INDEPENDENT PRICING AND REGULATORY TRIBUNAL

REVIEW OF THE LOCAL GOVERNMENT RATING SYSTEM

Tribunal Members

Dr Peter Boxall, AO, Chairman
Ms Catherine Jones, Mr Ed Willet

Members of the Secretariat

Mr Hugo Harmstorf, CEO, Mr Derek Francis, Ms Lucy Garnier,
Mr Anthony Rush, Ms Sheridan Rapmund and Ms. Letitia Watson-Ley

SMC Conference and Function Centre,
66 Goulburn Street, Sydney

On Tuesday, 26 April 2016, at 2.00pm

OPENING REMARKS

THE CHAIRMAN: Welcome, everybody. Thank you all very much for coming. I would like to welcome you to this public hearing on the Independent Pricing and Regulatory Tribunal's (IPART) review of 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, Catherine Jones and Ed Willett. Assisting the tribunal today are IPART secretariat members Hugo Harmstorf, our CEO; Lucy Garnier; Derek Francis; Anthony Rush; Sheridan Rapmund and Letitia Watson-Ley.

The aim of this review is to recommend reforms to improve the efficiency and equity of the local government rating system to ensure councils can implement sustainable fiscal policies over the longer term. This review also requires 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.

The purpose of today's hearing is to outline how we propose to approach this review and to seek your preliminary views on some of the issues raised in the issues paper.

This review is principally a tax design review of the rating system. It follows the Independent Local Government Review Panel's report in 2013, which recommended IPART conduct a wide-ranging review, and also the New South Wales Government's council merger proposals and announcement of a rate path freeze for merging councils. It is within this context that this review proceeds.

At today's public hearing, we have two sessions. The first session is divided into two parts. The first part of session 1 will provide an overview of the existing rating system in New South Wales; outline the principles of taxation we plan to use in assessing the rating system and provide some preliminary analysis on the current method for setting rates using these tax principles.

During this session, we ask questions on potential

alternative designs for a future rating system.

The second part of session 1 looks at current land uses that are exempt from paying rates and at mandatory pensioner concessions,and considers whether the design and implementation of these exemptions and concessions could be improved.

The second session, session 2, after the afternoon tea break, will explain our interpretation of the government's policy of freezing rate paths for newly merged councils for four years; outline the options for implementing this policy and discuss options to allow merging councils to establish new and equitable rating systems in a fair and timely manner.

Within each session, we will discuss several topics. A member of the IPART secretariat will give a brief presentation introducing each topic. I will then invite participants to provide comment on that topic. I ask that you please limit your opening comments to a few minutes. You may then 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 transcribers, I ask that on each occasion you speak, please identify yourself, and, where applicable, your organisation before speaking.

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

SESSION 1: The local government rating system

PART 1: Introduction and the method for setting rates

MR RUSH: Thanks very much, Peter. Today I will discuss the current methods for setting rates in New South Wales. I will begin with just a quick overview. First, I will outline the timeline for this review. Next, I will discuss how councils in NSW set rates before outlining the tax principles that we intend to use to assess the rating system. Then I will look at three aspects of rate setting in particular: The valuation method used to levy rates; the use of base and minimum amounts and the ability of councils to charge different rates across land use categories.

IPART was requested at the end of 2015 to conduct a review of the local government rating system, and is required to provide an interim report in June and to release its final report by the end of the year. Today's public hearing is an important step in our review as it provides stakeholders an opportunity to publicly discuss how the rating system can be improved. We are also seeking written submissions from stakeholders addressing questions in our issues paper with the closing date for submissions on May 13.

Councils may calculate rates on a property in one of two ways. Rates can be set as a percentage of a property's unimproved land value, this is known as an ad valorem amount. This may be subject to a minimum amount, which is a flat fee that applies if it is greater than the calculated ad valorem amount. Secondly councils may instead charge a base amount plus an ad valorem amount.

Next, councils may set different ad valorem, base and minimum amounts across four categories of property: Residential, business, farmland and mining. Because rates are calculated using unimproved land value, where a property consists of multiple units, the land value is divided between each unit. For example, if a block of four apartments and a house have the same land value, the rates for each apartment would be on average 25 per cent of the rates for the house, assuming that no base or minimum amounts apply.

I will now run through the principles of taxation that IPART proposes to use. First, taxes should be efficient. This has two parts; one, taxes designed to raise general revenue should aim to minimise changes to investment and consumption decisions; and two, that the tax each person pays should be proportional to the benefits they receive.

Second, taxes should be levied equitably. This also has to two aspects: One, taxes which are proportional to benefits received are more equitable; and two, taxes should be levied according to ability to pay, that is, people who are better off should pay more.

Third, taxes should be simple so that they are easily understood, difficult to avoid and have low cost of enforcement. Fourth, taxes should be sustainable and be able to withstand fluctuations in economic activity and grow over time. Finally, competitive neutrality requires competing businesses to be treated similarly; for example, that public and private enterprises competing with one another be taxed in a similar manner.

As discussed, in New South Wales, unimproved land value, or UV, is used to value property. Alternatively, rates could be charged using a property's capital improved value, or CIV, which includes the value of land plus all buildings and structures. Rates could also be based alternatively off a property's annual rental value. Annual rental value is fairly similar to CIV for our purposes; so I will focus on comparing CIV to UV. The table behind me compares the use of valuation methods across Australian states. A key point is that a number of other states offer councils choice over the valuation method.

Assessing the UV and CIV methods against tax principles, in terms of economic efficiency, UV should minimise changes in behaviour because it does not tax capital improvements. However, CIV might correlate better with the benefits received from council services. For example, an apartment block with a number of residents will typically derive more benefits from council services than a single house.

CIV is more equitable because owners of more expensive property will tend to have a higher ability to pay. UV is simpler, and changing to an alternative valuation method would incur costs. Finally, CIV is a more sustainable tax base. I should note that these are our preliminary thoughts and we would like to hear more from attendees in the discussion.

In terms of base and minimum amounts, these charges can be an efficient way to recover certain fixed costs that benefit all ratepayers. However, they may not be equitable as dwellings with more occupants pay the same base or minimum amount as dwellings with fewer occupants, despite tending to receive a larger benefit from council services. Furthermore, both base and minimum amounts are regressive. Finally, base and minimum amounts are both simple to charge.

Rating categories can also be a useful tool if applied appropriately. They are efficient if they reflect differences in the services received by different types of ratepayers, and equitable if structured according to ratepayers' capacity to pay. However, increasing the number of rating categories increases the complexity of the system.

There are also other aspects of the system we would like to discuss today, and these include the ratings burden across communities; current rate pegging arrangements and the special variations process; how the ratings system can support the New South Wales government's policy of encouraging urban renewal; and the management of recovering overdue council rates.

I would like to finish my presentation by leaving you with a few key questions to motivate the discussion. These questions include what valuation method or indeed methods should be used; whether there is sufficient flexibility in levying base and minimum amounts and whether any changes could be made to rating categories. Thanks.

THE CHAIRMAN: Thank you very much, Anthony.

Anybody at the table who would like to volunteer to kick off with a few comments.

MR BUTCHER: Thank you very much. My name is Andrew Butcher; I am a Revenue Accountant at Campbelltown City Council. I have been in the industry for 25-odd years and deal with ratepayers every single day. So I have a bit of an independence in the process in that I see both sides, that is, the council's side and the community's side.

Going through the list that Anthony has is going to be quite difficult to remember everything. But most certainly in discussions with New South Wales' Revenue Professionals, we support the taxation principles. I am thinking of some of the other points that were raised. If you wouldn't mind refreshing my memory, sorry.

MR RUSH: Yes, which valuation method or methods should be used. The use of base and minimum amounts, and the rating categories are the three.

MR BUTCHER: We would support the use of CIV values insofar as that does pick up, particularly where significant costs or significant investment has been placed into buildings, including strata title parcels. We would think the minimum

structure was removed from the Local Government Act in 1993 when it first came out, but it was hurriedly put back in. I think that the minimum structure probably is a bit old fashioned and we would support removing that from the Act going forward in base amounts.

THE CHAIRMAN: Thanks very much, Andrew.

MR GILKES: Simon Gilkes, I'm the New South Wales Valuer General. As you can tell, I have been battling a cold for a little while, so hopefully my voice will last. I guess the easy point first; I think the principles that have been put forward by IPART are all reasonable and I fully support all of those.

With regard to the valuation methods, which is my real area of expertise, I have no strong view on a preference for the use of land values or capital improved values for levying rates; each can be applied effectively and equitably. And depending on which is used, there will be different groups within the community that are comparatively better or worse off, and, in essence, it's really a philosophical decision to be made around that and that's not really my area to express an opinion on.

The point that I would make there, though, is that the fundamental difference is that a capital improved rating system essentially is a tax on effort. So a landholder's effort in improving their property is what becomes taxable; whereas, the argument for a land-value based rating, if you like, that is a tax on what has been referred to as the unearned increment in value. So that's the increase in value over time that comes about through factors other than the effort of the owner. So that's really the impact of things that society might do. For example, there's quite a bit of discussion at the moment around value capture as a way to fund infrastructure developments and the like. Where there's new infrastructure built, that will certainly be reflected in the land value of the site and so that benefit would then form part of the taxable component of the value.

As I said, though, they are philosophical decisions for others to make rather than me. From a practical point of view, both types of values can be used very effectively, and indeed both are used in different jurisdictions around Australia and across the world. For example, in Victoria, the levy rates are based on capital improved value; whereas, in New South Wales and Queensland both levy rates based on site values.

The real practical question though, is in terms of the implementation of the change. In Victoria, they have a highly sophisticated database with substantial information about individual improvements for properties which has been built up over many years.

In New South Wales, that kind of database doesn't exist, and at various times over the years we have made enquiries to see whether local government, for example, has that information that's variable between councils, and, to this point, we haven't been able to identify a single source where you could get a comprehensive set of information on the built environment to enable efficient mass valuation processes to be put in place without very substantial investment in data capture.

The other point around rating categories, and this, somewhat, deals with the question about land values versus capital improved values as well, there's been quite a bit of talk around strata properties particularly, and whether there should be capital improved values for strata properties as a class. My preference as an administrator in the valuation system would be that there is a more clearly defined or single valuation base that obviously makes the administration and system simpler, and I go back to the point that I made about the need to capture a lot of data to move to a capital improved value system. It seems to me that that would be a relatively complex and expensive way to change what is, essentially, a distribution mechanism for rating from strata properties. It would seem to me that - whilst I'll confess, I'm not an expert on actual levy rates, but a separate category for multi-use residential properties, for example, if that was the objective, it may well achieve many of those same objectives in that there are individual values available for the distribution of a site value of multi-residential sites and that's distributed based on the unit entitlement, as Anthony talked about.

The unit entitlement though, is actually a comparative distribution of value of the site. So the most valuable unit in a development should have the highest unit entitlement; so there is that element also of capturing the capacity to pay.

THE CHAIRMAN: Thank you very much for that, Simon.

MR McBRIDE: Shaun McBride, Local Government, New South Wales. I would just like to start by saying that our organisation really welcomes this review. We think it potentially could lead to more important reforms of the Fit for the Future process. Just referring to the questions, we have given the different valuation methodologies a lot of consideration over time. We tend to favour the CIV value for several reasons, including that it deals with the density issues in one way, but also because it is easily understood by the public because it is a market value. It's what the real estate agent tells them that their place is worth, and the confusion in the public is an ongoing issue.

When it comes to the changes to rating categories, we think the possibility of more categories should be examined looking for the potential for councils to better target their rating policies and so on. So we think improved flexibility provided by a greater range of categories could be a welcome thing as well. Thank you.

THE CHAIRMAN: Thank you very much, Shaun.

DR WARREN: Neil Warren, University of New South Wales. I suppose if I had an overarching observation in terms of where the Issues Paper goes, it is one where I feel when you undertake these reviews, you need to kind of put it into its context. Some of what we've heard already is people hitting the road really fast and really early; but there are actually some issues that have already been predetermined, and, to some extent, should flavour our thinking. Issues like, what should local government do is preset, but you still need to kind of reflect on that. Issues like, how should local government be funded in general? That's still background to this and still should be recognised because across the federation, local governments do very different things, and they do very different things in relation to the state governments, which have major controls over them, and the statistics will tell you that.

And when you're looking at what we should do versus what other states do and other countries do, you can't ignore the way that local government is funded in not only other states, but also in other jurisdictions. So that's kind of very important contextualising of the issue.

The next thing then is when you go to the principles of good tax design. I suppose at this level, given the role of local government, I felt that there was some need to kind of prioritise where you were focusing on those issues. So if it's an efficiency type of issue and you are going to allow the states to pick up some of the equity issues, then there's a range of things that you could potentially do, because you have said, "Okay, at the state level, equity can be achieved; but at the local level, let's just focus on efficiency and let's focus on simplicity."

The other issue also here that is important is the relationship of local governments to state governments. Now that's not only a grants issue, but that's also if the state governments themselves - like, with the emergency services property levy, if it decides to use local government's base, I mean local governments out there are setting its own base and its own definition of the base, then I think you've got an issue that you need to talk to the state government about in terms of principles.

The final thing is in relation to the base issue. I think we have to be careful here about saying, "I'm for unimproved" and "I'm for capital." You need to kind of go back to first principles and say, "What we want is a base which is not distorting." I think you need to put into that language the concept of highest-to-best use for whichever base that you're talking about. I have written in this area, and I think you need to kind of put it in that context of not distorting whatever decisions are made. You don't want to go to straight capital value, and I'm talking as an academic now, because you're going to potentially discourage people from undertaking improvements. Unimproved - well, then you've got clear issues with units and so on.

So I think some of this you need to think through, and remember, also, base is not just about capital improved; it's also that there's two purposes here. One, is to have something that has some ability-to-pay element, but also a fee-for-service element. How are you balancing the fee-for-service from the ability-to-pay element? So I think just some of that contextualising helps. You then decide what you think you should do, and I won't go into that but that's just kind of framing the issue.

THE CHAIRMAN: Thank you very much, Neil.

MS COEN: Jeanette Coen, Narromine Shire Council. I can see the value in the CIV land values. I can see a benefit in the city, but in the country I can't see much of a benefit for having that as opposed to the unimproved land value; whereas, everyone's on a level-playing field. Not whether they've got the biggest house in the street or the biggest farm in the area. Whereas, in the city, where you've got high-rise units and more building structures and that, I can see the benefit in having the CIV value. But if there was a rating category or a sub-category that captured the bigger structures, the units and things like that, I think that would be fairer.

THE CHAIRMAN: Thanks very much, Jeanette.

MR DAVID FARMER: David Farmer, General Manager, Wollongong City Council. There's just a couple of points I think I would like to make. The first one is I think we need to understand some of the side effects and impacts of any changes in valuation methodology. The current methodology we have, effectively, in many cases, drives gentrification and urban consolidation. As we get increases in land valuation on lesser developed properties, the higher rates valuation will force old residents - traditional residents out and encourage urban development consolidation.

If you move to a CIV, that particular driver will come off; so there will be a slight impact on that. You'd have to have a look at what the impacts of that and whether that will have an effect on urban consolidation in certain areas. Obviously, the CIV issue does create greater equity, and we see those in a whole range of areas in our community.

The other point I just thought was worth making is in terms of rate structure and the limited number of categories. I have worked in Queensland for several years and they have got a very, very broad system that allows you to essentially look at what is appropriate in your community and to develop a set of structures based on that.

An example we have got is because we back onto the Illawara escarpment and bushland, we've got a number of parcels of land - thousands, in fact, parcels of land that are effectively un-developable. They have some value or a very small value, but where do you value them? If they're valued as a residential property, they attract a base rate and end up paying a large amount of rates.

So there's an issue that would be really lovely to have an environmental category with it, which could have an ad valorem, that you could put those parcels in that area.

So I think we do need to understand how the world has changed since the 1993 Act came in, and how we might be able to better adapt our rating system to our current circumstances.

THE CHAIRMAN: Thank you very much, David.

MS FITZGERALD: Thank you. Jane Fitzgerald from the Property Council of Australia. We support the existing system, the unimproved land value, which seems to be a minority view around the table, but I'm very conscious of what Neil said around the policy issues and the context around this.

I think that we have got a number of concerns with shifting to a CIV model. Firstly, Simon picked up on a couple of the issues around the one-off costs and inflationary aspect of making the shift, and I guess needing to make the case from a policy basis - going back to what Neil was saying - of the rationale behind the shift.

What is the intention of making the change? What policy outcome are we trying to achieve? What we do know is in other jurisdictions - such as, Victoria, where there has been a shift to capital improved value, that that has often meant a large shift to the business category in relation to rating, and if that's to be the stated objective of making the shift, then that's one thing. But if it's a non-stated side effect, then for us that becomes obviously a significant risk in terms of investment within the state. So that's the first point I would make.

The second one is, I'm concerned and interested to hear what Simon had to say around what is the evidence base? What are we actually going to use to make the shift to the CIV model? I mean, is it the market value? I didn't think market value and commercially improved value would be the same thing necessarily, and if the valuer general can't give us the evidence base, then where are we going to get that? And if we have to start from zero for capital improved value, the costs in that are going to need to be borne somewhere, and that could be quite a substantial cost. We would be concerned about that.

I think the final point that I would make is, even though it may not be in fact, there is the risk of it looking like a more subjective system. I

think that that's a risk both in the residential space, but also in the business space. We need to make sure that whatever the shift is, that there is the good evidence base and that there is the good policy background in the perception associated with the change. But as I said our position, for all of those reasons, is that we support the retention of the existing system.

THE CHAIRMAN: Thank you very much, Jane.

MR VERSTEEGE: Paul Versteege from Combined Pensioners and Superannuants Association of New South Wales. The issue of the method of rating the base for rates doesn't come up very often in a grassroots organisation; so we don't really have a view on it. I can just say that currently, of course, the majority of older people, and, certainly our membership, which is in the older category, still lives in free-standing homes. So they would, I guess, benefit if capital improved values were introduced because it would share the burden across apartments as well; that's how it would be seen.

On the other hand, apartments are also increasingly popular among older people who would not welcome paying higher rates as a result of this; so there are winners and losers everywhere there. That's probably the most sensible thing I can say.

THE CHAIRMAN: Thank you very much, Paul.

MR CARTER: Bill Carter from the City of Sydney. From our point of view, we have a significant problem in the way it's going with the rates categorisations we have at the present point in time with residential. Obviously, the buildings are enormous in the city and the volumes are going up. The levels of services required of people, the volumes of people being serviced for those higher levels of service, it's unsustainable the way it is currently.

We support the capital improved value because we think it's the better measure and a more consistent measure. On some of your questions here, we would recommend that everybody use the same basis. We don't like the idea of an inconsistent basis where people pick and choose because we think that will give you a whole lot of inequities, actually, or disparity in what's coming out and there will be a lot less understanding from people, generally. I think the point that Shaun made about people better understanding market value than some black box unimproved land value, I think would be useful.

Simon's idea about a different categorisation for stratas could, perhaps, solve the problem somewhat as well, and that was something we would look at. And I think the other point we would like to make on all of this anyway, is, regardless of the basis you use, it really is maybe an equitable basis, but it's not really a measure of people's capacity to pay on either basis because it's not going to guarantee you of that whatsoever; so that's one thing.

The second thing is then in terms of what the revenue raising is with the current rate cap, and I don't know if you want to talk about this separately, but with the current rate cap, unless you actually increase the overall rate cap, it will make it a hell of a lot easier to make it all work. There's not going to be enough money to fund the services that people are going to expect from living in the cities; so there's a number of issues that will need to be addressed there.

We think that regardless of what basis you're going to use, it's not going to make a hell of a lot of difference to property development because the rating bill for those areas is so miniscule compared to the other costs of property development, we don't believe it will be the significant driver.

The current special valuation process at the present point in time is a very political-type process where it does not really just come back to the fundamentals of the business model. If I use the city's experience as an example, what we do is we have a pie of the rates of what we have, and we have other use of charges, and then we look at how we live within our means and how we actually provide services to the community.

But is that the level of services that people require? Because the quality of the services that people ask for - and, we have a whole integrated plan or a boarding process, which is actually supposed to ask people what they want and what they're prepared to pay for it, which is actually not being talked about here at all as yet.

In terms of urban renewal, our own experience is in funding major infrastructure, whether you're talking about major storm water upgrades or whether you're talking about transport options, whether they be heavy rail, light rail - whatever they are, there's a significant deficit in all of

these areas in the state. The cap on the local government contributions of $20,000 has not helped local government to deliver that infrastructure and nor does the state seem to be able to fund it either; so we have a bigger gap coming all the time. I suppose the Queens Square urban renewal area is a classic example of that, and we were lucky enough to have an extra value capture levy on top of that, but we're still funding about half of it. So that's an issue that needs to be resolved in terms of urban renewal; that's probably enough to start with.

THE CHAIRMAN: Thanks a lot, Bill.

MR BULEY: Thank you. I'm David Buley from the Association of Independent Schools of New South Wales. My role here today is as Director of the Capital Grants Program. I suppose on the chicken and egg scenario, on the basis that schools currently get exemptions, if that continues, I don't think we really have a need to respond to this particular question; so perhaps I will park that and come back to it.

THE CHAIRMAN: I can give you first go in the next session.

MR BAXTER: Keith Baxter from the Office of Local Government. At first, I'd just like to welcome everyone's participation in this review. The government is really encouraging people to get involved. There have been a number of issues for a long time that councils and various other stakeholders have raised with the office and with the government, and we anticipate that this is a good vehicle to address many of these issues; so we are looking forward to a high level of sector feedback and consultation.

In terms of valuation methodology, we will leave that for IPART to make its recommendations to government because that's a matter for IPART to consider in considering the issues for today.

A couple of things that I would point out for the tribunal that we're keen to look at is this issue of the base and the minimums and the distortions that have happened through various court decisions and various tribunal decisions rather than legislative impacts on the base and the minimums, and whether there is a better way forward on base and minimums.

Many people in the room here will know about the impact or potential impact of the Blue Mountains case from the late '70s, which still is being felt by many councils and still is a significant issue that many councils raise with us on a regular basis.

In terms of the issue of categorisation, I think even if there isn't a broad enough broadening of the categorisation, which there is pros and cons for, I think there needs to be a look at the way the existing categories operate. One of the significant issues that is coming up increasingly is the way the mining rating category works or doesn't work, because it's a quite a tight definition within the Local Government Act.

It has led to some situations where, essentially, mines are being treated as a business for the purposes of categorisation because the councils can't rate them as mining because the definition is so narrow. And there are other distortionary or other aspects that the councils have raised with us in the past, which we'd welcome IPART's consideration to - such as, rating of energy projects, whether that should be a different category and various other issues that have been raised today. But other than that, I'm just happy to leave it there.

THE CHAIRMAN: Thank you very much, Keith.

Questions from the floor. Who would like to go first? Yes, down the front; we have got a roving mic.

MR WALKER: David Walker, General Manager, The Hills Shire Council. The views I express are mine, not necessarily my council's. My concern with all this review is you can make is very complicated or very simple. For someone to suggest that rates and minimum rates are regressive, I find that offensive because that's the most equitable way of people sharing the services. If we're going to take away base and minimum, well, we don't charge different amounts for the garbage charge. Everyone pays the same for the garbage charge; it's the way of equitable services in my mind.

Secondly, in terms of valuations and categories, it seems to me not necessarily for a country council, but for a city council a very simple solution: Keep the unimproved value, but apply capital improved value to the farmers, but make sure the difference in the rate revenue between the unimproved value and the capital improved value, you can add in notional income. If you just introduce CIV or CIV and UV together, you won't solve the problem. The problem

is that apartments don't pay a fair share of rates revenue, and the only way you can do that is allow an increase in the notional income. Thank you.

THE CHAIRMAN: Thank you, David.

MR MILLS: Gary Mills, CFO, Mosman Council. I have worked in local government for many years in many different councils. Just some comments, in terms of rate pegging and the practicality of the CIV, we have a revaluation under the UV every three years, and I can tell you that since 1993, nobody understands the movement in the valuation.

Regularly, every time there's a revaluation, the press says, "Oh, values have gone up 20 per cent; your rates are going up." Well, that's not true. And, conversely, with the CIV issue, I have a problem with how do you calculate that? And on how regularly do you recalculate that? Because development takes place every year and buildings are being improved year by year by year.

Now what's the impact of limiting rate pegging and how does that then spread out? So if somebody or one person only built a huge house, does everyone else's rates go down so he pays more? That's an issue for me, and that's hard to explain.

I think we need a paradigm shift, and I think we need to consider how can we best levy it and how can we best equalise the rate charge, and, in that case, I would recommend that you consider occupied floor space because as a guide, home units have an occupied floor space and a house has an occupied floor space. A house is bigger than the home unit, the house pays more; but that's an option I really recommend that you consider.

I think you also need to think about how low rates are. The average rates in New South Wales is not very high. The highest rating council - and, I mention them a lot and I get in trouble from them - is Hunters Hill. Its average rate is $1,420. It's average rate. That won't buy that household a bus ticket to the city.

There's actually 27 councils with rates greater than $1,000, average rates. There are 30 councils with average rates between $800 and $1,000. There are 39 councils with average rates between $500 and $800. Forty-four councils between $200 and $400, and then 12 councils with less than $200. Why do they have rate pegging on them for heaven's sake? They could increase their rates by 100 per cent with a very minimal impact. I think we need to understand that position and we need to come back to looking at how we best share the burden; it's not a big burden. Thank you.

THE CHAIRMAN: Thank you very much, Gary.

MR HALSTEAD: Brian Halstead; I'm just a ratepayer. Given that the emergency services levy is going to be implemented in '17-'18, it is absolutely critical that the same base is used for council rates and the emergency services levy. Could you go back to government and make sure that this study incorporates what's going to happen with the emergency services levy.

THE CHAIRMAN: Thank you, Brian.

MR McCALLUM: My name is Ian McCallum; I'm from Burwood Council. My job is Deputy General Manager, Corporate, Governance and Community. I just wanted to make a comment about capacity to pay and reflect a little on some experience that I had when I worked for seven years in Tasmania.

In Tasmania, the act gives the councils the ability to choose between one of three valuations; that's the AAV, which is the assessed annual value, and that's based on the value of renting the property, land value or capital value. The council that I was working at the time was very keen to see a change in the valuation use to capital value because they felt that it certainly reflected a greater capacity to pay amongst the ratepayers.

So we did quite an extensive consultation process with our community, which the council was very keen to do, but we also did an extensive modelling, as you can appreciate. One of the unintended consequences or one of the unintended results of it was that we became aware of a very well-orchestrated or very well-organised articulate group of ratepayers called the self-funded retirees, who very clearly made the point to the council that a lot of these people, through no fault of their own, live in high-value properties now that was their family home, but over the years has increased in value, and they made the point that they were cash-strapped but asset rich, and the council took their arguments on board and didn't change.

Now I think that's something that you need to be very mindful of with any of your recommendations you're making

because I can see that in our area, in Burwood, there's a lot of ratepayers who are pensioners and who are elderly people living in these expensive homes by themselves, who have a limited and restricted income and really would struggle. They don't want to leave their family homes, and they would struggle to pay a significant increase in their rates. So I just wanted to reflect that experience. Thank you.

THE CHAIRMAN: Thank you very much, Ian.

MR MANT: John Mant is my name; I'm a city councillor and I'm not standing for re-election. I feel free to say something so I'm speaking for myself; not the council.

One of my great disappointments in having a big hand in writing the '93 Local Government Act was that we missed out by two votes in the cabinet from having special rates freed from the rate-capping provisions.

I am a great believer in the American habit of asking sections of the community whether they'd like a new swimming pool or a new library or some extra parkland or a light rail and then getting them to vote on whether they are prepared to pay a special rate to meet some or all of the costs. Then doing what we all used to do years ago in local government, and that was to borrow long and cheaply and recover by using rates, instead of having to develop contributions. So a little old-fashioned democracy plus borrowings, I think, would go a long way to solving a lot of problems that we have in the city over this issue of value capture.

One other point, just to reflect on the last speaker, if somebody is sitting on very high-value land with only one or two people living in a several-bedroom house, the best solution overall is for them to sell it and to move into something smaller. Now I know that people don't want to do that because the tax advantages of staying there are so great, but I'm not sure that the rest of the community should be subsidising it.

THE CHAIRMAN: Thank you, John.

MR SMITH: Thank you, Mr Chairman, Barry Smith, I'm representing Local Government Professionals, New South Wales today. Also, I'm the General Manager of Hunters Hill Council. Yes, Gary, it is the highest average rate, but 70 per cent of my ratepayers pay less than that; that's just they way the system works. So it's a bit of a misnomer.

From a couple of points made, the valuer general has already indicated that there's probably insufficient data to swap to a CIV given the timing we are looking at the moment, and it seems if you don't have a reliable database, that could be a problem.

I think the other issue is that we have to absolutely look at this by getting rid of the notion of rate pegging. If you're talking about regressive taxes, rate pegging is the great regressive tax that we have to deal with. Because unless you can increase the size of the pie - and, I agree with David Walker, we have to capture more money from our apartments and units - if we don't increase the value of the pie, all that will happen is we will capture that and it will reduce residential rates because the pie is captured by this rate peg percentage. We're not going to get anywhere. We must absolutely get rid of rate pegging and start afresh.

THE CHAIRMAN: Thank you very much, Barry.

MR JOHNSTON: Thank you, Mr Chairman, Don Johnston from Woollahra Council. I just want to reflect on a couple of things very briefly, and that is that I think in reading the ILGRP report that the move to CIV was very much about value capture and not a means of redistributing current residential rates, and it's been touched on by a couple of people, and I think that's an essential as part of the discussion that we have here today.

Secondly, I would be interested in getting Simon's feedback at some stage in relation to the potential costs of moving to CIV, not only initially, but going forward. The mass valuation process we use at the moment is bargain basement stuff from where I stand for an excellent service that we receive.

Finally, I just want to make the point in relation to CIV that if we're exploring sub-categorisation and separating out multi-unit dwellings as part of that, do we need to use CIV to redistribute our rate base or can we simply levy different bases and ad valorem amounts in that context?

THE CHAIRMAN: Thank you, Don.

MS PARDY: Susan Pardy from Cootamundra Shire Council. I just have one really quick comment in regards to base amounts. I'm not sure if it's just something that we see in the region and whether the city counterparts also experience it, but within one sub-category we can have very disparate valuations. We have done some data work in the office and found that in one of our sub-categories, if we were to rely on getting the same revenue base but take away the base amounts, we're going to be hoicking up those rates at that one end, while at the other end the total rates is going to be $38 for one assessment. So we need those base amounts to help even out the rates while still putting in an ad valorem with the base, so that you are still paying more if your property is worth more, but just to eradicate those extremes. Thank you.

THE CHAIRMAN: Thank you very much, Susan.

MR HALSTEAD: It's Brian Halsted again. In your paper, you used market value and CIV alternatively. Could you make it absolutely clear what is meant by CIV as a ratepayer? Is it market value? I think it's very important that it be clear as to what it is.

THE CHAIRMAN: Thank you, Brian.

MR RUSH: The capital improved value basically is the market value. Exactly how you measure that, I will leave it to Simon, I think.

THE CHAIRMAN: It's probably the best proxy, but thanks Anthony.

Simon, do you want to say something?

MR GILKES: Yes, thank you. There's a couple of points that I would like to address that have come up.

Jane mentioned some comments that I made about the - she referred to the "evidence base". In making capital improved values which are, in fact, the market value, it's the value of the property as it sits there. It is not a problem with evidence as such to make a valuation in that that's every sale of the property that occurs. Where the problem is in New South Wales is that we don't have a database, and, I don't believe anyone at this point has a comprehensive database that describes and defines the improvements that have to be valued. And so, as I said, in Victoria, they make improved values and they do that very cost effectively, but that's based on a database that has been built up since the 1960s. And so to get to point - and, I'm sorry, I can't remember exactly who it was who asked the question as to what that would cost - I can't really answer that question off the top of my head, but it's many tens of millions of dollars to capture that data.

Whether that becomes easier in the future, I guess is one question. As I'm sure you're all aware, there are any number of websites now where there's details of houses for sale and so on and so forth; so that data is being built up. But certainly our understanding is that it's a long way from being a comprehensive dataset, which is what's required to come up with an equitable valuation base.

The other thing with the question around the maintenance of an improved valuation base, there's two elements of that. There's the regular revaluation process, where all properties are revalued; that can be done quite efficiently, similar to using mass valuation processes, and indeed that's done in many places around the world.

Where there is an additional cost though is that the value base has to be adjusted whenever improvements are changed and that happens much more regularly than changes to the underlying land. With a site value base system, you only need to create new valuations, if you like, when new sub-divisions occur and the like; whereas, with an improved valuation base, if a house is renovated or extended or so on and so forth that creates the requirement for that individual valuation and they're actually the most expensive valuations to make in the system.

THE CHAIRMAN: Thank you very much, Simon.

MR CUMMINGS: Doug Cummings from the Lake Macquarie Ratepayers Action Group. It's been very interesting to hear the comments that have flown around this room this afternoon. There's been a lot said that CIV is the market value; we would disagree with that. The CIV is the valuation, as the valuer general stated or Simon stated; it's part of the mass valuation system.

What our group has actually suggested is, if you like, a pseudo-CIV system that is truly market based, and it is predicated on what we've called a CAV system, which works on the market price that each individual property owner paid at the date of purchase. And where there is a significant time delay of more than 12 months between when

that purchase took place and the current time, you compound escalate that purchase price using an ABS statistic. Now you can go back through 50 years or more of ABS stats that looks at - particularly, in New South Wales - say, the average wage increase in New South Wales. You can use that as a compounding factor to bring the price up to a current date value. Then that value should be reflective of that person's ability to pay today. Not some notional mass valuation system that is predicated on the basis that if somebody comes in and buys a number of properties in an area in a short space of time, the valuer general starts to look at that and says, "Oh, well, just because your next door neighbour sold his property for a motza, your valuation is now going to be reflected by that", which does not take into account your ability to pay. It doesn't take into account the equity or a more inequitable system that the valuation system should do.

Now we have endeavoured to do some modelling, but you've got to do it on a large scale, and, in actual fact, you would generate numbers of the CAV value of the area or the city or the state that are very large. They're in the trillions of dollars, but the ad valorem component that comes out when you determine the size of the pie that you're going to divide into that value, the ad valorem rate becomes very small. And, in fact, we would like to take this matter up separately with IPART and the panel because I think the modelling we've done is very attractive as a pseudo-CIV system that overcomes most of the problems that you people have raised today about the CIV system.

THE CHAIRMAN: Thanks very much, Doug. Feel free to put it in a submission.

MR CUMMINGS: It's already in a two-part submission that we put in a month ago.

THE CHAIRMAN: Good. Thank you.

MR CUMMINGS: Can I just take a few minutes to take up on a point that the --

THE CHAIRMAN: It needs to be a quick few minutes.

MR CUMMINGS: One of the things that was mentioned was that there doesn't appear to be overall-arching aim or objective for the panel to be looking at. There's lots of implied things in the issues paper, most of which, of course, are going to require a lot of detailed thought. But what we thought would be helpful to everybody to understand would be for any report from the panel to include a clarification of the intent of what the panel or an objective of what the panel is trying to do, and with respect, we actually suggest the following wordage:

It has been IPART's intention to use the findings from this enquiry to make the following recommendations to government as to the best method of providing an improved local government property valuation process and rating structure that, if adopted, will deliver the fairest and most equitable system for the generation of local government revenue. Using the fundamental principles of taxation as to a progressive tax structure, predicated on the individual property's owner or owners' and taxpayers' financial means and ability to pay.

THE CHAIRMAN: Thank you very much, Doug.

MR McBRIDE: I would just like to say that we strongly agree with the comments that have been made on rate pegging by several people in the gallery. We do see them - rate pegging - as distortionary and with the introduction of integrated planning and reporting, it should be obsolete; so whatever purpose it did serve is probably past.

I just note with the asset rich/cash poor scenario that was spelt out, that there are probably several ways to deal with that and John Mant mentioned one of the most obvious; but there are others. However, there is a fundamental question to be addressed here, and that is, who or what level of government should be funding welfare measures? Because maintaining the rating system to protect the status quo is really affording a subsidy to certain members of society.

Now that might be desirable in society, but what level of government is responsible for that or should be? And just to bring some things into perspective, I often find it useful for people to compare their council rates, particularly on home units with their strata fees, which are often three or four hundred or five hundred percent greater than the total council rates they pay. So I think that's always useful for keeping things in perspective. Thanks.

THE CHAIRMAN: Thanks very much, Shaun.

MS PRYCE: Good afternoon, my name is Kristin Pryce and I'm here from the group called the Shopping Centre Council of Australia, and I think I will perhaps follow on from Jane as being perhaps the only business-orientated representatives. I almost don't know where to start with some of the views that have been expressed, whether it be around perceptions or around capacity to pay, which are quite distinct when you're considering myself as an individual versus some of the organisations that we represent and people's perception of that. We've made comments on that in the past, even down to some of the commentary around what people understand a CIV versus a UV value to be.

I don't think we're giving people enough credit to understand what an unimproved value is, particularly considering that being, as we mentioned, as proposed to be the valuation basis for the emergency services property levy and also for land tax in New South Wales currently. And certainly the principles of valuation were comprehensively reviewed by Parliament as I recall only a number of years ago. So in terms of the principles of that as a valuation base, they have been thoroughly considered and tested.

Another comment I will just reflect on and the experience of some of our members is the premise of sub-categorisation. Certainly, as that relates to certain business zonings and how sub-categories can be applied currently, and how that can currently be applied to types of property - business property, and how that in certain circumstances has resulted in increases to particular types of business property, if you like, in particular, local government areas.

So there's a lot flying around; there's a lot of things I agree with. I agree with Simon's comment that sometimes there will be a philosophical decision made by decision-makers as to the approach taken forward. I agree with Neil's comments around we actually can't be having these very fundamental discussions around valuation base without thinking about, "Well, what are we delivering? Are we continuing to deliver what is currently delivered more or less?"

I also agree with - and, I can't recall who made the point about it - Neil, I think it was you again, who made the point about balancing this perception around capacity to pay with user-pays. And certainly from the perspective of some of our members who expend considerable expense on whether it be things like garbage collection and doing that, but what is their actual demand on council services, which I think is something that can't be lost in that broader discussion, particularly as it relates to capacity to pay. Thank you.

THE CHAIRMAN: Thank you very much, Kristin. So now we will just move on to the second part of the first session, and I will ask Sheridan to make a short presentation on rating exemptions and pensioner concessions.

PART 2: Rate exemptions and pensioner concessions

MS RAPMUND: Thank you, Mr Chairman. I will start with exemptions. Exemptions are a subsidy to the exempt land uses that is funded by other ratepayers. This raises two high-level issues. Is the exemption appropriate? And if so, who should pay for it?

The Local Government Act provides for a significant number of exemptions. A few examples are schools, universities, charities and hospitals. We have done some preliminary analysis on exemptions by applying the tax principles that Anthony outlined earlier. Rate exemptions can have both a positive and a negative impact on efficiency and equity.

On simplicity, sustainability and competitive neutrality grounds there could be scope for improvement to the current system of exemptions. Apart from no change, we are considering a number of options for exemptions: Removing exemptions could be appropriate where activities are of a commercial nature; narrowing the exemptions where the land use is mixed between commercial and non-commercial activities; giving councils more discretion in setting exemptions or introducing rebates to replace exemptions.

The second part of this presentation is about pensioner concession. Eligible pensioners can currently receive a discount on their rates of 50 per cent, up to $250 per year. The funding of the concession is split between the local council and state government. This concession is comparable to that offered in other states, but is fully funded by the state government in other jurisdictions. South Australia and Western Australia offer rate deferral schemes. These work like a loan to pensioners who are charged interest by councils. Like exemptions, pensioner concessions have implications for

efficiency and equity. Some possible options are no change; a rate deferral scheme or an asset test that limits eligibility for the concession where the property is over a certain value.

I will finish with some questions for discussion. Firstly, on exemptions, are the current exemptions appropriate? If you think there are any changes needed, what might they be? On pensioner concessions, could the current pensioner concession scheme be improved? Thank you.

THE CHAIRMAN: Thank you, Sheridan. Comments from around the table? Do you want to start, David.

MR BULEY: What a surprise? Look, it is no secret where I would come into this and just to refresh who I am, I am the Director of Capital Grants Programs for the Independent Schools Association of New South Wales.

We represent around 400 schools in New South Wales, and I don't know if there is anyone from the Catholic Education Office here today, they would have slightly more schools, but they would be in much the same situation.

So clearly we would favour the existing exemptions to remain, but I would like to put this in context and then to explain or dispel some of the myths that might be around; especially, that all independent schools are incredibly wealthy, affluent and sit on large multi-million dollar blocks of land and so on.

Sixty-seven per cent of all of the independent schools in New South Wales are less than 200 students. Now working on a rough $15,000 revenue, and that includes government funding, you can see that the total revenue from most of those schools is somewhere around about $3 million, which puts them fairly squarely in the small category, and really unable to withstand a large quantity of expenses.

Sure, there are some more affluent schools, but they are definitely in the minority; so perhaps 10 per cent. Fifty per cent of all these schools charge less than $5,000, and to put that into context, they also have a significant level of scholarships and discounts to those parts of their community that need to or would like to go to that school but can't afford it for whatever reason.

I note the concept of competitive neutrality in this

Issue Paper, and clearly I suppose we might be seen to compete with the government schools; however, I understand they wouldn't pay rates either, but they obviously contribute through other taxation methods. But the fact of the matter is that over the next 15 years or so, depending on which LGA, there could be a 40 per cent growth in school-age population over that 15 years, which is a really tremendous amount for schools to be able to accommodate.

The state government has indicated it does not have the capacity to take any more than its current share and the non-government's share of total enrolments is around about 35 per cent; so it is over a third. So for every two students in a government school, there is at least one student outside the government system.

So they have said - and we meet quite regularly with them - that they don't have the capacity to do much in the way of capital growth in this area, and they are actually expecting the independent and Catholic sectors to contribute to that growth. So from the independent school point of view, we are more than capable of growing as long as we are given the same benefits that currently exist, and, that is, exemption from rates.

But also this extends to some of the other issues with local council in terms of some of the caps put on enrolments, presumably based on traffic or some other measure; but we're campaigning through government to have that looked at. To cut a long story short, yes, clearly we think there is more than enough reason for those exemptions to stay.

THE CHAIRMAN: Thank you very much, David.

MR CARTER: Yes, Bill Carter from City of Sydney again. There's a number of issues with the exemption, and I suppose some of them crossover. So there is some absolute clarity in some of them about who is and isn't entitled to an exemption. There's other areas of public benevolence in which we spend an enormous amount of time arguing about, and really it's a marginal line, it's right on the marginal line. They are either in or out and it's very arbitrary.

I think the fundamental question is, what is fair? We are talking about what is fair and who uses the services. We have all the federal government departments, the state governments and the schools and the like all using local council services, just like every other

business. That does conflict with their capacity to pay, and they seem to have the capacity to pay, but is that fair that everybody else is paying? We're moving into an environment where things are crossing over. There is no longer the delineation that there used to be. School ground, council ground, but now what we're doing is building schools right on the edge of the council park so that they can use the park as well. That's not a bad thing; that's quite a good thing, but then is that fair that everybody else is disadvantaged?

So I think the whole question from the principles of taxation really needs to be looked at, and then when you add on the emergency services levy that's coming on as well, they are now starting to talk about councils having to charge schools, churches et cetera, which we've never charged before. But not for rates, only for this, I think that's a real problem. So I think that needs some clarity.

THE CHAIRMAN: Thank you very much, Bill.

MR BUTCHER: Andrew from Campbelltown City Council. This is an area that I have been involved in for quite some time, and, as I said before, I have seen both sides, from what the council wants to achieve and what the community expects.

In regard to the exemptions, there is a significant issue for councils as to when an exemption starts. So some properties will claim an exemption going back two or three years can cost the council a significant amount of money in the year that it impacts, and the level of which exemptions do apply.

So I can give you a number of examples, which we will present in our submission, but in regards to David's point about education, I can give you an example of an education facility within our area that had approval to subdivide 800 residential lots onto their land. They had come to council claiming that they should be exempt from paying council rates on this residential land, even though it's not going to be used for the facility, but it does go towards funding the facility in the future. So they claim that it means that they are entitled to an exemption, and they have changed their act so that they would qualify for an exemption. We've managed to negotiate with them outside of that and they have agreed to pay it under protest.

So that's the sort of thing that is going on and it does grow. With regards to the schools that are granted, they do have benefits to local areas, but they also bring in a lot of infrastructure strains on the council and a lot of schools do draw from outside of the local council area; so the impact on the region is affected from that.

We would support the rebates in accordance with the question. We would support the rebate scheme. We think that some exemptions are not appropriate. In particular, more recently, community housing and the impacts that community housing potentially is going to have on the Campbelltown LGA.

Some years ago, just for a bit of food for thought, we did an exercise on the exempt properties and the cost to Campbelltown was $8.5 million per year; so if you put that into perspective, that's about 11 per cent of our annual levy, so it is significant.

In regards to pensioners, we're of the opinion that the funding - as Shaun has already touched on, which level of government that it should really come from, whether it should be from the federal or through to the state from the federal government as per the Independent Local Government Review Panel; we would agree with that concept.

Also with pensioners, the diversity of where the population sits. I think some of the schemes in loaning back - or the loan, as mentioned in South Australia, could have some adverse effects on some coastal councils where there is a lot of retirees who live in those areas. So that really would need to be looked at in detail.

THE CHAIRMAN: Thank you very much, Andrew.

DR WARREN: I just want to go back to the principles of good tax design here, and I think the element that's quite critical here is around the transparency principle. What worries me is that there isn't enough transparency to what actually goes on and who is then responsible? I mean, at national level and the state level, we have tax expenditure statements so you try to explicitly write down what's been given away, and then you, as a policy point view, try to move to a direction where they're on the books rather than off the books.

So I think what's critical here is that there is some consistency and transparency across local governments as well as their relationship to state governments in terms of

who's accountable, who's paying this, and knowing what we're actually talking about. It seems to me, from what I've heard, that there's a little bit of - you know, "It's seems to be an issue, we'll go out and we'll try to cost it; this is what it means for us". My ignorance might be the issue here, but there's sort of an argument at a systemic level that you try to be transparent about this so that you know what it's costing across these different jurisdictions, so that you know what each of those councils are giving away and to whom. And it's just not to individuals, but it's also to businesses as well as all these other groups that we're talking about.

THE CHAIRMAN: Thank you very much, Neil.

MR VERSTEEGE: Paul Versteege from Combined Pensioners and Superannuants. I think there's a lot of confusion about pensioner council rate rebates. We have been campaigning on this for a very, very long time. In fact, when I started in the aged policy area, it was my first media release calling for an increase in the rebate. It didn't happen and we still call for it regularly.

There's a few things that people need to realise. In Sydney LGAs, the state government funds the rebate to a very large extent. In fact, even if you index the council rate rebate as it is paid outside Sydney and Newcastle, Sydneysiders who qualify for it receive actually more than the indexed amount. So it's very good in Sydney.

When you move to Newcastle, which is where Hunter Water pays a water and waste water rebate, the situation is slightly less good, but it's still better than in most of New South Wales where people have been on the $250 --

THE CHAIRMAN: Excuse me, Paul, those are rebates for water bills. This is pensioner concessions for normal rates --

MR VERSTEEGE: I am getting to it.

THE CHAIRMAN: It would be good if you could get to it, yes.

MR VERSTEEGE: The point is, in Sydney and Newcastle, people don't get the council water and waste water rebate of $87.50 each year. They get a much more generous rebate from the Sydney Water Corporation, and in Newcastle and the Lower Hunter they get it from the Hunter Water Corporation.

There is an enormous inequity between pensioner classes is what I'm getting at. I'm a veteran of IPART; I've been given this type of comment before where I start talking about something that is outside the terms of reference, but is very much relevant to the issue.

We have three classes of pensioners in New South Wales: Sydneysiders, Lower Huntersiders and the rest of New South Wales. If you are going to review pensioner concessions as part of the council rating system, you also need to look at the concessions that are funded by the Sydney Water Corporation and by Hunter Water Corporation and look at the inequities that it produces.

THE CHAIRMAN: Thank you very much, Paul.

MR DAVID FARMER: I would like to make a few points about the changing nature of service delivery and the changing nature of our communities and the capacity to pay and who should be bearing the load. What we are seeing in our community is significant increases in activity in areas by NGOs, public benevolent institutions, universities, educational institutions and aged-care housing provided by not for profits.

So what we're really looking at is saying, in many cases, it becomes the ownership of the land - the current legislation is the taxation base - and it should be looking at the use of the land. It's specifically about residential. For example, what we're seeing in our town is thousands of university students' accommodation being built on campus, which will be rate exempt. If that was built across the road and privately owned, that would be rate paying.

We have situations where we have public benevolent institution-owned aged housing, luxury aged housing close to a million dollars in value on a golf course that is rate free. A perfect example is my friend's parents have just sold their $2 million-plus apartment on the waterfront and moved to another waterfront property, which is rate free and should that be exempt as well?

So I think we should be looking at the use of the land, and particularly if a land is being used predominantly for residential purposes, that that land should be able to be rated. At the moment, it is the ownership that is driving that, and that, I think, was discussed at Campbelltown as well. I believe it's pretty

relevant.

THE CHAIRMAN: Thank you very much, David.

MS COEN: I just wanted to talk about the pensioners. I think if we introduced a rate deferral scheme or an asset test that would place a burden on council to prove that; one, that the person is exempt, when we don't have the qualifications to do that, and Centrelink has probably already done it anyway before granting the pension. I think the rate deferral scheme, that would take some of the city councils - the management of that would be enormous. That's all.

THE CHAIRMAN: Thanks, Jeanette. I think we are running fairly close to the wire in terms of time, so I will ask some questions from the audience.

MR KONDILIOS: Thank you very much, Mr Chairman. My name is Stan Kondilios, and I'm representing the Archbishop of the Greek Orthodox Church in Australia, who has asked me to give a few remarks on his behalf.

Significantly, the church's landholdings of my church are places of worship, welfare centres of type and places of education. I hear the lament by the gentleman on my left here from the council, but to the extent that our church participates in land development as an enterprise, we don't seek the exemption. The discretion currently exists to government, and it's the church's position that it should remain to the extent that it needs to be tightened up, it should be tightened up for a genuine purpose. But certainly not removed so as to remove any ambiguity that might exist, which will genuinely allow those organisations within our community that gives support to the community to make an application on the discretion of the government. Thank you.

THE CHAIRMAN: Thank you very much, Stan.

MR GERGELY: My name is George Gergely; I'm a pensioner and I would like to talk about the pensioner concession. The $250 concession was not increased since 1994, when I paid $891 rates. With the $250 concession, it would be $641. Today, my rate is $2,575, and I'm still getting the $250 concession. My suggestion would be that at least it should be attached to an increase to the pension or something like that.

THE CHAIRMAN: Thank you, George.

MR STEWART: Thank you. My name is Bob Stewart, General Manager, Tumut Shire Council. We're a council on the south-west slopes. Within 300 kilometres of Tumut, there is 80 per cent of the state's plant softwood plantation industry. We have a land mass of 4,600 square kilometres; 62 per cent of that land is unratable. I want to concentrate on the three main unratable areas: State forest, national parks and water under dams.

Now we have 94,000 hectares of state forest. The plantation industry generates in the order of $968 million economic output. 94,000 hectares, we don't get anything for rates. We have 10,000 hectares of private plantation, they pay rates.

We have a number of dams in our shire, Tumut pondage, which stores water for the hydro-electricity scheme, it pays a rate; whereas, below it, Blowering Dam, 4,600 square kilometres pay nothing. Yet it is the same water used solely for irrigation and generates hyro-electricity.

We then move to national parks. We have commercial developments in those parks; they pay nothing for rates, yet the demand is on our services again. Thank you.

THE CHAIRMAN: Thank you very much, Bob.

MR BRIAN FARMER: Brian Farmer, Clarence Town Progress Association. I'm not related to David down here, but I will just pick up on one of the points that he said. I have a philosophical problem; a lot - and I know there are some that aren't - of schools, religions and indeed most of the government agencies are these days trading enterprises, and trading enterprises of some clout.

My council claims that 25 per cent of its area is quarantined for water purposes; again, dams and catchment areas and so on. But the point is that these users consume services and resources that somebody has to pay. On an equity and a competitive neutrality basis, why should any trading enterprise be exempt?

THE CHAIRMAN: Thank you very much, Brian.

MR McBRIDE: Just a few comments to add to what's already been said. Local government, New South Wales, we consider that all land that is available potentially for commercial use or residential use should be subject to rates, and if you start with that principle, it sort of makes the rest of the picture a bit simpler. But we find that many of the current exemptions probably had their roots in the late 1800s and early 1900s, and really are overdue for an overhaul.

We think there is a lot of scope for better targeting them, and I think as per the South Australian example that it's probably worth looking at partial exemptions or scaled exemptions or, as Andrew suggested, rebates as alternatives that would allow exemptions to be better targeted.

Just on the pensioner rates, we are very aware of the point that was raised over here about the pensioner rebate not having increased since 1993, where it has become a bit of an insult to people. Look, we support higher pensioner concessions and have advocated that they be increased to more realistic levels, but on the basis that they are 100 per cent funded by the state or federal governments as a welfare measure - as we believe they should be - and as they are in the other jurisdictions other than New South Wales. I just wanted to clarify our position on those points. Thank you.

THE CHAIRMAN: Thanks, Shaun.

MR GERGELY: Just to answer, my council, it has 40-60 per cent business - local government and the council. Not 100 per cent.

THE CHAIRMAN: Thank you.

MR WALKER: I agree fully with what David Farmer said; that in terms of the exemptions it should be based on land use, but I think everyone from local government in this room will probably hate me, but I think you have to remember the other side of the coin as well. Councils don't pay income tax; they don't pay capital gains tax and they don't pay payroll tax. I think if you start looking at exemptions too much, you will open up a Pandora box. Make it a simple principle of land use; otherwise, the next thing that will be charged will be income tax, capital gains tax and payroll tax.

THE CHAIRMAN: Thank you, David. Other comments or questions?

MR AITKEN: Luke Aitken from the New South Wales Business Chamber. Just a point of clarification, wasn't the legislation changed in 2010 for a general rate exemption so that benevolent societies only were rate exempt for the portion of the land that they were using for public benevolent purposes? The legislation is just here.

THE CHAIRMAN: Andrew, can you help out?

MR BUTCHER: Yes, that only applies to churches.

THE CHAIRMAN: Other questions or comments before we break for afternoon tea? No. Thank you very much; it's been a great session. See you all back here at 3:45pm.

SHORT BREAK

SESSION 2: Rate path freeze and establishing rates after the freeze

THE CHAIRMAN: So let's resume with session 2: Rate path freeze and establishing rates after the freeze, and I call on Letitia to introduce it.

MS WATSON-LEY: Session 2 will focus on rating issues for merging councils. For councils that merge as part of the Fit for the Future process, the government has announced a policy of freezing their existing rate paths for four years.

You will see from this slide that we have analysed this policy on two levels. We've defined a pre-merger council's existing rate path and then we have addressed the issue of how much discretion the council should have to set rates under this rate path. The slide indicates our preliminary view is that there should only be limited discretion.

Starting with the rate path, under our interpretation of the freeze policy, the rate path in a pre-merger council area will follow the same trajectory as if the merger had not occurred. The rate path is only adjusted for what we are calling "external factors", such as the rate peg, not as a result of the council merger. New special variations will only be permitted in three limited circumstances, which I will come to in the next slide.

So this slide steps through how we propose to define the existing rate path for a pre-merger council during the

freeze period. You can see that we start with that council's general income for the year in which the merger takes place. This is then adjusted by the following external factors: The rate peg; any special variations approved prior to the merger or any new special variations approved after the merger in three limited circumstances.

Firstly, where former Crown land has been added to the rating base of the pre-merger council. Secondly, for development contributions that are above the cap and the Environmental Planning and Assessment Act; and thirdly, to fund new infrastructure projects using a special rate.

We are particularly seeking feedback on this type of special variation. We consider the other two are likely to be less contentious. The special rate would only be levied on parcels of land that benefit from the infrastructure. We are proposing this type of special variation because otherwise councils might reduce the infrastructure development during the freeze period below that required by the community. The final external adjustment shown on the slide is to take account of any temporary multi-year special variations that have expired.

Turning to how councils set rates during the freeze period, we consider that the rates payable on each parcel of land should also only change as a result of external factors. Not because of the council merger. This means that councils will be unable to redistribute their rating burden between the pre-merger council areas that make up the newly merged council; base or minimum rates and ad valorem rates and rating categories within the pre-merger council areas.

So councils will only have limited discretion as to how they set rates. Firstly, a council could only increase base and minimum amounts by the rate peg or any applicable special variation. Secondly, a council could only allocate any changes to its rating burden among different rating categories of land using the relative share method or the fixed share method, and I will discuss them on the following slide.

Thirdly, councils could choose to set rates below the maximum amount they are permitted to charge. So the freeze policy acts as a ceiling. Councils may wish to go below this ceiling, particularly if this provides them with the flexibility to begin to implement their new rating system in the lead up to the end of the freeze period.

A council's rating burden changes when its general income is increased by the rate peg or any applicable special variation. We propose that councils do not have the discretion to determine which rating category of land should bear these changes.

For example, a council won't be able to allocate all of its rating burden increase to residential land and none to business land. Instead, rates for each category of land should vary according to one of two methods. Firstly, the relative change method. Under this method, the increase in rates for each category would be determined by relative changes in land value. If land values for business land have increased by more than residential land, then rates for business land would increase by more than rates for residential land. The combined increase in rates for these categories will match the increase in council rates permitted under the rate peg.

The second method is the fixed share method. Under this method, the rates for each category of land are increased by the rate peg irrespective of the changes in land values.

We have identified three options to implement the rate path freeze policy. Option 1 is to amend the Local Government Act to provide the minister with a new instrument-making power. During the freeze period, the instrument will be able to: Vary current provisions in the Local Government Act that apply to newly merged councils; and also impose obligations on those councils.

This provides flexibility to implement a potentially complex rate-setting mechanism that may require adjustments due to unforeseen circumstances. However, it does reduce some certainty around the freeze policy because it is not set out in its entirety in the Local Government Act.

Option 2 is to amend the Local Government Act to expand the Governor's existing merger proclamation power. Similar to option 1; this will allow the Governor to vary certain provisions of the Local Government Act as applied to merged councils and impose obligations on those councils. The disadvantage of this option is it provides less flexibility in relation to timing. So amendments would need to commence before the Governor makes any merger proclamation.

Option 3 is to amend the Local Government Act to accommodate the freeze policy. This option provides greater policy certainty, but it requires the entire rate-setting mechanism that will apply during the freeze period to be set out in the Act. This means there is less flexibility to respond to unforeseen circumstances. So on balance, our preference is option 1 because of the flexibility it offers.

The first set of questions for consideration during this session are: Do you agree with our interpretation of the rate path freeze policy? During the freeze period, should merged councils be permitted to apply for new special variations? Have the discretion to set rates? If so, in what circumstances? And do you agree with our preferred option for implementing the rate path freeze policy? That is, provide the minister with a new instrument-making power.

THE CHAIRMAN: Thank you very much, Letitia. Comments or questions from the panel? If anybody would like to start?

MR WALKER: Dave Walker, The Hills Shire Council. Thanks very much. I am in general agreement with it; I think you've made it too complicated though. I would have thought a simpler approach would have been for the government to determine that there will be a freeze on rates, limited to the cap for at least two valuation periods. And then even beyond that there should be a further limitation whereby two councils have merged, and there is a great disparity in the values in both areas, that those people who live in the area with the highest valuation, that is now part of that merged council, should only have a limited increase in their rates.

It's most likely - and if I use the example of The Hills Shire Council merging with Hawkesbury, the Hawkesbury Council has about $100 million of infrastructure backlog. Whilst the government has indicated $10 million for merger costs and $10 million for infrastructure, that's only going to go part of the way towards covering that, so my council is in a position to fund that infrastructure backlog from its reserves. But at the same time, if we end up with a merged entity, and rates based on valuations across both councils, I can see my ratepayers paying a disproportionately higher share.

So rather than a very complicated approach that you've got there, I would just prefer if, for the next two valuation periods, nobody's rates are allowed to go up by more than the rate cap amount; and also there be no allowance for special rate variations. If one of the aims of the merger process or amalgamation process is efficiencies, then there's got to be an incentive to get that efficiency.

I was in Victoria when Jeff Kennett did the amalgamations. I will say it wasn't four and a half years, it was 12 months, and it was fantastic because you just got on and did your job. But the first instruction we were given after the mergers happened was, "You have a three-year period to reduce rates in real terms by 10 per cent." So I think it's pretty generous if we were just restricted to a rates cap amount for two valuation periods.

THE CHAIRMAN: Thank you, Dave.

MR BRIAN FARMER: Brian Farmer, Clarence Town Progress Association. I am just adding to some of David's comments and some dilemmas that need to be addressed. If you have two councils that merge that have a rates disparity, but no services delivery disparity, then what do you do?

There's a couple of models been put up on the screen and other wiser heads than mine will address that, but I think a bigger issue - and, what is more likely to happen, is where two councils merge, there is a rates disparity, but there's a substantial services delivery disparity as well. So you've got this catch-22 situation. If there is a great services delivery disparity, what do you do? If council doesn't have the funds, they'll say, "Well, we'll wait for four years is up; we'll wait till the cap is lifted; we'll wait till we get an SRV through the system and then we'll go do something."

That's not very smart. It's compounded by the fact that some of the councils in the area that I come from who have made any merger conditional upon getting not only a big bucket of money from the government to catch up with the infrastructure backlog, but also that the rates freeze not apply. So one of the dilemmas for government and for IPART is that if the government is serious in implementing what they have promulgated by media release, then those merger proposals are doomed to fail because there's conditions precedent there that can't be met. I don't want to halt the time, but there's a couple of issues there that I do think need some serious consideration.

THE CHAIRMAN: Thanks very much, Brian.

MR CARTER: Bill Carter, City of Sydney again. I suppose the point I would like to make is the whole point of Fit for the Future is about is making more sustainable councils. So if you've got issues with two councils being merged together, you're going to have to address them. You can't just freeze everything and just hope that it's all going to sort itself out because it won't.

If you've got disparities of service or disparities of charges, you need to equalise those as quickly as you can. I would think - while you are trying to protect the ratepayer, I would think that the people being in the merged council promising they're going to be a better entity and be a better organisation is going to deliver better and fairer and equitable services. The whole point would be to get it to be as equitable as quickly as you possibly could, and freezing it for six or seven years I think is - I'd be horrified if that was me in that council. I think you actually need to look at the model again.

The other point again, is you have an integrated plan or a reporting system, the whole point is to have the discussion about what the people want to pay for; how do they want to pay it; who's getting more and not getting more and are they prepared to go with that or not. That's what the process is for. If you're not going to have that process in place, if you're just going to freeze the rates on the spot without having a discussion, then what's the point in a planning and reporting process? I don't think I quite get that.

THE CHAIRMAN: Thank you very much, Bill. As you know, it's in our terms of reference that the government has announced a policy to freeze the rates for four years; so a lot of the issues you are raising go to that policy, which is fine. I guess we would like to consult on what is the best way of interpreting the government's policy and trying to address some of the issues that you and others have raised.

MR TOWER: John Tower, New South Wales Revenue Professionals. As an industry body we agree with IPART's interpretation regarding the freeze path. However, we disagree with that in that, in 2004, when the water values were taken out of the land values and there was transitional legislation put in place that it didn't just equalise overnight, it was a 20 per cent maximum per annum to an individual property and that seemed to work well.

At the end of the day, it's the council staff that have to deal with - in five years time or six years time, whatever it is - when the equalisation takes place, that my rates went up by 50 per cent and someone else's went down by 40 per cent from adjoining councils.

To give an example, I work at North Sydney Council. We are proposed to be merged with Willoughby and Mosman at this stage, I think. Our average residential rate, including domestic waste is about $850, $900. Mosman is much higher; Willoughby's is a little bit more. So obviously the effect to us would be that our residential ratepayers will pay approximately $250 more, which is about 34 per cent.

THE CHAIRMAN: Thanks very much, John.

MR SPYVE: Paul Spyve, Queanbeyan City Council. I would like to congratulate IPART for trying to add a level of flexibility into this rate path freeze. However, I really support where Bill's coming from. We're in a council that is going into a merged situation, and we believe the rate path freeze policy is inconsistent with the intent of the Independent Local Government Review Panel's final report. This report was about creating sustainable councils within a flexible framework. What we have here is the imposition of a rigid, one-size-fits-all framework which restricts new councils for - well, initially, the first four years and even longer of their existence.

The underpinning logic for this policy appears to be the assertion in the KPMG study about the $2 billion worth of savings arising from mergers. Yet councils have been unable to obtain the primary source documentation relating to KPMG's work.

Now we all agree that we need to take a measured approach to implementing the new rating structures. What I strongly advocate is that we should let councils get on with that job and actually link back to their communities via the IP&R framework as they develop their first delivery programme.

Let them have that robust discussion with the community as to how they would implement rate equalisation, not in year 1 because year 1 is going to be sheer mayhem as the new councils come together; but from year two onwards

in that new delivery programme. If we could do that - and, I come back to the concept of the robust discussion where it's never comfortable for the councillors or even the staff to have that discussion, but we need to work through with the community what they're willing to pay and for the standards of service they are going to expect. Because when you bring these new merging councils together, there are going to be huge variations in service delivery. We are in a situation in Queanbeyan where we've got an urban council, which delivers a lot of services, being potentially merged with a rural council, which delivers very few services.

So there will be a high level of expectation from sectors of the new council area. So we've got to have that discussion with them in terms of what are the services we will be able to deliver and how it should be paid for.

Now, if at the end of the day, the community come back to us and say, "Well, we want those services and we are willing to pay for them", why should the new councils be excluded from the SRV process?

THE CHAIRMAN: Thank you very much Paul.

MS PARDY: Good afternoon, my name is Susan Pardy and I represent Cootamundra Shire Council, which is a regional council.

We are awaiting our proclamation to determine what our new future is. My colleagues and I are all struggling with the difficulty of putting in a rate freeze, and we actually have come up with an alternate definition to how we might frame the rate freeze. We don't accept that its intent is to lock in the rate burden of each category and sub-category as they currently exist within each pre-merger council. To do so, it is improbable to assume that a rating structure can and should remain static.

Instead, we suggest that its intent should be redefined and suggest that no ratepayer in a pre-merger council should be forced to subsidise any other pre-merger council during the four-year period.

In short, any increase to the total allowable income as a result of the rate peg should be contained to each pre-merger council rather than being added as an aggregate to the total allowable revenue of the new council. This still allows the flexibility of changes of the rate burden within the categories of those pre-merger councils.

The inequities that currently exist across two or more councils will only be further compounded in absolute terms if present day rating structures are locked in for those four years. It will impede our goal of rate equalisation and our ability to operate as one council if we cannot start work on integration immediately. We need access to this four-year period as a transitional phase.

THE CHAIRMAN: Thank you very much, Susan.

MR AITKEN: I guess I agree with the interpretation, but perhaps like others in the room, maybe the policy isn't quite right. I think it does come back to a couple of base questions around what is the council there to provide, and we heard quite a bit around differences in service delivery. Unless we've got some sort of picture about what we want the councils to be providing ultimately, it's very hard to picture, regardless of the interpretation we take about what sort of revenue you need to achieve that, and which council might be right within a merged entity.

There is one question I did have around the definition, that is, there is no ability to redistribute the rating burden between the pre-merger council areas to make up the new-merged council areas. So does that mean that within the older merged council areas, can you redistribute rates there? Or is it just across?

MS WATSON-LEY: Again, I guess it's to clarify that you can't increase rates in one area - one pre-merger council area to try and recoup the general income and exclude another pre-merger council area. So it's really trying to just segregate each pre-merger council area and their rates increase as if the merger hadn't occurred either by the rate peg or other types of special variation.

MR AITKEN: Obviously this means we can ultimately continue with three or four rating structures as we go forward as others have touched on. We're bringing in new councillors to make decisions about these things and they're pretty much hamstrung about one of the most important things that is there for a council to decide.

I'd obviously be open to the interpretation it provided, but potentially looking towards seeking ministerial approval if you need a special rate variation or something else. I think the policy has been pretty

explicit by government and it should be the government making that decision again around whether you should change things.

THE CHAIRMAN: Thank you very much, Luke.

MR JOHNSTON: Thank you, Mr Chairman. Don Johnston, CFO, Woollahra Council. Mr Chairman, just very briefly, we agree with the definition of the proposed rate freeze policy. Although, I would perhaps suggest that councils' long-term financial plans could possibly be brought into the mix in relation to identification of any potential new infrastructure projects that might be proposed, so nothing comes out of the left field, as such.

In relation to the discretion in relation to the mix of rates between categories within an LGA, I'm of the view that a rates freeze is a rates freeze and that should not be permitted within particular rating categories. Rates should be capped at where they are at the moment, subject to rate peg.

I suppose just by way of general observation, Woollahra's situation is perhaps a little different to some of the conversation we've had so far in that our merged partners at the moment, we have comparable average residential rates, arguably comparable services and service levels, yet post-merger,all the rate freeze is, is deferring the inevitable rates equalisation. There is going to be a shift in the rate burden based on land value; it's as simple as that. We need to get our head around that and I will put it on the table upfront: Who's going to design a taxing system that protects the wealthy?

THE CHAIRMAN: Thank you very much, Don.

MR McBRIDE: Shaun McBride, Local Government, New South Wales. Yes, we agree with IPART's interpretation of what we seriously consider to be a bad policy, and I agree with points that have already been raised on that. It is clearly in conflict with the objectives of Fit for the Future and the financial sustainability driver. But also we think there's some other consequences that councils have raised with us, and that is it will create and - by way of the freeze - perpetuate division in the communities between those who are in the former area that had a higher-rate structure and those in the former area that have a lower-rate structure. A lot of councils have raised that with us in various workshops and forums.

Another potential ramification of this will be then, because you're prolonging the process, at the end of the four-year period, councils might have to go for one-off or larger than they would have needed increases in SRVs, and the rate hikes, the differential between the high rating and low rating is probably, if not in real terms, it's probably in nominal terms grown during that period. So the nominal rate hikes to the ordinary ratepayers is likely to go up.

Apart from freezing it, you almost set a time bomb for the end-of-year four. So I think there are some real concerns about that and that needs to be taken into consideration. Hence, we do believe the council should be able to apply for SRVs during the four-year period for a wide range of purposes. They should just be able to apply like a normal council, subject to them satisfying the criteria that a normal council - a non-merging council has to satisfy. As people mentioned, there's integrated planning and reporting and community strategic planning. Okay, if they can satisfy the requirements for an SRV in under four years, why not?

We're not advocating dramatic changes in the first year; nobody would do that. I think past experience has shown that these tended to be phased-in over a period of two, three, four years. I would expect - unfortunately, this policy is going to mean harmonisation. It doesn't really commence until year four, when I think you should be nearly completing your rating structure harmonisation by the time you get to the end of year four, and then the council should be ready to go, so to speak.

I don't know how that can be worked into the policy that the government has left you with, but we can just foresee all types of problems with this. Thanks.

THE CHAIRMAN: Thanks very much, Shaun.

MR BAXTER: I will stay out of the issue of the government policy because the government's policy announced is the government's policy announced.

What I welcome with IPART - and I think IPART has done a good job of - is defining the rates path and putting forward some options for how that best is achieved. And I think the challenge in implementing the rates path plus also in defining the rates path is a balance between having

the rate set at a global level through notional general income cap, plus also the rates at the individual level recognising that there is variation in individual rates that comes from external factors.

I think one of the challenges is going to be in defining the rates peg, either legislatively or administratively through legislative instrument, is going to be how to capture changes in land use, such as a property that was zoned industrial previously that's now had a subdivision put on it.

I think that's going to be a challenge for the instruments that we create to create that flexibility for councils to recognise the changes in use, but still being consistent with the government's policy of the rates freeze.

THE CHAIRMAN: Thank you very much, Keith. As Letitia said, one of the key - and there's a lot of key questions, but one of the key questions is, during the freeze period should merged councils be permitted to apply for new special variations?

In Letitia's presentation, we flagged one special variation, which is the special rates for a specific project or a specific activity. What I picked up from Shaun's contribution was that you would be looking to broaden that --

MR McBRIDE: Yes.

THE CHAIRMAN: And then also you mentioned that it would be not likely that anybody would want to do that in the first year.

MR McBRIDE: That would be the expectation, given the comments I think Paul made there. I think most people would tend to agree that the first year is a difficult period at least.

THE CHAIRMAN: IPART would be pretty interested in hearing views on allowing special variations, apart from this special rates, and whether that should take effect from - if you support that - whether that should take effect from year one or maybe year two or year three.

Comments from the floor.

MR ROYDHOUSE: Thank you. John Roydhouse from the Institute of Public Works Engineering, Australasia, New South Wales division. We are a professional membership organisation that looks after the interests of public works engineers, primarily working in local government.

Just following on from your comments, Mr Chairman, and the suggestion that special rate variation may be allowed for new infrastructure, the whole local government reform process has been sold to New South Wales communities around the infrastructure backlog- probably more correctly referred to as a "funding gap" through infrastructure.

I would just hate to think that we are going to limit, not just from a financial perspective, but from a risk perspective to New South Wales communities whether they be Sydney CBD or in Western New South Wales. It doesn't matter where in this state that maintenance of existing infrastructure is also considered because there is a major need. There is an optimum time for intervention for infrastructure, whether they be renewal or maintenance, and we need to broaden that horizon.

THE CHAIRMAN: Thank you very much, John.

MR HALSTEAD: Brian Halstead. I note in some of the proposals for amalgamation that the minister put forward, as well as approved SRVs, he had listed intended SRVs that were put in the proposal. It is my understanding that those intended SRVs flowed through to the financial projections in KPMG.

Am I right in saying that IPART's interpretation of the rate freeze means that those intended special rate variations don't take place, and therefore the proposals put forward by the minister to the community are, in fact, wrong and are in error and therefore do not reflect the minister's own policy?

THE CHAIRMAN: I don't know whether you're right in saying that, Brian. When the councils were assessed for Fit for the Future by IPART, some councils put forward intended SRVs as part of their forward projections, and some of them are now applying for SRVs - the ones that are not up for merger. The question about the ones that put forward an intended SRV as part of their projection, and they have been unable to apply because they're subject to a merger, this is the issue we're discussing - whether SRVs should be allowed over the four-year rate freeze, and that's, I guess, an argument for allowing them.

Other questions or comments?

MR SMITH: Jeff Smith, Randwick City Council. It would appear as though the definition of the phrase "rating trajectory", as if a merger hadn't occurred, would appear as though the assumption of that trajectory is the rate peg for every year of that four-year period.

Just reinforcing Bill's comments from earlier, it would seem to not give due consideration to the integrated planning and reporting framework. Our council has actively participated in the integrated planning and reporting framework, and at the time of a new council coming on board, has had a conversation with the council and then a subsequent conversation with the community around the level of service that the council and the community would expect. It then applies for an appropriate rate increase for that four-year term to deliver on those service expectations. It would appear as though that opportunity seems to be lacking in the definition that's been created so far.

THE CHAIRMAN: I think that's another point towards allowing special variations. Apart from special rates. Any more comments or questions from the floor?

MR HALSTEAD: My understanding from your freeze policy implementation options that they all require legislative change. Therefore, I can only conclude that the government policy has been presented to the community when they do not have the ability to implement it, unless they get change through the upper house; is that correct?

MS WATSON-LEY: Each option would require some degree of legislative change. Option 1 requires the least; option 3 requires the most. It's a separate issue to how likely that legislative change is to be in a political sense. So we're looking at purely: What would you choose if you had to choose amongst these options, outside of how likely would one be to get through the Parliament.

THE CHAIRMAN: Brian, we have been asked to recommend some options on how to implement the freeze policy. We've put up three for discussion. Obviously, if there are others, we would like to hear about them now or in submissions. We have put up three. It is true that the three we've put up, as Letitia has said, do require legislative change - some more than others.

Any other comments or questions on this?

MR AITKEN: Just one reflecting that rates are only one part of a council's revenue. So I presume the government's not suggesting this freeze on user fees and charges. A lot of the difference has been between councils in determining their rating structure comes from their reliance or decision to rely on rates or on user fees and charges. Randwick just spoke, and I know that Randwick and Waverley had a big debate around parking fees. So what mechanisms are going to be there to restrict councils in terms of increasing those charges or balancing that out over the four years because, otherwise, you will see councils just finding revenue by other means.

THE CHAIRMAN: Thanks, Luke. This is just about rates; I mean, that's another issue we could discuss. I declare an interest, I live in Randwick.

MR TOWER: Thank you. Talking about special variations, if a special variation was to be applied for by a merged council, it would have to be levied as a special rate or some form of separate rate because otherwise it will just be added to the current rating base, and a disparity that may exist between the existing structure would just be exacerbated going forward.

THE CHAIRMAN: Let my just think about that because if a merged council were to apply for a special variation as opposed to a special rate, and IPART - at the moment, we would assess that against the criteria, it's then up to the council how it makes the rate adjustment. That's what happens at the moment.

MR TOWER: Not with the rate freeze, it wouldn't happen because if you add the sum of the rates for the merged councils together and then say it's 5 per cent on top of that, you would then have to put 5 per cent on top of each of the current structures. So the one that's the highest would now be more than 5 per cent greater - or getting more than 5 per cent of the existing - the smallest.

THE CHAIRMAN: Yes, that depends how you define rate freeze, which is why we're having the discussion.

MR TOWER: Yes, I understand that; I'm just taking a simplistic approach.

MR MILLS: Gary Mills, Mosman Council. We are about to - it looks likely - merge with North Sydney and Willoughby. The practical issue that hasn't been addressed is talking about the valuation base dates, and we have different base dates. So therefore you can't compare the rates, and we couldn't set up a uniform rate in the dollar in any case. So one of the issues for all the amalgamating councils - all the merging councils is they need to have the valuation harmonised before they can actually do that.

THE CHAIRMAN: Thanks, Gary.

MR BRIAN FARMER: Just a quickie: If a one or two per cent difference to harmonise rating valuation dates was all we were talking about, we would be very happy. My local council, depending on who they merge with, is looking at a 50, 60 or 70 per cent rates increase just to harmonise with that council, and our council in its deliberations to stand alone, proposed a 13 per cent increase for six years in a row, which, if you do the maths, is 180 per cent.

I would happily die with a smile on my face if it was only about a year or two's difference in valuation dates. There's much, much bigger numbers and much, much bigger principles involved at the moment. I think IPART has got some serious issues to address. If the government's mandate to freeze the rates means literally - I don't think that's what IPART is suggesting, but that's one extreme - if the delegates or the boundary commission or IPART or the minister opens the door a little bit, then that needs to be done very, very clearly.

I mean, the government rightly or wrongly announced that we're all going out onto the field to play a game of Aussie rules, and if we're going to change the game we are playing to soccer, we ought to know about it and we ought to know what the rules will be. That's one of the problems, and, hopefully, this IPART inquiry might provide - if I was an optimist - some more certainty.

One of the things I would say, and I'm aware that it's IPART's policy that where there are special rates variations the community must get involved in the process. One of the dilemmas I have is that our council said that they had community consultations, but I will stand up publicly and state they had no consultation at all prior to making the decision. So the fact that the council did or did not resolve to do something is not an indicator of the community's views. Something that, you know, IPART does, keep the bastards honest.

THE CHAIRMAN: Thanks, Brian. One of the criterion is community awareness. It used to be community support for the last - about three years, it's been community awareness and we do assess that criterion along with the other four when we make a decision. I don't know which council you're with, but I will check on it afterwards.

MR HALSTEAD: I just want to address the ceiling issue. I don't believe it should be a ceiling. If a special rate variation has been approved, then I think it should be implemented. If I take my particular case in Warringah, they have a 7.5 per cent special rate variation coming in, in '17 and '18. They will have the majority of councillors, and I, as a resident of Warringah, will be saying to the councillors, "Please don't implement this rate increase if it is not mandated."

So I suggest that it should be mandated; not a ceiling. Otherwise, if they don't put forward the rate increase, all the benefits from the amalgamations, if they exist, will flow to the Warringah residents.

THE CHAIRMAN:Thanks, Brian. Other questions or comments?

MS PARDY: One of the interpretations I've heard from our community is that the rate freeze extends to the rate peg number itself, and I was just wondering if IPART could comment on whether they intend on still determining the rate peg amount each year annually independent of the rate freeze policy itself?

THE CHAIRMAN: Yes, is the short answer to that, Susan. We set the rate peg under delegation from the minister. The minister can withdraw that delegation at any time, but we have been doing it for about six years, and we intend to set the rate peg each year according to the criteria that we have established, which is primarily based on the Local Government Cost Index.

We have got a short presentation.

MS WATSON-LEY: Yes, it's a very short presentation; we have touched on some of the issues. This is on establishing rates after the freeze period. So after the four-year freeze, merged councils will be required to set new rates across the whole post-merger area. As part of

our review, we will consider any issues that might arise in setting equitable rates and transitioning to them in a fair and timely manner.

At this stage, we have identified two issues: Rate equalisation, which I will speak to on the next slide; and another issue involves how to treat special variations approved for a pre-merger council. So again, based on feedback from the floor, this is a relevant issue.

During the freeze period, we propose that a merged council's general income will include extra revenue from the special variations. We consider this should also be the case for any special variations still in place after the freeze period expires.

Rate equalisation means that councils must set the same residential rate within a centre of population. This requirement to equalise residential rates could expose some ratepayers to increases after the freeze period. We've identified options to address these issues arising from rate equalisation. The first option is to remove the requirement. This requirement may no longer be appropriate given the much larger council areas that will result from the post-mergers. Larger councils may need capacity to charge different residential rates based on local factors; for example, differing demand for their services or different costs of supplying them.

However, if this requirement is removed, it may be important to impose the additional obligations on councils to protect ratepayers to ensure that rates do not become inequitable. The second option is to allow the merged councils to gradually equalise rates; so rather than requiring that they be equalised as soon as the freeze period expires.

The third option involves using other changes in the rating system to offset rate increases, and possible changes have been discussed in session 1, such as varying the rate, varying different valuation methods or the base and minimum amounts used.

The final set of questions for consideration during this session are: What changes should be made to avoid excessive rate increases after the freeze period? Are there any reasons why special variations for pre-merger councils should not be included in the revenue base of the merged council? And what other issues might arise for merged councils after the freeze period?

THE CHAIRMAN: Thank you, Letitia. Further questions, comments? Anybody on the table who would like to make a comment?

MR SPYVE: Letitia, I have just got a query in regard to this rate equalisation because there seems to be two different messages coming out on page 41. The paper talks about the ceiling concept, and it notes that this option provides council with the flexibility to begin implementing a fair and equitable rating system in the lead up to the end of the rate freeze period. And then on page 47, it goes on to say in point 7.1.2 that allowing merged councils to gradually equalise rates after the rate freeze expires.

So there seems to be two messages here; one, where you're saying with the ceiling issue, you can start the equalisation process early. Is that correct?

MS WATSON-LEY: That's correct. As far as the options, that is the third option. So you can either look at gradually increasing after the merger or the third option is, within changes to the existing system, pre-merger, you could go below the ceiling. So there are actually two different options to deal with rates post merger.

MR SPYVE: There's a big concern that we have in regard to councils being made to wait until the end of the four-year rate freeze, and then you are talking about an equalisation process and you're discussing the introduction of a percentage limit. I see in the paper it talks about something like 5 per cent. Then really what you're talking about for the newly created councils, they may not have their new structures in place for at least 10-11 or 12 years after the amalgamation has actually occurred.

Is that actually going to create the sustainable outcomes that the government has intended? And that's why I go back to my comment earlier, saying what we should be looking at is really how councils can commence the equalisation process from year 2. And I agree, the last thing I think any council wants to see are ratepayers being hit with 60-70 per cent rate increases. So if we can start that equalisation process as early as possible, it will actually work to the advantage of those councils in the end becoming the sustainable organisations that the government has said that they want them to be.

THE CHAIRMAN: Thanks very much, Paul. Other comments or questions?

MS PARDY: Thank you. In regards to possibly removing the sub-categories within the residential areas to assist with that harmonisation process, can I just say from a regional perspective to take it away completely so the option is no longer available would be dire.

We need to be able to identify differences between our towns, our villages and all the other residences and so to remove that sub-categorisation option would be very, very difficult for us to reconcile.

Also, we'd like to make the comment that the farmland category, we don't believe, has been given any consideration by IPART. At present, most regional councils elect not to use sub-categories of farmland, and so at the moment we're currently looking at combining three councils, and their pre-merger farmland rate burdens range from 31 to 74 per cent.

We, therefore, have highly disparate rates payable, and, like our city counterparts, are having difficulty reconciling what that's going to mean for their residential categories. We are looking at the exact same problem from the farmland perspective, but we don't feel it's been addressed in the issues paper.

THE CHAIRMAN: Thanks, Susan. On the farmland category, point taken. On the town centres, at the moment, regional councils can charge different rates depending on the town centre. This is a bigger issue for the metropolitan councils where you have two councils merged, and, by definition at the moment, that will be one town centre. So therefore they should be charged the same rates, and so what we are asking is whether that policy should be freed up for the metropolitan councils in particular.

Other questions or comments? Anything else? Thank you very much. This has been a really great session and we have got a lot out it. We really appreciate the input and the contributions that people have made. I'd like to thank you all for attending.

The 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 and others views considered, and that is by making a submission to the issues paper. We will be accepting submissions until Friday 13 May, and I thank all those who have already made a submission.

After considering your comments and written submissions received, we will provide an interim report to the Minister for Local Government in June 2016, outlining our preliminary recommendations on the appropriate approach for implementing the government's policy of freezing rate paths for newly merged councils for four years.

Following that, we will develop draft recommendations covering all issues and subject them to further public consultation through the release of a draft report. We will conduct another public hearing before presenting our final report to the Minister for Local Government in December 2016.

Thank you once again for attending and have a good evening.

AT 4.43PM, THE HEARING WAS ADJOURNED ACCORDINGLY