

**Jock Laurie
President**

15 February 2008

Local Government Study
Productivity Commission
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By email: localgov@pc.gov.au

Re: Comments on Draft Report - Assessing Local Government Revenue Raising Capacity

The NSW Farmers' Association (the 'Association') welcomes the opportunity to comment on the Draft Research Report on '*Assessing Local Government Revenue Raising Capacity*' by the Productivity Commission.

The Association is in an unusual position for although our members are rate payers and therefore concerned about the level of local government revenue raised through the rating system, we also represent farming businesses and members of the local community that rely on services provided by local governments. To this extent the Association is concerned about increases in rates where there is no recognition for the limited access to local government services by primary producers. At the same time the Association is also concerned about the total revenue raising ability of Councils and ultimately the infrastructure and services provided to the local community.

The Association provided a submission to the inquiry in July 2007. In this submission the Association raised a number of concerns and put forward a list of recommendations. The Association is generally supportive of the draft report and the findings contained within. A number of specific comments are provided below.

Principles to improve corporate governance

The Association raised the issue of corporate governance in its submission. The point is raised in the report on page 55 that, "it is recognised that the governance or administrative arrangements required to achieve the optimal mix of rates and service provision vary across different types of councils". However the Association feels that a greater emphasis needs to be placed on this issue. Corporate governance and accountability not only affects the ability of local governments to raise revenue but it also is a key component in how that revenue is utilised and the benefit that flows back to the community.

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Revenue sources of local Government

The Association welcomes the acknowledgement on page 7 that 'Local governments are providing services beyond their traditional role'. Furthermore the comments on page 39 relating to the additional services are clear examples of the additional requirements placed on rural and remote councils. In addition rural and remote local government are also being required to provide professional health services including staffing, accommodation and offices together with some significant financial incentives, in an effort to restore services to their communities. The demand for these services is only going to increase as the population ages.

Rating exemptions

The Association believes the wording of finding 6.3 is misleading given the content of the report on pages 98 to 100. Furthermore the Association would hypothesise that the effect of rating exemptions has a more severe effect on rural, regional and remote councils.

For example, National Parks do not currently pay local council rates. With 7 per cent of the state covered by national parks it represents a significant area of land within local government areas where no rating revenue is raised. This area is expected to expand in NSW with proposals for the establishment of a corridor along the Great Dividing Range and lands reserved for National Parks such as the Pilliga Gnoono.

Similarly 34 per cent of NSW land area is state forest. Forests NSW currently do not contribute towards local government rates although there are some situations where agreements between Forests NSW and local councils provide for funding of some roads and local bridges. Forestry activities create additional pressures on local road infrastructure.

Furthermore, rural areas of NSW are also experiencing an increase in the number of small landholders who are purchasing agricultural land and gifting or donating this land for conservation purposes. This land is in turn taken out of the land base on which rates are levied and results in a reduced ratepayer base.

The cost of these areas to local communities is not commensurate with any tangible benefit and often they provide a revenue hole in terms of fire control and pest animal and weed control resource. In addition these sites can actually be a tourist attraction to an area, increasing the demand for local services such as roads and facilities without any comparable increase in revenue.

Rating Concessions

The Association would dispute finding 6.4 that suggests that where the concessions are not reimbursed, rate increases could be used to offset the revenue shortfall. In line with comments made above the Association does not believe that individual ratepayers should be burdened with covering costs of services and facilities provided to social groups outside the control of the local government or for benefits provided to exogenous parties. This is particularly pertinent in rural, regional and remote council areas where there is a much smaller ratepayer base.

Revenue raising and well-being of the community

The Association notes that the draft report states on page XXXI that "The Commission has presented evidence that councils have the potential to raise additional revenue". The Association argues that the ability of Councils to raise additional revenue is dependent on a

number of factors and in many cases rural, regional and remote councils do not have the same capabilities as urban councils. This is supported by Finding 5.1 which states:

Capital city and urban developed local governments have fiscal capacities above the national average. Urban fringe, urban regional and rural local governments have fiscal capacities at about or just below the national average. Remote local governments have the lowest fiscal capacity.

General Comments on the report

The Association notes that a large proportion of the report is dedicated to revenue raising through the rating and government grant provisions of local government. The Association would support a wider focus on alternative revenue raising mechanisms to explore various options for councils to raise revenue outside these two principle schemes. Options such as a dedicated allocation of federal taxation receipts, user pays charges and commercial incentives may all be possible revenue streams that should have a stronger focus for local governments. The Association believes that with a limited, and in many cases reducing ratepayer base for many rural councils there are pressures to adopt new methods for revenue raising and Association would support the Commission investigating some of these alternatives.

The Association acknowledges that the guidelines for the review focused on the capacity of different councils to raise revenue and the impacts to the various stakeholders. However it is felt that the report could be more valuable if a list of recommendations were developed to address the findings raised in the report and provide some direction for decision makers. The Association is concerned that the key issue regarding the declining revenue raising capacity of rural communities and the inversely corresponding increase in the level of services required from local government in rural and remote areas has not been effectively addressed.

Yours sincerely

(signed)

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