

## **INQUIRY INTO LOCAL GOVERNMENT IN NEW SOUTH WALES**

**Name:** Mr Jim Beale

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The Director  
General Purpose Standing Committee No 6  
Parliament House  
Macquarie St  
Sydney NSW 2000  
26 June 2015.

Dear Sir,

I would like to thank you and your committee for holding this inquiry into Local Government in NSW as I regard it as the saving grace in what has been a long battle to bring about a true and lasting reform. Over a long business career I have been able to serve my colleagues with improved production methods in the rotary veneer trade, secured the necessary research into producing figured veneers that are in the Sydney Opera House and alter for the better, the access road to the Visy Mill at Tumut.

My submission to the Productivity Commission on "Assessing Local Government Revenue Raising Capacity" was in accordance with a number of other submissions from local government lobby groups.

While disagreeing with the Independent Review Panel on some aspects of their report, I have endeavoured to present a viable alternative based on research and agreed with by a policy statement from the Victorian Farmers Federation.

I trust this submission is of material assistance to you.

Yours sincerely

Jim Bëale

## **Executive Summary**

**An Assessment of Rural Problems:** is an attempt to give an overview of contributing factors affecting local government and agriculture, not readily discussed, that have resulted in no action, sometimes deliberate inaction resulting in no research, or learning from other advanced nations. The worst result has been no dialog to establish what the best course is for NSW and ultimately Australia.

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**Terms of Reference.** The endeavour in this section is to show what the basic problems are and how they can be overcome. Criticising the Independent Panel is not the intention, but it is reasonable to ask why consultants from outside the field of local government were not appointed. The Panel did not use the information given them in submissions.

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Suggestions and advantages arise out of 1 and 2

## **Introduction**

The clear objective of the Premier, "We want communities to be stronger and able to grow and prosper", is worth every effort to achieve. The reality is that local government has wider consequences for communities than the purely internal organisational and administrative functions. Fit for the Future is based on the findings of a panel consisting of persons from within the confines of local government administration with all the clear objective of maintaining the internal harmony of the Department and status quo while ignoring the main causes of failure. Evidence of a wider scope and solutions to local government's problems were supplied in submissions, but ignored by the panel. Why?

While seeking to comment on the "Fit for the Future" reform agenda and other matters raised in your terms of reference; the wide spread involvement of local government throughout rural and remote communities inevitably cross paths with items on the agenda of other General Purpose Standing Committees, such as environment, roads, transport etc.

This submission sets out essential information that is not general knowledge affecting rural communities arising out of local government involvement in a wide range of activities. Because of my experience in industry and commerce, my approach to identifying problems differs from that of my farming colleagues. To achieve the Government's long term objective of "Destination 2036" and "NSW 2021 'A plan to make NSW number one'", the scientific management principle of seeking to improve on the status quo requires examination of all problems affecting outcomes to be reviewed. Therefore, if change is to be made, it should solve or reduce present problems, to enable gains to be made.

## **1 An assessment of rural problems**

Understanding why rural and remote areas of the nation are at such a disadvantage to capital city, urban developed, etc areas needs to be addressed to justify change.

**1.1 Misinformation.** The most damaging information is distributed from the Department of Local Government itself in the publication of "Comparative Information on NSW Local Government Councils" The effect is to lull economists, treasurers, local government staff into a belief that no action is needed. It gives the average assessment for rural urban, rural land and commercial, but crucially does not reveal the number of assessments any one farm may receive. "Are Councils Sustainable?" says rural land had an average assessment of \$1471.00 and that 8% of all rates came from rural land. ABS show the farm population was less than 2% of population. Enquiries over the 1980s showed that Tumut was the highest rating shire on a per acre basis. Tumut \$6.00, Gundagai \$3.00, Wagga Wagga \$3.00, Wakool \$1.00. Cropping rice at Wakool on an area equivalent to grazing at Tumut, yielded four times the annual gross income. Cattle and sheep compete on the same market irrespective of originating shire. The burden of local government is not evenly distributed as Table 3: Relative level of rates P41 Revitalising Local Government shows, but the table is residential, not productive land where input costs should not be taxed. With such variation on productive land, equal opportunity is not possible.

**1.2 Lack of information.** The biggest and most wide spread activity in rural areas is farming and its operations is, surprisingly not known about, or understood by the vast majority of the general public, including some economists and decision makers. The common belief is that farming is just another business and farmers should prepare for drought. There is not unity of thought within the farming community. See box 3 Farmers' views on drought assistance, Productivity

Commission Government Drought Support. Agriculture is a primary industry that differs from forestry, fishing and mining in that its working capital invested in land is taxed on its value. (Those engaged in plantation forestry on private land and subject to shire rates are essentially, farmers.) Whereas normal businesses recover shire rates and other costs in the value of goods sold, farmers by nature of their perishable product have to sell at auction, or on commodity markets. They cannot always recover costs fully. When drought comes, or markets retreat, the capital invested in land cannot produce sufficient income. Rates have to be paid under penalty of heavy interest rates, therefore a landholder with a mortgage has to increase the mortgage to pay the shire rates on time, thus increasing the farm debt. The stock on farms, become a liability in that livestock have to be fed at additional cost. Weeds and feral animals have to be controlled to a higher standard than on public land by law but also as an act of self preservation of the farm. Rural local government has the same problems in different form to farmers, in that it is not being paid for all the services provided to communities beyond its boarder. A rural shire provides the infrastructure for forestry, national parks, tourism and decentralised industry. Farmers have imposed changed conditions such as vegetation laws; councils have to cope with cost shifting.

**1.3 Time lapse, technology, population drift and disparity of wealth.** These have brought changes for all rural and remote areas. Moving from the self sufficiency of agriculture provided by horse and bullock power, simple roads with fords rather than bridges, to the dependence on bought in fuel , power and vehicles requiring better roads. But, according to "Are Councils Sustainable?" country roads are there for farmers. Reality is that the roads are there for all to use, including mining prospectors and those who seek to stop animal production. Population and wealth disparity have their affect on rural shires, depending on distance from high population centres, time factor in travelling, motivated by the desire for 'views, tree change, life style'. Hilly country provides the views and is cheaper to buy because it is generally less productive. The result is, all land increases in value, with an increase in rates for farmers. Disparity of wealth has come about because at some level of government, State or Federal, no acknowledgement has been given to the lack of a system to facilitate the user pays principle. Likewise the bad management practice of taxing inputs rather than the profits resulting from their use is rife in local government. After 80 years of inaction it should be of no surprise that farm debt is out of control. 60% of farms are reliant on off farm income. Farm debt IS out of control when government assistance can only be given to farms that have a hope of viability. Those not considered viable are in that situation from successive governments taking and not providing the means of recovering input taxes as normal businesses can while taxing inputs, or imposing conditions such as vegetation laws and other environmental factors without compensation.

**1.4 Human behaviour.** As individuals or groups recognising and solving problems depends upon attitude, experience, background and belief. For example: after the year 2000 Conference of NSW Farmers' Association the press release stated that 400 delegates "Did not want subsidies or hand outs, but wanted equity". The truth is that it is farmers who are providing subsidies and hand outs while making no effort to find equity. Many people believe governments, or their departments cannot be changed, so they do not even try. Evidence from the UK shows industry wanted change back before 1928. Captain ranked Naval officers changed the attitude of The Lords of the Admiralty cc 1906 regarding the sighting of guns. Change can be made.

**1.5 Local Government is a divided house.** Rural and remote local government have a wider agenda to cope with than city metropolitan councils . The size of many rural councils would engulf all the

councils in the Sydney region . By contrast a rural council with a small population can be spread over a number of small towns, all requiring swimming pools, water treatment, sewage etc makes the cost per capita greater. Keeping existing populations and future employment requires special effort and expense. Involvement in providing health care, hospitals, renal dialysis, re opening rail lines is all part of a rural council's operation. City councils have the numbers, do not have to attract medical staff etc. Revenue raising capacity is poles apart, yet it is vitally important for city populations that rural councils do what they do.

- 1.6 **Poles and wires, irrigation infrastructure, LLS charges and National Parks.** All of these have a negative effect on agricultural and rural commercial profitability and at the moment outside local government's bailiwick. By expanding the role of local government costs to Treasury should diminish and viability of agriculture increase. All four of these activities relate back to providing benefits to ultimate users who are not paying for the service rendered. Because of the weeds, feral animals, mega fires coming out of State forests and national parks have such an effect on agriculture, it is now past time a review was taken of policies and management practices used by these institutions. People want national parks, the nation needs its native and plantation forests, but money is required and consumers should pay. Raising forestry royalties to cover blackberry, lantana, camphor laurel etc. Control, is not an option because it would be a tax on an input, reducing ability to compete against imports. The invasion of these weeds and many others from a multitude of sources is everyone's responsibility. It will take decades to control, but the cost spread over time.

## 2 Terms of reference (a) & (b)

### Local Government's Part in Fit for the Future

Local government's main internal problem has been identified as lack of revenue raising capacity; by Rates and Taxes: from the Commonwealth House of Representatives 2003, Are Councils Sustainable? 2005, Productivity Commission: Assessing Revenue Raising Capacity 2007 and from the Panel's own questionnaire.

Raising revenue has nothing to do with boundaries. Amalgamations may change boundaries and strengthen the institution of local government itself by cutting costs, but it does not raise revenue.

As made clear from section 1 above, providing goods and services without recompense from those ultimately receiving benefits is financial disaster on a grand scale. This situation has been so gradual and accepted as normal, that consequentially no countervailing action has been taken. While ever local government denies the reality that in fact it is no longer 'local', but an integrated whole, made up of 152 parts in NSW, it will continue to be in limbo, due to lack of revenue.

Table 3: Relative levels of Rates, of the Panel's report is a possible reason for the Panel not taking notice of the differential rates on rural land and earning capacity. See 1.1 above. There is no comparison between the residential rates in the table and rates on rural land.

Rural land creates wealth for all, it produces, food, fibre, building and packaging material, and is capable of reducing greenhouse gasses , job certainty for those displaced from coal mines.

Residential rates represent the ultimate users, who are not paying.

There are other ways of raising finance, see p 99 & 100 "Assessing Local Government Revenue Raising Capacity". The danger of introducing ICV is that it could spread to industry and commerce, therefore a new base has to be found.

All efforts to get dialog have failed. "Are Councils Sustainable?" put 8 options forward and Gundagai District Council of NSW Farmers' Association submitted Option 9. It was rejected by the Directors of LGSA as being radical and "Something more earth shattering would have to be found to alter the entrenched regimen in the Department's head office."

A letter was sent to the Minister, but due to a cabinet reshuffle, the new Minister's reply, prepared by someone in the Dept shows the Minister had no knowledge of the original letter containing a copy of Option 9. If the Productivity Commission p 100, accepted the proposition as valid, what are the objections from the Department? All letters back from subsequent Ministers avoid any explanation.

Table 2: Key areas of concern P18&19 of the Panel's report makes no mention of an alternative rate base. Why?

Federal Government has provided funds for local governments throughout Australia via FAGs to State Governments who then distribute on a set formula for 'general purpose' and 'local roads'. From the Glossary of Rates and Taxes: A fair share for Responsible Local Government OCT 2003 under General Purpose Grant "The objective is to strengthen local government by addressing the VFI caused by local government's narrow tax base".

This may by default, recognise that local government consists of many units that need to be treated as a whole while giving to each unit. The definition of Horizontal Fiscal Equalisation recognises the difficulty "By reasonable effort at a standard not lower than the average standard in the State and takes account of differences in expenditure required in performing its functions and in capacity to raise revenue".

How 'Reasonable effort' is determined with the differences that exist with rural and city urban councils in totally different functions, needs determining. Evidence from Finding 5.5 of the Productivity Commission report shows that rural and remote councils throughout Australia cannot reasonably expect to raise revenue from within their local sources. Funds are provided by FAGs, but over decades, road users claim that not all of the funds raised through the fuel tax system is spent on roads.

By contrast to the theme of this submission so far, of beneficiaries or users not paying because there is no system by which payment can be made; here, with fuel excise, road users are paying in proportion to their use, give or take for fuel use per kilometre. For the transport industry it is not a desirable method because it is a tax on an input and therefore inflationary.

As pointed out above, rural roads are used by everyone, directly or indirectly, therefore cost of upkeep of a road in a remote shire expressed in per capita terms is not a helpful tool.

From local government's perspective, funding for all roads should come from the fuel excise. In that light it would not be strictly correct to say such receipt of funds for roads came from "grants from other spheres of government".

From box 10: "Rates are a tax, not a fee- for- service they need to be set in accordance with principles of taxation—equality, efficiency, simplicity, sustainability and policy consistency". "Further consideration should be given to enabling income poor but asset rich ratepayers to defer payment of rates as a charge against their property, rather than receive a concession".

With respect to taxation principles local government rates contravene equity like no other government. Efficiency etc need questioning. The present system is based on value, the value to others who have not been taxed in the same way. See 1.3. Simplicity is hardly achievable with 7 different land types to be considered and the budgetary requirements of individual shires differing from neighbours. On equity, no other government exacts taxes from a minority at excessive rates while in negative income, necessitating increased borrowing. Equity and simplicity are absent. Sustainability is proving to be less and less achievable as the decades pass.

Income poor and asset rich ratepayers, is not a consideration under a new rate base.

Under Terms of Reference (b), the best bench mark is with the UK Government. They have done the spade work, it is only a matter of adaptation of their base to our peculiar needs of distance, population densities and wealth disparity.

The enclosed "From the House of Commons" shows why the UK Government changed. It also shows that what they changed to, had to be subsequently altered to arrive at their present base of dwellings and location.

To contemplate learning from our best councils and following Victoria and Queensland only makes NSW number 3 not Number One.

The benefits of having only one lobby group representing local government is dependent on the experience of personnel beyond that of local government, requiring the services of independent consultants.

There is no justification for having local government exacting from farm families at Tumut 6 to 40 times more tax than a town resident to provide a free lunch for every other household in the State. See 1.1.

To be equitable, the common denominator is dwellings so that the burden of 152 LGAs is shared proportionally through the dwelling's size and location to assist with VFI.

Fit For the Future, being based on "Revitalising Local Government" does not break out of the confines of the narrow interests of keeping local government for local government regardless of the widespread collateral damage it causes and does not explore how by widening its role, better prosperity for it and everyone else becomes possible.

(d) Map p19 shows 2/3 of the State at "Risk". All agricultural land over taxed with a proportion of public land supported by those taxes. It is time to change the base.

(e) If IPART is assisted by preferably two commercial consultants and is made fully aware of 1 above, plus the need for a new base away from value base, then there is a very good chance of success.

(f) A deadline can only be set after changing the rate base and widening the scope of local government

(g) There is no need for amalgamations, especially in rural areas.

### **3 Recommendations**

*3.1 Establish a new rate base on size and location of all dwellings in the State. The budgets from all councils are pooled to be divided by the total area of all dwellings in the State to give a base rate per square. Location to assist in VFI.*

*3.2 Prepare a guide for councils to avoid or guard against excessive demands, or expectations in planning for future budgets.*

*3.3 Update "Comparative Information on NSW local councils" to show not only the average value of an assessment for any shire, but also the number of assessments issued to any one agricultural enterprise.*

*3.4 As a matter of policy, do not tax inputs. Use an expanded local government to finance the extra costs of poles and wires, LLS, irrigation infrastructure to achieve prosperity for all.*

*3.5 Pursue the Federal Government re fuel tax for roads, and excess profits being made on transporting fuel to country areas.*

*3.6 To save on roads, commission an enquiry into the feasibility of electrifying rail for long distance haulage using fast goods trains to out compete road haulage.*

*3.7 Review Parks and native forest management practices using silvicultural methods to reduce fuel loads while enhancing tree health and visual effect to replicate Aboriginal land management.*

### **4 Advantages**

2/3rds of the State will have the capacity to save and invest in new equipment, industry and drought preparedness. Rural local government will have the capacity to provide and maintain assets and be a conduit for environmental gains with reduced bush fire risk.

Rate payers throughout the State will have incontrovertible evidence of the actual cost of maintaining parks and native forests to original Aboriginal standards. As a flow on benefit, fire risk to homes should dramatically reduce with accompanying lower insurance premiums.

With user price for power evened out across the State, establishment of new industries in rural areas will increase and attract migration away from major cities.

The pros and cons of Option 9 are still valid.

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Treasury must gain in the future as agriculture reinvests the savings made on local government rates, LLS and reduced power costs, to have its own self funded drought reserve on and off farm.

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There must be gains for Treasury if local government can be the catalyst for reducing costs in government departments such as Forestry and NPWS. Reducing inflationary pressure by such a process of change will facilitate what the public want: food security, stable economy and enhanced environment including measures to counter global warming.



Changing the rate base to dwellings puts NSW on a much more even playing field with powerhouse economies like Germany. It also complies with the recommendations of the OECD that were completely misunderstood because the public and media here are ignorant of the system in Europe.