Convenor
Productivity Commission
Fax 03 9653 2302

Attention: Carole Gardner

Dear Sir/Madam,

Re: Productivity Commission – Local Government Study

We believe the Commission must determine the roles of all 3 government levels (Federal, State and Local) and the provisions and services for which each is responsible to the Australian community – from defence to dogs; then it should be possible to assign the costs to each level of these services and the capacity to pay. There seems to be an overlap at times – health, education, welfare, assets.

Local governments in Victoria formed out of Local Roads Trusts and whilst these trusts had power to allocate funds over a wide area – roads, sewers lighting, police, etc, their spending was controlled by the contributors – landowners – who paid the rates and tolls, and voted

It seemed the twentieth century saw local governments responsible for the physical assets of the community, paid substantially by rates on property Landowners – ratepayers – still controlled council voting (and probably expenditure) until 1983 when Universal franchise was granted to all on the roll.

In more recent times local governments have to cover increasing demands for health and welfare services, as well as culture, recreation, waste management and business supports (tourism grants etc). Up to $4.7 billion is spent annually in Victoria by local governments of which 70% comes from property rates and charges (Vic Budget Papers).

Dr Rosemary Kiss (2004 VLGA) said ‘local governments have been and continue to be creatures of State governments’ – irrespective of party, and attested to by the many state inquiries into local government.

Municipalities are called upon deliver services and programs, both Federal and State driven, which are sometimes funded by seeding programs, but which quickly become the norm and expected provence of the Local Government, without, often, commensurate financial support.

Federal and State governments can obtain revenue from taxes and charges unavailable to Local government, and which have the capacity to increase in response to productivity growth (income tax, petrol tax, stamp duty, registrations etc), and which have an annual growth component – indexation, bracket creep etc.

Local Governments can only source income from rates (property) and charges (development fees and compliance costs) which can be proscriptive and a disincentive to growth.

As we understand the general rating system in Victoria, councils having analysed their budget needs for infrastructure, maintenance, community services and facilities and factored in an estimate of State and Federal funding and loans, determine the amount required in rate collections to meet the shortfall in their financial responsibilities.

The rate in the dollar is decided by dividing the balance of the required budget by the total value of rateable properties which is then multiplied by the value of each property to establish an amount for each property – general rate. The municipal charge and garbage fees are discretionary charges meant to cover administration and waste management.

The structure of the general rate does not seem to provide an incentive to cut costs, nor to evaluate the merit of each service in costs, equity, sustainability, need. The annual increase in the general rate does not appear to be sustainable – private enterprise could not profitably nor effectively operate under these terms.

The application of this general rate on farming land is inequitable, unstainable and feudal. It is an additional tax on production, over and above income tax, fuel tax, licence and industry charges, which are levied by State and Federal Governments, and is an active disincentive to young farmers. Furthermore it impacts upon our international competitiveness – not a level playing field – when our competitors have income support via government policies – (European Union direct grants and the USA farm subsidies), and in the UK where the rating of agricultural land was abolished in the 1930’s.

Because local government rates are levelled against the residence and the farm acreage, then farmers by the very nature of their business, pay more than their urban cousins, for services and infrastructure which can be costly and difficult to access – recreational facilities, pools, libraries, meals on wheels and seniors activities. Distances can preclude participation and always involve transportation which costs money. The rural ratepayer pays twice in effect, for limited availability.

The decline in real farm incomes has been exacerbated by the long standing drought, ageing of the farm population (over 58) who cannot perform at previous levels; relocation of young family members to larger population centres thereby limiting the availability of farm labour; and, increase in government charges and costs. Urban dwellers pay land rates on the value of their residential land, and are not rated on their income asset – their jobs, irrespective of amounts; whilst farmers not only pay on their residential land, but on their income asset as well – farm land. Is this fair? Does it provide an ‘equitable imposition of rates and charges’? and ‘does it improve the overall quality of life of the people in the local community’? Local Government Act (Victoria) 1989 Sec C.

Increasing present local government rates directly impacts upon farm productivity and reinvestment capacity – less available money = less inputs (for increased production) = less income. Farmers as price takers cannot pass their costs on generally – market demand determines product value, not cost of production.

As responsible residents of our local government communities we wish to pay our just and fair share i.e. on house and cartilage, not on farm land.

Road access is imperative if our rural communities are to survive, economically, socially and sustainably. Product must be transported to markets; young people educated; ratepayers accessing social services and customers for our retail and tourist outlets. We cannot use taxpayer subsidised metropolitan transport systems, nor can we access public or private buses. The roads upon which we travel and for which we are supposedly rated, are increasingly being used by tourists, non-residents, through traffic and non ratepayers. Roads are community arterials, so should be totally community funded by beneficiaries – State and Federal governments, who collect from the movement of the country's productive income earning wealth – food, resources, fishing and forestry.

State taxpayers have had to foot the bill for the increasing growth problems and infrastructure costs of our major cities. Ballarat and Bendigo are examples of the need to supply water, and transport to expanding areas seemingly without deferment of major costs to end users eg. the billion dollar Fast Rail Project and the Goulburn Valley Pipeline.

As rural populations age and decline (as well as farm incomes) increasing pressure will be placed on local government to meet growing community needs and aged care expectations. Urban residents/ratepayers have ready access to this type of investment – aged care, nursing homes, hostels, home care, nursing care etc. Relocation causes major personal, family and community dislocation furthering the decline in rural communities.

As private investment generally requires population, it would seem few small rural communities could expect this type of private commitment. Populist policies generally drive government investment into larger areas as well - numbers = demand = votes. So where does this leave our small local communities? Disadvantages and perhaps desperate? Can small local government authorities cover these demands for aged services as well as other commitments? Who pays? How? Aren't all Australians to be valued and treated equally, irrespective of location?

If farmers are to be rated equally to their urban cousins, for the same services and utilities, ie on the residential asset only, then local government will have a substantial shortfall in revenue. As the closest form of government to the people, and as the source of many welfare, health and community programs determined by other governments then it would be fair for local governments to receive more of the income revenue available to the Federal and State governments, particularly if the same standards of welfare and services are to be available to every Australian.

Does Australia want more population on the eastern seaboard? Do we want development in our rural areas? Monetary policies will determine these issues. Once we have established the responsibilities of each government system then local governments can confidently proceed if appropriately funded and respected. The current land tax on farming communities is feudal and outdated – we need better outcomes. Is a productivity tax (i.e. property rates) the best we can do?