Inquiry into the

Rates and Land Tax Amendment Bill 2003

Report No 5

Standing Committee on Public Accounts

June 2003

Legislative Assembly for the Australian Capital Territory

Committee membership

Mr Brendan Smyth, MLA (Chair)

Ms Karin MacDonald, MLA (Deputy Chair)

Ms Kerrie Tucker, MLA

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Resolution of appointment

The Standing Committee on Public Accounts was appointed by the Legislative Assembly on 11 December 2001 to:

(i) examine:

(A) the accounts of the receipts and expenditure of the Australian Capital Territory;

(B) the financial affairs of authorities of the Australian Capital Territory; and

(C) all reports of the Auditor-General which have been presented to the Assembly;

(ii) report to the Assembly, with such comments as it thinks fit, any items or matters in those accounts, statements and reports, or any circumstances connected with them, to which the Committee is of the opinion that the attention of the Assembly should be directed;

(iii) inquire into any question in connection with the public accounts which is referred to it by the Assembly and to report to the Assembly on that question; and

(iv) examine matters relating to economic and business development, small business, tourism, market and regulatory reform, public sector management, taxation and revenue and sustainability.

Terms of reference

To inquire into the Rates and Land Tax Amendment Bill 2003 and report pursuant to order of the Assembly no later than 17 June 2003.

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Summary of recommendations

The Committee recommends that:

(i) the Legislative Assembly should not pass the Rates and Land Tax Amendment Bill 2003;

(ii) in consultation with the Community, further evaluative work be undertaken to develop an alternative rating system or improve the current rating system to address the concerns raised in submissions and evidence taken through this inquiry; and

(iii) the evaluative work undertaken (as recommended in (ii) above), include consideration of concessions, waivers and deferrals available in other jurisdictions; and

(iv) upon completion of the evaluative work undertaken, that this work be presented to the Legislative Assembly for consideration.

1. Introduction

1.1. On 3 April 2003, the Rates and Land Tax Amendment Bill 2003 and accompanying explanatory statement were presented to the Legislative Assembly. Not withstanding Legislative Assembly Standing Order 174[1] the Bill was referred to the Standing Committee on Public Accounts for inquiry.

1.2. On 4 June 2002, the Legislative Assembly passed the Rates and Land Tax Amendment Bill 2002[2]. The purpose of the Bill was to adjust the rating assessment for all properties in the financial year 2002-2003. This was done by increasing the rates charges during 2001-2002 by the 'actual movement in the Consumer Price Index (CPI) in the ACT'[3]. Rates were then capped at 2.9 per cent in 2002-2003.

1.3. In 2002, after a review of the rating system in the ACT, the Department of Treasury in line with the Government's election promise, formulated a proposed new system of rates for the ACT. The new system is contained in the Rates and Land Tax Amendment Bill 2003. The purpose of the Bill is to amend the *Rates and Land Tax Act 1926* to establish a new rating system for the ACT. The Government advocates that the new rating system is aimed at making 'Canberra's rates system fairer for all "long-term" owners of residential and rural parcels of land'[4].

1.4. During the course of this inquiry, the Committee focused on the likely social, economic and environmental impacts the new rating system would have on homeowners and potential homeowners living in the ACT. The Committee made four recommendations in their examination of the Rates and Land Tax Amendment Bill 2003. A summary of these recommendations appears on page v of this report.

2. Conduct of the inquiry

2.1. The Committee invited individuals and organisations to lodge submissions to the inquiry through unsolicited letters and also advertised in the local print media on Saturday, 12 April and Wednesday 16 April 2003. A full list of the details of submissions received can be found at Appendix A of this report.

2.2. The Committee held public hearings on 30 April 2003 and 4 June 2003 and heard from the following individuals:

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[1] Standing Order 174 states that 'Immediately after a bill has been agreed to in principle a Member may move that the bill be referred to a select or standing committee.

[2] The Bill was presented to the Legislative Assembly on 9 May 2002, Legislative Assembly for the ACT, Fifth Assembly, Minutes of Proceedings No 16, Thursday 9 May 2002, p 142.

[3] Calculated in movement of CPI from the December quarter 2002 to the December quarter in 2001 as reported by the Australian Bureau of Statistics as 2.9 %.

[4] Rates and Land Tax Amendment Bill 2003, Presentation speech, circulated by authority of the Treasurer, Ted Quinlan, MLA on 3 April 2003.

Mr Ted Quinlan, MLA, Treasurer

Mr Jim Purcell, Executive Director, Council on the Ageing (ACT) (COTA)

Mr David Tennant, Director, Care Incorporated

Mr Daniel Stubbs, Director, ACT Council of Social Service Incorporated (ACTCOSS)

Mr Denis Lovell, Partner, McCann Property and Planning

Dr JM (Mac) Dickins, Chair, North Canberra Community Council Incorporated

Mr Denis Robinson, North Canberra Community Council Incorporated

Mr Noel McCann, Property Council of Australia

Mr Barry Raison, Private citizen

Mr Peter Jansen, President, Property Owners and Rate Payers Associations of the ACT Incorporated

Mr Jeff Carl, Chairperson, Weston Creek Community Council

Mr Ken Roberts, Chief Executive Officer, Real Estate Institute of the ACT Limited

Mr Craig Bright, Councillor, Real Estate Institute of the ACT Limited

3. The purpose of the Rates and Land Tax Amendment Bill 2003

3.1. The purpose of the Bill is to introduce a new rating system for the ACT by amending the *Rates and Land Tax Act 1926*. The new rating system[5] would take effect from 1 July 2003. Those homeowners classified as, "long-term owners"[6] under the proposed new system would pay their previous year's rates bill in addition to the movement in the CPI. Any increases in the Unimproved Value (UV) of their parcel of land would not be included in the rates bill for their property until the property was sold, effectively deferring any increase or decrease in unimproved value. To remove disadvantage for "new" owners who purchase a parcel of land before 1 July 2003[7] a phasing-in period is also included in the Bill.

[5] If agreed to by the Legislative Assembly
[6] This pertains to owners of rural and residential land.
[7] Rates and Land Tax Amendment Bill 2003, Explanatory Statement circulated by authority of the Treasurer, Ted Quinlan, MLA on 3 April 2003, p 2.

3.2. The formulae for the calculation of rates for the various categories of residential, unit and rural properties can be found at Appendix B. The rating factor 'R' is the only variable that can be adjusted by the Government to collect more or less revenue as desired. The economy and, property and housing markets determine the CPI and the UV respectively. The rating factors for each property type are also included at Appendix B. The Average Unimproved Value (AUV) of a parcel of land, which is part of the formula used to calculate rates, is an average of the unimproved value of land as it was over the previous three years. For example, the rates bill for a homeowner who bought a new home in the year 2005 is calculated using the average of the unimproved values of that parcel of land as they were in 2002, 2003 and 2004 in addition to the movement in the CPI. That owner may continue to own that property, but will not pay more or less in terms of AUV, (as part of their rates bill) than when the home was first bought. Once the property is sold to a new owner, the AUV is recalculated using the previous three years' unimproved values (rolling three year average) for that property.

3.3. The current rating system[8] differs from the proposed new rating system in that the CPI is capped at 2.9%[9]. In addition, the average unimproved value is calculated using the land values as they were in 1999, 2000 and 2001, not incorporating the unimproved land value for 2002. In 2003-04, the CPI rate in the rates formula will increase to 3.2 % in line with the rise in the CPI[10].

3.4. The Government has stated that the intention of the proposed new rating system is to preserve long-term homeowners from being rated out of their suburb. Rating out may occur due to a sudden increase in the popularity of a particular area and or suburb[11] as the level of rates paid by residents is dependent upon the factors that affect the value of parcels of land within a particular suburb. There are varying reasons why the rates in a suburb may increase. An example of this is the recent high selling prices of parcels of land in fire-ravaged[12] suburbs that will flow on to an increase in rates for homeowners in those suburbs as the unimproved value of land has increased. Another example is the rise in popularity and residential prices of suburbs in the Canberra Central area.

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[8] Established by amendment to the *Rates and Land Tax Act 1926* through the *Rates and Land Tax Amendment Act 2002.*

[9] A CPI of 2.9% as published by the Australian Bureau of Statistics in the 2001 December quarter.

[10] Letter to Mr Smyth, MLA, Chair of the Standing Committee on Public Accounts, from Mr Quinlan, MLA, Treasurer, dated 24 April 2003.

[11] Transcript of evidence, Inquiry into the Rates and Land Tax Amendment Bill 2003, Wednesday, 30 April 2003, p 1.

[12] Refers to the 18 January 2003 fire storm.

4. The social and economic impacts of the proposed new rating system

4.1. According to the majority of submissions received by the Committee, the proposed new rating system if implemented could have an adverse economic and social impact on: already economically disadvantaged groups, recent retirees, growing families, and those wishing to relocate within the ACT[13].

4.2. 'Long-term' homeowners and 'new' homeowners within the same suburb will have differing average unimproved values (AUV) on their parcel of land. This will result in different rates being paid by homeowners and possibly neighbours within the same suburb. The distinguishing factor between the two categories of 'long–term' homeowner and 'new' homeowner is that for new homeowners the AUV will be calculated using the previous year's unimproved value (UV) of their parcel of land. Long-term homeowners will not be affected by a change (whether an increase or decrease) in the unimproved value of their parcel of land unless they move residence within the ACT[14]. This could however, provide a disincentive for long-term homeowners to move residence within the ACT, as they will pay the deferred AUV, and a higher level of rates for their new property. Should the UV fall (and thus lowering the AUV), under the new proposed system, long-term owners become disadvantaged and locked into paying a higher level of rates.

4.3. It is suggested that over time (between 5-10 years) that under the proposed new rating system, that the disparity of rates paid by 'new' and 'long-term' homeowners will be ever widening[15]. In effect, creating greater economic and social inequity.

4.4. The proposed new rating system if implemented, could create an economic disincentive for people to move residence frequently or as required and desired within the ACT. This consequence could bear particularly harshly on recent retirees wishing to relocate to a smaller residence within the same community or to closer support networks (regardless of location); growing families who desire to move to be closer to schools and community services; people with disabilities who can not modify their existing residence; and those wishing to move residence within the ACT. People may be penalised for needing and wanting to move according to their financial and or social needs. Environmental considerations may also lead to a desire to move. This decrease in mobility could impact upon the ACT housing and property markets through decreased demand for, and in the longer term, supply of, properties.

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[13] Submissions 1, 4, 5, 6, 7, 8, 9, 10, 12, 13, 14 & 15 received by the Standing Committee on Public Accounts as part of the Inquiry into the Rates and Land Tax Amendment Bill 2003.
[14] Explanatory statement to the Bill, loc. cit..
[15] Transcript of evidence, Inquiry into the Rates and Land Tax Amendment Bill 2003, Wednesday, 4 June 2003, p 5.

4.5. It is acknowledged by the majority of submissions[16] that the proposed new rating system may benefit long-term homeowners. Two submissions received[17] by the Committee were in favour of the proposed Bill as rates would follow the movement in CPI and so allow long-term homeowners, especially pensioners, to be able to continue to afford to pay their rates[18]. It was stated in one of these submissions that, such a method would… 'be of particular advantage to retired residents who do not wish to be forced out of the long-standing occupation of their homes by rising rates'. Further the … 'measure…[would] give a degree of certainty to the size of homeowners' rates, which …[would]…allow them to budget for the amount with some precision…[and shield them]…from the effects of high sale prices paid for nearby properties[19]. Another submission supported the changes to the current rating system, and advocated that the Bill introduced … 'a safeguard mechanism for all owners … [who] may be seriously and adversely penalised financially because their area is earmarked for development, or increases in value rapidly for another reason[20].

5. Rating systems in other selected Australian jurisdictions and an alternative rating system for the ACT

5.1. The Committee examined rating systems and concessions within other selected Australian jurisdictions with a similar demography to the ACT. These included Brisbane (Qld), Noosa (Qld), Newcastle (NSW), Eurobodalla (NSW), and Wollongong (NSW). A brief break down of the population, including those aged 55 years and over, not in the labour force, is at Appendix C. A summary of the data collected about the various rating systems is at Appendix D including the concessions available at Appendix E.

5.2. The ACT has a different rating system to the other jurisdictions examined. The rating systems differ in how they are calculated and the concessions available. There is also an environmental component levied in the rates in Newcastle, Eurobodalla, Wollongong and Noosa.

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[16] Submissions 2, 3, 4, 6, 7, 8, 9, 12, 14, & 15
[17] Submissions 2 & 3
[18] as pensions are indexed to CPI.
[19] Submission 3
[20] Submission 2

5.3. Community comment did not advocate one particular (or best) rating system over another. However, there was agreement from a number of submitters[21] that, a rating system where rates are calculated using the Improved Value (IV) of a property is the most equitable rating system. Basing a rates system on the calculation of improved values takes into account the value of the building structure on a homeowner's parcel of land. It is also more closely linked to an individual's income and their likelihood of capacity to pay their rates. Also, such a system does not discriminate between suburbs of differing values, alleviating any fluctuations in property markets. One possible drawback with such a system is that it may provide a disincentive for people to improve their dwellings for fear of a rates increase.

5.4. The Government has not undertaken any economic modelling relating to this particular type of rating system, but stated that such a system would be costly to establish and administer[22]. It was stated by one particular witness, through evidence given to the Committee that the problem of high administration costs could be avoided through 'broadbanding' where …'the same rate applies to every property' within a certain price bracket. For example, one rate could apply to properties valued at between $300 000 and $400 000. The only problem then is found for properties valued at the borderline of each category. The issue of homeowners possibly not wanting to improve their dwelling for fear of a rates increase is dealt with by … '[assuming] average conditions, so that anything extra special or anything extra bad gets ignored and [the properties are treated] as average'[23]. Another witness stated that an improved value system is used in several states of Australia[24], those being Western Australia, South Australia and Tasmania[25].

6. Government comment about the Bill

6.1. The Treasurer in his presentation speech to the Legislative Assembly stated that the Bill has the aim of making 'Canberra's rates system fairer for all long-term owners of residential and rural parcels of land'. The Government has also stated that all existing concessions and deferments for homeowners under the present system of rates will remain. In addition, 'Concessions for pensioners will be portable and move with them from one parcel of land to another'[26].

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[21] Transcript of evidence, Inquiry into the Rates and Land Tax Amendment Bill 2003, Wednesday, 4 June 2003, pp 50 & 55.
[22] Transcript of evidence, Inquiry into the Rates and Land Tax Amendment Bill 2003, Wednesday, 30 April 2003 p 9.
[23] Transcript of evidence, 4 June 2003, p 55.
[24] Ibid., 34; This witness was part of the team that produced the report of the Review of the ACT Rating System dated November 1995.
[25] Ibid.; Review of the ACT Rating System, November 1995, p 58.
[26] Presentation speech, op. cit., p 3.

6.2. Further, the Government has stated that detailed modelling of a number of rating systems was carried out over a period of months with the preferred model as proposed by the Bill, chosen[27]. The Committee to date has not received any comprehensive evidence of the modelling that was carried out by the Government. No evidence of comprehensive economic or financial analysis has been released to the Community either[28].

6.3. The Treasurer has said that the proposed new system is not a revenue raising measure[29]. Rather the new system is part of an election promise. The idea for the proposed new rating system grew out of a concern that a particular long-term resident of a central Canberra suburb had, about being rated out of their suburb[30]. The proposed Bill is intended to address this concern by creating a buffer for all long-term residents.

6.4. The Government contends that under the previous system, introduced in 1996, homeowners had absolutely no ability to calculate their rates from a year to year basis, and therefore, could not plan what their rates would be for the coming year or years. The reason for this being that the rates were calculated on the basis of a global increase distributed amongst all property owners, based on their share of the total AUV.

6.5. Under the proposed rating system, long-term owners would be able to calculate their rates bill with a higher degree of certainty due to the increase being limited to CPI.

6.6. The Government agrees with Community opinion that the new rating system may create a disincentive for people to move 'in certain cases'[31]. And when questioned about this possible outcome, the Treasurer stated that he … 'would be prepared to entertain suggestions from the Committee as to how [he] would facilitate the movement of people who genuinely want to move, and somehow insulate them against that'[32]. The Treasurer further stated that he thought… 'there is room to provide for dispensation to allow for [this] sort of movement, but not just random choice.…If you live in Forrest, you pay Forrest rates'[33]. When questioned about the possible cost of such dispensation, the Treasurer didn't … 'believe there [were] going to be too many of those cases. There'll be some'[34] and that such a system would not… 'accommodate people moving away from neighbours, barking dogs or loud hi-fi systems'[35].

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[27] Transcript of evidence, 30 April 2003, p 4.
[28] Transcript of evidence, 4 June 2003, p 25.
[29] Ibid., p 5.
[30] Ibid., p 6.
[31] Ibid., p 7.
[32] Ibid..
[33] Ibid., p 8.
[34] Ibid..
[35] Ibid., p 9.

6.7. The Treasurer has stated that concessions and deferrals would continue to be available under the proposed new rating system[36]. When questioned by the Committee, the Treasurer conceded that the criteria and circumstances under which concessions were to operate (for those groups that could be adversely affected by the Bill), [did not] 'exist in detail'[37]. One Department of Treasury Officer further stated that … 'there are already provisions for the Treasurer to provide further concessions if there are compelling circumstances. … 'Guidelines and criteria [could be provided] … to suit a particular group [or there could be consideration of] these [individuals] on a case-by-case basis depending on Government policy'[38]. The Treasurer agreed to provide more detail about the concessions that would be available under the proposed new rating system[39]. On 11 June 2003, the Government responded to the Committee's information request and stated:

> 'The current concessions will be extended to include those who were already long-term owners, have no interest in property other than the newly purchased property; satisfy the income test as determined by the Minister and are purchasing a new residence for one of the following specified reasons:
>
> - the new property is residential property where the ownership is restricted to people 55 years or over;
> - ill health or a disability; and
> - where the Commissioner for ACT Revenue is satisfied that the move is for "compelling compassionate" reasons.
>
> These will ensure that people who meet a means test and who are forced to move because of ill health, retirement, or compassionate compelling reasons can retain the new property's last year's rates increased by CPI for the new property they buy'[40].

6.8. The Committee asked about the possible impact the proposed new rating system could have on people wanting to move for environmental reasons (such as to a smaller house to suit the household size) and whether the proposal had been referred to the Office of Sustainability[41]. The Treasurer responded by saying 'No, we haven't referred it'[42]. No further explanation was made.

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[36] Presentation speech, p 3; Transcript of evidence, 30 April 2003, p 7.
[37] Transcript of evidence, 30 April 2003, p 20.
[38] Ibid..
[39] Ibid., p 19.
[40] Answer to Question taken on notice at public hearing held on 30 April 2003, from Mr Ted Quinlan, MLA, Treasurer.
[41] Located within Chief Minister's Department.
[42] Transcript of evidence, 30 April 2003, pp 19 & 20.

6.9. One witness stated that only 71 offers of deferment had been taken up by the Community[43]. One community group conceded that they were unaware that a system of deferrals existed within the ACT as deferrals were …'not covered in the…legislation'[44]. In the Treasurer's opinion, the low take up rate of deferrals was not a case of … 'people not [being] aware of it. And then stated further, 'I think that, having paid for it, people don't want to be effectively selling off the family home while they're still in it'[45].

7. Community comment about the Bill[46]

7.1. The majority of community individuals that made submissions[47] and appeared before the Committee were sympathetic to concerns about being rated out of their homes, but expressed concerns about the negative social, economic and environmental impacts the Bill could have on the Community if passed. There was also concern about the negative impact the Bill could have on the rental, property and housing markets in the ACT[48]. This is with the exception of two submitters[49] that agreed with the proposed Bill entirely.

7.2. In particular, ACTCOSS[50] raised concerns about the Government's use of the rates tax stating that it is a socially inequitable way to raise revenue[51]. Further stating that the amount paid in rates is not linked to the ratepayer's capacity to pay.

7.3. ACTCOSS, COTA[52] and Care Inc. all agreed that a significant drawback of the proposed new rating system is that it may result in forcing people out of their community[53]. Care Inc. further stated that in view of recent 'reviews of poverty' that a rating system has … 'a capacity to respond to need'[54]. While Care Inc. believes the proposed new rating system would deliver some benefit to people currently being rated out of their suburbs, there was a belief that the system would also limit people from being able to move to more appropriate accommodation if and when the need arose[55].

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[43] Transcript of evidence, 4 June 2003, p 38.
[44] Ibid., p 68.
[45] Transcript of evidence, 30 April 2003, p 7.
[46] The Rates and Land Tax Amendment Bill 2003
[47] Submissions 1, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15.
[48] Transcript of evidence, pp 48, 72-73.
[49] Submissions 2 & 3.
[50] ACT Council on Social Service Incorporated
[51] As revenue collected from rates is not specifically used to fund municipal services within the ACT.
[52] Council on the Ageing (ACT).
[53] Transcript of evidence, 4 June 2003, p 25.
[54] Ibid., p 31.
[55] Ibid., p 26.

7.4. The main issue in implementing a tax is achieving a balance between equity and efficiency. One witness stated that … 'no system is capably both, that invariably whenever you [look] into [the fundamentals of] a system, it's going to have inequities or it's going to have inefficiencies'[56]. Another witness stated that he … 'believe[d] the current system delivers equity as best [as] it can[57].

7.5. Other individuals and representatives from community organisations advocated that a rates system be adopted that is linked to people's capacity to pay their rates. Two submitters mentioned that another approach is to base arating system on the improved value of structures such as houses, units etc rather than the average unimproved value of a parcel of land[58]. This would have the effect of not rating people out of their suburb. The view was also expressed[59] that should the proposed new rating system come into effect, the Government would lose a significant amount of revenue that it currently receives through stamp duty tax. And also, that the Government may not be able to continue to supply land as efficiently into the future. The unknown effects of the Bill on the rental market were also of concern as was the lack of evidence that the Government had undertaken sufficient modelling to determine the impact of the Bill on the ACT property market[60]. ACTCOSS also stated that despite the Government having considered a number of rating models, only one was proposed for community comment after it had been developed. In the opinion of ACTCOSS, this did not constitute community consultation[61].

7.6. The individuals in favour of the proposed new rating system advocated that aged persons prefer not to relocate from their residence unless they have to, due to ill health or physical mobility restrictions. It was widely acknowledged that aged persons prefer not to take up the deferred payment of rates option as it left people feeling as though they were accepting charity and in debt[62]. Another benefit that was stated of the new rating system was that individuals would be able to calculate their rates for the coming year[63].

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[56] Ibid., p 34.
[57] Ibid., p 47.
[58] Ibid., pp 34 & 54.
[59] Ibid., p 37 & 48.
[60] Ibid., pp 50 & 73.
[61] Ibid., p 25.
[62] Ibid., p 30.
[63] Ibid., pp 42 & 43.

8. The Committee's comment about the Bill

8.1. Having heard and received evidence from the Community and Government, the majority of the Committee believesthat the proposed new rating system has not been justified and raises issues relating to both equity and efficiency. There has been inadequate evidence presented to the Committee of economic modelling to support the proposal. Further there has been no impact study undertaken or evidence of one undertaken which addresses the, environmental and social impacts of the proposed new rating system.

8.2. Even though the Treasurer has stated that the deferral scheme is well known, and given that one community group was not aware that deferrals were available, the Committee has concerns about the effectiveness of the current advertising of the availability of deferrals.

8.3. The Committee has also heard evidence that some individuals do not want to take up deferrals for various reasons such as, feeling that they are accepting charity or getting into debt. This raises questions about the appropriateness of deferrals for the section of the community at which they are targeted.

8.4. The Committee therefore recommends that:

(i) the Legislative Assembly should not pass the Rates and Land Tax Amendment Bill 2003;

(ii) in consultation with the Community, further evaluative work be undertaken to develop an alternative rating system or improve the current rating system to address the concerns raised in submissions and evidence taken through this inquiry; and

(iii) the evaluative work undertaken (as recommended in (ii) above), include consideration of concessions, waivers and deferrals available in other jurisdictions; and

(iv) upon completion of the evaluative work undertaken, that this work be presented to the Legislative Assembly for consideration.

Brendan Smyth, MLA
Chair

17 June 2003

Inquiry into the Rates and Land Tax Amendment Bill 2003

Dissenting Report by Karin MacDonald, MLA to the Standing Committee on Public Account's Report No 5 of 2003

June 2003

Dissenting report – Ms Karin MacDonald MLA

Intent of the Rates and Land Tax Amendment Bill

The Government's intention with the proposed rates system was to address the wide disparity and great uncertainty created by the previous rates system. The Government's proposal achieves these objectives to residents by way of a CPI increase.

The Government had a clear purpose to redress the uncertainty and disparity in the allocation of rates across suburbs in Canberra.

In reviewing the Government's legislation it is not clear whether the committee has formed a position about the need for these reforms. No comparison was made of the proposed and previous systems, nor was any made of the interim system.

This is an important point as the Treasurer did indicate that in the absence of the *Rates and Land Tax Amendment Bill 2003* being passed, there would be a reversion back to the previous rates model, affecting all residents.

The Committee's Inquiry is lacking because while the Government claimed its proposal corrects these deficiencies in the previous system, there was no attempt to evaluate the effectiveness of the reforms or to look at the improvements in the proposed system over the previous one.

Focus of the Committee

Social and Economic Impacts of the proposed rating system

Instead of making a comparison between the two systems, the Committee preferred to concentrate on the following two notions:

1. A perception of inequity in a differential rating scheme;

2. Speculation that new rates may dampen economic activity.

The Committee devoted more attention to these notions than was warranted, needed or desirable. Neither argument features prominently as a persuasive basis for rational economic behaviour.

People will pay for the value that they perceive to be in a property. Principally this value will reflect the needs of their chosen lifestyle. The main determinant for individuals seeking a new place of residence is whether or not they can afford the house price. It is not what the rates are or will be, and whether or not they will vary from their next-door neighbour's rates.

The argument made against a differential rates system between new and existing residents on the basis it will somehow lessen the desirability of the property to the purchaser is extremely likely. It is mere conjecture about expected sociological behaviour, promoted by special interest groups muddying the water for those with genuine concern to create a more equitable rates system.

Committee's Recommendations

In its recommendation the Committee has suggested a review of rates. However, the effect of this is that the Committee has determined the problems in the previous system should remain. Being:

1. The distributive mechanism;

2. Uncertainty for residents with no allowance for capacity to pay.

Admittedly the review of rates could simply be recognition of the fact no perfect rates system exists. In the end the committee has elected not to interfere or alleviate the inequity of the previous system on residents of the ACT.

There is also the issue that while the Committee could only review the *Rates and Land Tax Amendment Bill 2003* once the Government had presented it, there was nothing to stop the Committee from conducting a thorough inquiry into the rates system. That is a review of the previous (1996) and interim (2002) systems. In fact, when the Treasurer introduced the *Rates and Land Tax Amendment Bill 2002*, he stated that it would be interim legislation and that the Department of Treasury were investigating a new system. This should have been the incentive for the Committee conduct such an Inquiry, and is a lost opportunity.

The committee has rejected the certainty offered by the Government's reforms. This has been done purely on hype and speculation, and I urge the Assembly to reject the Committee's recommendations as flawed, and to adopt the *Rates and Land Tax Amendment Bill 2003.*

Karin MacDonald, MLA
Deputy Chair

17 June 2003

Appendix A – Written submissions received by the Committee

(1) Mr Denis Lovell, Partner, McCann Property and Planning

(2) Ms Rosemary Lissimore, President, Tuggeranong Community Council Incorporated

(3) Dr JM (Mac) Dickins, Chair, North Canberra Community Council Incorporated

(4) Mr Stephen Brown, Private Citizen

(5) Ms Romily Madew, Executive Director, Property Council of Australia

(6) Mr David Menzel, Chair, Woden Valley Community Council Incorporated

(7) Mr Barry Raison, Private Citizen

(8) Mr Peter Jansen, President, Property Owners and Ratepayers Associations of the ACT Incorporated

(9) Mr Philip Harding, Vice President, Australian Property Institute (ACT Division)

(10) Mr David Tennant, Director, Care Incorporated

(11) Mr Justin Douglas, Private citizen

(12) Mr Jeff Carl, Chairperson, Weston Creek Community Council

(13) Mr Stan Platis, President, The Real Estate Institute of the ACT Limited

(14) Mr Daniel Stubbs, Director, ACT Council of Social Service Incorporated

(15) Mr Jim Purcell, Executive Director, Council on the Ageing (ACT)

Appendix B – Formulae for the calculation of rates for residential properties, unit properties and rural properties in the ACT using the proposed new rating system

The elements of the formula[64] that apply to all three categories are:

- A fixed charge of **$300**, excluding rural properties
- **AUV** is the Average Unimproved Value of the parcel of land. This figure is calculated using a rolling three year average starting from the first full rating year of ownership.
- **$19 000** is the rate free threshold
- **R** is the rating factor and is an amount in the dollar. The rating factor is different for each property type and is listed below each property type.
- **CPI** is the Consumer Price Index and is currently capped at 2.9%, but will increase to 3.2% (in line with the rise in CPI) in 2003-2004. 'The CPI percentage increase applying to a rate year is the percentage increase (if any) in the CPI number between the December quarter before the beginning of the rate year and the previous December quarter'[65].

Standard residential properties

($300 + ((AUV - $19 000) x R)) + CPI

R = 0.7820%

Unit properties

($300 + (((AUV x UE) - $19 000) x R)) + CPI

R = 0.7820%

UE = Individual unit entitlement

[64] ACT Revenue Office website, http://www.revenue.act.gov.au/r_itax.html
[65] The Rates and Land Tax Amendment Bill 2003, p 2.

Rural properties

((AUV - $19 000) x R)) + CPI

R = 0.3910%

No fixed charge is applied

Appendix C – Total population and percentage of population of those aged 55 years and over not in the labour force[66]

Area	Population	Number over 55 years of age	As a % of population
Brisbane	1 627 535	216 821	13
Canberra (ACT)	**321 680**	**32 265**	**10**
Eurobodalla	33 137	9 488	29
Newcastle	470 610	87 049	18
Noosa	13 830	7 886	57
Wollongong	257 510	44 861	17

A break down of the ACT's population aged 55 years and over, not in the labour force showed the greatest concentration of this particular group[67] as living in the suburbs of (in order of greatest concentration) Deakin, Garran, Page, Narrabundah, Hughes, Pearce, Campbell, Aranda, Fisher, and Lyneham[68].

[66] This information has been compiled for the Standing Committee on Public Accounts by L. Wheeler, Committee Office, Legislative Assembly for the ACT.
[67] Some suburbs include aged care facilities which may skew the data.
[68] This data is compiled from information collected by the Australian Bureau of Statistics in the 2001 Census.

Appendix D – The rating systems of selected Australian jurisdictions[69]

City	System	Ad velorum calculated by:	Environmental levy	Other
Brisbane (Qld)	Minimum Rate ($341) Ad velorum applied to AUV and charged, unless total ad velorum = less than $341, in which case the minimum rate is charged.	Determined as a budgetary decision in June for the whole year (same number applied to each billing for that year)		Rates are billed quarterly
Canberra (ACT)	Base Rate plus AUV/rating factor formula adjusted by CPI variations.	None applied		Fixed Rating Factor applied Rural - 0.3910% Residential - 0.7820% Non-residential – 1.3356%
Eurobodalla (NSW)	Currently a Minimum Value system is used, but this is to be changed to the Base Rate system (as under the NSW Legislation). The minimum rate is applied to properties valued at below $42,000. Over this an ad velorum rate applies.	Ad velorum is applied.	Environmental levy also applied.	

[69] This information has been compiled for the Standing Committee on Public Accounts by L. Wheeler, Committee Office, Legislative Assembly for the ACT.

Wollongong (NSW)	Residential: Base Rate system (figure derived from 50% of potential revenue raised from AUV divided by number of properties in that category) The base amount is adjusted by the NSW Minister's approved % increase. Farming, Mining, Business: Minimum rate of $439 applied if land values below a determined $ value (eg. farming - $162,520, mining - $15,564, businesses have different sub-categories). Over the minimum land values an ad velorum applies. Land is revalued every 3 years. The minimum land values for the different categories can be adjusted with approval from the NSW Government. The NSW Minister's approved % increase is also applied to the minimum value.	Ad velorum is applied in both systems. No budgetary requirement applied to ad velorum.	There is no environmental levy at the moment, but there is one proposed in the latest Council Management Plan. This will be for 4% applied to all but rural land. This has yet to be approved.	Recently a new sub-category of businesses was created to account for land on which there are environmental constraints and therefore can't be improved. In this case, there is no minimum value, and the ad velorum is reduced.

Newcastle (NSW)	Base Rate (35% of allowable revenue that's likely to be raised according to the Valuer General's assessment ÷ the number of properties in that category).	The remaining 65% of allowable revenue ÷ number of properties in that category	Minimum base rate of $15. Budgetary decision taken as to how much needs to be raised, and an ad velorum is applied to properties valued in excess of $135,000. If the property is valued at less than $135,000 then $15 minimum is charged.	Under NSW legislation the Minister annually calculates a cap on the amount
Noosa (Qld)	Minimum Rate according to ad velorum is applied to each of the land categories. The original minimum rate was fixed and has then been adjusted according to budgetary decisions since. Residential – ad velorum or minimum Coastal units –ad velorum is 50% higher Hinterland Rural – ad velorum is 10% higher and the minimum is $40 higher also.	Ad velorum is calculated on AUV for each category. If the amount is below the minimum for that category, the minimum is applied, otherwise the ad velorum is applied.	Conservation Levy $35 per annum	The $40 increase in the minimum for rural properties is to account for the fact that there are more roads per capita in these areas. Billed sixth-monthly based on budget at 1 July.

Appendix E – Concessions for rate payers from selected Australian jurisdictions[70]

Jurisdiction	Concessions	Hardship	Other
Brisbane (Qld)	Part or full remission according to whether the pension is part or full. Includes Pensioner Concession Card holders, veteran's affairs, full-time sole parent pensioners.		Ownership Transfer: this is where a property changes hands. It can be waived if the property is the first principle place of residence purchased in Australia by the purchaser. Owner/occupier concession where rates are capped at a 7.5% increase annually.
Canberra (ACT)	Maximum of $250 for Pensioner Concession Card holders or up to 50% of their rates Bill if under $250. There is also a deferred payment option.		
Eurobodalla (NSW)	Determined on a case by case basis upon request to the Council. Pensioners receive a rebate on their water and sewage bills. Pensioners buying a property get their rates refunded in the first year of ownership equivalent to the time at which they moved into their new premises. Eg. ¼ year or ¾ year.	No hardship policy	

[70] This information has been compiled for the Standing Committee on Public Accounts by L. Wheeler, Committee Office, Legislative Assembly for the ACT.

Newcastle (NSW)	Under the State Statutory policy, Pensioner Concession Card holders receive $250 off the aggregate sum of ordinary and other rates, if greater than $500. If less than $500 rates, then there is a 50% reduction. (The State Government subsidises councils to supply this rebate to the tune of 55%.	Hardship provisions include: interest-free payments; reductions where a new valuation is used in the first year; extensions of time to pay; the option to defer rates payments against their estate.	
Noosa (Qld)	A subsidy is paid based on the state government scheme which provides 20% discount to a maximum of $180. Where the pensioner has owned the property for 5 years, and is on a recognised pension there is a 30% subsidy up to a maximum of $270 (this is paid on top of the government subsidy). Pensioners include Pension Concession Card holders, DVA Gold Cards etc.		Community Service Organisations - different organisations pay different rates and receive different concessions of between 30% and 100%.
Wollongong NSW)	As above, the state government $250 rebate is applied to Pensioner Concession Card holders, War widows and TPI Pensioners	This is dealt with on a case-by-case basis where the applicant completes a form, which is then considered by a Committee.	Under Section 600 of the State legislation, where property is owned by State Rail or Port Authority, and is leased/rented, there is a 25% rebate. There is also a scheme called Postponed Rates, where the Valuer General has valued property at it's highest usage (such as a block of flats), but the property only has a single dwelling at that time. The value is then reduced and accordingly the rates. The balance is then postponed for up to 5 years. If there is no change in usage in that time, the postponed amount is written off.

Appendix F – Acronyms and definitions

AUV Average Unimproved Value of a parcel of land

UV Unimproved Value of a parcel of land

CPI Consumer Price Index. 'The CPI is the measure of changes, over time, in prices of a constant basket of goods and services acquired by metropolitan households in Australia. As such, the CPI has been designed as a general measure of price inflation of the household sector in Australia'[71].

IV Improved Value of a residential structure

[71] Australian Bureau of Statistics, Prices: Consumer Price Index, http://pandora.nla.gov.au/parchive/2001/Z2001-Feb-19/Docs/wcd00005/wcd00573.htm