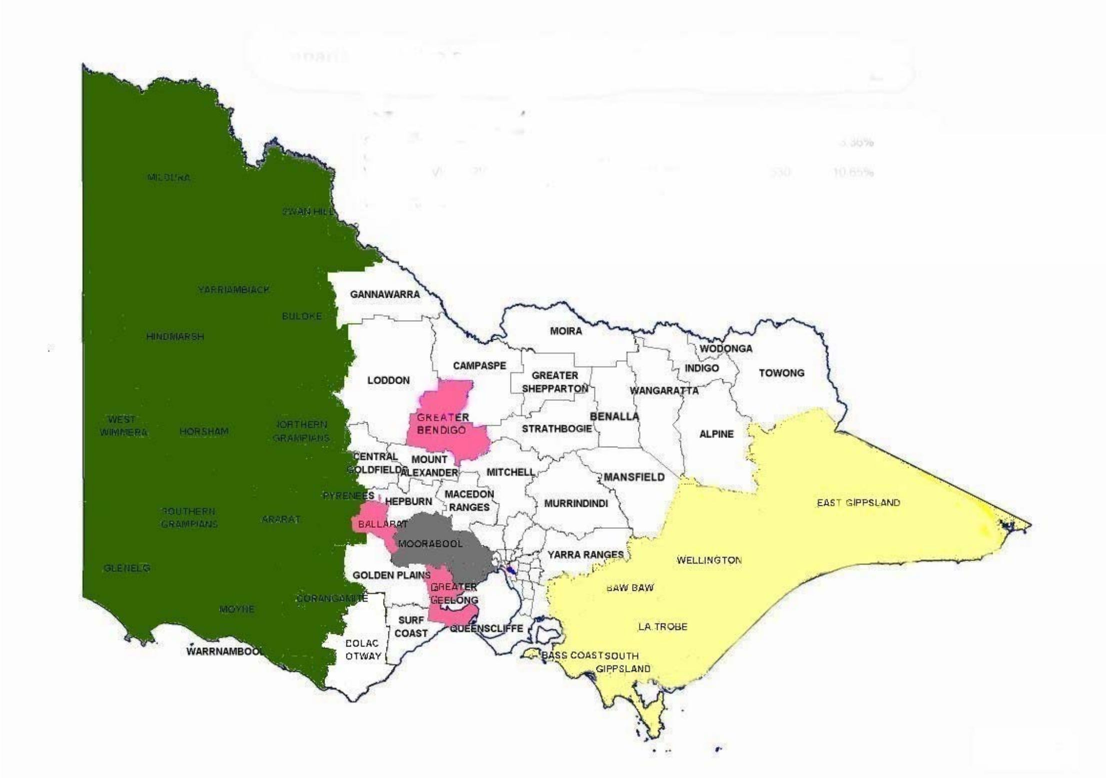
Study into Local Government Revenue

Submission to the Australian Government Productivity Commission.

by Craig Ingram M.P. and Bruce Evans. 05/06/07

Introduction.



The valuation of property in each of the five areas coloured on the map above is approximately the same but there is a big variation in the rates collected.

		Valuation	Rate revenue	Rate revenue/valuation %
STONNINGTON(C)	**Blue**	1,229,471,500	41,268,000	3.36%
GIPPSLAND	**Yellow**	1,147,652,500	130,664,500	11.39%
WESTERN VICTORIA	**Green**	1,208,691,803	128,777,530	10.65%
REGIONAL CITIES	**Pink**	1,401,627,500	139,551,000	9.96%
WESTERN SUBURBS	**Grey**	1,203,599,000	140,435,500	11.67%

If ratepayers in the municipalities classified as “metropolitan” by the Victoria Grants Commission paid the rate-in-the-dollar now paid by ratepayers in Buloke Shire, the amount raised would be an additional sum of over $6,000 million annually.

This would be ample to cover the cost of a first class public transport system and/or the freeways the metropolitan area needs. There would be enough to enable city residents to share with country people, the costs of providing local government services, such as roads, kindergartens, health services etc., that are just as vital for country people as they are for those who live in the cities.

After paying a contribution to cover community service obligations, such as the various concession fares required by the government, the State government would have $2,000 million to meet the needs of disabled and disadvantaged; health, education and environmental.

There is no practical reason why this cannot be done and no ethical or moral justification not to do so. Is there any reason why the ratepayers of the Mallee, struggling with drought, international trade issues and corporate machinations of which they had no knowledge, be expected to pay five times the rates on property of equal value to a ratepayer living in Stonnington City?

Any assessment of productivity without first establishing the proverbial "level playing field" would perpetuate already established disadvantages and inequalities. As a first step, it would be useful to establish why the minute area of the State named the City of Stonnington is valued more than the whole province of Gippsland. If resources mean wealth, the comparison is absurd. Stonnington, unlike Gippsland, does not have any forests or rivers, it has no coal or gas reserves, it produces negligible amounts of food – in short, it is completely dependent on manmade facilities and resources, most of which are not within its own boundaries.

Gippsland supplies almost all the electric power Stonnington uses, its residents enjoy the benefits of natural gas and oil extracted from the Gippsland Basin while many Gippsland residents will never obtain any access because of the economies of scale. Even those who do, pay more because of the additional costs of supplying small towns. There are numerous other examples such as milk, vegetables and other vital needs but it could be argued that the residents of Stonnington could import these needs from producers in countries that do not subsidise their large cities.

The reason why Stonnington has such a high valuation is because it is serviced by two railways, seven tram routes and numerous bus routes, all heavily subsidised by Australia's taxpayers. This subsidy far exceeds all the money spent on roads, including freeways, in Victoria by all levels of government.

These give them quick access to all the facilities and other benefits provided at taxpayers expense in capital cities that include numerous public buildings and an army of people employed in them. While those in public ownership may not pay rates, they add considerably to the value of surrounding properties because of the employment they provide.

While all these things add value to surrounding properties, the system breaks down if property owners do not pay rates reflecting this enhanced value. Yet Melbourne City Council is cutting staff because it does not have sufficient revenue even though its ratepayers would mostly be corporations, not private residents.

As National Competition Policy states, subsidies cause a misallocation of resources and a public transport system that is not paid for by users and those who benefit from it adds excessive value to real estate. This leads to perfectly good buildings being torn down to build even bigger ones and single residences being replaced with blocks of flats. Living in the CBD becomes ever more expensive and workers are forced to the outer suburbs, further from their workplaces, adding to congestion.

Background.

Australia is a big country but the burden of caring for it falls unfairly on people who live outside the big cities. A culture has developed that, because cities have the political clout, the rest of the country is theirs to exploit, and this right must not be challenged or discussed.

The fact that this creates a problem is demonstrated by the almost continuous inquiries at Commonwealth, State and local level into various issues affecting local government. These inquiries seem to be dominated by submissions from the wealthiest councils complaining about cost shifting and the need for more funding from State and Commonwealth governments. The effect on individual ratepayers is ignored. Any examination of financial resources for local government should investigate why there is such a massive difference in the rate-in-the-dollar paid by non-metropolitan ratepayers compared with their metropolitan counterparts.

This submission argues that there is a need for a reassessment of the way infrastructure is funded by each level of government to test whether it is fair, and whether it is in the best long term interest of the nation.

The test should not be confined to financial considerations – the increasing concern for global warming raises the question of whether money would be better spent to encourage the growth of country towns instead of trying to alleviate the daily gridlocked traffic problems of the bloated cities. Simple justice and common sense should dictate that those who cause the problem of congestion and overcrowding or benefit from its mitigation should bear the costs.

The productivity of the metropolitan area is distorted if the all the costs of operating a city are not taken into account.

Financial challenges.

In January 2000, the Municipal Association of Victoria (MAV) published the Milbur Report, ***Economic and Financial Challenges for Small Rural Councils***.

The Report quoted Prime Minister, Rt. Hon. John Howard MP on 19th October 1999 *"…there are many people in rural and regional Australia who are not sharing the national economic plenty… at a time when the rest of the country is doing well, the sense of being deprived, of alienation, of not sharing in the economic plenty is all the more acute"*.

Almost eight years have passed since that comment and the problems for country residents have increased considerably. There has been no one in a better position to do something about this deplorable situation than the Prime Minister.

The Commonwealth government has indicated that it does not intend to change a "conflict" in the Act providing for financial assistance to local government but will leave the Grants Commission to interpret what Parliament intended. The people most affected by a record drought pay the highest rate-in-the-dollar on their properties while those who benefit most from publicly provided facilities pay one third to one fifth the rate-in-the-dollar.

The drought has aggravated the problem but it is not the major cause. The problem is that city people appear to believe that people who live in the country should carry the costs of living in the country. They do not seem to understand that the reverse argument is more valid – that those who choose to live in cities should pay the costs of doing so and all should share the costs of living in a big country. They enjoy the advantages but expect country residents to cope with all the disadvantages.

The fact is that all Australians live in a big country whether they like it or not. The choice city residents make is to live in a big city. They enjoy the benefits, and should pay the costs, arising from their choice.

Drought affects the productivity of farmland, which in turn affects the productivity of communities based on rural activity and the municipalities that provide their services.

There is a general expectation in the community that farmers should be able to plan for, and cope with, the effects of drought, but it is obvious that governments have not been able to establish ways of achieving this objective.

The only way that this could be achieved is for farmers to be able to accumulate substantial cash reserves. They have to contend with high turnover but low profits that become losses all too often. They would need several years of operating expenses in reserve. Even then, a prolonged drought would see their cash reserves steadily drained away until they dissipated completely. In the case where drought is widespread as well as prolonged, the consequences without government assistance are inevitable.

There are double standards involved when dollars spent on drought relief are, by implication, viewed as "handouts" but dollars spent on public transport are considered to be a right. The former is subject to prolonged and demeaning inquiries by governments to first determine that a municipality should be drought declared. This has the immediate effect of banks becoming more cautious in their lending in those areas.

Applicants for financial assistance then have to apply and have their financial situation scrutinised. Generally, any farmer who has the resources is expected to use them before they become eligible for government assistance. Many farmers are too proud to seek assistance and are faced with assets accumulated by several generations being used to keep livestock alive. Many forms of assistance have the effect of increasing the price of fodder in its various forms to primary producers in neighbouring areas who may well be in just as dire straits. Rainfall does not respect municipal boundaries.

On the other hand, there is no such requirement for the enormous contribution of taxpayers' funds towards public transport.

Productivity.

The concept of "productivity" is difficult to comprehend for people like farmers who have been traditionally expected to produce primary products at an affordable price. For example, the price of milk was determined by governments for decades. The only way, dairy farmers could survive was by increasing efficiency. Not by increasing the price of their product.

A basis principle in the design of supermarkets is to place milk and dairy products as far from the entrance as possible and to use them to attract customers. It is difficult to establish productivity if it is based on dollar values.

"Market forces" is another concept that disadvantages country people. When water resources are put up for sale, large cities and wealthy people can outbid those engaged in trying to produce essential products.

"Productivity" has several interpretations and, in the absence of specific indications of the factors that will be taken into consideration by the Productivity Commission in its inquiry into local government finances, this submission assumes that they will be broadly based.

One definition of productivity from official documents is as follows: -

It is most straightforward to consider the growth rate (rather than the level) of multifactor productivity. Growth in multifactor productivity (ΔMFP) is computed as follows:

$$\Delta MFP = \Delta Y - s_1 \Delta X_1 - \ldots - s_k \Delta X_k$$

where ΔY is the growth rate of output, the ΔX_j s are the growth rates of the inputs of production (e.g. labour and capital) and s_j is the share of input j in the value of output, i.e. $s_j = (P_j X_j) / (P_y Y)$. P_j is the price (or price index) of the j'th input and P is the price (or price index) of output. The s_j s are assumed to sum to unity.

While MFP is, in principle, a better indicator of true productivity (or technology) growth than any of the single factor measures, it not without difficulties, both conceptual and practical. In particular, notice that since MFP is calculated as a residual, any mis–measurement of the inputs (X), output (Y) or the shares (s_j) will show up in MFP. (7) Some of the potential problems with MFP are as follows.

If that is a "straightforward" explanation of productivity, it will be understandable if there are few submissions from the general public.

The productivity of local government in non-metropolitan areas is affected by the same disadvantages experienced by all residents in the same area. However, councils can increase local government revenue by the simple expedient of increasing the rate-in-the-dollar, not by increasing their productivity as their ratepayers are expected to do.

If the inputs (X) do not include the cost of inputs provided by taxpayers that affect the valuations that are the base for rate revenue of all municipalities, measurement of productivity will be distorted. Cities expect the advantages of economies of scale, such as telephone charges, electricity charges, access to resources (eg. water and natural gas) and competition arising from a large population, much of it generated by government itself providing a massive workforce and demand for office space within the city. However, they reject the responsibility to carry the diseconomies of this same growth, such as the need for freeways (or alternative public transport).

The terms of reference suggest that the Commission will concentrate on "existing" sources of finance for local government. To ignore the effect of policies of other levels of government on local government will perpetuate a grossly unfair system.

Grants Commission.

The Victoria Grants Commission compiles statistics on all municipalities in the State to assist it distribute Commonwealth funds provided under its legislation to provide financial assistance to local government. From these statistics, it can be proved that country ratepayers pay up five times the rate in the dollar paid by the lowest rated metropolitan ratepayers. Every business operating outside the metropolitan area pays local government rates three to five times the municipal rates paid by their metropolitan counterparts. This fact must affect the "productivity" of all non-metropolitan areas.

The following extract from the guidelines for the distribution of Commonwealth financial assistance illustrate a fundamental lack of understanding of the causes of imbalance within the States. The Horizontal equalisation requirements are completely negated by the Minimum grant which ignores the fact that sparsity of population, not density of population, adds to the per capita cost of delivering services. While this is not the only cause of the imbalance, it directs attention to the fact that, while the problem is recognised, the logical solution is ignored.

general purpose grants to local government bodies (councils) conforms with the relevant national distribution principles:

(i) Horizontal equalisation

General purpose grants are to be allocated to councils, as far as practicable, on a full horizontal equalisation basis. This aims to ensure that each council is able to function, by reasonable effort, at a standard not lower than the average standard of other councils in the State/Territory.

(ii) Effort neutrality In allocating general purpose grants, an effort or policy neutral approach is to be used in assessing the expenditure requirements and revenue raising capacity of each council. This means as far as practicable, the policies of individual councils in terms of expenditure and revenue efforts will not affect the grant determination.

(iii) Minimum grant The minimum general purpose grant for a council is to be not less than the amount to which it would be entitled if 30 per cent of the total amount of general purpose grants were allocated on a per capita basis.

(iv) Other grant support

In allocating general purpose grants, other relevant grant support provided to local governing bodies to meet any of the expenditure needs assessed is to be taken into account.

(v) Aboriginal Peoples & Torres Strait Islanders

Financial assistance is to be allocated to councils in a way which recognises the needs of Aboriginal peoples and Torres Strait Islanders within their boundaries.

With regard to ***(i) Horizontal equalisation,*** the rate-in-the-dollar is the standard that interests ratepayers and should be the basis of comparison between municipalities.

One reason for the disparity is the payment of huge subsidies to the metropolitan public transport network and the acquisition of resources such as water, natural gas and electricity and other products of brown coal without compensation to regional and country areas. In a report to State Parliament in June 2000, Victoria's Auditor General listed amounts paid as "subsidies" to the operators of the public transport network. In order to try to understand how this complied with National Competition Policy, the issue was raised with the National Competition Council. The reply stated: - (See Attachment 1)

- It is the responsibility of all Australian governments to ensure that any CSO's in relation to urban public transport or other areas of expenditure are clearly specified.

The National Competition Council did not indicate whether there was any substance in the question whether the payment of $2,145 million is a subsidy but neither did it say there was no substance in it. The 'privatisation' of Melbourne's public transport took place about the time of the introduction of National Competition Policy. It bears all the hallmarks of a confidence trick to avoid the effects of that policy. The State government simply paid private companies similar amounts as it was already losing in operating the system.

It seemed from the second last paragraph of the letter, the National Competition Council interprets terms a little differently from popular usage so there appeared little purpose in pursuing the matter. Most people are unaware of the massive subsidy paid by the government.

The following extract is from p. 58 of the Herald Sun financial pages dated Jan 26, 2005

> VICTORIA'S Auditor General will investigate Connex's takeover of the suburban train network and Yarra Trams' stranglehold on suburban trams. Specifically, the Auditor General's Office will ask whether Melbourne's public transport arrangements mean value for money for taxpayers.

The report following this investigation reveals that the Victorian Government established a "benchmark" of $2.146 million for public transport for the metropolitan area and the payment was within 3%+/- of this amount. The report did not receive the same prominence as the initial announcement, leaving the impression that all was in order. There can be no argument that this huge expenditure adds considerable value to real estate in the metropolitan area but the benefit goes to property owners, not the taxpayers who pay the subsidy (that is, of course, unless it is accepted that this is a legitimate way to rectify flaws in the Commonwealth government's tax regime referred to later).

This enables the municipalities that benefit most from the increased values to strike a lower rate in the dollar for vastly greater services. In turn, it gives business operations in the metropolitan area a productivity advantage over non-metropolitan ones. These businesses like to take advantage of economies of scale but shy away from the consequences of overcrowding, such as the need for public transport and freeways.

Evidence that this is not the usual practise in comparable overseas countries is ignored. In New Zealand, North America and Europe, the normal practise is that public transport and freeways are largely funded by local government bodies with limited Community Service Obligation contributions from central governments. (See attachment 2)

New Zealand Treasury advised by email that it contributed about $20 million towards the costs of running Auckland's regional public transport which appears to include regional roads. Given that the City of Auckland has about half the population of metropolitan Melbourne the difference is outrageous - $20 million cf. $2,146 million.

A question that these facts pose is: - What constitutes a subsidy? Victoria's Auditor General in his 2000 Report unambiguously described the payments to Melbourne's public transport as a subsidy. There can be no disputing the fact that these subsidies, if ignored in any estimation of productivity, put non-metropolitan municipalities and businesses at a great disadvantage.

Who asks Victoria's Auditor General why an item of expenditure, described as a subsidy in 2000, becomes a "benchmark" in 2005 and how the amount of the benchmark of $2,146 million was determined? Did the Victorian Treasurer arrive at that figure without consultation with the transport companies?

What is a subsidy?

Drought assistance is granted only after investigation of each applicant's financial situation. The subsidy to public transport is indiscriminate. The wealthiest citizens in the State benefit from it without any scrutiny or justification. Even if they do not actually use it, they have the advantage of less traffic on the roads they use. It is not a once-only subsidy but a continuing one and growing at about 10% per annum. It gives city dwellers more ready access to facilities funded by taxpayers (everything from airports to zoos) that add substantially to the value of property but to which ratepayers do not contribute. They have the further advantage of using nearby facilities available in other municipalities.

Country Councils have to bear costs arising from floods, bushfires and drought, to which, because of their area, they are more vulnerable. While governments usually provide grants to assist with this work, it becomes merged with normal operational expenses and thus ceases to be additional assistance.

Roads are for everyone.

The early surveyors provided wide road reservations all over Australia to enable livestock to be driven to markets or agistment in more favoured areas when drought affected any district. A major factor in the extension of the railway networks was to convey livestock and fodder in times of drought. In recent decades, rail freight services have been abandoned by governments in most areas and large trucks now carry out these functions. They use 'local' roads in rural areas and have transferred the costs from State government to Local Government..

As Australians crowded into cities during the 20th century, they demanded to be drought-proofed and steadily lost touch with the realities of the Australian climate. In the second half of that century, they were joined by many thousands of migrants who have never experienced such conditions.

It shows the narrowness of the Prime Minister's concept of fairness and justice that he allows people to suffer from consequences of nature over which they have no control while being generous in the extreme to solve the problems of those who choose to live in overcrowded cities and thereby add to the problem. This is demonstrated by the fact that the vast majority of migrants in the last 50 years have settled in the cities. Very few are engaged in agriculture although many came from a rural background. The fact is that rural communities have been deliberately weakened financially and politically by successive governments.

The Prime Minister acknowledges that Australia's present prosperity is derived from resources, which are virtually entirely produced in country areas. Far from being a common-wealth, Australia's wealth is being diverted to the large cities in a grotesque struggle for power between two political philosophies.

With the development of motor vehicles, all roads are available to all people and should be funded from the one source. The effect of such a proposal on the municipalities most under financial stress should be investigated.

The past decade.

Only six years prior to the release of the Milbur Report in 2000, the Kennett Coalition government had carried out a major reconstruction of Local Government in Victoria. Given the timescale needed for the crisis to become apparent, the Milbur report to be commissioned and the research and preparation needed to write the report, it is very obvious that there was something seriously amiss with the whole system right from the start. A soundly based system could not have floundered in such a short space of time.

It was significant also that the Milbur Report was specifically into small rural councils. A rather obvious step that was not taken was to compare the role, duties and responsibilities of all councils within Victoria to ascertain which areas of responsibility were causing excessive financial demands and whether some councils had access to substantial revenue not available to others. (Parking fees provide a significant income for some and nothing for others).

During the first few decades following the establishment of the Colony of Victoria, a number of municipalities were established based on gold mining. In most cases, no provision was made for some of the wealth extracted from the earth to be reinvested in the area that yielded it upto ensure the viability, or even rehabilitation, of those communities when the gold ran out. A similar situation applies to timber and other resources.

Any farmer who concentrates on extracting the wealth from the soil and ignores the need to retain its fertility eventually owns an unproductive piece of real estate, plagued with weeds and vermin. The same applies if governments do not return something to replace resources extracted from the country.

Examples.

The Thomson River flows from the Great Divide to the Gippsland Lakes. In 1967, the government decided to impound the waters of the Thomson to augment the water supplies of Melbourne and to provide 106,000 megalitres for use in Gippsland. In 1983, the supplies allocated to Gippsland were arbitrarily diverted to the metropolitan area which now takes about 95% of the flow. No compensation was paid to the region for the water that has been diverted from the Gippsland Lakes catchment and irrigators on other rivers in the system are restricted by demands to maintain water quality in the Gippsland Lakes. This reduces the productivity of the region while enhancing that of the city. Gippsland is less productive and Melbourne is richer as a result of this decision.

In 1964, natural gas and oil were discovered in the Gippsland Basin in Bass Strait. Although this valuable resource was part of the common wealth, the benefits have gone principally to the metropolitan area. Having taken advantage of this valuable resource to increase its productivity and growth, the metropolitan area then uses the political power thus engendered to require residents of country areas that do not have this advantage, to subsidise the costs of providing the facilities it needs.

Gippsland also has huge deposits of brown coal which have provided base power for the State and undoubtedly have contributed immensely to the productivity of the metropolitan area. For three decades prior to the Kennett government, uniform tariffs for electricity were applied across the State, giving some semblance of sharing the benefit of this huge resource among all Victorians. In the interests of National

Competition Policy, the industry was privatised in the 1990s, effectively transferring the costs of servicing scattered rural consumers to residents of the country and allowing metropolitan residents to take advantage of the economies of scale. This means that country based businesses have to share the costs of servicing country users while their city competitors do not.

These are just three examples that demonstrate how the natural advantages of Gippsland have been transferred from one region to another. This argument should not be interpreted to mean that compensation should be paid directly to Gippsland. In the true meaning of common-wealth, it means that all citizens should be entitled to share in the common wealth, not penalised for living outside the metropolitan area.

The current system of funding.

The current system of funding public facilities by both Commonwealth and State governments results in an unfair financial burden devolving on to local government which has become biased against non-metropolitan municipalities. It is recognised that rural municipalities are becoming increasingly unviable but the bias is not confined to non – metropolitan municipalities. Victoria Grants Commission statistics show that inner city municipalities of Melbourne have below average "implied" rate and are surrounded by municipalities with an above average or near average "implied" rate.

There is a need for a clear definition of the purpose of property taxation (rates). If it is judged to be just another form of tax, it does not comply with a basic principle of taxation, viz. that it should be related to (a) the ability to pay and/or (b) the benefit received from the expenditure of the revenue so raised.

On the other hand, if imposition of rates is designed to enable a part of the value added to a property by publicly provided facilities to be captured for the benefit of the public generally, then all such facilities should be taken into account. A gravel country road may serve just one or two farms but almost all service public land that needs access by heavy vehicles for vermin and weed control, fire fighting and general maintenance purposes but is maintained at the cost of ratepayers, but a public transport system does not attract a ratepayer contribution.

This is not the sole reason for the decline of rural communities but it is typical of an attitude that has developed that appears to be peculiarly Australian, namely, that there is no need to explain or justify these policies because political power is all that is necessary.

Over two decades ago, the Public Bodies Review Committee of the Victorian Parliament commissioned the Centre of Policy Studies, Monash University to investigate who were the beneficiaries from publicly provided irrigation projects. In its report, CoPS stated: -

Primary "Beneficiaries"

10. *Those who have benefited most from the investment of public funds in the construction and operation of the irrigation system were those who, at the time the investments were made, owned land to which water rights were assigned. These benefits took the form of immediate appreciation of the value of their properties by amounts which reflected the difference between the expected future value of the water in production and the amounts that people expected to pay for water in the future.*

11. *The capital gains were substantially larger than they otherwise might have been because water has been supplied at prices lower than the cost of providing it, including the cost of capital invested in the system.*

It defies comprehension why these same arguments do not apply to public transport.

Services provided.

Over the past seven years, there has been a succession of inquiries into the operation of local government by State and Commonwealth governments and local government associations. It is obvious that either they have not come up with answers to the issues they investigated or that governments have ignored their suggestions.

This submission is based on the premise that this inquiry will not only study existing sources of revenue but also the all important questions of (a) what services and facilities local government should provide, (b) and whether a basic principle of taxation is applied, viz. that a tax should be related to the ability of the taxpayer to pay and/ or the benefit received.

One attempt to deal with the problem, the amalgamation of municipalities in Victoria in 1996, was ill conceived. This was because the cost of administering and servicing small, unviable municipalities was transferred to neighboring ones that were in little better shape while already financially strong metropolitan municipalities were amalgamated into even bigger and politically stronger units.

A culture seems to have developed that local government is the preserve of councillors and their executive staff who, in turn, rely heavily on bodies such as the Municipal Association of Victoria (MAV) to make representations to State and Commonwealth governments, including inquiries of this kind.

The MAV is dominated by metropolitan municipalities, many of which levy a rate of one third or one quarter that levied in rural municipalities. They not only have the benefit of community of interest and more frequent and direct communication among themselves, their residents enjoy average household incomes about $10,000 per annum more than non-metropolitan residents.

In the late 1990s, the MAV engaged a consultant to report into the financial problems facing rural councils. Known as the Milbur Report, it contained statistical information on all municipalities in the State of Victoria. These statistics were made available on the MAV website. It was relatively simple to calculate from these statistics that the rate in the dollar paid by ratepayers across the State varied by a factor of almost 5. In the belief that the figures were the property of the MAV, a request was made for a copy of the spreadsheet in order to make comparisons between municipalities or groups of municipalities. This became important because the Victorian Minister was publishing comparisons based on "community satisfaction", an extremely subjective criterion, whereas the rate-in-the dollar is an objective basis of comparison.

Despite repeated requests that were never refused, the spreadsheet was not provided. It took some time to realize that the MAV had no intention of providing this information and it was not long before the statistics were removed from the MAV website. The MAV did not ever deign to advise that the statistics could be obtained from the Victoria Grants Commission. This submission has not been compiled by qualified researchers or experienced report writers.

The rate struck by a council is public information and there was never any problem in obtaining it from individual councils. A request was made through the research section of the Library of the Parliament of Victoria advising them that the MAV had the statistics. However, after obtaining figures from eight municipalities, the Library found the process too slow and tedious and suggested contacting a Ministerial Advisor in the Victorian government. This leads to a conclusion that there is some kind of coterie that believes local government finances should not be open to close scrutiny.

At that time, the City of Kingston had on its website the rates payable on a hypothetical residential property valued at $250,000. It seemed reasonable to request a table showing the amount payable on a property of that type and value in each municipality across the state. With access to the statistics, this can be calculated in seconds The Advisor strenuously disputed this as a fair basis of comparison although the Department itself compares municipalities based on the number of complaints received. It was not until it was intimated that a Freedom of Information request would be lodged that two spreadsheets were finally supplied by email. One of these was prepared by the MAV; the other was from the Victoria Grants Commission.

The former lacked information for approx 20% of municipalities and contained errors that should have been obvious to anyone with any knowledge of mathematics. The latter was some 78 rows and 70 columns in extent but contained information for all municipalities. Over a period of some two years requesting these figures, the MAV did not explain that they were available on the Victoria Grants Commission web site.

The VGC statistics provide the total valuation and rates paid in varying categories within each municipality and calculate an average or "implied" rate for each municipality from those figures. This is surely a much fairer and more reasonable basis of comparison than one based on the number of complaints, yet the MAV and the government reject it.

The statistics demonstrate that property owners in some municipalities pay almost five times the rates on property of equal value as are paid by owners of property in the lowest rated municipality in metropolitan Melbourne. This would not be wrong if property owners receives five times the benefit from publicly funded facilities and amenities but, in fact, it is those who receive the least benefit who pay the highest rate in the dollar.

In a statement answering a suggestion that a uniform rate should be applied across the State, published in the Weekly Times of July 27 2005, the CEO of the MAV, Mr Spence is quoted as saying, "The problem was that if rates were struck on a standard implied rate, the average Stonnington rate bill would double, which was hardly equitable…" (See Appendix 3.)

This confirms the substance of the argument but the inequity is that ratepayers in the City of Latrobe that produce the bulk of the electricity on which the State depends and provides a substantial amount of the food, water and other essentials, pay 4.88 times the rate in the dollar than yhat paid by ratepayers in Stonnington.

If the ratepayers of Latrobe City receive the same level of public facilities and services as the ratepayers of Stonnington, the MAV seems to accept that it costs four times the value of those services simply to deliver them. Unless the MAV can explain why it is that ratepayers in Latrobe City pay such a high rate or alternatively why Stonnington ratepayers pay such a low rate, the argument lacks substance and is simply a matter of opinion.

If the justification for the lower rate in Stonnington is implied in the question: - "Why should residents in Stonnington be asked to make such a contribution to other councils over and above the one they already make through Commonwealth taxation?", it is an outrageous argument.

The Commission should seek assurances from the respective State Grants Commissions that they are not attempting to rectify by subterfuge any Commonwealth taxation measures perceived to be unfair.

Ratepayers in non-metropolitan municipalities have a right to know that the organisation that purports to represent their interests at a local government level endorses such underhand practises, if that is the case.

Farm rate.

The Australian government has taken a leading role in freeing up world trade although we represent only about 2% of world trade. As evidence of its good faith, almost all rural subsidies and marketing schemes for farm produce have been dismantled despite the refusal of major trading nations to make similar moves.

In any examination of terms of trade, consideration must be given to the cost structure of competing countries. As indicated previously, there are ways to disguise a subsidy such as by calling it a benchmark or giving terms a meaning differing from popular usage.

It is reasonable to assume that other Australian cities pay similar amounts to prop up public transport at taxpayers' expense. Otherwise, Melbourne has a productivity advantage over those other cities. The New South Wales government has stated that the subsidy in that State is unsustainable.

When it comes to international trade and free trade agreements, the taxation structure in other countries becomes relevant. There is no doubt that orange growers in California compete with our home grown product in Australian supermarkets as do dairyfarmers in New Zealand. Cities in North America and Europe do not receive huge amounts of taxpayers' funds for their public transport; neither do the residents of Auckland.

The Victorian Parliament makes provision for a farm rate in its Local Government Act but councillors of a municipality have the difficult problem of deciding if and to what extent it should be applied. There are good reasons for applying a farm rate but there is no good reason why other ratepayers in the same municipality should be called upon to either pay higher rates or accept a lower level of services.

Some municipalities have little urban development and 80 to 90% of their rate revenue is spent on ‘local’ roads. Others have negligible numbers of farm properties and spend negligible amounts on ‘local’ roads.

Other countries recognise that the value of farm land depends on factors other than publicly provided facilities apart from roads and bridges. For example, a farm may be assessed at the same value as a building used as a supermarket. The farm needs road access but not footpaths, streetlights, drainage and the services of substantial urban development around it.

In England, land and buildings used for agriculture have not been rated for any purpose since the 1930s.

It is difficult to draw direct comparisons with other countries because of the differing responsibilities undertaken at local government level. These can include housing, education and local law enforcement (England has 42 separate police forces; the United States has 13,000 separate law enforcement agencies implying that country people do not pay costs like traffic or crowd control in big cities).

There is also widespread use of Transit Authorities, funded largely by ratepayers, which are responsible for roads and public transport in urban regions. Residents living hundreds of kilometres away are not expected to contribute equally with those who use these facilities daily.

The same applies to freeways. In Australia, country people are brainwashed into believing that freeways are there for their benefit even though they may rarely, or never, use them. In any event, the benefit they receive would be reflected in the valuation of their real estate just as it is in the cities. For that reason, it makes sense to establish a metropolitan transit authority in each city to fund public transport and freeways using the rating capacity available in metropolitan municipalities. If metropolitan Melbourne ratepayers paid a rate-in-the-dollar similar to ratepayers in Buloke Shire, there would be ample additional revenue for this purpose. (This is not the appropriate place to state the case for a central rating authority to pay the cost of valuations and strike a uniform rate. Suffice to say that 95% of taxation is already collected in that way).

Then the State government would have over $2 billion annually to help the needy and care for the environment. It would be giving all Australian a share in the value of natural resources that are the property of all, not just those who exploit them.

As evidence in support the above claims, the following statement has been extracted from the internet.

……the Ontario Budget.

> *Tax Rates*
>
> *The tax rate applicable to the farmlands property class is 25% of the tax rate applicable to the residential property class. The 75% tax rate reduction applies to both the municipal and education portions of the tax.*
>
> *The tax rate reduction for the farmlands property class was implemented in 1998 as a replacement for the former farm tax rebate program whereby eligible farmers used to receive rebates of 75% of their property tax.*
>
> *During the consultations, concerns were expressed about the rigidity of the requirement that the farm tax rate must be a fixed percentage of the residential tax rate. This concern was particularly pronounced among communities in southwestern Ontario where the values of farm properties increased at a much faster rate than the values of residential properties upon the last reassessment, and as a result, many farmers faced tax increases that were proportionately higher than those experienced by residential taxpayers.*

It should be noted that governments create residential land but farm land is finite. The value of residential land is determined by availability and demand, both controlled by government.

The Australian Capital Territory.

http://www.revenue.act.gov.au/rates.htm#Rates

Rates Calculation for 2004-05

The variable factors used to calculate Rates are now determined by disallowable instrument under s139 of the *Taxation Administration Act 1999*. See Disallowable Instrument DI 2004-43 for current amounts and percentage rates.

Calculation of rates for different types of property is as follows:

Standard Properties: $330 + ((AUV - $21 500) x P)

The amount of rates payable for 2004-05 has two components - a fixed charge of $330 (except for rural properties) and a valuation based charge for each rateable property. The valuation based charge is calculated using a rating factor or percentage (P) and the average of 2002, 2003 and 2004 unimproved land values of your property (AUV), that exceeds $21 500 (rate free threshold). You do not pay the valuation based charge on the first $21 500 of your AUV.

Unit Properties: $330 + (((AUV x UE) - $21 500) x P)

Rates for units that are part of a registered Unit Title Plan are subject to a similar calculation that is applied to standard properties. Each unit is liable for the $330 fixed charge together with the valuation based charge. The valuation based charge for each unit is calculated using the average of 2002, 2003 and 2004 unimproved land values (AUV) of the entire Unit Title Plan which is multiplied by the individual unit entitlement (UE). The rating factor (P) is then applied to the individual unit value that exceeds $21 500 (rate free threshold). There is no liability for the valuation based charge if the individual unit portion of the AUV is $21 500 or less.

Rural Properties: (AUV - $21 500) x P

Rates for rural properties are calculated on a valuation based charge only. The rating factor (P) is applied to the average of 2002, 2003 and 2004 unimproved land values (AUV) that exceeds $21 500 (rate free threshold). There is no fixed charge component for rural properties.

Rating Factors (P)

There are differential rating factors for residential, commercial and rural properties that are applied to the AUV of each property that is above $21 500 (rate free threshold). The rating factors for 2004-05 are as follows:

Residential	0.3870%
Commercial	1.2182%
Rural	0.1935%

In the ACT, farms are exempted from the municipal charge and pay only half the residential rate and one sixth the commercial rate. This reflects the differing degrees of reliance on publicly provided facilities of the respective sectors. These include the need for footpaths, drainage, kerb and channelling, car parking, street lighting and the fact that owners of farm land are denied the right to subdivide the land for residential purposes.

Given that the Commonwealth Government has the right to disallow this Act; it can be assumed that all sides of the Commonwealth Parliament agree with this system of local government rating.

Conclusion.

Country people lack the political power to gain fair treatment from the government. This is partly due to the fact that there is far less community of interest among country people compared with metropolitan residents and Members representing country electorates have to spend as much as one working day each week travelling to and from the capital city as well as the time spent servicing scattered communities in their electorates.

The so called ‘one vote- one value principle’ has disastrous consequences for a very large and sparsely populated country like Australia. The obvious consequence is a continuing concentration of population and wealth in the capital cities and the use of this as a political weapon to extract unfair advantages from the government. Although the wealth of the nation comes basically from its resources that are largely derived from the country, the money generated goes largely to the cities. Countries with many people and few resources are usually poverty stricken.

The role of government should be to balance inequalities that arise in any society. This responsibility seems to no longer a priority of governments in this country because our political machinery is driven by popularity not justice and fairness.

The blame lies substantially with the media, which fails to inform the public about official documents that prove the truth of these comments.

Although governments proclaim the importance of accountability and transparency and the media demands freedom of expression, few people are aware of the dimensions of the subsidies provided to encourage the growth of the capital cities in Australia.

With global warming becoming more widely acknowledged, productivity needs to be measured in terms of environmental effects instead of dollars. Allowing “market forces” to determine government policies is a recipe for global disaster.

Craig Ingram MP, Member for Gippsland East 1999 -

Bruce Evans, Member for Gippsland East 1961 - 1992.

Submission to Victorian Competition and Efficiency Commission inquiry into congestion, June 2006.

Response by Bruce Evans to draft report.

Victorian Competition and Efficiency Commission.

Introduction.

The draft report on Making the Right Choices: Options for Managing Transport Congestion lists three core functions of the Commission. The third of these is: improving the awareness of, and compliance with, competitive neutrality.

It is not clear whether that function is interpreted to mean competitive neutrality within Victoria, within Australia or internationally. My previous submissions were based on the assumption that the Commission is concerned with the effects that its recommendations may have on all Victorians no matter where they live. Competitive neutrality within Victoria is compromised if infrastructure is provided at ratepayers' expense for some communities and taxpayers' expense for others. The same factors affect competitiveness in international markets.

While noting that the Commission is restricted to suggesting options to resolving congestion, the potential impact on Victorians living outside major cities, if current funding practises are maintained, is such that this aspect should not be ignored.

The draft report provides no evidence that the Commission is considering the most logical and most sustainable way to deal with congestion which is to discourage the growth of the metropolitan area. One way to do this is to require that infrastructure required by big cities should be paid for by those who benefit.

A further course of action would be to require the metropolitan area to pay regions for resources they provide that contribute to the wealth of the city. One example is that almost all the water yield of the Thomson River is diverted to the metropolitan area without which it could not grow. Although it adds immense value to the metropolitan area, government apparently considers this resource of no value to Gippsland. In fact, the regions are treated in much the same way as imperial powers treated their colonies – exploit their resources and let the natives be content with the jobs they provide.

Similarly, natural gas is considered an essential service for metropolitan people – it is piped from Gippsland to Melbourne, Sydney and Tasmania but residents of Lakes Entrance who can see most of the extraction rigs out to sea are still without it after forty years. Farmers will never have the advantage of natural gas because of the economics of distribution. In other words, economies of scale play an important role in the provision of services but those outside the pale get nothing to compensate for their inability to share the common wealth.

If city people claim the benefits of economies of scale, they should carry the costs of diseconomies, such as congestion and other disadvantages. The usual rejoinder to this argument is that country people should then carry the high distribution costs resulting from low levels of population. Australia is a big country and metropolitan residents

enjoy the benefits of that fact. The current boost to the economy is not by utilising the resources of the cities but of Australia's wide open spaces.
Therefore it is reasonable that metropolitan areas should share the costs of caring for a large continent just as they bear their share of the cost of defending it. Country people cannot do anything about the size of the continent. It is outrageous for country people to be penalised for something over which they have no control. Congestion in the cities is caused entirely by the people who live there.

An extract from Microsoft Encarta states: -

> *Of fundamental importance is that any tax must be fair—that is, citizens should be taxed in proportion to their abilities to pay (a concept that Smith defined somewhat ambiguously as "in proportion to the benefit they derive from the government"). A tax is considered fair if those who have the means to pay are assessed either in proportion to their capacity to pay or, depending on the situation, in proportion to what they receive from the government. Both "ability to pay" and "benefits received", therefore, are criteria of fairness. When government services confer identifiable personal benefits on some individuals and not on others, and when it is feasible to expect the users to bear a reasonable part of the cost, financing the benefits, at least partly, by taxing the people who benefit is considered fair, as in the repayment of loans to students by subsequent taxation.*

There is nothing ambiguous about who benefits from public transport at less than half its cost. Page xxiv of the draft report states "*if motorists do not bear the cost of congestion, they will seek the most expedient form of transportation and a substantial part of any increased capacity will be absorbed by 'induced demand'*". It is not the motorists (or commuters) who induce demand; it is the high rise buildings and the concentration of business activity that results from heavy subsidisation of infrastructure in the CBD that induces the demand.

The people who benefit the most are those who own property where infrastructure is most concentrated. A quick look at a map of public transport facilities demonstrates where that occurs.

A problem of cities.

One fact stands out in the Draft Report. Congestion is a problem of cities. It further appears that no city has solved the problem. A significant fact that does **not** come out in the report is that the great majority of cities in comparable countries have created Transit Authorities or bodies of a similar kind. Property taxes (rates and congestion charges) are levied to fund a substantial portion of the operating costs of public transport <u>and major roads</u>. Where the latter are part of a State wide or National Highway system, a proportional contribution is made from tax revenue.

Transit Authorities work with municipalities within their urban area to plan development and carry out studies such as this current one. (This inquiry is a good illustration of the fact that country people are expected to share the costs of sorting out Melbourne's problems, but Melbourne people seem to think they have no responsibility to help the rest of the State with its problems, the principle one being costs associated with living in a big country.) There is no doubt that New Zealand has a competitive advantage because it is a compact country and has better soils and more reliable rainfall. Natural advantages that should assure Gippsland's prosperity are taken from the region without compensation.

Efficiency.

It is inevitable that the removal of traffic congestion in one spot simply transfers it to another. Before the Mitcham-Frankston Road was commenced, there were complaints about the problems that will inevitably develop at either end. If those are solved, particularly at the CBD end, the parking problems will be aggravated.

Efficiency is not enhanced if the net result is that some sets of traffic lights are eliminated and motorists merely move to other sets where they waste the same amount of fuel. In the country, the fuel used is working all the time.

The greater Melbourne area should establish its own transit authority like other cities around the world, many of them with a much smaller population. Vancouver has been quoted as a city with a good public transport system. It has superseded Melbourne as the "world's most liveable city" (which appears to have caused dismay among Melbourne residents), it is little more than half the size of metropolitan Melbourne and is not even the capital city of the province.

Causes of congestion.

The most fundamental cause of congestion in metropolitan Melbourne has been ignored in the draft report. No consideration is given to the extent taxpayer subsidisation of public transport is a factor in the burgeoning growth of the CBD. Because property owners are not required to meet the costs of infrastructure that increases demand for their property, land values in the areas that benefit increase substantially, responding to the salesmen's catch cry –"location, location, location".

In order to capitalise on the ever-increasing values, perfectly good buildings are torn down in order to build bigger ones; single residences are converted to blocks of flats. This, in turn, leads to more jobs in the CBD, more commuters adding to the demand for further infrastructure. The certainty of making a substantial capital gain leads to speculation, thus forcing up prices even further. The capital gain is in the value of the land as a direct result of availability of infrastructure, not the building thereon.

The result is that poorer people are forced to go to the outer suburbs to find affordable housing. Instead of living close to their work place, they have to travel greater distances adding to the congestion. They are then faced with higher fares, higher fuel prices and the payment of tolls in order to get to the CBD for work, business or pleasure. Those who benefit the most, the owners of property in the CBD, who may not even be Australian residents, reap the financial benefits of the State and Commonwealth funding of metropolitan infrastructure. It is not just trains, trams and roads that add value to land – it includes everything from airports to zoos.

The whole system appears to be driven by a philosophy that people who live outside the metropolitan area are less worthy than those who live within it. The opposition to the government's proposed move to Geelong of the Transport Accident Commission is an example. The Government is a major contributor to employment and the demand for office space in the CBD and, as a consequence, to congestion. If the real cost of accommodating the public service in the heart of the city had to be paid, it would increase the incentive for the largest employer in the State (the government) to do something substantial towards decentralising its own administration.

One way would be to reduce the grossly unfair burden placed on country people to maintain infrastructure for scattered communities. Many country people would have no services unless other country people subsidise them. It is impossible to avoid every form of subsidy. Natural gas will never be available to many country people because of the cost of infrastructure and they are denied their right to share in the common wealth of which, natural gas is part. A small additional charge to those who do benefit from this cheap fuel would enable country people to obtain the alternative of LPG at much the same price.

National Competition Policy states that subsidies distort the economy and cause mis-allocation of resources. A policy to this effect was introduced in Victoria in the 1980s following recommendations of the Public Bodies Review Committee. Subsidies that were previously applied to water and sewerage services in country towns, and considered by country people as an offset to public transport subsidies in the city, were eliminated and the bodies providing these services now contribute a Public Authorities Dividend to the State government approximating $600 million. Infrastructure that was previously provided for irrigation districts was transferred to regional management and was required to become self - funding.

Furthermore, because the State government required railway freight services to pay their own way, rail freight services have disappeared in many country areas leading to the use of much bigger road transport vehicles using roads and bridges never designed for their size. While big business fights over the spoils of the most lucrative freight routes, small country communities are being crushed by the cost of maintaining roads and bridges that were never designed carry the traffic they now have to carry as a direct result of closure or reduction of rail freight services. Country people are now saddled with council rates up to almost five times the rate applied in the wealthiest municipalities yet when city roads can no longer cope with the traffic they were designed to carry, the government pays to fix the problem.

Methods of funding in other cities.

Although the draft report provides information on methods used in other countries to deal with traffic congestion, it is singularly lacking in information on where financial responsibility is placed. This submission should not be interpreted as opposing proposals to reduce congestion-- it is putting a case based on the instruction by the Treasurer in his letter dated 14th September 2005 for Commission to take into account “international best practise”.

It is interesting to note that the Report of the Auditor General on the “Franchising of Melbourne’s trains and trams” was tabled in the Legislative Assembly at approx. 10 a.m. on 14th September 2005, the same day of the Treasurer’s letter of referral.. It is not an unreasonable conclusion to draw from that remarkable coincidence that the Treasurer was so alarmed at the contents of the Auditor General’s Report that he acted immediately to institute some damage control. The Auditor General stated as follows:

"As a result, DoI was able to enter the negotiations with the franchisees as a well informed purchaser with tools to evaluate the reasonableness of the Connex and Yarra Trams offers. Using the benchmarks, Dol effectively negotiated Connex and Yarra Trams offers to within about 3 per cent of the relevant public sector benchmark (for trains - $1548 million and for trams - $598 million)"

The true costs.

Given that possible scenario, it is surprising that in the draft report, p. 138, Table 4.4 quotes train and tram funding for 2005 at $486,101 and $282,731 respectively compared with the Auditor General's figures, "for trains - $1548 million and for trams - $598 million".

In his report of June 2000, the Auditor General tabulates the "subsidies" to the then operators of the public transport system (see table below). That statement seems unequivocal and it was not too difficult for anyone interested to add amounts mentioned in several announcements in the meantime of an increase in these payments to estimate that they now exceed $2 billion. There were letters in the press expressing dismay at the amounts involved that clearly indicated that the writers thought that a "blow out" of $90 million was the total amount, not merely the increase.

Extract from Auditor General's Report, June 2000.

Component	Amount
Real annual franchise payments (b)	923.6
Rolling stock adjustment payments (c)	801.9
Capital grants - infrastructure lease	136.2
Capital grants – franchise agreement (d)	70.8
Core infrastructure lease rental (e)	(2.4)
Non-core infrastructure lease rentals (e)	(58.0)
Net cost to the State	1 872.1
Net cost to the State per franchisee:	
Bayside Trains	354.4
Hillside Trains	620.9
Swanston Trams	286.0
Yarra Trams	134.4
V/Line Passenger	476.4
Total	1 872.1

The following paragraph from the same report reveals the fact that even this amount is substantially understated by means of a very questionable process.

> **6.27 Under the sale arrangements of the 5 passenger transport businesses to the 3 separate franchisees, the State received a nominal consideration of $3 for the transfer of the rail businesses' net assets, which mainly comprised rolling stock and plant and equipment, to the franchisees. As a result, an abnormal loss of $665 million for the**

> **sale of the net assets of the businesses was reported in the State's operating statement. Although the State only received a nominal consideration for the transfer of these net assets, the State nevertheless received a right to receive future services from each franchisee at a reduced subsidy payment from the State.**

It can be seen from these figures that the subsidy for Melbourne’s trains and trams has increased from $1.4 billion to $2.146 billion or 50% in five years. That does not take into account the reduced subsidy referred to in the preceding paragraph. These figures alone should destroy the urban myth that the city is subsidising the country.
(For those who note that the subsidy for V/Line Passenger services is not taken into account in this argument, it should be noted that the V/Line amount probably includes interstate services. It is also a fact that country services benefit property-owners the full length of the route. As they all terminate in Melbourne, the greatest benefit is at the Melbourne end. They are part of a state-wide system.)

Consultation, transparency and cost-benefit.

On page xxx of the overview, the draft report states: - “*Consultation is likely to be more effective when the costs and benefits of different solutions to a problem are transparent to all… In addition, transparent airing to the public of the costs and benefits of particular projects should provide some protection against the implementation of projects that do not pass a cost-benefit test.*”

As is demonstrated in this submission, the costs of Melbourne’s public transport are anything but transparent. Unless there is a dramatic change in the way works to deal with congestion are funded, the costs will be continue to be born by taxpayers and the benefits received by property owners. The people of Victoria, and indeed Australia (because Commonwealth funding is also involved) deserve better.

If the cost of congestion can be calculated, it must also be possible to identify who receives the benefit from alleviation of congestion and to devise ways to obtain a contribution to meet that cost.

Property Taxes and Transportation

Although the draft report refers to measures used in Vancouver to deal with congestion, no mention was made of the following extract from that city's transportation website

Property Taxes And Transportation

> *Municipalities fund the services they provide to their residents mainly through the revenue they get from property taxes paid by the owners of homes and businesses. This includes roads that are municipal responsibilities and public transit costs that aren't covered by transit fares. When the provincial government created TransLink in 1999, it was given responsibility for public transit in the GVRD as well as a network of major arterial roads that join the 21 municipalities in the region. To fund road and transit operations and to allow for improvements and expansion, the province gave TransLink specific sources of revenue including a share of the motor fuel tax, transit fares and a portion of property taxes collected in each municipality. The reason for using property tax as one of the ways to pay for the regional transportation system is that the system provides benefits to all residents; even those who don't use transit or might not even drive. The efficient movement of people, goods and services is vital to our economy, our environment and our quality of life.*

A search of the internet using the words, "transit authority" reveals about **8,680,000** hits which is evidence in itself that most cities in the Western World have a city wide authority to run both public transport and roads. (By contrast, a search on 'state funded rail network" yielded just three and these all referred to a proposal to establish such a network to keep trucks out of the greater London area). The City of Auckland also has such a scheme. By all accounts, they are much more efficient than Melbourne's system, perhaps because the Auckland system is largely funded in the way outlined in Vancouver and there is a pride in ownership that is absent in Melbourne..
As indicated in the paragraph quoted above, some of these appear to be of recent origin and it may be that other governments are coming to the realisation that metropolitan areas have been an unfair drain on taxpayers in the past.

Designed to deceive.

Following release of the draft report, articles appeared in Melbourne's daily press which seem to be designed to perpetuate a grossly unfair and unsustainable method of funding. Even these articles cannot agree on the real cost to taxpayers to prop up Melbourne's public transport.

The Commission should heed its own advice that "*Consultation is likely to be more effective when the costs and benefits of different solutions to a problem are transparent to all*". The starting point should be an honest assessment of what it is costing taxpayers at the present time for trams, trains, buses and the regional roads that are part of the infrastructure of a big city and are recognised as such in other western countries.

To test the knowledge of the general public, a random survey should be conducted among Victorians asking how much they think the government pays annually to provide them with public transport. If governments are proud of this huge outlay, they would be advertising the facts to the whole community.

No realistic attempt to rectify the situation will occur until the public are made aware of the facts. Then they may understand that the cost of providing the infrastructure should fall on those who benefit – not just those who use it - as so succinctly stated in the second last sentence of the above quote.

Privatisation blamed for $1.2 billion loss.

Transport lets us down.

News Item. 11/04/2006.

Private operators are running trams and trains badly, costing Melbourne its "most liveable city" title, and being paid a lot for doing so, transport academics claim.
They say Vancouver--- which last year stole Melbourne's liveability crown--- runs a public system on a third of our private system's subsidies.
In a report released yesterday, the academics called for public transport to be returned to state control. But the Government dismissed the ambitious scheme, saying it had no plans to roll back privatisation of the city's trams, trains and buses.
The transport boffins claim privatisation has cost taxpayers $1.2 billion.
But Transport Minister Peter Batchelor's office said the academics appeared to have made basic errors in calculating their figures.

Melbourne's private operators get $800 million a year subsidies, not counting money from ticket sales.

By contrast Vancouver funds a state-run system $263 million a year.
The Canadian city which has a population of 2.2 million has a system of trains, buses and trolley buses - buses that run on electrical wires.
"Fares are lower there, patronage is expanding and it is bringing people back off the roads. They haven't looked back. They're showing the way," said Dr Paul Mees, who co-wrote the report Putting the Public Back into Public Transport."
The privatisation of Melbourne's trams and trains has been an expensive failure."
But while Melbourne's public transport system is attracting brickbats locally, it has been getting bouquets from interstate.
Sydney Lord Mayor Clover Moore said Melbourne did it better when it came to public transport, leaving their system for dead.
"They had 80,000 people at the MCG for the Games opening ceremony and they moved them in and out on public transport," she said.

"It was mind blowing watching these trams loading up and moving on.
"Here, every time something is on at the SCG or Aussie Stadium, we have terrible traffic congestion."
The academics said Connex and Yarra Trams were lobbying for still more subsidies - a claim the operators deny. "We do not blame any problems that may exist on the system on the level of subsidy paid to us," said Connex spokeswoman Kate De Clereq.
Yarra Trams said its recent lobbying for a $1 billion upgrade of its fleet was separate to subsidies
The Government said it was too early to speculate whether subsidies would increase.

Transit Authorities.

The foregoing article appeared in the HeraldSun, April 11, 2006. The following day, a further article appeared headed, *"**Taxpayer money gets derailed**"*. The author states, *"By June 2006, the private contractors will have received $1.2 billion more than we would have paid the PTC to do the same job".* That statement implies that the author knows the total amount taxpayers pay but he does not appear to be willing to reveal it. It also challenges the accuracy of the statement in the draft report, p. 138, Table 4.4 of train and tram funding for 2005 at $486,101 and $282,731.

The above statement challenges the whole credibility of the VCEC inquiry if it does not question the accuracy of the figures on which it relies.

Over thirty years ago, it was stated policy of the State government that rail freight services were expected to pay their way and passenger services were expected to return only 50% of their operating costs. No government has claimed to have reduced this proportion in the meantime. This makes the Auditor General's figure the more credible. It appears unlikely that the 50% recovery rate has been maintained.

In a plea that the people who live and work in Melbourne should be looked after, the article goes on. *"Other cities do it. They have smart planners, and their public transport is designed and planned by a public agency".*

Cut red tape to improve trains

By Tony Morton

WITH petrol prices going through the roof again, it's more important than ever that we have value-for-money alternatives to car use.

But despite all the minister's protestations, public transport users in Melbourne have seen little in the way of real service improvements to justify the doubling in subsidies to public transport, and the 30 per cent rise in fares since privatisation in 1999.

The shiny new trains and trams (which are always running late) account for only a fraction of the extra $1.2 billion given to the private operators.

What the system needs is not to return to the bad old days of the Met, but a bit of 21st-century public discipline. The best public transport systems in the world are all run by efficient, accountable public agencies whose staff devote their time to planning actual services rather than administering 500-page contracts. The subsidy per passenger in Vancouver is a fraction of what it is in Melbourne.

Every year our public transport gets worse but costs more.

Tony Morton is secretary, Public Transport Users Association

On April 21, 2006 a further article appeared in the same newspaper in a similar vein. It is difficult to know whether each author has independently drawn on the incomplete information in the draft report or whether it is part of a continuing campaign to deceive the community about the real cost of public transport in metropolitan Melbourne. Like many great cities around the world, Vancouver has a Transportation Authority and does not have access to unlimited funds from Federal, or State/Provincial governments. It is hard to believe, given their positions, that the authors of those articles are unaware of the fact that the vast majority of these public agencies are regional transit authorities, funded to a very substantial degree by property taxes. A search on "transit authorities" on the internet registers about **8,680,000** hits, a fact that speaks for itself.

These authorities also have

responsibility for regional roads, which is an acknowledgement that public transport and regional roads are intimately linked as part of metropolitan infrastructure and are not deemed to be State or National infrastructure.

It should be noted that the Greater Vancouver Transportation Authority is also responsible for policing the transportation system.

The first item on this part of the Greater Vancouver Transportation Authority's web site deals with property taxes and transportation. It points out how property owners are beneficiaries of both public transport and the construction of freeways and why a substantial contribution should come from that sector. In some cities, this principle is extended even further by imposing a congestion charge on properties, which are identified as contributing substantially to congestion in the Central Business District eg. San Francisco. The Commissioners note this in the draft report and, for the sake of all Australians; it should be implemented to the maximum. This could be done as part of the valuation of a property and open to the same appeal provisions.

There is strong evidence that any road space freed up by attracting commuters to public transport will be immediately taken up by other motorists attracted by a freeing up of traffic flows. This is further evidence to support the argument that Australian cities are doubling up on demands for taxpayer funded freeways on top of massive funding of public transport.

A fundamental factor in tackling traffic congestion is the question of who should pay to fix it. The evidence is irrefutable that a great deal of the taxpayers' money that is ploughed into subsidies for public transport and freeways finds its way into the pockets of those who own property in the central business district of the biggest cities. The benefits of each route spread like the ripples in a pond and, because virtually all routes converge on the CBD, that area benefits from every route.

Extracts from Vancouver Regional Transportation Authority' s website.

> *Property Taxes And Transportation*
> *Municipalities fund the services they provide to their residents mainly through the revenue they get from property taxes paid by the owners of homes and businesses. This includes roads that are municipal responsibilities and public transit costs that aren't covered by transit fares. When the provincial government created TransLink in 1999, it was given responsibility for public transit in the GVRD as well as a network of major arterial roads that join the 21 municipalities in the region. To fund road and transit operations and to allow for improvements and expansion, the province gave TransLink specific sources of revenue including a share of the motor fuel tax, transit fares and a portion of property taxes collected in each municipality. The reason for using property tax as one of the ways to pay for the regional transportation system is that the system provides benefits to all residents; even those who don't use transit or might not even drive. The efficient movement of people, goods and services is vital to our economy, our environment and our quality of life.*

TransLink, the Greater Vancouver Transportation Authority, is a small organization involved with transportation planning, administration of service contracts with subsidiary companies and contractors, the management of capital projects, financial management and planning, public affairs and supporting business functions.

TransLink's Security and Law Enforcement provides security and enforcement for Coast Mountain Bus, SeaBus, SkyTrain, and West Coast Express.

The actual delivery of public transit services takes place through subsidiary companies and contractors while the maintenance and improvement of the Major Road Network is done in partnership with the municipalities.

The major sources of funding for TransLink are transit fares and fuel taxes, with additional funding from property taxes, the Hydro levy, parking sales taxes and advertising revenues. The GVRD must approve new or increased property taxes, parking sales taxes, toll charges and vehicle levies.

End of extracts.

Further comments.

A fundamental principle behind National Competition Policy is that subsidies distort the economy and cause the misallocation of resources. There is no better example of the truth of that principle than the subsidisation of public transport and regional roads necessary to sustain a large city.

Unless a substantial portion of the funds needed are raised by “Betterment capture” and/or “congestion taxes” on the properties and/or businesses that benefit from the provision of these services, the result is sky rocketing land values in the CBD leading to the construction of ever bigger buildings to capitalise on these rising values. This, in turn, leads to greater demand for freeways and public transport.

If the same amount was spent in encouraging development of regional and rural areas, there is likely to be a more productive outcome. It makes more sense to require metropolitan public transport and freeways to be self funded (given the vast array of other services and facilities provided by taxpayers) and country freight and roads to be fully funded to reduce the demand that leads to congestion.

There is no logical reason why country people should be paying three and four times the local government rates than those paid by the owners of the most valuable property in the metropolitan area.

The Commission should recommend the establishment of a single authority to manage metropolitan Melbourne's transport infrastructure, funded in a similar way as comparable bodies in North American cities. I do not have the resources to establish if there is still an element of political domination even in those cities but as the eminent American consultant on transportation, Wendall Cox stated in an email to me five years ago, large cities should carry their own infrastructure costs. His guiding principle is: -

GUIDING PRINCIPLE

What government does for one it should do for all;
What government does not do for all it should do for none.

In reply to my request for information on subsidisation of public transport, particularly railways, WENDELL COX CONSULTANCY replied as follows: - (wcox@publicpurpose.com) replied by email:

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"..among highly auto dependent nations, London's underground does the best, covering 137 percent of its current costs and something like 95 percent of its costs and renewals. New York claims to cover 70 percent, Paris is much lower. As regards who pays, there is surely no reason that the urban area should not shoulder the entire cost."

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No payment was offered or paid for this information.

The relevance of the above communication is that Australian farmers have to compete with New Zealand, Canadian and United States products, at home as well as on overseas markets. The competitiveness of country based industry in Australia is seriously compromised by gross subsidisation of metropolitan infrastructure.

The following communication spells out the requirement that taxpayer subsidies be clearly defined as 'community service obligations'. It is time the government (and the press) displayed the same standards of honesty and integrity that it demands of others.