macquarie Ratepayers Action Group. I have a series of questions that I would like to pose to the panel. It's clear from the discussion that the panel really has not conducted any modelling to date, or at least any that they are prepared to put out in the public domain, and the first question would be why? I think only if you start getting some actual data out there that people can look at can they really see the differences.

I would tend to agree - disagree, sorry, with the choice of allowing councils to determine whether they retain the UV or shift to the CIV system. Quite clearly the comments in respect to Blacktown are probably more the exception than the rule, because most of the speakers to date have been in favour of using the CIV.

I would suggest that perhaps the panel really should mandate the use of CIV, with the exception being that councils need to apply not to apply CIV and to justify it in the way that Blacktown has already described. Maybe

Manly might also fit in that and/or Mosman, but we, the Ratepayers Action Group in Lake Macquarie, think that it should be a mandated system, not an easy option for councils to accept the status quo.

The next thing I would like to address is how does the panel think you actually arrive at the CIV system? We already know that there are some 3 million households in New South Wales. That is the data from the Department of Planning. They are projections for 2016 based on the 2011 census data.

You have 3 million properties in New South Wales that you are suggesting people go out and value. That is plainly ludicrous, in our view. The time it would take to achieve that would be so extreme you're talking 2020 plus to try to get there. Surely there are enough brains in this room to be able to sit down, have a planning session, a one-day working session, with the Valuer General, with other people from other jurisdictions, that can come up with a sensible method of calculating current values of properties based on the most recent property sale price.

We are of the view that there are four key elements in determining what would be a plausible CIV value. The first of those is the last sale price and the date of that sale. The second thing you add to that is a time-lapse factor that accounts for the time lag between when that property was last sold and the present time. The third thing to apply to it is a market value adjustment. That could be done very simply by looking at a select number of actual sales in the last six to 12 months and comparing it to a calculable value from the last sale price to current day.

That would bring these properties up close to - not exactly - what its real market value is, but as properties supposedly sell approximately every seven years in this state, it is a fairly short space of time that that value will automatically be reset at that next point of sale.

We think that the panel needs to consider and take on board perhaps a working session group with selective people from Valuer General, from the Local Government and Shires Association and others, to sit down and come up with a method that does not require people to go out and view the vast majority of those 3 million properties.

In summary then, why hasn't the panel considered how long they think it would take to do the valuations and made that public, and, secondly, how much they think that revaluation would cost to do?

THE CHAIRMAN: Thank you, very much, Doug. We will take all that on board. There are a number of constructive comments. Is there anybody else who wishes to speak from the floor?

MR GOOLEY: May I have one last --

THE CHAIRMAN: Yes, Dennis

MR GOOLEY: Having been in the rating industry for a long time, my experience has shown me that decisions are made at the political level, and although what you are proposing is very good, the implementation will come down to the decision as to how to lessen the financial pain on the ratepayer. That needs to be overcome maybe with education of councillors, but if your proposal does not look at how to educate the councillors and the decision-makers as to looking at the long term benefits of the change rather than the short-term pain, then none of these things will happen. Thank you.

THE CHAIRMAN: Thanks, Dennis. Back at the table, would anybody like to make any further - sorry, there is somebody here. Yes, go ahead.

MR CASUSCELLI: My name is Charles Casuscelli. I am from the Western Sydney Regional Organisation of Councils, but I would like to make a personal observation. It is not a reflection of the position of the Regional Organisation of Councils, if I may.

THE CHAIRMAN: Sure, Charles

MR CASUSCELLI: It strikes me that the rates are there; the raison d'etre for rates is that we want to try and fund the burdens imposed on local government by the actual property itself. So we are trying to raise enough money that allows that property to be utilised in the way that it is meant to.

My personal feeling is that moving to capital improved value seems to be distancing ourselves from the actual burden that that property creates in real terms. I am actually agreeing with the Property Council, and Blacktown to a certain extent, about this.

We have an apartment problem that we are trying to solve. We have a rating system where I don't think unimproved value of a property or the capital improvement value actually deals with the fundamental problem that we have with apartments. Perhaps the solution lies somewhere in the middle of that, that it's not unimproved and it's not capital improved, because I have a fundamental problem with how do you actually create the criteria that puts a fair amount of value on a capital improved property? It can't simply be the last sales price.

I look at properties now that are inhabited by a single person. It may be a three or four-bedroom home which has a very, very high value because of historical factors, but you have one person creating almost no burden on local government having to pay an extraordinary amount of money; whereas an apartment which has three people living in it creates a significant burden on local government. To me this issue of fairness and equity is not being addressed in terms of the discussion we are having at the moment about capital improved value.

My suggestion may be that there be something in between those two - unimproved and capital improved - an arrangement we need to see in the middle ground. I don't think moving to capital improved value is going to solve the fundamental problem, which is do we address the cost burden on local government regardless of the property utilisation?

THE CHAIRMAN: Thank you very much, Charles. Would anybody at the table like to make any further comments? Yes, Fran?

MS FLAVEL: Taking up the point, Mr Chairman, that Charles made about there being some sort of middle ground, and I have not really thought this through or consulted with my colleagues, but we are talking about applying CIV at rating category. There may be a case for applying differentials at a subcategory level. That might be a solution.

THE CHAIRMAN: Thanks, Fran. Vincent?

DR MANGIONI: Thank you. I refer to your comment earlier about the information to ratepayers and how the values are determined. Since 2006 and the Ombudsman's inquiry, a significant amount of work has been undertaken in New South Wales in making the valuation system extremely transparent to ratepayers and taxpayers with the provision of sales data upon request. I couldn't imagine why that process wouldn't still continue under a CIV or alternate option valuation system where the values that are relied upon or the sales that are relied upon are not made available to the ratepayers or taxpayers. I think that New South Wales has made significant leaps and bounds in that area and I couldn't see why that would not carry on in the transition.

THE CHAIRMAN: Thanks, Vincent. Anybody else at the table? Simon?

MR GILKES: Thank you. Firstly, I reiterate what Vincent has been saying. Over many years, we have been making very substantial efforts to provide more information to the community on how valuations are made and supported. Regardless of what methodology would be applied in the future, I couldn't imagine that that would change. It's a fundamental right of a community to be able to understand the basis on which they are having rates levied.

There is just one point I would like to pick up that a few people have raised about the use of capital improved values as part of the base in the current system. That is partly true, although it is something of a distortion of how the system actually works in that valuers currently will certainly look at many sales of improved properties. In looking at those properties, to get back to a land value, they make allowance for the added value improvements, so, yes, they do indeed, on those properties, need to understand the nature of the improvements and their quality and so forth.

That is in the order of 45,000 properties a year - that's the sale base. Once they turn those sales, if you like, into land values, they then think about the values on a land-value basis. There is a large gap from the amount that are currently analysed at that level to then being able to apply capital improved value to every property, so there are still significant, in my view, limitation issues to be thought through.

On that subject, I welcome the comments from Andrew Butcher that the Revenue Professionals would be interested in sitting down to talk through what some of those alternatives might be. I would certainly welcome that opportunity further down the track, depending on what the government ultimately decides.

THE CHAIRMAN: Thank you very much, Simon. Are there any further comments at this stage on this session from around the table? From the audience? No? Thank you very much.

SESSION 2: Allowing councils to increase general income "outside the peg" and set different residential rates.

THE CHAIRMAN: We are just a little ahead of schedule but we can move on to session 2. Session 2 is:

Allowing councils to increase general income "outside the peg" and set differential rates.

Austin Harris and Letitia Watson-Ley will introduce it for IPART.

MR HARRIS: Thank you, Chair. This second session discusses growth outside the peg and the setting of differential rates. I will discuss the first part, which covers chapter 4 of our draft report, and I'll pass on to my colleague Letitia to talk about differential rates, which is in chapter 5 in our draft report.

We have recommended changing how council income grows in response to the increase of capital within a council area. Increases in capital are simply due to new residences and businesses and broadly approximate the increase in costs imposed on councils by urban growth. We have made these recommendations to improve the growth in urban renewal, to make council more financially sustainable whilst maintaining consistent service levels, to reduce the regulatory burden of the rating system and to ensure that council rate growth is independent of their choice of rating method.

Importantly, it is not the intention of our recommendations in this chapter to increase the average rates per household. Separately, we have recommended a new

type of special rate to fund a new infrastructure that does not require IPART approval and would not be included in the rate peg.

We have made these changes because, typically, population growth outstrips council income growth and, therefore, councils have incentives to maximise the base for minimum amounts as a part of their rating structure. The outcomes of the current growth outside the peg systems are illustrated by the two charts on this slide. The chart on the left shows a Sydney metro council's income and property growth over five years with the rate peg increases stripped out. The top line shows the growth of the number of properties in the council area. The bottom line shows the increase in council's income without any SVs and, lastly, the middle line shows the effect of the SV that the council had applied for.

This chart demonstrates that the current growth outside the peg system does not work well for growth councils and that councils are having to use the SV process to correct their base rather than to provide funding for additional services.

The chart on the right has been created using data provided by Port Stephens Council in their issues paper submission. It shows how the rates paid under different rating structures on a particular parcel of land change as it is turned into a set of apartments. The top half shows the overall rates while the bottom half shows the rates without any assessment.

In this example, the council receives no additional income from the stratification of land unless the base charge or a minimum is levied, shown above; whereas in our proposed CIV approach, the council receives higher aggregate total rates compensating the council for the increased costs imposed by the increase in density.

Under our proposed changes, growth outside the peg would be scaled by the percentage change in CIV due to supplementary valuations. The formula ensures that the rates revenue increases in proportion to the increased cost of providing council services over time which reduces the need for councils to apply for SVs.

This does not mean, however, that councils will get more rates income if house prices in an LG area go up. Councils will only get additional funds from growth outside the peg when new development occurs; for example, a new apartment building that replaces a stand-alone dwelling or where land is rezoned resulting in an increase in the land value.

It also means that the structure of a council's rate - the minimum and base charges - do not affect the size of the growth outside the peg. This means that councils are not incentivised to keep the one rating structure over another to maximise growth.

Lastly, we have recommended a new type of special rate to help fund joint infrastructure projects that are funded at other levels of government. This recommendation will make it easier for councils to partner with other levels of government to provide new infrastructure. This special rate would not be included in a council's general income as it is not funding core council services and it would also not require regulatory approval by IPART.

I now pass over to my colleague Letitia to discuss recommendations to surrounding rate setting.

MS WATSON-LEY: Thanks, Austin. I'll give a brief overview of our draft recommendations for councils to set different residential rates. Most councils requested greater flexibility to set such rates. We looked at the current centre of population requirement for setting different residential rates and recommended it be removed. Most stakeholders were either unclear about its meaning or thought that it meant that metro councils couldn't actually set different residential rates. Instead, we have tried to provide more practical and clear criteria for setting different residential rates.

A council can set such rates if it has areas that are in separate towns or areas - so the geographical separation between the areas. This is consistent with the current OLG guidelines and it is what regional and rural councils currently use to set different residential rates, so we are recommending that current practice stay in place.

What is new is the different community of interest. If a council has areas that it can identify are different communities of interest, so they have different access or

demand or costs of providing council services, councils can set different rates for them and this is mainly relevant for metro councils.

This slide highlights the new criteria for different community of interest. So within a contiguous urban development, an area has different access to, demand for, or costs of providing council service and infrastructure. If that area has different economic factors, a council can choose a different residential rate for it.

We are particularly seeking feedback on these new criteria. Are these criteria useful? Are there additional factors we should take into account, or are there other alternative criteria that we could be using to set different residential rates?

This slide illustrates how councils may use different residential rates to tailor their rates to respond to local circumstances, to remove cross-subsidies between areas and also to provide incentives for development and urban renewal. You'll see from the figure a council may have a growth area, which is a new development, and that is where a council is prioritising new infrastructure in that area. That growth area is represented by area A and that area is surrounded by existing suburbs, represented by area C.

A council may consider it inequitable to set a uniform rate across these areas. Area C, the existing suburbs, are paying for infrastructure to the growth suburbs that they are unlikely to access. Only the new suburbs are likely to access that infrastructure.

Area B represents a development with private facilities. Councils may have strata developments that provide green space, community halls, community services and other facilities like pools. Councils may consider that those developments are likely to have a lower level of access or demand for their services, so they want to encourage that type of development by setting a lower residential rate for them.

We have included protections that promote equity and transparency and have tried to mitigate against the risk of councils targeting a particular area and charging excessive rates for them.

Firstly, we recommend that the difference between the highest and lowest rate structures be no more than 1.5 times or come to IPART for approval. That means there is a 1.5 times difference between the highest and lowest base amounts and ad valorem rates. Our analysis suggests that most new metro councils' existing rate structures will come within the 1.5 times limit.

Secondly, we have a transparency requirement that accompanies different residential rate setting, where a council would be required to publish details of the different rates and the reasons for using them on their website and rates notice. This is in addition to the current public consultation required under the IP&R framework when setting rates.

So what does this mean for new councils post rate path freeze when they are establishing a new rate structure? At the end of the freeze period, we recommend that the new council assesses its pre-merger council areas and see whether they represent different separate towns or villages or have different communities of interest. If they do, we recommend the councils should be able to either choose to gradually equalise rates across those pre-merger areas or they could choose to keep their existing rate structures in the pre-merger areas. Doing this, they could choose then to allocate them in a way that benefits all of the areas.

Alternatively, they could then choose to move to a different rate structure for those pre-merger areas - so increase rates or decrease rates to better reflect the difference in demand for assets or costs for council services. The latter two options would require IPART approval if the existing rate structures or the different rate structures are outside the 1.5 times limit.

Finally, if a new council can't identify different communities of interest for its pre-merger areas and is required to equalise rates, or it chooses to equalise rates, we think this should be a gradual process. If it occurs immediately, it could lead to significant rate increases or decreases to the ratepayers. We recommend that a limit be set on rate increases due to equalisation, so rate increases due to other factors such as land revaluations would not be caught by this. It would mean that councils could increase rates by a maximum of 10 percentage points above rate peg or special variation

each year due to equalisation.

Councils could choose to go below this limit, so the limit acts as a ceiling, and they could choose to equalise at a slower rate. This would allow them to take into account their ratepayers' ability to pay rates after they see the equalisation plus the SVs they may be applying during that period.

So the questions for consideration:
Do you agree with the use of CIV as the basis for determining growth outside the peg, irrespective of the valuing methods used for levying rates?
What are your views on the proposed criteria for setting different residential rates:
Separate town or village?
Different community of interest?
Do you agree with the maximum difference (1.5 times) between the highest and lowest rate structures without need for regulatory approval?
What are you views on setting a maximum limit for rate increases arising from equalisation for new councils?

THE CHAIRMAN: Thank you very much, Austin and Letitia. So comments from around the table. I notice Port Stephens got a mention, Fran. Would you like to kick off.

MS FLAVEL: Thank you. First of all if I could go to the question of community of interest and locality, we would generally agree with that, but we would also like to add a little bit more flexibility and suggest that we also say that the boundaries for subcategories could also use geographic references - local boundaries also and new boundaries. The reason for that is to avoid the need to get into merit arguments with ratepayers about whether they should or shouldn't. It just gives a little bit more strength to things.

We agree with the recommendation regarding community of interest in contigious urban development, although it obviously doesn't apply to us to that extent, but we agree that community of interest is not currently defined in the Local Government Act, nor in the Interpretation Act of 1987, so it is potentially very broad without that definition. If a definition of community of interest is not created, it does leave councils open to challenge as to the reasonableness of the location and boundaries, et cetera. We will put this in our submission, but there is some case law on that already.

In terms of the 1.5 times lowest to highest rate structures, further on in IPART's paper, there is a new category for vacant land. We are a bit unsure that limiting the residential differential for vacant residential land to 1.5 times the lowest rate for the residential category - if that's what is intended and it is not entirely clear - is sufficient as the introduction of a CIV may result in total values increasing by more than 1.5 times and that would then cause the rate in the dollar to decrease by more than half. So there are flow-on consequences for all of this that need to be monitored.

We would prefer that the highest base amount is no more than 1.5 times the lowest base amount across all residential subcategories, but that the highest ad valorem rate is no more than two times the ad valorem rate across all categories or, thereafter if that is not going to work for people, then they could go to IPART if it exceeds the maximum difference as part of the special variation process, and obviously we agree with the transparency requirements of publishing along with the reasons for the different rates, et cetera.

In terms of equalisation, we generally agree with the recommendation. However, after the four-year rate path freeze, generally valuations will follow three yearly intervals and the 10 per cent limit on rate assessment level could possibly distort the normal land value so it needs to be perhaps thought through a little bit more there. But other than that, we think it is all good..

THE CHAIRMAN: Thanks very much, Fran. Maybe one of the metropolitan councils - Greg Dyer or Greg Hayes?

MR DYER: Firstly, in relation to the possibility for rates to grow in accordance with the growth in CIV, we would agree with that in principle. We have an increasing task in providing services across our community. As that service task grows, we believe our rates should also grow in order that we can meet that significant task.

In relation to the opportunity to charge differential rates, in principle, we would certainly agree with that. We have substantial diversity within our community and

across our enlarged local government area, there is substantial diversity and, therefore, substantial diversity in terms of services that are accessed and the services that are required going forward. So we would agree with that in principle.

However, if there is complexity in going to a CIV method, there certainly is incredible diversity in getting to a system of rate differential across our community which would be seen by all to be fair and equitable and have sufficient transparency. We would need to move to a process of allocating cost per community in a way which we do not currently do and we would need to make that information available to our community so that we could then justify the differentials between one area to the next - so increased transparency, increased communication with our community around all of that would be required.

Parramatta is in the fairly unique situation where we have administered five previous rate structures as the result of the boundary changes. The transition from five separate rate areas to a system of differential rates within a newly defined set of boundaries with the increased complexity of internal political divide with a system of individual wards within our local government area and so forth and the inevitable political machinations of differentials of rates within those ward structures will be very hard. As I say, in principle, I agree entirely that we should be able to charge those well-off communities who are taking greater level of services. We should be able to charge such people more, but getting to that position will be very, very complex and difficult for us.

THE CHAIRMAN: Thanks very much, Greg. I'll ask Jane and then Greg from Sutherland.

MS FITZGERALD: I might limit my comments at this point to the notion of community of interest, just picking up on what Greg Dyer was saying but taking it up a level, I guess. Community of interest is a political construct and is currently in the Electoral Act and used to carve up electoral boundaries. It seems to me that, for that reason alone, it is not the device that should be used to determine who pays what rates within a local government area.

There is, as Fran mentioned, I think, significant litigation - there has been significant litigation over the years - about different communities of interest in relation to the drawing of electoral boundaries over time. It seems that mixing that oil with the water of rates is not a good mix, that there are more objective - if I could call it that - criteria but which you might be able to determine.

I take the point that Letitia was making concerning the difficulty of understanding around the current criteria and definition, but I think moving to one that is effectively the basis of many a political argument about which parts of which community should fall into which electorates is a retrograde step and perhaps there must be a more objective standard or a more objective criteria, and some of those are in fact laid out in the Electoral Act as well. But community of interest seems to be fraught with all of the recipe for exactly the type of difficulty that Greg Dyer was pointing to.

THE CHAIRMAN: Thank you very much, Jane. Greg, and then John.

MR HAYES: We certainly support the first notion of allowing growth outside of a special variation. We see that that proposal will definitely have a better alignment to the costs associated with increasing development. Again, that doesn't address the rate peg issue that has been raised outside the scope of this review; however, it does offer us the opportunity to grow our rates better in an area such as Sutherland where we have primarily strata development going on, so we do see it as an important factor and we would support that.

We have not gone into a great deal of analysis in relation to the second part - for a start, we are not a council under merger - but, as I say, we would support the different community of interest component. Again - exactly what Greg Dyer said - we don't have the data to be able to introduce that at this stage. It is something we could develop but, at this stage, we haven't been able to give a fair and equitable basis and transparency to introduce that sort of differential rating. However, we would support the introduction again from a flexibility point of view going forward.

THE CHAIRMAN: Thank you very much, Greg. John, and then I will call on Cherie.

MR COMRIE: Thank you, Peter. Just a couple of brief comments. In principle again, I support what is proposed. I would say, based on my experience in other states, councils struggle to work out what is an appropriate differential in terms of effectively a higher or lower tax for different classes of ratepayers, and I do think it would be useful to provide some guidance to councils in this regard.

A couple of other states have done some work. We have actually encouraged people to have regard to taxation principles. That is not black and white - as a couple of other people have said, there will always be exceptions - but think about the equity, the capacity to pay and the benefits received from different types of property when you structure your differential rate.

I have looked at the data in New South Wales, there are some very significant variations between differential rates within councils. In my experience, I've looked at council members, and said, "Can you justify to a ratepayer who rang you up why your property is paying a tax rate that is two, three or four times more than a similar property?", And it is not always clear that they can. So a little bit more clarity on that is something I would like to emphasise.

THE CHAIRMAN: Thank you very much, John. Cherie, and then Wayne.

MS MUIR: Thank you. In regard to the first point, on face value, we support the idea about capturing the growth outside the rate peg, it certainly has merit. With Randwick's strategic rate path since 2013, when the special variation rules were changed, we jumped on it and took the chance to get an SRV for a non-project, non-programmed direct link but we linked in to our IP&R at that point, and that certainly was our strategic path. At that point, we got four years increase and we would be looking to go back if things weren't. That certainly had some merit because we can see that having to go back for SRVs every four years may be negated by capturing the growth.

In regards to the different rates, certainly again there is merit in the community of interest, but in homogenous urban Sydney there is a bit of difficulty -

especially homogenous in regard to service difficulties. Again Randwick is a council close to a merge and we have had the opportunity do some cross-council evaluation of services, and this type of study, and there is not a lot of difference in it. We would actually struggle with the criteria of access demand and cost because it is much of the same across the combined city. Again it is a difficult conversation to have with the community should another criteria emerge, and that criteria would need to be sort of the point where you've still got some capacity to pay even in your structure, but we sort of stop at a point where cross-subsidisation is reasonable.

Our new merged city will have a huge broad range of land values from Point Piper right down industrial - industrial suburbs that are now more residential. There is a lot of cross-subsidisation in that, so being able to pluck out areas has merit, but again it is a difficult conversation and hard to acquire better criteria that you would need to make it work.

THE CHAIRMAN: Thank you very much, Cherie. Wayne, and then Vincent.

MR ROGERS: Thanks, Peter. I think there are some really good ideas in this section. I see it as modernising what was a fairly antiquated rate system. You have some recommendations here that will give different councils greater flexibility.

One issue that is probably more unique to Blacktown than other councils with an incoming population is that section 94 used to cover everything. There are some gaps now that section 94 doesn't levy. I see there are some reforms here. There is the opportunity to actually have a more efficient tax system and you'd be transparent. Even though the population is not necessarily there now, incoming, they will know what they are up for.

Worthy of merit is the recommendation 4.3, which is to levy a special rate for joint delivery with the state or federal government outside the normal SRV process. Again I see that as part of the modernisation of a system as Sydney develops.

The third point I might just reserve judgment on, only because we are doing modelling as we speak, is the variable

of 1.5. It is just whether that is enough breadth for us in terms of the cost of the stuff not covered in the section 94 plans. It might be enough, but we have just had some EQS work, which suggested we would be right on the borderline. But broadly my compliments for trying to modernise what was a fairly limited system.

THE CHAIRMAN: Thank you very much, Wayne. Vincent?

DR MANGIONI: Taking on board a couple of those comments, John Comrie's comments are highly pertinent about aligning the differentials with the principles of good tax design and ensuring that they are simply understood, that they are transparent and equitable and that, most importantly, there is a rationale for whatever councils decide that they would adopt. It is not for me to comment so much on the 1.5 per cent or any particular number, but that councils have a clear understanding and are able to explain that differential that may exist.

Further on the point of equalisation, I think the safeguard of the 10 per cent is welcome and is one that would certainly provide the relevant safeguards for the ratepayers, but again, that's for councils to look at and determine. It is quite easy to sit up here and to say, "These are the guides that are provided", but I think each council would look at that and weigh it up on the merits of their individual circumstance. I think holistically what is being put forward is good and it provides a good starting point.

THE CHAIRMAN: Thanks a lot, Vincent. I now call on Andrew and then Simon.

MR BUTCHER: Thank you, Peter. I have split this item into two parts - two key parts - which would be general income outside the peg, and set different residential rates. Generally, we agree with both. I'll start with the general income outside the peg. The report's recommendation lends itself to value capture and, therefore, should enable councils to more effectively enable rates growth through capital investment to follow a similar path.

The methodology provided in recommendation 3 is achievable; however, it would require that councils that choose to continue with UV would also need a set of CIV values. The recommendation will allow councils, particularly those with high capital growth, to become more financially sustainable. As their community and investment grows, so will their rates base increasing the council's capacity to fund services, facilities or activities.

The NSW Revenue Professionals would like to be involved in any future discussions regarding the framework and practice methods, if possible - so with the LGA and the Office of Local Government too, I guess.

We agree with recommendation 4 for joint funding arrangements with other levels of government to provide for better community infrastructure outcomes through special rates. This will not properly work unless revenue streams are outside the council's pegging limit and without the need for the regulatory approval. We had an example of this at Campbelltown some years ago and it was very burdensome on the community and the council in going through the process.

Councils should be able to recover income lost from the current two years restriction to the proposed 10-year restriction. I don't think you showed it on your slide there, but it was one of the points in setting the rate peg.

The second item is to set different differential rates. We know that the current legislation allows for a differential rating subcategorisation where discernible separation of towns or villages exists. However, councils are reluctant to create a subjective residential subcategory particularly in metropolitan areas where one suburban area commingles with a neighbour and the centre of population is difficult to justify, which is something that Cherie touched on as well.

We therefore agree with the shift from central population to community of interest and also agree with the principle definition, ie, residential land with a contiguous urban development that has different access to demand for or costs of council services relative to other areas. We would like to see a definition to be included in any legislative changes.

Recommendations 8 and 9 we believe are too restrictive and we would suggest removing the 50 per cent variation

between residential subcategories and the 10 per cent variation on the merged councils.

All New South Wales councils must publish their rating structure in their operational plan as part of the integrated planning and reporting framework. Councils are accountable to their communities and community input is important in the determination of rating structures within each local government area. So we believe councils should have discretion to apply local rates and be accountable to their communities accordingly.

We would like to see the removal of the rural residential subcategory - I know that wasn't mentioned here, but it is a bugbear of local government; it is often misunderstood and not applied properly - and also change the definition of residential land to include the requirement that the property needs to be occupied by the same resident continuously for a period of six months or greater. Thank you.

THE CHAIRMAN: Thank you very much, Andrew. I now call on Simon and then Keith and Sascha.

MR GILKES: Thank you, Chair. I'll keep my comments very brief on this. The setting of rates is well outside my area of expertise and it is not something I get involved in. The only recommendation I would make a comment on is the first one. I would echo Andrew's comments that if CIV is to be the basis for determining growth outside the peg, across councils, it would impose some burden on those areas that had opted to continue to use land values as a basis. I think that would potentially limit the ability to stage the introduction of capital improved values in the most cost-effective way and possibly would require the production of a significant amount of data for a very small use, in the end.

THE CHAIRMAN: Thank you very much Simon. Keith?

MR BAXTER: I will talk more on the second aspect, which is the subdivision aspects. One of the challenges that has to be managed when maintaining a rating system and looking at a rating system as a whole is managing the balance between allowing complexity and allowing simplicity - that balance between simplicity and complexity. What the challenge will be is to define the criteria in such a way that it doesn't allow, in some respects. A sort of tyranny of the majority to be able to use some areas.

Now, the 1.5 per cent caps may achieve that. I don't know, I haven't looked at the modelling around it, but that would be a clear thing. Then there will also be a need to set the criteria in such a way that allows it to not be utilised as - for want of a better term - a tool as part of the ongoing machinations of councils, if that makes sense.

For example, we semi-regularly get correspondence from some stakeholders about the way subcategorisation works in some of the other parts of the Act, such as business rates, or the like, and the way that some councils use subdivisions as basically a way to extract revenue from certain industries and certain business and it would be important to balance those principles of taxation when we do the criteria. So, yes, bring capacity to pay in, but make sure that it doesn't sort of go too far one way.

The other aspect of this that I think is going to be crucial is the design of the system in such a way that allows the community to understand, and I think that gets to where we got to earlier; it's about being able to create a clear definition of what is that community and that community understands that community. Whether you use that language - because I take the point that Fran and Jane made earlier about the community of interest language - however, you define it, you need to be able to explain it and it needs to be able to be justified.

THE CHAIRMAN: Thanks very much, Keith. Sascha?

MR MOEGE: Thank you, Chair. Sascha Moege, from Local Government NSW. I would probably structure my comments similarly to Andrew. Just talking, first of all, to growth outside the peg, and the first recommendation there, recommendation 3, we are within the rate pegging environment supportive of that recommendation as it is a proof mechanism to facilitate revenue growth outside the peg to affect the cost of new development, as you say, both residential and business.

In terms of recommendation 4, the special infrastructure rate, we would probably support the comments made, but would like to explore a few issues further at a later stage which relate to any potential buyer who might

be there to select those projects over council projects that would require a special rate variation, and also that the involvement of council, the potential involvement of infrastructure, that they should not necessarily even be involved in funding. So they are some issues that we are still looking at.

In terms of the rating structure, the more flexible rating structure, we are, in principle, supportive of that. We can see the need for that and as, an enabling thing, it would give councils more flexibility to structure their rates in accordance with different service demands or service levels they want to provide and it gives them more flexibility to set rates effectively and efficiently. So we are supportive of that.

There are, as you probably heard from a few councils, certainly detailed issues that still need to be explored and we will probably make comments at a later stage on that. Thank you.

THE CHAIRMAN: Thank you very much, Sascha. We now move to the floor for questions or comments. In the middle, yes?

MR WALKER: Good morning, Dave Walker, General Manager Hills Shire Council. Three main comments: the CIV for increasing above the cap for apartments we think is well overdue, because it just parallels what happens when you subdivide land in the greenfield sites.

In terms of the differential rating, my view of differential rating is it is a subjective way of manipulating valuations, and if I had my way, I'd do away with it completely. It's too complicated, it's hard to be accountable and, as I said, it's manipulative.

Whilst this is a great package, our biggest concern with the recommendations is the special infrastructure rate. We are against that for three reasons: one, it will mean that residents pay twice; secondly, we are against it because it will do nothing but increase profits of developers; and, thirdly, it will result in agencies such as RMS and Sydney Water continuing their bad planning and bad budgeting.

In about 2010, the government capped section 94 levies. Some boffins in treasury were of the view that that would increase and improve housing affordability. All it did was result in lower delivery of infrastructure and increased profits for developers. The market sets the price for the price of land and the price of development not the cost of a section 94 levy.

Our biggest issue in a growth council is the lack of planning by agencies, such as the RMS and Sydney Water, for infrastructure - don't plan for it; don't buy corridors; don't deliver. The issue then means that it costs a lot more to provide the infrastructure because people like the RMS spend so much of their money in acquiring corridors in 2016 that they should have acquired in probably 1996, and maybe two-thirds of the cost of providing infrastructure is not the actual infrastructure, but it's the cost of acquisition of corridors.

I am dead against this idea of a special infrastructure rate. The capping of the section 94 levy shows that. Prices of land or houses or townhouses or any development did not come down when the government capped section 94 levies. In fact, we all know what happened to Sydney land prices and development prices. If we introduce this special levy, that will be another reason why the cap should remain on section 94 levies. Prices won't come down, residents will still pay the market price when they buy the land and then they will pay again through the special rate levy - so dead against that. Thank you very much.

THE CHAIRMAN: Okay, thank you very much, Dave. In the back, Gary, I think.

MR MILLS: Just a few comments on this. With the introduction of categorised rating, we are looking at setting up some areas of further management and discrimination against people that are providing services under an ability to pay.

I just would point out that federal income tax is uniform across Australia. Land tax and stamp duty is uniform across New South Wales. The government certainly does not spend the money where it raises it. They allocate it to where they identify needs, and I'm saying that councillors have the ability to identify the process, to analyse the needs for that area and we should not be going

down that path.

In terms of equalisation, Mosman Council is facing a possible amalgamation with North Sydney and Willoughby. Using the Department of Local Government's average rates for 2014-15, our base amount was $640 that year. On a recalculated equalised base, it would drop to $371. That would have a severe effect on homeowners in Mosman where home unit owners would get a significant advantage. We need to look at that and we need to treat it very, very carefully. If we stay levying rates as we always have as the former councils, you would have to ask the question why amalgamate? It's getting a bit political here. In terms of calculating the rate pegging further, I would recommend that we look at an average rate per category and simply increase the average rate by the rate peg and multiply that by the new number of assessments and that number might be the greater. Thank you.

THE CHAIRMAN: Thank you very much, Gary. Mike?

MR BAILEY: Our concern with the differentiation proposal is that it's limited to different access to demand for and costs of providing council services. I just wanted to echo what the previous speaker said, that as a principle of taxation, it is somewhat unique that you would levy different rates of taxation according to whether or not a certain taxpayer uses certain services. For example, the federal government does not levy higher taxes from people that are more likely to use hospitals or schools.

Our view would be that the councils should have some ability, though, to differentiate rates on the basis of land or capital improved value. Our understanding is section 529 of the Act currently prohibits that entirely. Our view would be that that would enable, I guess, councils to implement some form of progressive taxation in the context of raising rates. Other speakers have suggested that the currently proposed categories may well be manipulated to reflect that anyhow, so perhaps removing that prohibition in the Act would enable an extra level for councils to differentiate in a way that's consistent with other taxation systems.

Finally, we would also oppose the proposal to allow special rates to be levied without approval from IPART. Our view is that IPART does a great job in this area and should continue to do it. Thank you.

THE CHAIRMAN: Thank you very much for that, Mike. Dennis?

MR GOOLEY: I want to support the majority of speakers from the public here who are against differential rating. The differential rating in the 1919 Act was widely abused and they got rid of it in the 1993 Act. One example: at a council I once worked at, the rates on one side of the street were twice as high as the rates on the other side of the street. There was no reason for it, no justification. I believe that with the ability-to-pay principle of taxation, if we use CIV, the ability-to-pay principle of taxation, is applied by the land value - by the capital improved value. Therefore the capital improved value decides who pays what, and the politicians should not decide who pays what. It should be one rate for residential properties and the amount that you pay is determined by the base amount and the ad valorem amount and the land value.

That is all I want to say on that, but I want to say something on the other point. The CIV as a basis for determining growth outside the peg, I think that's excellent where the growth is capital; that is, where it is apartments. So as soon as an apartment is built, the value is supplied on a supplementary valuation because that is a capital improved value. So the growth in the capital improved value from the beginning of the year to the end of the year is your growth outside the peg, and that is fine, but what if the growth is not apartments? What if it is land? Therefore, the increase is, as it is now, the increase in the land value, which does not equate to the increase in the expenses of the council because those lands, those parcels of land, will be built upon, I presume, therefore, the Valuer General will then supply another supplementary list with the capital approved value, but I don't think that's the object or the intention.

I think that, with the first point, not enough thought has gone into it. It applies well for metropolitan councils, but the majority of councils are not metropolitan and I think that more thought needs to go into how do we increase the growth outside the peg for non-metropolitan councils?

THE CHAIRMAN: Okay, thank you very much, Dennis. Is there anyone else from the audience? Yes, over the back.

MR GERGELY: My name is George Gergely and I am a community representative on the council. I just want to mention that I got a letter from the director from the local government, some correspondence, setting out that if they would build 10 units on my block of land, instead of the $2,500 rates, the council would collect $12,900, and my question was to him that when this comes in that - because hundreds of units are being built at the moment in the council - will my $2,500, which is 12 per cent of my pension, be reduced?

THE CHAIRMAN: Thanks, George, if I understand the question, it is if --

MR GERGELY: I just wanted to point out that the council is collecting a big lot of money with all these hundreds of blocks of units that are being built.

THE CHAIRMAN: What happens at the moment with unimproved value is that if you have a house which has a rating base of, say, $2,000 and then the house next door has a base of $2,000 and you put six apartments on it, then, broadly speaking, those six apartments share the $2,000 subject to a minimum. That is what happens under the unimproved value. If it is capital improved value, you would tend to get a situation where the block with six apartments would pay more because the capital improved value on the block is much greater than the house next door. Does that help?

MR GERGELY: Thank you very much

THE CHAIRMAN: Thank you, George. Are there any other questions or comments from the floor? From around the table? Fran?

MS FLAVEL: Thank you, Mr Chairman. I just want to say that differential rating does not always mean that there's going to be a grab for dough. Essentially in some areas particularly around Port Stephens where the land is highly constrained, the ability to be able to differentiate - and actually that land has very limited potential for development, to be able, therefore, to put some downward pressure on those rates is equally important, I think. So differentiation is just not necessarily a greedy council grab.

THE CHAIRMAN: Thank you, Fran. Are there any other comments. Greg?

MR DYER: I wanted to make a couple of comments in relation to the joint infrastructure funding arrangements.. to say that, for instance, in Parramatta we have a substantial infrastructure task. And I think that is true of all levels of government. There is a lot of infrastructure which will be required to facilitate the growth, in particular, of metropolitan Sydney.

What I would be cautious about is the levying of rates in this way to fund regional-type assets as opposed to purely local assets. So what I would not want to see is that this is a method by which state government comes in and effectively pays for its regional assets by way of a local infrastructure levy effectively on local ratepayers, so I think that's important.

Ultimately, of course, I think the levying of such a rate should be the decision of the local council as opposed to state government or an agency of state government who should not have the ability to come in and force that on local government.

THE CHAIRMAN: Our thinking is that if this were adopted, it would be a decision of the council.

Are there any other questions or comments from around the table? No? Anybody else from the floor? Yes, at the back.

MR VESCIO: Joe Vescio, Snowy Monaro Regional Council, my view of what you're trying to do is bring a 19th century property taxation system into the 21st century, and going back to allowing differential rates is taking it back, as we said earlier, to the 1919 Act and I think it should not be countenanced.

The process for harmonisation, the four-year delay, like the four-year freeze on our rate paths is bad enough, but then to have a further gradual harmonisation of rates is another delay in finally getting the mergers sorted out. Maybe within the rate path freeze you've got to amend that a bit to allow us to start a little bit of harmonising now.

THE CHAIRMAN: Thanks very much, Joe. Are there any other questions or comments? We are about 15 minutes ahead. So we could break for morning tea now and come back at 11.45 for the third session. Thank you very much.

SHORT ADJOURNMENT

SESSION 3: Rate exemptions and pensioner concessions.

THE CHAIRMAN: Welcome back. We sort of soft-pedalled the restart because we did have 12 on the agenda and there are some people who were just coming for the third session. We have all the panellists here. There might be one or two people who have come in just before 12.

This is the third session, which is on rate exemptions and pensioner concessions. Sheridan Rapmund will introduce for IPART and then we will throw it open to discussion as usual. Sheridan.

MS RAPMUND: Thank you, Mr Chair. This session is about exemptions and concessions which are covered in chapters 6 and 7 of our draft report. I'll start with exemptions. Our draft recommendations aim to better target exemptions so that other ratepayers are not paying higher rates than necessary. We recommend that eligibility for exemption be based on land use rather than land ownership. We also recommend that land that is used for commercial or residential purposes should be rateable. In cases where land is used for a mix of exempt and non-exempt activity, we propose rates are based on the percentage used for non-exempt activities.

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

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

This table provides examples of the likely impact of our broad recommendations on current exemptions. In line with our draft recommendation, the land use for residential purposes is rateable. University student or other accommodation will become rateable in addition to retirement villages and social housing owned by PBIs.

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

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

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

I will now talk about pensioner concessions. In our draft report, we proposed introducing a rate deferral scheme operated and funded by the state government. Under this scheme, eligible pensioners could defer payment of rates up to $250 per year or alternative amounts set by the state government. This liability would incur interest at the government bond rate. It would become payable when the property ownership changes and the surviving spouse no longer lives in the residence.

A rate deferral scheme has a number of benefits. It better targets assistance in paying rate bills for cash-poor pensioners at a lower cost to the state government and no cost to councils. The deferment amount can be raised above $250 per year to provide better cash flow relief to pensioners. It prevents ratepayers who may have a lower net wealth funding a subsidy to other ratepayers. It is more sustainable with beneficiaries of

the scheme helping to fund the costs over the long term. It does not require councils to fund a state government policy and it does not narrow the rate base of affected councils with a high proportion of pensioners.

Thank you. I'll now hand over to Mr Chair.

THE CHAIRMAN: Thank you very much, Sheridan. So are there any comments or questions from around the table? Would anybody like to go first? Fran? Yes, thank you.

MS FLAVEL: We have some issues around these exemptions on the whole in principle, around most of the recommendations. However, when I talk about ownership versus use, we are thinking about some of the actual practical effects on the ground here. I'll give you an example, if I may. We have an organisation, I suppose you would call it a religious sect that is running a commercial nursery. They would maintain - well, they do maintain - they are using it for religious purposes to fund their profits, fund the mission activity overseas. We, on the other hand, feel that they are, in fact, in competition directly with other nurseries in our LGA and should pay rates. So there is a tension there that needs to be resolved.

The other thing that we looked at was the question around a commercial property which is leased to a charity or a PBI or whatever for religious or whatever purposes or whatever purpose that it is exempt currently. There is no real reason why the person who actually owns that land couldn't come forward and say, "Hey, it's being used for an exempt purpose so therefore I want the rate exemption." That will probably be an impact that needs to be very carefully done in the drafting, I would suggest.

There is an other, I think, more problematic thing around exceptions and I'll refer specifically to Hunter Water because they have very large holdings in our LGAs. If we remove that exemption - if we are going to put our hands out and say, "Give us another 32K a year" - because your recommendation says that it's revenue neutral, in having a discussion with Hunter Water, we can't say, "Well, you're going to get more services than you get now." There is no benefit going to derive from that; you will just lose more cash. Individual ratepayers that have subsequently been subsidising that will probably be about a dollar a year better off, so there is no benefit there.

But for the overall community there is no additional revenue just for additional resources.

We would feel that it's probably a better policy move to remove the requirement for that initial lack of exemption or taking exemptions away and just take it as a one-off windfall, whatever you want to call it, to bring things back up to where they should be.

The other thing that we wanted to talk about is that I think it's fair to say that it's not right for local government that we are in the social welfare business and therefore we should not be funding pensioner rebates, so we like that. But when we look at deferral and when we look at some of the land values that pensioners have to try to meet the rates for - you might have a $4,000 rate bill because of the land because you are still a pensioner, so that is a fairly big whack of money to find - we would suggest you reverse the order. In other words, instead of exempting the first $250 or $500, let the pensioner pay that and defer the rest. We think that would be a better thing.

There is another thing we found just from our own experience. We have had a voluntary deferral scheme in place and we have legal agreements with people according to their estate. We have had, I think in the last decade, about 14 people take it up - about six of them have died and we have got our money back - but it is not a very popular thing that we have found anecdotally and it does need some research. Pensioners, generally speaking, do not want to leave an incumbent estate.

The other unintentional impact of this might be that younger people - disabled pensioners, for example - could be caught up in this definition. Again it's in the drafting where I think the devil is in the detail. That will do; there is plenty more I can say.

THE CHAIRMAN: Thank you very much, Fran. Vincent?

DR MANGIONI: Thank you, Peter. Firstly, I would like to speak about the exemptions and I'll use my own sector as an example - the university sector. The amount of student housing that has been developed over the last five to ten years in Sydney has assisted the university significantly. This probably will cost me my job but here goes.

The fact is that universities make a lot of money from international students. The students arrive. They pay full market rents to the university. They use the facilities and all the council services. Therefore, there is no reason why these universities should not be paying rates on their housing component of their properties and their estates.

In terms of how do you split, that needs to be worked through, but for the purposes of assessing land tax, there are what's known as mixed development apportionment factors where properties are split not by reference to the floor area, but by reference to income. That can sometimes be a little bit problematic when you are dealing with universities or hospitals, or whatever it is that you are looking at, with regards to your exemptions.

Just to proffer another idea about this, when you're talking about exempt bodies it's not an easy conversation. One of the successes that I've noted in the US, and increasingly in Canada, is what is known as PILOTs - that's an acronym for payments in lieu of taxes - where local government are now talking with exempt bodies and saying, "Well, look, these are the indirect uses and some of the expenses that we are incurring and the benefits you're receiving. How about we sit down and have a talk about this", as a way of introduction for the local authorities to educate and make the exempt bodies aware that we are not a benevolent society and that "You are using some of the services and how about we talk about this?" I think that is a great way to consider opening the discussion.

My last comments on the rate deferral scheme: I think that that's a good thing. I agree with the previous comments that were made on this. I can understand that there would be a lot of resistance to it. To some degree, I do know from speaking with councils that there is a lot of discussion and commentary coming from people who have to pay the rates and so forth and it's not really liked, but they are virtually sitting on unearned increments of value now. Yes, the flow income isn't there but it is captured on the value. There is no capital gains tax on residential owner-occupied housing. Therefore, if there is a tier of government that would be able to capture it, it is certainly local government. We should be considering this and doing it in a very sensitive way, but I think certainly the door is open for us to be considering that further.

THE CHAIRMAN: Thank you very much, Vincent. Mike, would you like to go next, and then Illana.

MR BAILEY: We have, on the face, no issue with the changes to exemption. We understand the reason why, in particular, you would want to bring PBIs providing social housing into the rating system, particularly as I think the tribunal has noted as public housing properties are increasingly transferred from the state government to PBIs.

One thing that our members have pointed out to us with this is that it can sometimes create a reluctance on the part of councils to approve development proposals to build PBI-owned social housing simply because there will go with that a significant increased cost. It's primarily for that that our members in the social housing space are opposed to that particular proposal.

Our concern, though, would be with potentially other PBIs, getting caught, I think, contrary to what the intention might be. My understanding is that the intention is not to, I suppose, bring into this removal of exemption smaller organisations that provide limited residential services. The sorts of organisations I am thinking of are homelessness shelters, women's refuges and long-term drug and alcohol rehabilitation facilities. Again I understand it's not the intention to remove exemptions for those groups.

With the current test the tribunal is proposing of, I think it is three months, a residential period of greater than three months could see potentially those organisations paying rates. Again, I know with drug and alcohol rehabilitation services, a lot of those have six months and up to one year residential services where a person who is recovering from drug and alcohol addiction actually lives on the facility for a lengthy period of time. Glebe House is one example that comes to mind. The Buttery in the Byron shire is another one. So, yes, we would just be concerned that those sorts of facilities and services get unintentionally caught up, so could we have some, I suppose, clarification and have stricter guidelines around that.

In relation to concessions, we are very opposed to the deferral in lieu of concession proposal. As I think the previous speaker just noted, older people, aged pensioners are often more particularly reluctant to see debt accrue against their estate. That is one reason why we think that's a bad idea. Secondly, as well, we are increasingly encouraging, as a society, people who live in large homes to downsize as a means of improving housing supply, particularly in Sydney. Our concern would be that these deferrals would eat in to old age pensioners' equity, thereby, first of all, deterring them from downsizing; and, secondly, for those who do decide to downsize, it would limit their ability to obtain suitable accommodation, and the same goes for aged care services as well.

We would be particularly concerned about the idea of applying the state government bond rate to the deferral as well. We appreciate that there would have to be some sort of change in the value of the debt that's approved, and the bond rate is a relatively low rate of interest as opposed to commercial interest rates, but it would still represent an erosion of the value of the concession over time.

In terms of the problem which the tribunal has pointed out in that the value of the concession has effectively been eroded since the early 1990s because it has not increased, we would say the simple solution to that is to fund it more adequately in terms of the total budget dedicated to it by the state government. We have no preference as to whether the state government takes it on 100 per cent or continues to share it with councils. But from the state government's point of view it's funding of $78 million per annum, which, in the scheme of things, really is a drop in the ocean. We have certainly put proposals to the state government to increase it and have done some costings around what we feel would be a reasonable way to increase that to provide better support for pensioners. That is particularly in the context of the introduction of emergency services levy, again which will see the total value of the concession erode when that comes in.

THE CHAIRMAN: Thanks very much, Mike. Illana, and then John.

MS HALLIDAY: Thank you for the opportunity to present to you. I represent the Aged and Community Services NSW and

ACT, which represents the not-for-profit church and charitable providers of aged care in New South Wales. Obviously we are opposed to the removal of rate exemptions for not-for-profit providers of aged care service providers, so we don't support that. However, there was a very important confusion within many of the submissions that I think I need to clarify today and that is my main purpose for being here.

There are three different types of accommodation support provided for older people in New South Wales. Aged care facilities and retirement villages are not interchangeable and the language in the report seemed to indicate that they were, as it was with many of the submissions. I just would like to clarify what an aged care facility is because it is very similar to a hospital - in fact, they were previously called nursing homes. Many of them came from the private hospital part of that sector.

An aged care facility in New South Wales has to comply with 144 pieces of legislation. You can't choose to enter a facility. You have to have an independent assessment done by an independent body to make sure that your assessed need is high enough to allow you to enter a facility. That is a significant barrier to entry. Supply is capped by the Commonwealth government. You need a licence to operate the facility, and that comes per bed, and it attracts government subsidies. So we have an approved provider which is one that has managed to attract that level of subsidy from the Commonwealth through an accreditation process.

The Commonwealth government provides over 77 per cent of the funding. The bulk of the rest comes from 85 per cent of the residents' aged care pension being used to care for living expenses such as food and cleaning. This fee is regulated; it cannot be changed.

Residents are means tested. If they are assessed as being able to pay, they pay a refundable accommodation deposit. It's called "refundable" because it is 100 per cent refundable. That total money goes back to, typically, the estate. If they can't pay the full amount, they pay a daily accommodation fee. That price is regulated; we cannot change it. The use of the funds is regulated.

Over 59 per cent of people living in an aged care

facility are over the age of 85. 53 per cent of that percentage of the residents have dementia. Over 83 per cent are assessed as needing high levels of care. 94 per cent have discharges that are due to death. Around 59 per cent of people living in an aged care facility die within six months of admission. Essentially we are providing end-of-life care on an average government subsidy of $165 per day compared to $1,250 per day in a hospital bed. These residents have no need for council services over and above those they have previously paid for. The facility is self-contained.

In 2015, 75 per cent of facilities achieved an average surplus of $2.11 per bed per day or $770 per resident per annum. Aged care facilities are like hospitals. They are a non-discretionary purchase providing low cost support to people unable to stay in their homes. There are no options to pass the rates to the resident. The payment of rates would reduce services and, in some cases, it may actually lead to the closure of a desperately needed community infrastructure.

Like hospitals, not-for-profit aged care facilities should remain exempt. If the competitive neutrality principle is so important, then maybe it should be extended to saying that the for-profit facilities, and that is around 40 per cent of them, are also exempt.

Retirement villages are a very different things and they are covered under the New South Wales state government. They are not your over 55s advert in the typical mode of going into retirement village. Typically, the not-for-profit one is much smaller than a for-profit retirement village. Around 40 per cent of retirement villages are operated by not-for-profits and they have around 30 units or fewer - many of those out in rural locations have only got 10 - so they are unlikely to be able to get a community of interest argument up.

Average admission is around the age of 76, they stay for around seven years, and the source of income for most residents is their pension. 77 per cent of them are dependent on a pension anyway.

Charitable village operators discount the prices or do not pass on all the operating costs to make accommodation affordable to low income people. Most villages contain all the services they will need - a garden, park, pool, library, gym, community spaces, chapel, cafe, hairdresser. They use their minibuses to go out, significantly reducing government services, rather than being an imposition on them. Village units are not strata titled or transferrable. You need a licence to occupy. They are not similar to a unit in terms of any market forces.

As a minimum we would seek an IPART recommendation that the not-for-profit retirement villages be considered a community of interest and have a special rate determined at a local level, although we are very concerned that the smaller villages would not be able to argue that case given that they are so small.

With social community and affordable housing, we understand that there is a need for rates to go there, remembering, of course, that Housing NSW currently pays the rate. But as they transfer the stock across, they are not transferring the money across to allow the not-for-profit providers to actually continue to provide community housing, so it may make it less viable in the future. Thank you.

THE CHAIRMAN: Thank you very much Illana. John, and then Rebecca.

MR COMRIE: Thank you, Peter. I have just a couple of brief comments. This is obviously a sensitive issue, but I want to make a couple of comments on pensioner concessions. In a former life, I used to head up the Office of Local Government in South Australia. The point I would make there is that we actively introduced, about a decade ago, the idea of deferrals and, yes, they have not been well taken up and we never really expected they would be, but in principle I think it is the sound thing to do. I think it does need a bit more discussion.

The only significant concern that I am aware of with the idea of property taxes, particularly capital improved property tax, is the issue of asset rich/income poor, so the idea of the deferral was designed to try and compensate for that.

I did want to say, though, that there have been a couple of interesting little developments in South Australia. The reality is, and I'm happy to stand corrected, to the best of my knowledge, the schemes that

exist in the various states at the moment are not particularly well targeted. They could be improved. There has been informal discussion in South Australia between the Office of Local Government, the LGA and the Department of Treasury, et cetera. I was out of it by the time, but possibly because of that, about 18 months ago in South Australia, the treasurer announced - claiming that it was because of the Commonwealth cuts in budgets, as they do - that he was going to effectively abolish pensioner concessions in South Australia.

I would speculate that he probably was also concerned that the money that he was allocating was not particularly well targeted. For example, with at least one class of ratepayer in South Australia, which were people who were entitled to a seniors concession card, some research has been done that showed that the average income of those people was higher than the average income of other ratepayers. I will just say that again. What that meant was that people who had a lower than average income were effectively cross-subsidising people who had a higher than average income.

So if we are going to talk about pensioner concessions, I think we have to seriously look at the issue of getting better targeting. I appreciate there are people in need and I appreciate the politics and I have probably been in trouble myself in the past by talking about pensioner concessions being effectively a form of inheritance subsidy. I don't want to be too provocative, but the reality is, in some cases, that's exactly what they are.

Some modelling was done in South Australia about the deferrals, and whilst the deferrals were not well taken up, it did show that taking into account demographics - and you have to take in the account demographics - the reality was no council was going to have a major problem even if it self-funded the full deferral. In other words, if none of the pensioners paid, what would it do to the council? We tested the model, tried to make it as difficult as we could, and we could not come up with any council where they would have simply run out of cash. That work has been done. I guess I just wanted to really say that if we're going to have a serious discussion about this, we need to focus on some serious numbers including the issue of making sure that any subsidies are well targeted.

THE CHAIRMAN: Thank you very much, John. Rebecca and then Mark.

MS PIERRO: I'm here today to represent community housing providers. We provide affordable housing and support services for low income earners and key workers such as childcare workers, teachers and police that live in our communities, as well as assisting with the transition into the private market. Our income sources include the rent, the subsidies and the fees for services that we provide.

Community housing is the key item of social and economic infrastructure that supports a properly housed workforce in order to determine healthy economic growth. While local government is not required to develop such houses themselves, the availability of essential service workers is dependent on the supply of affordable housings and well located housing infrastructure.

The current partial exemption under the LGA enables CHPs to provide more affordable housing and better services. It does not exempt us from paying service levies, waste and stormwater charges.

The submission that we put forward covered several key issues that were raised in the review. The continued availability of partial rate exemptions is strongly supported in recognition of the important public benefits provided by community housing as essential social infrastructure with concessions important to their ongoing viability. Consideration should be given to the option of partial rate exemptions for designated affordable housing projects.

Councils should have the capacity to use their rating powers to further local policy objectives.

The IPART draft report dated August 2016 does not provide an analysis of submissions received in response to the issues paper or the approach taken by IPART in considering submissions and balancing issues. For this reason, it is not evident how issues were evaluated and prioritised, or how competing perspectives were addressed and balanced.

The overwhelming response to the call for submissions came from local government, but this does not mean that the

issues raised by other organisations should be given a lesser focus. While this may have not been the case, the lack of transparency about the process and the failure of the draft report to acknowledge any of the issues put forward in the Federation's submission mean it's unclear whether the important matters we raised were taken into account.

There is little analysis within the draft report itself of the impact of its proposals beyond the direct impact on local government. Of particular concern is that the impact of higher rates on the ability of CHPs to provide subsidised housing has not been addresses while the impacts of this on local government have.

It appears that the proposal to limit residential users from rate exemption is based on the general assumption that residential use only provides private benefit. Section 6.2.1, "Land use for residential purposes should be rateable" states that land used for residential purposes generates a private benefit to the resident rather than a public benefit to the wider community.

Whilst the draft report gives passing recognition of the private and broader community benefits of social housing, it questions why the state's objectives should be funded by the local community though, quite clearly, it is local communities that benefit from affordable housing. The draft report goes on to suggest that the existing exemptions provides PBIs with a cost advantage over private providers with social or low cost housing without recognising that this an area where the market is failing to provide and that there are very significant levels of unmet need.

Thus the draft report fails to give any real recognition of the significant community benefits flowing from the provision of affordable housing and that such housing should be considered part of critical infrastructure. The report even goes as far as stating in note (a) of box 6.3, that the definition used for residential purposes is aimed at ensuring that.

... genuine public good services such as temporary shelters are not considered residential activities for rating purposes.

The fact that a temporary shelter is considered a genuine public good whilst longer term accommodation for the same target group is not is difficult to comprehend. Moreover it's vital to recognise that households residing in temporary accommodation require alternative housing options to be available to enable them to move on to rebuild their lives and in order to free up short-term accommodation for others in emergency need. A spectrum of housing is essential for meeting the needs of the more vulnerable in all local communities. Affordable housing is an important part of such a spectrum.

The draft report places considerable weight on the premise that any further stock transfers from the state government to CHPs will impact the rating base for local government. While it is acknowledged that the transfer of ownership of the state's social housing assets would impact on the rating base for local government under the current framework, it is important to note that the number of stock transfers to date has been small and no widespread transfers are currently proposed.

Furthermore, housing fully funded by the Land and Housing Corporation could always be excluded from any rate exemptions. Moreover, while statistics recognise the potential adverse impacts on local government under the current system, the draft report does not touch on the impact of the proposed change in the rating system on the viability of CHPs.

In the example provided in box 6.4, the 350 community housing properties in the Campbelltown LGA would be subject to rates under the IPART proposal thereby generating additional income to councils and significant additional costs to the local housing providers which, in turn, would reduce their capacity to provide housing services to those in need in the local area. It should also be noted that I believe the Campbelltown LGA had an 11 per cent rate increase last year which is above and beyond the CPI increase. Thank you.

THE CHAIRMAN: Thank you very much, Rebecca. Mark and then Caroline.

MR ROBERTS: Thank you. The university --

THE CHAIRMAN: Just to clarify Mark is from the University of Wollongong and Rebecca was from St George Community Housing. Go ahead, Mark.

MR ROBERTS: Thank you, the University of Wollongong is one of 10 public universities in New South Wales which were incorporated as non-profit public institutions under our individual Acts of the New South Wales parliament. As such, we are accountable to the New South Wales parliament, the New South Wales Minister for Education and come under the purview of the Auditor-General of New South Wales and the New South Wales Ombudsman.

Traditionally public education and public health institutions and facilities have been exempted from the payment of local government rates and a number of other regulations on the basis of the public benefit test and considerations. This principle has applied for many decades.

Indeed, IPART recognises this principle in box 6.1 in the draft report entitled "On what grounds should rate exemptions be granted." That is on page 76. The report states:

Where an activity provides substantial benefits to the community, it may be equitable and efficient to exempt it from paying rates. For example, schools and hospitals generate public benefits.

Provision of public education occurs through three tiers that are widely known as primary schooling, secondary or high schools, and tertiary or higher education, mostly through TAFEs and universities. Therefore TAFE institutes and universities could also be cited as examples in this section.

Modern public universities such as the University of Wollongong are multifaceted institutions where higher education and research is increasingly becoming more collaborative with external parties, indeed, where the Commonwealth and state governments are either encouraging or requiring university to grow education research and commercialisation partnerships.

Allied to this, universities are being actively leveraged by government, including local government, to play a greater role in jobs growth and economic transform, as they should. For example, in response to this imperative, UOW has established the iAccelerate centre and programs on the Wollongong innovation campus commencing in 2011. This initiative is focused on new business start-ups and generating knowledge-base employment in a city where over 30,000 jobs have been lost in traditional industries such as steel and coal since the 1980s,

UOW contributes significant funding to run the iAccelerate centre and its programs to support development of new businesses for the Illawarra region. An important question thus arises with regard to the proposed changes in the draft report: would the iAccelerate centre be deemed to be commercial and therefore rated? We would contend, if that was to be the case, that would be a poor outcome.

Our university, like most modern university main campuses, has a large daily staff and student population. In the case of the Wollongong campus up to 15,000 people can be on site on any given day during academic semesters. This, in effect, is a town similar in size to Ulladulla, Griffith or Singleton.

A community of this size requires in situ services - what we call ancillary services - which include 30 kiosks, medical services, retail and restaurants. Based on this need including to support our growing residential student body, which now exceeds 1,500 beds on campus, a small supermarket has been added to our facility.

This supermarket is not focused on drawing in residents from surrounding areas but servicing substantial on-campus need. This new facility means staff and students do not need to travel more than two kilometres to supermarkets located in shopping centres up to 30 minutes walk away. Again we do not believe that a modestly scaled ancillary service should be deemed as commercial for rating purposes under the proposed model.

Turning to student accommodation, with regard to student accommodation, I wish to make the following observations: UOW and the other New South Wales universities are increasingly in a globalised sector where student experience and support is increasingly critical for attracting and retaining students. Most New South Wales universities, including UOW, offer first-year accommodation

guarantees as part of the enrolment offer for domestic and international students.

This responds to three key facts: one, a preference of the parents of new domestic undergrad students for on-campus accommodation; two, a similar preference of the parents of international students for on-campus accommodation; and, thirdly, numerous studies have shown better academic outcomes for those who live on campus. After first year, many students then move off campus with friends, which provides opportunities for the private residential providers at that time. We do not support the proposal to remove rate exemptions for university student accommodation.

In response to comments from my colleague from UTS, could I point out an important difference: not all university campuses in New South Wales are the same. UTS is located in a downtown location on a constrained site and therefore has both better opportunity and the ability for students to be making use of off-campus facilities and services. We are in a suburban location, and there are a number of other university campuses in New South Wales in suburban locations, where those facilities are not readily accessible and we need to provide them on our sites and we do.

UOW, like all public universities, provides important public benefit on a wide range of fronts. Included in this are a number of municipal-like facilities and services that are available for the local community whereby the university has paid the capital cost of the facility and community access is either free or subsidised by the university. These include the library, university recreation and aquatic centre, sportsgrounds, exhibition spaces and local shuttle buses that move around the local neighbourhoods. The community usage value of these amounts to several hundreds of millions per year provided by the university.

While the proposed measures represent a move to partial rating, focus on deemed commercial activities and student accommodation only, the University of Wollongong believes our operations should be considered in the totality of their public benefit, as is currently the case. UOW finds equally perplexing that IPART is proposing a full exemption for private hospitals in their entirety - a for-profit business - acknowledging that they are a public benefit basis, when we, as a not-for-profit public entity, would be subject to the partial application of rates if the recommendations are adopted.

THE CHAIRMAN: Thank you very much, Mark. We will move on to Caroline Henry, who is with New South Wales Farmers.

MS HENRY: Good afternoon. My name is Caroline Henry. I'm an oyster farmer and I have been growing oysters in New South Wales for the last 26 years. I am the chair of New South Wales Farmers oyster committee and the Association's representative on the NSW Shellfish Committee.

NSW Farmers is the peak industry body for farmers in New South Wales. Under the association's constitution, the oyster section and the oyster committee are a policy making body operating within the auspices of the Association.

The submission given today relates only to the oyster lease exemption sections of IPART's draft report, page 82, that for land that is below the high water mark and is used for the cultivation of oysters, the exemption should be removed.

Local government rates and other fees and charges:

While the land that is below the high water mark and is used for any activity relating to the cultivation of oysters is exempt from payment of local government rates, the Association submits that IPART should also give recognition to the fact that the New South Wales oyster industry does not operate with exemption from payment of council rates and other fees and charges.

New South Wales oyster farmers incur a range of government fees and charges which include local government rates. Oyster aquaculture leases incur rent under the Fisheries Management Act 1994. A permit under the Act is required to cultivate oysters and annual permit fees are charged - DPI Fisheries are our landlord - and they are used to provide services in return, including New South Wales aquatic habitat protection, compliance activities and the developed policies and guidelines for the industry that are consistent with habitat protection objectives.

Currently there are 297 Class A aquaculture permits

covering 2,250 oyster leases, which is equal to 2,887 hectares. We currently pay $69 per hectare as well as permit fees, research charges and a Security Bond. Our lease is current for 15 years. We do not own these leases. They are public water.

Oyster businesses must also hold a Seafood Licence under the Food Act 2003. Oyster growers also pay state and local levies to the New South Wales shellfish program. Currently there are 248 active licence holders. A food licence costs approximately $1,800. This gives us the ability to harvest oysters for human consumption.

Further to the licence fee, we also pay a local levy which funds the testing required in the Management Plan to keep an estuary open for harvesting, and this is $31 per hectare. In a nutshell, we already pay $69 to DPI and we pay $31 per hectare to the Food Authority.

Any land based services that are used to support aquaculture operations are paid for at the local government rate and/or Lands Department licence fees. Local government services on land bases are used to support oyster growing and are accepted by the industry because of the services that are provided.

Oyster growers' reliance on local government services are confined to services on the land base rather than oyster aquaculture leases. There is no road access to oyster leases. The only way to access them is by punt. We do not have garbage collection services, nor are we permitted to take oyster infrastructure waste up to any land-based recycling centres. It is submitted that imposing further rates on the industry would unfairly increase the operating costs of the industry. Rates are not charged on other activities such as RMS moorings and/or jetties.

Services provided by oyster growers:

Oysters are filter feeders. Far from creating further service needs and costs for local government, we submit the New South Wales oyster industry assists local councils in managing and monitoring estuarine water quality and in managing foreshore areas. Oyster farmers currently pay for all testing of estuary water for E.coli, Faecal Coli forms, Phytoplankton, biotoxins and heavy metals. Oyster farmers currently contribute 58 per cent of the total running cost of the New South Wales shellfish program, which is $1.6 million, and we pay of that $900,000.

Furthermore, because oysters are highly vulnerable to the water quality of estuaries, oysters are impacted by poor quality water related to certain service functions of councils in estuaries - for example, stormwater management, development controls, unsealed road management and, most particularly, they are impacted by suspended solids and acid sulfates.

The impact of those service functions can close - and does close - harvest areas. Should oyster growers be required to pay local rates on leases, it is likely that the industry and growers would require a considerably higher degree of accountability for the impact of these lease functions from local councils. More timely notifications of DAs to ensure that they do not have detrimental effects on water quality, as under the New South Wales Water Act, chapter 4 water quality production guidelines.

Not exclusive possession:

An oyster aquaculture lease does not give the leaseholder exclusive possession over the lease area. In fact, leaseholders are required to allow public access over their leases. This has caused many problems for growers, most especially in relation to oyster theft and damage to lease infrastructure. Leaseholders are not permitted to alter in any way the estuary floor of their leases. We submit it is therefore not appropriate that oyster growers should be required to pay rates on these leases.

Ability to value and procedure for rating:

We submit that determining the rate and valuation of oyster leases would almost be certainly impossible and at least inequitable. Valuing oyster lease aquaculture ad valorem is complex because lease areas have very highly and variable productive capabilities.

We understand the Department of Primary Industries does not have even the information on oyster lease sale prices from oyster lease transfers. However, this data does not include information on the factors that affect

productive capacity. It will therefore be impossible to accurately value each leaseholding using lease tender and lease transfer data. Production data is calculated for regional scale and so could not be used to value individual leases. Will leases be valued depending on which estuary they are in, position in the estuary or capital improvements? If non-exclusive possession of oyster leases was the mitigating factor and this would lower the value of the land on lease and therefore lower the rate it could progressively decrease the value of the lease when the farmer wishes to sell it or to borrow against the value of the lease for business improvements.

We submit that the administration process and the systems required for the Department of Primary Industry to determine an equitable valuation of these lease areas would far outweigh any additional revenue. The cost of these new systems and processes would invariably pass on to oyster growers again with no additional services provided.

We do not accept the argument that the broad ratepayer base subsidises the cost of providing council services to our businesses at present because councils do not provide us with any special services. Not paying rates does not give farmers a competitive edge. We ask that consideration be given to exempt the oyster leases below the high water mark on the grounds that the activity provides a substantial benefit to the public. We believe that our strict and vigorous testing regime does provide a benefit to the public in ensuring water quality is maintained at a very high level which in turn gives the community confidence in using these waterways. I thank you for giving me this opportunity.

THE CHAIRMAN: Thank you very much, Caroline. Greg, would you like to say something?

MR HAYES: Thank you. Sutherland Shire Council's position is to fully support the notion of exemption based on land use as opposed to ownership. There are current inequities that exist between the offering of services between PBIs and commercial operations. There is a subsidisation by the residents for non-rateable properties that we don't agree with when there is money to be made, particularly in relation to residential retirement accommodation, not so much the nursing homes. I concede that one, but most definitely in relation to retirement accommodation.

In relation to those properties that are currently owned by Housing NSW and are rateable, there is that potential for the transfer. I know that there has not been a great deal so far of transfer to PBIs, but that is still a potential. Sutherland Shire is not as badly affected as a lot of councils. However, should those properties be transferred to a PBI and become non-rateable, there will be a 2 per cent rate increase across the board for all our other ratepayers to subsidise that.

In relation to the deferral rate system, we would like a bit of accountability in relation to council's position in the process. The review does say that the state is to operate and fund. We would like to know where council sits. We would like to see council out of it completely in a situation where the deferral was applied directed by the resident and the state paid us so that we'd carry nothing.

Sutherland does offer a deferral system. As has been pointed out, there has been a lot of push-back from older residents so that they don't burden their family in the future. However, I personally believe the capital growth that they gain will fair outweigh the rates they are deferring.

What will happen with the existing deferral balance that each council carries if they are offering a deferral system? I would like to see whether the state is going to carry it and we are going to carry it or is the state going to take over our deferred balances? We would like to get some clarity or change in relation to the legislation that currently requires councils to initiate some sort of recovery action after a 20-year period. With an ageing population living a lot longer than the 20 years from pension age, we don't want to be initiating legal action against pensioners but, at the moment, it is something that has to be considered.

The deferral system as it is offered here by IPART we fully agree with. It removes the subsidisation by our residents for what is the welfare responsibility of the state.

THE CHAIRMAN: Thank you very much, Greg. We'll move over to Andrew, then Keith and Shaun before we go out to the

floor.

MR BUTCHER: Thank you. I would like to clear up one thing before I go through the response to the paper. Campbelltown City Council's 11 per cent rate increase, as mentioned previously, is misrepresented and ill-informed and it shows a clear lack of understanding of the process. If we did grant an exemption in Campbelltown to all the PBIs that are community housing providers, we would have to go back out to the community for a further 8 per cent rate increase. I just thought I'd clear that up to start.

Representing the RP - the Revenue Professionals - I will split this into two areas: the rate exemptions and the pensioner concessions.

In regards to rate exemptions, we agree with the removal of the rate exemptions, as proposed in the draft report, and agree with the principle of exemptions being applied on the basis of use rather than ownership, and that all land used for residential and commercial purposes be rateable unless explicitly exempt.

We agree with recommendation 11. We do not agree with recommendation 12 primarily because private hospitals do not offer emergency services or emergency triage services to the general public. We suggest that private hospitals come under the commercial purpose as identified in recommendation 10. We also believe that ratepayers would expect a free public hospital system to be exempt from land rates.

The private hospital operating in my council area - which, as we all know is Campbelltown - reported in its financial year 2016 annual report group revenue of $2.3 billion representing an increase of 6.2 per cent on the previous year and an operating net profit after tax of $195 million.

A similar example of exemptions that is emerging as Housing NSW moves away from its bricks and mortar supply of affordable housing to a more strategic role is the community housing. Council recognises the need for community housing. However tenants at these properties use and have access to the same services as other ratepayers and should, like Housing NSW currently does, pay rates for this reason. A community housing provider in my council area reported in its last published 2015 annual report an operating surplus of almost $9.5 million.

We agree with each of the recommendations 15 to 18 - the self-assessment process and some rigour around its application to provide the industry with assurance and consistency.

An estimate of the revenue lost by councils to exemptions would be preferred to assist councils in complying with recommendation 19 as councils are not required to categorise land - sorry, not required to categorise non-rateable land, the land rate that would be applicable if it were rated is not recorded. It is achievable and some detailed consistency would be ideal.

It is important to add that many rate exemptions are poorly targeted and simply do not meet three of the five taxation principles identified in the draft report. Simply, organisations that have access to council-provided services should pay for the use of those services and not rely on the rest of the community to shoulder the burden.

The CHP issue has not arisen out of government policy. The CHPs have fallen into the silo of a public benevolent institution due the funding arrangements that came out of the Henry tax review in 2009 between the federal and the state government.

Exemptions on pensioner concessions: unfortunately we disagree with recommendation 20. We believe that pensioner rebate concessions should be funded by the state, as is the case with all other states in Australia. We believe it is a welfare measure and should be funded that way. The current system enables pensioners access to a rebate concession that does not financially impact on their future. This has been discussed a number of times already. We think the community will be reluctant to defer payment as this creates the debt. Some or most pensioners would prefer to avoid that, in particular aged pensioners would see this as detrimental to the current system. Thank you.

THE CHAIRMAN: Thanks very much, Andrew. Keith?

MR BAXTER: Thank you, Mr Chair. I will go relatively quickly. I'm interested in some of the conversation going on today and I think it is important to remember that rates

are a tax, but they are also about services. I think there is sometimes a misconception about what the role of rates is and what is the role of councils. It is important to remember that the community pays for the services as a whole as a community, so direct use of infrastructure is one part of what a council provides.

The second thing is that I'd be interested in IPART undertaking some more analysis of the capacity to pay issues that John Comrie was talking about earlier in relation to concessions vis-à-vis the deferral process. I think that would be an interesting piece of analysis that would add to the conversation around pensioner concessions and I'll leave it there, thank you.

THE CHAIRMAN: Thanks very much, Keith. Shaun?

MR McBRIDE: Fortunately, or unfortunately, I think everything I was going to say Andrew has probably said.

We support the draft recommendations on the rate exemptions. We have long advocated that land uses for commercial or residential purposes should be subject to rates regardless of tenure. That has been a subject of submissions going back 15, 20 years from us.

We probably are a little disappointed the list of exemptions didn't go quite far enough and we will make further submissions on perhaps revisiting some of the exemptions where it is recommended they be retained. We will come back on that. There are a few that we might like to see tested.

We also raised in our reports the issue about the for-profit private hospitals. We fully agree with the Revenue Professionals on that, and we also probably disagree with the recommendation that councils be prevented from increasing their revenue with the removal of exemptions. We naturally would like to see councils be able to gain from the removal of exemptions if not only to compensate them for the years of infrastructure subsidies and services that they have been providing to the exempt bodies. State forests is one example of that. That is pretty much our view on that.

I think the conversation here, to some extent, from local government's point of view, is not questioning necessarily whether some organisation or some institutions are worthy of subsidy or government support of some type. Quite often the argument is about which level of government or which sphere of government should be paying that support or should be deciding who is worthy of the public's support.

Part of the problem councils have is that the burden for providing welfare and related subsidies is unfairly distributed between councils. Aged populations are not evenly distributed across the state. There are certain concentrations of them meaning that that is a larger burden in one area. Our argument on that has always been that pensioner concessions should be fully funded by the local government - no, no, fully funded by the state government, as it is in other states.

So often the argument isn't necessarily about the worthiness or a particular organisation, but the question is: is local government the right sphere of government to be supporting that, given that local government only has one taxation tool available to it, which is rates, whereas other spheres of government have a much wider range of tools available for them to finance these things? I think sometimes we need to separate these two aspects of the debate.

When it comes to the pensioner rebate, as I said, we think the state government should support that. We think the issue of funding welfare like the pensioner rate concession goes beyond local government. It is a bigger natural taxation issue and I think it is not just a local government issue.

The question of deferral, for example, could apply to council rates, it could apply to ESPL, and it certainly could apply to aged care services in the future. This is not just a local government issue; it's a national issue: I think we need to look beyond that and not just make it a fight between local government and aged pensioners. Those are just a few points I wanted to raise.

I would like to point out that there is an anomaly in relation to concessions for water and sewerage charges in that those pensioners serviced by Sydney Water and Hunter Water receive much more generous concessions than those serviced by local government utilities outside the Sydney

and Hunter regions, and that highlights another anomaly. In that case, the state has accepted its responsibility, through its ownership of those bodies, to pay a much larger concession than the other utilities. In one sense, it is a recognition by the state government, yes, that pensioners should have that concession, but they don't extend that largesse to pensioners outside those two areas. Those are just a few points to think about.

MS HENRY: Excuse me, Mr Chair, may I be excused? I have a plane to catch.

THE CHAIRMAN: Sure, thanks for coming. Thank you very much, Shaun. Questions or comments from the floor? Down the front?

MR NORTHCOTE: My name is Charles Northcote. I am the chief executive officer of BlueCHP Limited, and we are based in Campbelltown and we are a community housing provider. I have heard lots of words today but I, first of all, would like to just give some facts.

A community housing organisation rents out a property for roughly about $8,000 a year. Market rents for an average two-bedroom house would be roughly $20,000 to $22,000. So every extra dollar that we can save under those exemptions - and don't forget it's the only the stuff that we actually own - provides a benefit. So it might be $250 per property per year. In my organisation that's equivalent of one house, one family extra that we can provide every year.

The debate has become a little bit of a grab for revenue whereas, in fact, our organisations provide substantial benefits. If I look at our organisation in the Campbelltown area, we provide $1.8 million worth of salaries going into these local area. We are providing services to the community that are obviously keeping people off the streets, with vandalism, et cetera.

I do accept the point about the Land and Housing part. Remember these transfers are only management transfers; they are not total transfers that are under discussion. No decision has been made at this stage. But we must understand that when you're only earning $8,000 on a property, you have to pay full market to buy, you then have a substantial subsidy, it is very difficult to make the numbers stack. So every dollar that we can save is crucial to provide a net public benefit. For our organisation, we provide $4.2 million worth of rent saving every year to the 5 or 6 per cent of the population that are the worst off and we should not lose that for the benefit of our society.

THE CHAIRMAN: Thank you, Charles.

MR LAMBERT: Richard Lambert, Association of Independent Retirees, Division Management Committee. As I look around the room, I don't think there are many people here of pension age. I don't think people realise that about a quarter of people in Australia of pension age do not receive any pensions. What really grates on me with those people is the fact they receive "fringe benefits".

Curiously enough in New South Wales, the definition of how you get a fringe benefit is: do you get the rate rebate? In New South Wales, that means you don't pay a driver's licence fee, you don't pay registration on your car. As a previous speaker mentioned, you get lower water rates in Newcastle and the Sydney area. What else? Oh, you get an energy rebate. So many of our members feel it is unfair.

I am a self-funded retiree. I should point out here I married my wife for love not for money. The amount I got from inheritances is very low. I worked all my life. As I have described it, I went from poverty to a maximum rate of tax that, in my state, was 60 percent without ever having tasted affluence. Many independent retirees feel there is a positive discrimination against them because they have been good enough to save money to support themselves in retirement and find that their taxes still now pay for other people's retirement - people who spent their money during their working life. Thank you.

THE CHAIRMAN: Thank you, Richard.

MR KHALAMI: Rahmat Khalami, from the Forestry Corporation. One of the concerns that we have with the draft report is that it makes a conclusion about state forests, in particular where commercial logging takes place, that they should not be exempt from the rate.

The principle of the exemption being based on use rather than tenure, in itself, there is nothing wrong with it, but when we look at the principles underpinning the recommendation in terms of the community benefit, in terms of the private benefit being derived from the land use and in terms of the areas where the actual benefit is derived, it does not fit in with the blanket conclusion that state forests should be rated.

We manage 2 million hectares of state forests across New South Wales. Commercial harvesting of timber takes place in less than 2 per cent of that area in any given year and it moves around. So in one area that we might be harvesting for two or three months in one year, we may not go back there for another 10 years. There are practicalities, and in deciding which areas are now being used to derive commercial income from harvesting and which areas are not, it becomes extremely complicated.

There is also the fact that we provide very significant, very large community benefit primarily in terms of bushfire fighting and fire prevention and maintenance and also roads. People perhaps don't realise that we have tens of thousands of kilometres and are the second largest road builder in New South Wales. There are many thousands of local government ratepayers who use forest roads to commute to and from their properties.

Councils don't pay anything towards the maintenance of those roads, and in many places we do have mutual relationships with councils where we provide gravel, either free of charge or at a lesser rate, from the quarries in the state forests and we cooperate with a lot of councils in many other areas.

There also a thing in terms of community benefit that I think should be considered at least. Our presence in the local areas where we operate underpins a significant community benefit in terms of industry. We employ people. Our contractors employ people and the fact that we are there providing timber means that, in many places, the private industries who pay significant rates have developed and that would not have happened if we were not there.

THE CHAIRMAN: Thank you very much, Rahmat. George?

MR GERGELY: I would just like to mention that the pensioner concession has not been increased since 1994. When over 30 per cent was my rate; this time it is only 10 per cent - since 1994 not a cent. Thank you.

THE CHAIRMAN: Thank you, George. Behind George?

MR KITNEY: My name is John Kitney, from Catholic Education Commission NSW. We are the representative body for 588 Catholic schools across New South Wales and I would like to talk about the bush.

People who live in the remote and very remote areas of New South Wales are effectively the lowest socioeconomic groups across the state. We have a number of schools in remote and very remote areas and we are very keen to maintain the rate exemption on accommodation for teachers in those particular areas. It's a very, very important part of the incentives that we provide to attract people to remote and very remote areas, and teaching is paramount to the wellbeing of kids right across New South Wales.

THE CHAIRMAN: Thank you very much for that contribution, John. We have just passed 1 o'clock, so if anybody feels they need to leave, go ahead. At the back, Joe.

MR VESCIO: We have a concern with recommendation 17 where you are saying that there would be no additional benefit from the exemptions. But in our case with major ski

resorts currently in national parks, they are a commercial operation, the values of that, if you make it rateable, those values come into our values. Then are you saying with your earlier recommendation that the CIV determine rate path, do they contradict each other or are you basically saying because we have had to subsidise the use of those services to non-rateable properties, or occupants or non-rateable properties, for who knows how long, the rest of the community continues to subsidise that?

THE CHAIRMAN: In a nutshell, Joe, what we're saying is that if you were to remove exemptions, then what would happen, other things being equal, is the rates of the properties that have been paying rates would go down.

It has been put today by a number of speakers that, in a sense, that is too tight, there should be some margin for manoeuvre, there should be a situation where a removal of exemptions would generate some manoeuvring for the council and we are taking that on board but we are not saying anything about CIV. This issue about exemptions applies whether you use UV or CIV. That is, in a nutshell, what has been said, but we are listening. A number of speakers have made the point, most recently Shaun, that that is too tight and that councils deserve some sort compensation for the past exemptions.

We have someone in the middle, and then Sascha, and then we will wrap up.

MS WOOD: My name is Helen Wood from Uniting. We are a provider of retirement villages amongst other things and a not-for-profit provider with PBI status.

My concern is the statements in the report which suggest that a level playing field needs to be created between the not-for-profit providers at the time and the for profit providers making the assumption that we are all operating them in a similarly commercial way.

Uniting provides approximately a third of its accommodation for financially disadvantaged people, so those commercial activities would be considered by the ATO as - well, they wouldn't be considered commercial because accommodation is provided at below 75 per cent of market value.

My concern is we can't apply for an exemption under your proportionality because we have also heard that affordable housing is not a public benefit and so it has to be rated as well. What I'm saying is that there is no level playing field being created here and I would ask IPART to look at mechanisms where that can be addressed potentially in singling out not-for-profit providers for communities of interest so that that is not an argument that they have to have with the council.

THE CHAIRMAN: Thank you very much, Helen. We will take that on board. Yes, Sascha?

MR MOEGE: I wanted to add something to what John said about the water and sewerage pensioner concessions councils have to provide and partly fund. I think IPART is considering how pensioner concessions for rates and domestic waste charges should be dealt with. The water and sewerage concession should be included in that. We would like IPART to have a look at that as well and what could be done about the funding of pensioner concessions on water and sewerage charges which are in the same provision of the Act.

THE CHAIRMAN: Thanks, Sascha. Just on water, Sydney Water and Hunter Water do give concessions or rebates to pensioners, and there is an issue here about whether that is funded by all the other water users, because IPART sets those prices, or whether it's funded from the profit of Sydney Water or Hunter Water, which would mean it's from the New South Wales government, so we just need to clarify that, but thanks for your contributions.

There is time for one last question. If you don't have one, that's okay. Anybody around the table, one last issue? Charles?

MR NORTHCOTE: I just want to make one final comment. On this issue of people looking at various sets of accounts of community housing providers, one needs to note that there are certain accounting conventions, so revaluation and that sort of thing where it's seen to be profitable is actually not cash and it is only valuation of property. These properties are not liquid assets that we turn over and provide subsidies for.

I think someone needs to rally understand what is

actually going on, as I mentioned earlier, with the different cost structures that we have to make sure about any changes. We are quite happy to pay for rubbish and those sorts of things - that's fine; we agree with those sorts of services - but we think the rates should still be exempt. Thank you.

THE CHAIRMAN: Thank you, Charles.

CLOSING REMARKS:

THE CHAIRMAN: Thank you all very much for attending today. It has been a very good session. Indeed, a number of people commented to me during the morning tea break that it was a very civilised exchange. I think it has been both civilised and productive and we really appreciate all the effort that has been put in.

A webcast and transcript from today's hearing will be available on our website within the next week. There is a further opportunity to have your views considered and you can make a submission to the draft report. We are accepting submissions until Friday, 14 October.

We are also conducting another public hearing in Dubbo, on Monday, 10 October. This will enable stakeholders especially in regional New South Wales to provide their views.

Once again, thank you all very much and have a good afternoon.

AT 1.15PM THE TRIBUNAL WAS ADJOURNED ACCORDINGLY