Productivity Commission
Local Government Study

Executive Summary

The **Introduction** states that the problems of local government are more than a single shire can be expected to solve along with adverse changes that have occurred over the last 150 years.

There is a remarkable interchange of conditions affecting local government and farming but the main one is; neither are paid in full for the services they deliver to the community Nationwide.

This is born out in **Capacity to Raise Revenue**, admitting that it can be done under coercion but not willingly and the **users** have either no ability to pay (live outside jurisdiction) or there are gross distortions in ability to pay.

This raises Mutual Obligations under **Fairness and Equity** and this impacts on individuals, groups, and organizations, treating some favourably and some very unfavourably.

The passage of time and changes in technology have altered the circumstances for rural and regional local government, but there has been no countervailing action to overcome the systems disconnection of payment for service, the migration to cities and coast, the stress to fixed income retirees, and disparity of income.

Shire Rates attempts to highlight the present system's shortcomings with a view to providing the reasons for a change away from the present system.

Facing Reality disputes the ability of rural and regional shires to raise the full requirement to fund their needs.

The user does not care where the finance comes from, so "local" has no impact and amalgamations are not the solution. Some excuses for inaction are listed.

The **Summary** confirms the unsustainable situation facing local government and moves on to **Suggested Restructure** supporting aspects of LGSA's 8 Options and the 9th Option submitted by Gundagai District Council of NSW Farmers' Association.

Introduction

I make this submission in my own name but really on behalf of family members, friends and the small farmers who are not members of NSW Farmers' Association, and fixed income retirees.

I was chairman of the Gundagai District Council of the NSW Farmers' Association from year 2000 to May 2007 spending much of my time on the need for review of local government funding and some of the documents prepared for the Council and or Head Office to use, are attached.

After years of enquires, comparing rates on a unit of area basis with other farmers in other districts, talking to shire councillors and council staff; the basic problem was not due to human frailty but commercial problems beyond the scope of a single shires' staff or its councillors to overcome.

The use of Tumut Shire Council in this submission is because it is so a-typical and reveals extremes easily. Other shires could have the same problems as Tumut but not so obviously or have opposite extremes that all point to a single shire's incapacity to overcome the problem.

Human frailty must appear from time to time but generally speaking shire administration has been exemplary, particularly in Tumut Shire.

While acknowledging Cost Shifting was the driving force behind this enquiry based on the Hawker Report, Cost Shifting is just one of those adverse changes that have occurred in the life of local government.

This submission examines the "Impacts on individuals, organizations and businesses of the various taxes" and the desirability of an holistic solution because there is too much emphasis on the individual shire not the 700 single units that make up Local Government in Australia.

The capacity to raise revenue

Capacity is modified by "the willingness of the community to pay for the services" (1) and "the potential capacities of local governments to raise revenue from their own sources will be partly dependent on the *ability* and *willingness* of ratepayers and *users* to pay for the services provided" (2) my italics.

"In turn, this is partly dependent on the income of the population and economic prosperity of businesses in the local area. "(3)

In rural shires the longest and most consistent driver of the local economy has been farming. The decline in prosperity for small farms in particular and larger farms dealing with drought or edicts resulting in land use change are not all due to local government direct action, these external influences impact back on the prosperity of farms and their support industries, reducing their ability to contribute to local government revenue.

There is an erroneous belief that farming is just another business. The fact is that it is classed as a primary industry, but not recognised as the most primary and vulnerable of the other primary industries, fishing, forestry, and mining.

When ABC reporters and local government finance officers say farmers should put their prices up; there is little wonder that no attention is paid to what effects there are from council rates on farmers and even less attention to the backlash on farms ability to keep paying rates.

The **ability** of local government authorities to exact rates is a fact, but in rural councils it is seen by farmers in negative cash flow due to drought or commodity price downturn, as a gun held to their head.

Ability needs to be subject to fairness and equity.

Willingness depends on who is asked. The ABC TV program Landline circa 2003/4 showed the reaction of farmers in Ganawara Shire in Victoria to the newly elected council requiring farmers (13% of population) to pay 58% of the rates.(4) The usual generosity of the Australian sprit was absent going by the indifference displayed by interviewees to the unfairness to the minority, because they would have to pay more.

Users are not confined to the shire and there is no commercial link available for a shire to recover the cost of service. There are various State and Federal grants that are supposed to make up for unrateable land such as Crown forests, reserves and National Parks.

Even within a shire there can be gross distortions in ability to pay. CSR Ltd with 3 factory complexes circa 1998 paid $5000 while I paid $6000 and my neighbour $9000. (5) It is not unreasonable to say those 3 factories would have earned our combined yearly turnover in the first few hours of every working day of the year.

Fairness and Equity is like eaten bread--soon forgotten, when past efforts that still bring benefits are considered, but that does not excuse the past practices nor the present use of old concepts to justify current practice.

Tumut Shire in the early 80s received 75% of rates from farmers who were 25% of the population (6) down now to 40% paid by 19% of population (7). Thus it was farmers who provided over and above their requirement of council service and put in place the infrastructure to attract the timber industry, tourism, the life style and views seekers.

These industries are not essential to farming and in fact can detract from farmers efforts. They do not justify a tax per dwelling three and a half times greater on farms than their rural urban counterpart. Page 196

Rates from business are recoverable, farms can only hope to cover the cost.

The past is the past but there is no excuse to keep denying farmers justice and fairness into the future. because local government and farmers are in the same predicament, the necessity to change this will be beneficial to both.

On old concepts, to justify current practice see page 205 of "Are Councils Sustainable?" "on the other hand maintaining local roads takes up a large proportion of councils' resources".

The fact is, that while there are farms being accessed, the producers of inputs to those farms have the benefit of being able to deliver goods manufactured in towns and cities remote from rural local government.

This flow to farms has steadily increased over generations as farms' self sufficiency declined and dependence on outside inputs have increased. This is mirrored in the decline in self sufficiency of rural shires that have lost their local industries such as flour milling, baking, dairy processing, brick making to larger centres. People migrate with the jobs and with them the capacity of local government to raise revenue. Farmers are very large consumers. The produce coming away from the farms gives them revenue to pay rates but it also provides jobs and steady reliable prices for the community at large.

Steady reliable prices from farms aided by good service from local government is the most important element for supermarkets who rely so heavily on them but also for the end consumer who needs steady prices. This is a fact that seems to be overlooked and not credited to local government and farmers. A monetary value would be helpful.

No better example of lack of fairness can be given than in NSW the State average residential rate was $624, rural councils levied an average of $400. The average rate per farmland assessment was $1471 with 8% of rates coming from farms.(8) There were 40,827 farms in NSW at 30 06 2004 so that 1.75% of dwellings provided 8% of rates (9).

By the same token National Parks and Forestry as pointed out (p 205) do not pay rates (Forestry make some contribution to the roads servicing them). In the case of National Parks they are created to please city dwellers but the infrastructure to access them, provide the support facilities for their employees and visitors, is supplied by the local council, who are not paid directly but by grants on a per capita basis. (see below)

Forestry does provide local employment but the product flowing throughout the Nation has been subsidised by the local community with most coming from farmers rates.

Table 9.2: Composition of Local Government revenue by council category, page 196 shows rural rates the lowest which confirms the inability of its main support structure farming to consistently create wealth. User charges and fees shows Regional town/city and rural the highest for two reasons. First, it covers the claytons extra rates transferred from them to rates. Second, water and sewerage is not separated off to another authority as in Sydney. Federal Grants (FAGs) almost equal rates for rural and are awarded on a per capita and disability base but only increase in line with CPI which does not keep up with awards.

There is very little to no growth in the rural rates base. The percentage of elderly rates base is becoming apparent and the lack of "other revenue" sources eg developer contributions, parking meters etc are muted or non existent.

The alarm and urgency of the Independent Inquiry into the Financial Sustainability of NSW Local Government was over the shortfall of funding leading to a huge backlog in infrastructure renewals as set out in the forward of the report "Are Councils Sustainable?"

Thus it would appear that in NSW alone the surplus between revenue and expenditure would disappear.

Shire Rates

A look at this form of taxation shows that it has serious side effects that are ultimately self defeating for revenue raising and not in the community's long term interest.

These problems are:

(1) Only the Federal Government has income taxing powers There is no relationship to the ability of the farm asset to create the wealth to pay the tax. It is in effect a tax on a farm's main capital, which other businesses do not have to endure. Other business pay shire rates directly or indirectly, and have the commercial system to recover the cost but their major asset is not taxed. See CSR Ltd above

(2) Inflexibility
Shire rates have to be paid regardless of natural disasters and/or falling commodity prices, often at a time when expenditure is greatest maintaining living stock. This attrition of capital is making it just that much harder for the farm business to accumulate cash reserves.

(3) Users not paying
The activities in rural local government that flow on to State and National economies benefiting the timber industry and its down stream dependents, the building, furniture and packaging industries is a subsidy paid for by farmers but the Local Government involved can not levy those industries or their ultimate consumer.

(4) Disparity of Disposable Wealth
Rates are a wealth tax of land owners but there has been a metamorphosis the resulting in the tax becoming perceived wealth of the investor/developer, views and lifestyle seeker, most of whom have been the beneficiaries of subsidies and taxes that favour cities and large aggregations of populations that rural people can not access. (10) In the case of shearers and wool shed staff, it is the farmer that subsidises their transport, not local or state government.

The result is that Land has become a commodity that is set to keep rising in value, which is good for local government finances but exacerbates the attrition of the neighbouring farms. It is a fact that banks are more willing to lend and is a positive but at some point the old culture up to the 1970s of paying for land that it is capable of yielding profit must come into consideration.

(5) Competition Policy Flouted, Ignored, Circumvented.
The change in land use has created unfair competition and as stated earlier, the traditional small farmer can not compete with the availability of cash possessed by the "Life Style and View" seekers, who to the farmer have more money than sense, but to whom he must ultimately concede, (a) to get his retirement fund, (b) the new level of shire rates makes his business subject to higher costs.

The fixed income retiree who bought his retirement home in a quiet suburb or location is caught up with the same rising price syndrome thanks to the unequal wealth of developers.

The ability of farmers to compete in an open slather for Land is unsustainable, when after decades of productivity improvements, that have benefited everyone, has, now left 60% of farms requiring off farm support to keep farming.

The latest distortion to fair competition for land has been the introduction of Managed Investment Schemes (MIS)

Tumut and other councils are in favour of planting forests and other MIS agricultural pursuits. Tumut with its large timber and paper industries wants to keep up the raw material supply to its mills.

One of the functions of local government is to promote new industry and it is also in farmers interests that they do so. However it is a matter of equal opportunity and fair competition which can not exist between these schemes and their farming neighbours.

The establishment of these schemes (see NFF attachment) by financial arrangements that are in practical terms not available to farmers, raises the question of fair competition. Even the necessity to establish these schemes is highly questionable. They are out of proportion to neighbouring farms and have other impacts of feral animal control, weed control and availability of water, particularly where forestry is in juxta position with farming.

Local Government are headed for extra expenditure on up grading and maintaining roads for constant heavy traffic without revenue increase.

(6) Horizontal Fiscal Imbalance

Shire rates create further distortion of competition for farmers in that when the assessment is translated into the cost per hectare, there is a considerable discrepancy between shires for the farmers involved but those farmers sell on the same market. From Tumut to Gundagai to Wakool the difference is 6: 3 : 1 dollars payable per hectare. Over 10 years that is a huge denial of funds to improve productivity.

(7) Misuse of Natural Resources

The side effects of council rates extend to the misuse of our Natural resources in that whole districts like Cumberland, Illawarra, up and down the Eastern seaboard, anywhere within a four hour drive over reasonable highway conditions from large centres of population puts pressure on land prices. As prices rise and there is no countervailing right to farm legislation, the traditional landholder moves out if possible.

In Cumberland area figures quoted for its agricultural production circa 1990s were two billion dollars, the latest figure is one billion. The Illawarra that was a dairy district is now a views and lifestyle centre. At Tumut where there were over 30 dairies in the 1970s there are now only 3.

The net result is that food produced in reasonably safe areas from drought and close to consumers, now travels hundreds of kilometres extra adding to the cost and unnecessary emission of green house gases. Dairies on the North Coast of NSW, where water and irrigation does not present problems, along with suitable climate to compete with Victorian dairies, now need to move inland, if they can, where water and irrigation are a problem and weather is not as favourable to compete with Victoria.

This may be considered a State Planning debacle but it is shire rates that have given the original impetus.

Facing Reality

The mere fact that grants to local government have been deemed necessary for decades, recognises that individual shires have not been in a position to raise all of their financial needs in spite of "The Government does agree with the Committee on the importance of local government authorities having the capacity to raise revenue from their own sources" (11)

In other words, it is a nice ideal but not practical to expect a rural or regional local government to provide all the finance required to maintain the full services demanded by the public. Raise what is fair and equitable but the balance has to come from the wider community.

Bombala Council in reference to rate pegging specifically, but equally applicable to general revenue raising "Without a mechanism for recouping the foregone revenue over the longer term a degree of flexibility has been removed. This has a larger impact in the rural areas as rate increases can not be put through cycles matching the good and poor agricultural seasons" (12)

The word "local" would seem to be used at the convenience of the user.

From a financial aspect, the city consumer moving to a lifestyle weekend retreat expects the same service for both locations. It is of equal importance for the Tumut, Toorak, Vaucluse resident when travelling to have good water, sanitation, safe bridges and roads etc and if asked, could not care less as to where the finances were raised. As far as the tourist industry is concerned basic services to a standard have to be provided across all councils. If there is a variation in standard in some areas, they will avoid that locality with negative consequences for wealth creation.

Financial pressures have been the reason for amalgamations in Victoria, NSW recently with the same contemplated for Queensland. There has been plenty of adverse comment with no apparent gain from the amalgamations so far. There has been a cooperative system for some time bringing good results for the councils in their region. It was pointed out to the NSW Minister at the time increasing the size does not compensate for lack of payment of services provided.

From an administrative use of "local" covering 700 shires Nationally "local" needs to be the local area: already equipped with staff, infrastructure and councillors. There are benefits being gained by cooperation between councils in a larger districts such as the Riverina Eastern Regional Organization Councils (REROC), with 31 such ROC districts in NSW.

When excuses are made for inaction they are on the lines of "autonomy of councils and their communities enjoy with regard to their local rating policy" , or clichés such as "those who spend the money should raise the money." All of which indicates a lack of desire to change and avoid exploring or striving for better productivity.

Reasons could be:

(1) there is no incentive to abandon a system that delivers grants to bolster State coffers.
(2) there is no incentive to introduce change if it can be avoided.
(3) allows the impression that there are no new taxes,
(4) saves on welfare responsibilities to fixed income retirees
(5) the consequences to the National economy are not their responsibility
(6) accountability for the State's rural economy is of secondary importance after satisfying coastal voters' desires
(7) Left as is Local Government is a convenience for Cost Shifting
(8) No reason to change when the other States are not changing

Summary

The capacity to raise revenue under the existing system is non existent because as stated above, councils, particularly rural and regional can not levee the beneficiaries outside their jurisdiction and measures such as parking meters would be an additional burden on communities already disadvantaged by disparity of disposable income.

FAGs contributions, welcome and necessary as they are, need to be increased. Eg The portion allocated to cover the inconvenience of `National Parks harbouring weeds and animals that invade and detract from both farms and local government road verges and parks, is inadequate.

The evidence shows that FAGs, tied to CPI is falling behind in its effectiveness as a counter to the funding shortfall in local government.

The infrastructure renewals backlog highlighted in "Are Councils Sustainable?" is conclusive proof of the present system's inability to raise adequate funds.

The nature of shire rates needs to be addressed in a new system to overcome the 7 problems listed above.

Not being able to impose income tax and the doubtful usefulness of the inflexible Unimproved Capital Value (UCV) indicates a new base is necessary plus the fact that users are not paying is the ultimate cause of lack of funds, from which the other problems are a natural progression.

To overcome Horizontal Fiscal Imbalance all states need to change.

Suggested Restructure

The LGSA had 8 options proposed in "Are Councils Sustainable?" and Gundagai District Council of NSW Farmers' Association put forward a 9th Option (attached)

The 9th Option was deemed to be radical but not impractical because it would require something earth shattering to change current thinking in the Dept. Local Government to want to make change, instead of resisting it. That desire needs to be in all States.

The holistic approach is the logical solution to most of the problems of funding local government along with elements of LGSA's 8 Options.

The holistic approach is not radical because it is used in the UK by three times our population.

FAGs is holistic in that it is for all 700 local governments

The LGSA's Independent Inquiry used whole of state statistics and used dwellings as a base.

By contrast UK farmers interviewed said bluntly that our system was foolish.

As in the UK system, dwellings, their size, location and reflection of wealth status is the logical replacement for UCV.

Rural land is for rural use only and is not taxed but the cottage or castle is.

Under these circumstances all dwellings contribute to the total funds required. The one consistent criticism of changing the system is that it will cost more.

That is obvious because there has been a shortfall in payment. However as the "Are Councils Sustainable?" points out the electorate at large does not know what the level for funding is. The rates being paid at present do not reflect or connect with the true cost of local government run sustainably.

That farmers in NSW are paying $179,000,000 and should only be paying $24,700,000 towards the total State's local government.

The evidence is that the present system is going to cost the electorate more regardless: now is the opportunity to bring in a fairer more inclusive system suitable to Australian limitations of distance, population disparity etc and boost our productivity as a bonus.

In looking at the capacity to raise funds, there is a need to assess what those funds are to deliver and if the dynamics of our economy does not negate some of our efforts. There has just been the case of a cheese factory closing on the NSW South Coast going to Melbourne and a fruit juice factory at Griffith NSW going to Adelaide, both negating the local shires' involvement in promoting retention of population and maintaining employment.

Alluded to in the introduction, there are forces acting beyond the scope of local shires to take direct action on and cover, buying power, market dominance/ restrictive trade, tax laws (10), subsidisation, lack of spending on rail maintenance by State

Government resulting in more costs to local government servicing roads. These are all having a secondary effect on the capacity of local government to raise finance and a direct cause of City/Country Divide.

Notes

1 Local Government Revenue Raising Capacity p 6

2 ibid

3 ibid

4 Attached from ABC. Copy of video is $88.00

5 The $5000 contribution by CSR Ltd was revealed in an aside by the General Manager Mr Paul Simpson to the Mayor of Tumut Shire Council Dr Geoff Pritchard in the presence of Mr James Hayes, the late Admiral Mike Hudson, myself and others at the Council Chambers cc 1997

6 Research by Mr Paul McMahon BVS of Adelong NSW.

7 Copy of information sheet from Tumut Shire Council

8 Are Councils Sustainable? p 196 Copy attached to Option 9

9 ABS

10 Mr David Trebeck, of ACIL Consulting, Canberra "The essence of the argument is that there have been long-standing, deep-seated and systematic distortions and biases against country living"

11 Issues Paper, Origin of Study p 9

12 Rates and Taxes: A Fair Share for Responsible Local Government 3-70 p 41

Option 9:Local Government Revenue. Chapter 9 "Are Councils Sustainable"

Adopt holistic approach for all 152 councils for total funding requirements. Change rating base: total funding requirements divided by total dwellings in the State.
Make rural land for rural use only and unrateable.

Pros

- Users pay for fair share of services State wide.
- Rate pegging obsolete
- $500 million shortfall covered
- Rates based on property's intrinsic values of size and position would be more equitable than rates based on land values.
- It would be perceived as a fairer system as ratepayers would be better able to relate the value of their property to the rates they are levied.
- The tax on capital now being paid by farmers eliminated

Cons

- Effort explaining the change and need for it would diminish over time
- The community level of misunderstanding and general expectations of local government in its present form will make any change difficult.

Preamble

Over the life of LG there have been many changes in technology, commerce, and expectations of service. The relatively simple approach to life in the late 19th century to the complicated and much more integrated and interdependent society in the 21st has not changed the views held by most that local government is just local government, pure and simple in its own little box, to some a branch of State Government!.

The fact that there are forces like vertical fiscal imbalance (VFI), horizontal fiscal imbalance (HFI) and the other niceties explained in chapter five influencing our little box does not gel with the fact that the 152 boxes of local government go to making up a body providing the relatively smooth running of NSW for the benefit of all citizens of the State and Nation..

The boxes need no alteration, being well equipped with administrators knowledgeable of local issues and defined boundaries.

Reason enough to ask for Constitutional recognition and a share of revenue to maintain services. Chapter five puts this as not likely but with the Federal Government forecasting health funds tied to provision of services to rural communities, perhaps in the interests of competition, productivity and the efficient servicing of the one third of population outside major cities, the Federal Government may be persuaded to act.

Problems and Explanations

The underlying theme of "Are Councils Sustainable" is funding, services and payment there of. Acknowledgement of residents being asset rich and income poor (p 18) is equally applicable to a large proportion of farms.

(p26) under 1-13 Recommendations mention is made "greater application of

In the case of farmers there has been a protracted period of social injustice in that farms are the same as Local Government, not able to recover costs, shire rates being a prime example. Made worse in recent times by change in land use due to tax breaks favouring investors or cashed up "life style and views" seekers making it harder than ever for farmers to have the ability to pay after the rates take the inevitable rise.

This situation does not occur in the UK where rural land is for forestry & agriculture only and can not be subdivided easily. Result is that if the price paid is over valued the traditional neighbouring farm is not penalised with a rate rise. Caveat emptor.

Farmers do wish to pay their share and with dwellings on farms counted in the census, they would do so. The number of dwellings on farms in NSW is not available from ABS but as at 30th June 2004 there were 40,827 farms in NSW.

The cost of giving farmers social justice would be:

$179,000,000 rates from all farms, less say $605 State average resident for 40,800 farms (ABS 30-06-2004)

$ 24,684,000

leaves $154,316,000 to be shared by 2,323,879 dwellings = $66.40 or half a dozen bottles of wine

It is quite possible that there are more dwellings on farms than there are farms to provide for farm employees. Argument can be made for such cases to be exempt from more than one charge as the farm is substituting for Local Government.

Conclusion

There are advantages to the whole community in making rural land free of rates:

- Farms have the chance to build reserves to combat drought and trade fluctuations
- The anomalies created by different rates in different shires removed.
- Rates from farming not used to prop up other industries
- Comparative analysis for cost structure enhanced.
- Farmers would be on a level playing field with UK farmers
- Unequal competition between farmers and investors on a better footing.
- Environmental benefits keeping food production close to city markets.

For Local Government the use of dwellings as a basis for rate revenue, not necessarily the direct value of the dwelling, makes it possible for all citizens to pay for the services they require State wide. This in no way alters the necessity to fund local government from Federal Government revenues on a sustained and guaranteed formula.

The problem of Cost Shifting has to be resolved

Having a total state budget covering rate revenue requirements should eliminate the need for rate pegging.

All citizens are treated equally with regard to ability to pay with the added ability of not paying if unable to do so.

The need for creation of Governmental regions left for the future.

It is assumed that industry and commerce would be treated similarly on an area and location basis to cover their present contribution.

With cost shifting and guaranteed Federal funding replacing grants (with their stigma implications) more funds should be available annually to redress the annual renewals gap.

average rates may also reflect historical relativities before rate pegging was introduced in 1976.

The rate's bill paid bears little relationship to the level of council services used by a household. In terms of equity considerations, rates may not equate to a wealth tax. For instance, a freestanding house (with high land content and hence higher rates) may not be worth more than a luxury unit in a multiple dwelling, but will pay very much higher rates. Also, some residents may be asset rich, but income poor, limiting their ability to pay and therefore raising equity concerns.

Nevertheless, rates are efficient and administratively simple because they are impossible to escape unless subject to statutory exemptions (e.g. for state agencies, charities and benevolent institutions) or concessions (e.g. for aged pensioners). Also, since they average just over $600 per household, residential rates are a small proportion of the cost of a home and as such not very distortionary. Exemptions are important, for when the State Government expands its land holdings (e.g. the creation of national parks or state forests) councils may suffer a loss of rateable property.

Council charges for services such as domestic waste management, water supply and sewerage, use of public spaces and parking meters, are not subject to state controls; nor are parking fines. Also, developer charges for water supply and sewerage are not capped. However, other statutory fees (such as for processing DAs) are capped. Rate pegging and fee caps have constrained NSW Local Government revenue growth, notwithstanding, special rate variations. Council rates have certainly grown at a much slower pace than state land tax. There does not appear to be a consistent set of criteria for determining rate pegging and variations thereto.

Commonwealth financial assistance grants (FAGs) to Local Government have grown faster than the consumer price index (CPI), but much slower than the state economy (gross state product or GSP) and have shrunk as a proportion of federal tax revenue. The formula for distributing FAGs between councils is only partially based on their revenue and expenditure disabilities. Furthermore capital (i.e. infrastructure) disabilities are not considered. Unlike the Commonwealth Grants Commission, the NSW Local Government Grants Commission does not publicly disclose its calculations of disability for each council. Instead, it only discloses its measure of disability of a council to that council itself. This prevents third parties (like this Inquiry) comparing LGGC disability measures for all councils.

State grants to Local Government are not published by either the NSW Government or the Australian Bureau of Statistics (ABS) so their total size, composition and past trends are not publicly known. However, data specially provided to the Inquiry by the NSW Treasury shows that total grants (excluding pensioner rate rebates, physical asset transfers, rate payments by state entities, interest subsidies, assumption of HIH insurance liabilities, and capital and welfare disaster relief) increased from $544 million in 1996/97 to $740 million in 2003/04, an average annual rate of growth of 4.6 per cent.

In addition to grants, councils also receive payments from state agencies for performing services on their behalf. For instance, the Roads and Traffic Authority pays councils for maintaining state roads under performance specific contracts.

- **Reordering priorities**
  Saying no to future cost and responsibility shifting where legally possible; embracing a 'back to basics' agenda until the infrastructure crisis is fixed; adopting 'zero-base' budgeting, whereby all existing activities are re-examined as to their necessity; and developing and implementing credible long-term strategic and financial plans to assist in identifying priorities and responding to emerging challenges.

- **Pursuing efficiencies**
  Benchmarking operational practices and results against other organisations, adopting flexible work practices, reengineering work processes and systems to streamline and standardise them, setting productivity savings targets, sharing limited staffing resources (e.g. planners), changing procurement practices (e.g. resorting to ADR rather than litigation, accessing bulk discounts under state supply contracts), joining a shared services centre (e.g. general accounting and financial transaction processing), outsourcing services (e.g. internal audit), and/or merging smaller councils where other alternatives for achieving economies are not viable; and

- **Improving capacity**
  Raising the management and governance capacity of both elected councillors and professional staff, which will include clarifying roles and responsibilities of each party, and setting milestones for monitoring performance.

1.13 RECOMMENDATIONS

Certain reforms are suggested by the findings in this report. They go beyond strictly financial matters because financial sustainability rests on councils winning the trust and confidence of their clients, their communities and their government overseers and sponsors.

The Inquiry canvassed many options before settling on 49 final recommendations, which are listed in Chapter 12. The most important of these are repeated below under the main challenges facing NSW Local Government, namely to:

- Define its role relative to other tiers of government;
- Renew infrastructure to overcome a growing backlog;
- Prioritise services to better reflect public preferences;
- Reform development controls at both state and council levels;
- Improve strategic planning and operational efficiency;
- Boost revenues from rates, fees and grants;
- Strengthen governance structures and procedures; and
- Achieve long-term financial sustainability.

Making NSW Local Government financially sustainable will require a combination of fiscal measures including rate deregulation, increased State and Commonwealth grants, greater application of user pays, increased operating efficiencies and increased borrowings. The most vulnerable councils are rural ones whose small population densities mean that they do not have the financial capacity to maintain let alone renew their road infrastructure. Increased government grants and/or a transfer of their regional roads to state responsibility may be their

Is the degree of dependency on grants problematic in the light of the information in Figure 5.2? Various responses to this question are relevant. Firstly, if we consider the relative magnitudes involved, for NSW the average general purpose component of FAGs per capita in 2003/04 ranged from $15.84 for urban capital city councils to $735.37 for rural remote medium councils, with a state average of $52.81 (DOTARS 2005, Table 2.9).[18] There are thus significant differences between different types of councils, with rural councils securing by far the biggest per capita grants.

Secondly, in principle a problem exists if allocations of FAGs consider only equity issues and neglect efficiency criteria since they then form an implicit subsidy to inefficient councils and thus waste public resources. Limited Australian empirical evidence indicates that in NSW FAGs may have this effect (Worthington and Dollery 2000) since according to the principle of 'effort neutrality' the size of grants is independent of council policies and behaviour.

The NSW Local Government Grants Commission (2006, p2) takes a different view:

> The grants are allocated on the basis of an average level of efficiency for a service in the state. This means that councils that are more efficient than average are able to provide more services from available revenue (or have lower rate imposts) and the less efficient are able to provide fewer services (or have higher rate imposts). Thus, efficient councils are already rewarded for their improved performance.
>
> Horizontal fiscal equalisation (relative needs) is built on a premise of addressing those very issues that affect a council's ability to perform efficiently. This is currently achieved by the Commission's independence and comprehensive assessment of relative disadvantage with respect to revenue raising capacity and expenditure needs in the framework of effort neutrality. Because of the limited level of funds, councils receive a grant that amounts to around forty-five per cent of their assessment need. The Commission is not subsidising inefficiency, rather it is attempting to meet the recurrent needs of councils.

Uralla Shire Councils (2006, p2), a rural council, notes that the general conclusion that grants form an implicit subsidy to inefficient councils and thus waste public resources needs to be specified. Uralla Shire Council expects 52.1 per cent of its budget for 2005/06 to come from grants. However, almost half (45 per cent) of these grants relate to funded activities for delivered services and applied grants, where

> ...funding is competitive, dependent upon efficient and effective delivery of services.

Whatever side one takes in the efficiency versus equity debate, one thing is clear: given the dependence of many rural councils on grants, there appears to be a limit to any reduction of equity funding, otherwise these councils would not survive.

Thirdly, if it is argued that grants should be abolished, then the full consequences of withdrawing LGGC subventions to NSW councils should be carefully considered. For instance, many small rural councils, and especially those with large spatial jurisdictions containing many bridges and roads, which are very expensive to maintain, rely heavily on grant revenue. Indeed, more than half of all NSW local roads (around 82,419km) are unsealed and fall mostly in rural areas.

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18 The categories Urban Capital City and Rural Remote Medium refer to the Australian Classification of Local Government. See LGI (2005, Appendix B).

North Sydney City Council (2006, p10) points out that:

> The current system provides for huge distortions…For example expensive apartments on the Harbour pay the minimum rate whereas a small house will pay many times more than that. The rating system should be based on capital improved value.

The pros and cons of a rate tax based on the capital improved value of a property are considered under Option 8 in this section below.

For some time the State Government has attempted to assist low-income pensioners by requiring local councils to provide rate rebates to pensioners on the total of their ordinary rates assessment and their domestic waste management service charges. This is costly to Local Government and not necessarily fair where a pensioner is residing on expensive land. Furthermore, the Local Government and Shires Associations NSW (LGSA, 2006, pp26-27) point out that:

> …that pensioner rate rebates should be fully funded by the Commonwealth and/or State Government… It should be noted that every state provides pensioner rate concessions, but the NSW Government is the only state government that does not fully fund the mandatory concessions.

There appears to be merit in the New Zealand system whereby rates are not forfeited, but deferred until death when they are charged against the estate.

Second, rates paid may bear little relationship to the level of council services used by a household. For instance farm households complain that for their rates they don't get a garbage collection service like towns' people, but on the other hand maintaining local rural roads takes up a large proportion of country councils' resources.

Third, many rate exemptions are inequitable.[29] For example, Crown Lands, National Parks and State Forests do not pay rates on land holdings other than those occupied by their commercial premises (a voluntary arrangement) even though such bodies receive significant Local Government services. Rail, road, electricity and water corridors are exempt from rates and charges pursuant to section 611 of the LG Act, which is an alternative mechanism to rating (although there is an historical anachronism in relation to AGL gas pipes) Many State Government trading enterprises pay tax equivalent payments to the Office of State Revenue, but these are not passed onto councils. For a detailed discussion of the pros and cons of existing tax exemptions between councils and State Government see NSW Treasury, 2003b and 2001. ?

Rate exemptions also apply to major non-government landholders including private hospitals, private schools, churches, charities and benevolent institutions (which may extend to retirement type villages and other aged care facilities). The proportion of land subject to rate exemptions can be very large in many municipalities and shires denying their councils vital revenue for servicing property and people related to such premises.

Fourth, visitors generally contribute less than their fair share to the provision of local services. This can be alleviated partly by user charges, especially for parking. However, this may not compensate fully for the burden carried by ratepayers.

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[29] See sections 555 and 556 of the *Local Government Act (NSW) 1993*.

Table 9.2: Composition of Local Government revenue by council category, 2003/04 (%)

Area	Rates and annual charges	User charges and fees	Interest revenue	Grants	Contrib'ns and donations	Other revenue
Sydney City	53.7	17.7	4.6	1.8	4.8	17.5
Metropolitan developed	57.6	14.1	3.7	9.8	8.0	6.7
Regional town/city	43.4	19.4	4.0	16.3	14.6	2.3
Fringe	51.9	14.6	3.9	13.2	13.6	2.7
Rural	32.3	18.9	3.4	31.9	11.6	1.9
NSW total	47.6	16.8	3.8	16.0	11.5	4.2

Source: Brooks, J. 2006.

In 2003/04, Local Government in NSW raised 66 per cent of its rate revenue ($1.5 billion) in residential rates, with the balance from business, mining and farmland rates.[27] The state average residential rate was $605. Urban councils levied an average residential rate of $624; rural councils levied an average residential rate of $400.

Within Sydney, average residential rates per council varied from about $500 to $1000 per property per annum. In country areas, average residential rates per council varied from about $200 to $600 per property per annum, with rates generally lower further from the coast. The average rate in a municipality or shire for freestanding houses is much higher than for individual apartments and units.

Average rates may also vary greatly between particular wards within a council area. For instance in the Leichhardt municipality in 1999/00, average rates in the Balmain/Rozelle ward ($1,287) were 66 per cent higher than in the rest of the municipality ($774), reflecting the higher land values of an area constituting a peninsula on Sydney's harbour. Council data showed that, while the ward had 36 per cent of ratepayers, it contributed 48 per cent of council rate revenues (Allan 2001, p76). Such a disparity within a council area is not uncommon. Indeed the disparity between rates in the Pittwater area and the other areas in Warringah Council was a factor in the Pittwater area breaking off and setting up a new municipal council.

In 2003/04, councils received 26 per cent of their rate revenue ($573 million) from business rates. The average rate per business assessment was $3,499. Councils received eight per cent of their rate revenue ($179 million) from farmland rates. The average rate per farmland assessment was $1,471.

Trends in Local Government revenue

Table 9.3 shows the changes in the major components of NSW Local Government revenue and other relevant data over the eight years from 1995/96 to 2003/04. Over this period, the ordinary revenue of Local Government rose by 47.1 per cent compared with a 58.8 per cent increase in gross state product (GSP), and 20.9 per cent increase in the consumer price index (CPI) for Sydney

Rate revenue and annual charges combined rose more or less in line with total ordinary revenue. However, the rate revenue component rose by only 29.2 per cent. User charges and fees rose by 39.4 per cent and total grant income by 30.5 per cent.

27 The data in this sub-section are sourced from Department of Local Government (2005a).

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1. Landline - 11/8/2002: Rural ratepayers rebel in Victoria . Australian Broadcasting Corp

Summary: ... The bottom line is that this **Gannawarra** Shire Ratepayers'Action Group represents 13 percent of the ratepayers which is the farming community and we've been expected to pay 58% of the ... These farmers, all ratepayers of the **Gannawarra** Shire are simmering. Like the heat sucking the moisture from the paddocks, they argue that financially the local **council** is sucking away their livelihoods. ... O, **Gannawarra** Shire **Council.** Ph: 03 54 50 ...
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7. VIC Country Hour - 26/8/2002: Gannawarra rate case continues

Summary: ... VIC Country Hour Summary **Gannawarra** rate case continues Programs Country Hour VIC NSW QLD NT SA WA TAS Rural ... VIC Country Hour Summary **Gannawarra** rate case continues The first of three court battles being fought between the **Gannawarra** Shire and over 200 farm ratepayers continues in the Supreme Court today. It'... So John Smith argues instead of the **Gannawarra Council** pricing a farm's water right on the open market and then adding ...
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8. VIC Country Hour - 11/7/2002: Fighters fund money for Gannawarra ratepayers

Summary: ... Farmers Fighting Fund and now say they'll go all the way in their dispute with the **Gannawarra** shire **council** over rates. ... The **Gannawarra** Shire **Council** though, says it's still prepared to negotiate on the matter but Chief Executive, Peter Bollen, says the offer on the table from the ratepayers and VFF, would ... Audio Peter Walsh President, Victorian Farmers Federation John Smith **Gannawarra** Ratepayers Action Group Peter Bollen Chief ...
http://www.abc.net.au/rural/vic/stories/s604515.htm - 12k - [html] - Cached - 11 Jul 2002 - Similar pages

9. Council to negotiate with VFF not Gannawarra farmers » ABC Central Victoria

Summary: ... **Council** has a proposal on the table at the moment before both groups which shows 55 per cent so I think there's room for further dialogue between the VFF and **council,** ... ABC Central Victoria Story Index Story **Council** to negotiate with VFF not **Gannawarra** farmers Reporter: Dave Lennon and Jan Deane Tuesday, 23 July 2002 A northern Victorian **council** involved in a rates ... A group of **Gannawarra** farmers has withheld payment about $1 ...
http://www.abc.net.au/centralvic/stories/s613026.htm - 24k - [html] - Cached - 23 Jul 2002 - Similar pages

10. VIC Country Hour - 11/02/2002: VFF to help Gannawarra Ratepayers with Court Costs

Summary: ... VIC Country Hour Summary VFF to help **Gannawarra** Ratepayers with Court Costs Programs Country Hour VIC NSW QLD NT SA WA TAS Rural ... VIC Country Hour Summary VFF to help **Gannawarra** Ratepayers with Court Costs James Martin The **Gannawarra** Rate Payers Action Group and Victorian Farmer's Federation are forming a fighting fund asking farmers ... Listen to: VFF to help **Gannawarra** Ratepayers with Court Costs Stuart Peace President of the ...
http://www.abc.net.au/rural/vic/stories/s478491.htm - 10k - [html] - Cached - 11 Feb 2002 - Similar pages

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2. August 2002. Landline. Australian Broadcasting Corporation

Summary: ... The rebels are pitting their forces against their local **Council** over the issue of rates. ... The rural ratepayers of the **Gannawarra** Shire want immediate reform of the current rating system which they've decried as unjust'After a two long battle and the failure of repeated mediation ... http://www.abc.net.au/landline/archives/LandlineChrono2002_August2002.htm - 26k - [html] - Cached - No Date - Similar pages

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3. Gannawarra council learns super bill share. 15/5/2003. ABC News Online

Summary: ... **Gannawarra** chief executive officer Des Bilske says councillors decided last night to investigate options for meeting the liability. ... The debt is about 10 per cent of the **council's** rate base. ... 1: 34pm AEDT **Gannawarra council** learns super bill share **Gannawarra** Shire **Council** in northern Victoria has been advised its share of the local government superannuation deficit is more than $500, 000. ... http://www.abc.net.au/news/newsitems/200305/s855486.htm - 21k - [html] - Cached - 15 May 2003 - Similar pages

4. VIC Country Hour - 11/02/2002: Gannawarra Shire says dont shoot the messenger

Summary: ... He's says if the VFF are unhappy with how local **council's** are funded, they should lobby the state government and not persecute the residents of **Gannawarra.** ... Chief Executive Officer of the **Gannawarra** Shire **Council,** Peter Bollen, says the VFF and the Action Group should direct their anger not at **Council** but at the State Government. ... Listen to: **Gannawarra** Shire says don't shoot the messenger Peter Bollen Chief Executive ... http://www.abc.net.au/rural/vic/stories/s478513.htm - 10k - [html] - Cached - 11 Feb 2002 - Similar pages

5. VIC Country Hour - 13/8/2002: Gannawarra rates in Supreme Court

Summary: ... Instead of Leitchville Dairy Farmer, and leader of the **Gannawarra** Ratepayers Action Group, John Smith, facing the Valuer General in Court, he will now shape up against the **Gannawarra** Shire. ... VIC Country Hour Summary **Gannawarra** rates in Supreme Court James Martin Another chapter in the rates dispute between the **Gannawarra** Shire **Council** and farmer rate payers begins today, with both sides squaring ... John Smith argues instead of the ... http://www.abc.net.au/rural/vic/stories/s647483.htm - 11k - [html] - Cached - 13 Aug 2002 - Similar pages

6. Council move "mischievous," Gannawarra ratepayers say » ABC Central Victoria

Summary: ... **Gannawarra** Shire, Peter Bollen, has said that he feels a solution to the rates dispute will come from talks with the Victorian Farmers Federation VFF rather than the local ratepayer's group. ... ABC Central Victoria Story Index Story **Council** move mischievous, **Gannawarra** ratepayers say Reporter: Dave Lennon Wednesday, 24 July 2002 The CEO of the **Gannawarra** Shire, Peter Bollen,

National Farmers'
FEDERATION

MANAGED INVESTMENT SCHEMES

NFF is of the view that individual farmers need to take an active role in the MIS debate to demonstrate to Government the importance of the issue in respective towns and regions. While NFF has been making representations in Parliament House on behalf of Australian farmers, the message from MPs and Senators is that they have not received on the ground representations from farmers in their electorates. We hope the points outlined below assist your individual farmer members to make representations to their local Federal members and Senators.

The effects of Managed Investment Schemes

MIS structures do not promote sound investment decisions in rural and regional areas, and as such have created a distortion of land values and/or commodity markets including water.

The decisions to invest in MIS are largely based on the tax deductibility of the investment, rather than driven by long-term profitability. As a result, MIS appear to be primarily focused on industries with a high proportion of up-front expenses, with little regard given to the output returns.

In a *Sunday Age* article from 17 Sept 2006, it was highlighted that of the 1 million megalitres drawn by irrigators along the Murray River, 6% (or 60 000 megalitres) of this is now owned by MIS companies. Water brokers estimate that up to 75% of the Goulburn-Murray water and up to 100% of Lower Murray water sold this year has been bought by just three MIS licensees.

The farming community firmly supports the provision of direct and transparent mechanisms that provide targeted assistance to those sectors of the market that require help in managing risk. MIS, in its current form, does not meet these criteria.

MIS accounted for around $1.26 billion of investment in rural industries in the year ending 30 June 2006— mostly in forestry, viticulture/wine, olives and almonds. This represents an increase of approximately 20 per cent on previous year levels.

In addition, it is a point not often emphasised that of the $1.26 billion MIS investment dollars only 26% (or approx $330m) is used in the venture. The rest goes to tax lawyers, tax accountants, fund managers and scheme promoters.

The farming community notes with interest the distortionary effects of MIS even within the forestry sector. The latest figures reported by the Dept of Agriculture, Fisheries and Forestry show a 47% growth in the hardwood plantation on previous year levels compared with a 33% decrease in the rate of softwood plantation development. This reflects the lower revenue raising capacity of softwoods due to their longer rotation times.

The farming community urges Federal MPs and Senators to acknowledge the medium- to long-term impacts MIS will have within their electorate. While their involvement in the broader agricultural community is in its infancy, at current growth levels the schemes will be significantly more widespread within 3-5 years with the above impacts becoming more prevalent.

If you would like further information on MIS or contact details for your local Federal politicians please contact Vanessa or Charlie at NFF on (02) 6273 3855.

RATING IN TUMUT SHIRE (1999/2000)

FACTS & FIGURES

(a) Ratio of Tumut Shire Landuses

Non Rateable	231528ha	(61.5%)
Farmland	142041ha	(37.6%)
Residential & Business	3220ha	(0.85%)

(b) Ratio of Rateable Land

Farmland	142041ha	(97.8%)
Residential/Business	3220ha	(2.2%)

(c) Number of Ratepayers by Category

Farmland	1049	(19.3%)
Residential	3996	(73.4%)
Business	398	(7.3%)
TOTAL	5443	

(d) Average Rates by Category

Farmland	$1280
Residential	$385
Business	$1106

(e) Proportion of Rates by Category

Farmland	40.4%
Residential	46.3%
Business	13.3%