

22 December, 2003

The Hon John Anderson MP  
Deputy Prime Minister  
Minister for Transport and Regional Services  
Parliament House  
**CANBERRA ACT 2600**

Dear Minister

I am writing to you about the recently released report of the House of Representatives Inquiry into Local Government and Cost Shifting.

The National Farmers' Federation (NFF) welcomed the Government's referral of this important issue to the House of Representatives Standing Committee on Economics, Finance and Public Administration. NFF also welcomed the report of the Committee, as it has many worthwhile recommendations that will address farmers' concerns about local government funding.

#### **Farmers' concerns with local government funding**

In summary, NFF argued in our submission to the inquiry<sup>1</sup> that:

- Agriculture is a vital part of Australia's economy, providing over 20 percent of our exports, covering 60 percent of the Australian landmass and providing significant employment particularly in regional Australia.
- Local government is being hit by:
  - Increases in communities' expectations for spending, particularly on social services such as education, health, recreation, culture and public safety.
  - Reduced spending by other levels of Government on those and other services.
  - Increased regulation by other levels of Government, increasing costs.
  - Funding for local government not increasing to meet these demands.
- » These changes are hitting rural areas more severely, due to a number of factors including higher council costs (particularly for roads), lower land values to levy rates on and fluctuating ratepayer incomes (such as from drought).
- Having local government undertake particular tasks instead of other levels is not necessarily a problem, particularly if it allows greater tailoring to local needs. However, local government must be adequately funded to meet these needs.

<sup>1</sup> The full submission is available from our website at:  
[http://wvw.nff.org.au/pages/sub/NFF\\_localgov\\_shifting.pdf](http://wvw.nff.org.au/pages/sub/NFF_localgov_shifting.pdf)

- Increased funding requirements can be met by higher Local Government rates, taxes or charges or by funding from other levels of government. NFF argued for increased funding from other levels of government, because this was more equitable. Increased rates or charges may hit farmers harder, may not reflect capacity to pay, create inequities between urban and rural councils and can be double charging. We particularly argued for social services to be funded from national taxation sources (income and consumption).
- Governance arrangements for local government may need to be examined to ensure that existing spending is occurring efficiently. However, major changes to local government (such as amalgamations and increased performance regulation) should be undertaken cooperatively if possible.

### **Report of the Inquiry**

The report of the Inquiry has addressed many of the concerns that NFF raised in our submission. In response to the report, NFF wishes to specifically comment on the following recommendations of the Inquiry.

#### **1 — IGA on roles and responsibilities of local government (LG)**

NFF supports this recommendation. This is a vital first step in addressing farmers' concerns over LG funding. It is important that an IGA does not try to have a 'one size fits all' approach, as what may be appropriate for some local governments may not be for others.

#### **5 - Governments and agencies should pay rates to local government**

NFF broadly supports this recommendation. Under competitive neutrality principles, Government trading enterprises pay local government rates and taxes. However, in several States and the NT these charges are not passed on to LG. NFF supports these charges being passed on to LG; in addition we would support the reduction in the number of Government agencies that are exempt from LG charges. However, NFF does not wish to comment on suggestions that the exemptions for community groups (including schools) should be reviewed.

#### **6 - IGA recognising and addressing cost shifting**

NFF broadly supports this recommendation. This would be an important step in ensuring that cost shifting does not become an ongoing issue. This IGA could be developed in conjunction with the IGA in recommendation 1.

#### **9 — Audit of infrastructure & incentives to manage**

NFF broadly supports this recommendation. It is very important for ongoing infrastructure development that the problems and concerns with current infrastructure are detected. It is also important that LG be provided with financial incentives to manage infrastructure well. However, councils should not be penalised for things outside their control, such as natural disasters or difficult terrain that could make infrastructure management harder.

#### **10 - States should not reduce effort**

NFF supports this recommendation. It is important to ensure that payments from the Federal Government to LG are not offset in any way by the States reducing their funding. NFF has a particular concern that the Roads to Recovery program was devalued by a reduction in some

State funding to LG. However, it may be inappropriate to penalise LG for problems caused by States.

#### **15 - Eliminate tax on tax effects**

NFF strongly supports this recommendation. The result of multiple taxes can be crippling for some products. For example, the combination of stamp duty, GST and fire insurance levy on rural property insurance in Victoria can lead to tax rates approaching 100 percent. This is clearly both inequitable and inefficient. NFF considers reductions in taxes in this area should be a high priority. However, NFF suggests caution over the specific proposal from Access Economics that an IGA gradually eliminate tax on tax effects with a corresponding increase in LG rates.

#### **16 — Grants directly to local government from Commonwealth on the basis of need**

NFF supports this recommendation. This would go some way to addressing our argument that local government needs a secure long-term funding source from national taxation resources. NFF notes that some efficiencies could occur from direct payment of grants to LG rather than through State Governments. Beyond this, NFF does not have a preference for any one particular model for this change - such as funding from GST or income taxes, or whether the funding should be tied or untied.

#### **Conclusion**

NFF appreciates the thorough work done by Mr Hawker's committee. We trust that the Government will make the adoption of the appropriate recommendations a priority.

If you have any questions about this issue, please contact Michael Potter, Policy Manager, Economics, at NFF.

I have written in similar terms to the Treasurer, the Hon Peter Costello MP and the Minister for Local Government, Territories and Roads, Senator the Hon Ian Campbell.

Yours sincerely



Charles Burke  
Chair, Farm Business & Economics Committee

CC: David Hawker MP