



Victorian Farmers Federation

Submission to

**The House of Representatives Standing Committee
on Economics, Finance and Public Administration**

Inquiry into Local Government and Cost Shifting.

August 2002

The Victorian Farmers Federation

The Victorian Farmers Federation is Australia's largest state farmer organisation, and the only recognised, consistent voice on issues affecting rural Victoria.

The Federation represents 23,000 farmer members, representing 15,000 farm enterprises. The VFF consists of eight commodity groups representing diary, grains, pastoral, horticulture, chicken meat, pig, flowers and egg industries.

Farmers are elected by their peers to direct each of the commodity groups and are supported by a Melbourne-based staff.

Each VFF member is represented locally by one of the 230 VFF branches across the state and through their commodity representatives at local, district, state and national levels. VFF also represents farmers' views on hundreds of industry and government forums.

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1. Introduction

There is a funding crisis emerging in local government in rural Victoria.

The crisis results from the reliance of local governments on raising revenue from an increasingly inequitable property based taxation system. At the same time they are responding to growing community pressure for diverse service delivery and increased responsibilities and obligations imposed by State and Federal Governments.

The financial challenges facing local government are most pronounced for rural councils. The Municipal Association of Victoria (MAV) have reported rural councils strike higher rates, relative to both property valuations and household incomes, than metropolitan councils¹.

Rural and regional councils also spend more per resident (\$867) than metropolitan councils (\$624) and Victoria's small rural shires spend \$1,123 per resident².

A major reason for this is higher road expenditure. The MAV report shows road expenditure by rural councils averages \$406 per head whereas metropolitan councils spend \$102 per head.

Local government expenditure has shifted away from more traditional property based service delivery towards human and community services.

Local government is also being asked to undertake greater levels of compliance activities, as a result of legislative or regulatory direction from the State Government, or as a result of the State Government withdrawing from provision of services it has historically undertaken. These activities often have to be funded from existing sources of revenue, placing increasing pressure to raise rates and charges.

Rising municipal rates are impacting on the competitiveness of our agricultural industries. The number of farmers is declining relative to population and property amalgamations are resulting in larger assessments per farm enterprise.

The Victorian Farmers Federation believe there is an urgent need to reform local government funding.

The VFF support reducing the dependence of local government on property based taxes and recommends greater reliance on user charges, and the allocation of a fixed share of income tax and GST revenue to local government.

There is a need for State and Federal Governments to initiate a process to reform the funding of local government to achieve this objective.

The VFF also believe State and Federal Governments should be required to provide adequate funds to cover regulatory compliance costs imposed upon local government.

¹ *Economic and Financial Challenges for Small Rural Councils*, Municipal Association of Victoria, January 2000.

² Sourced from calculations on statistics from *Local Government in Victoria 2001*, Department of Infrastructure, 2002; and ABS, *Regional Population Growth 1991 to 2001* (Cat. 3218.0).

It should be noted that the crisis in local government is not solely a financing and economic issue. Rising farm rates has resulted in feelings of tax inequity and a growing tension within many rural communities in Victoria. If this continues, there will be adverse impacts on community spirit and civic participation, and a reduction in regional leadership.

Symptomatic of these tensions, more than 200 farmers in the Gannawarra Shire, in North-West Victoria, have withheld their rates for two rating years and are challenging the validity of the council's rating in the Supreme Court. Farmers in the East Gippsland Shire have also threatened similar action. A number of residents in other municipalities have initiated localised campaigns to reverse the amalgamation process, or shift municipal boundaries, as a result of dissatisfaction with the performance of councils.

2. The importance of agriculture.

Agriculture in Victoria makes a very large contribution to the State's economy. The estimated gross value of agricultural production in Victoria in 1999/2000 was \$6.8 billion³. In 2000/01 exports of food and fibre increased by over 30 per cent reaching \$6.6 billion.

Victorian agriculture has experienced a growth in farm productivity, which has been the main driver for growth in production and in the value of exports. Increased production of dairy products, grains, horticulture, sheep meat and beef have been the key factors leading to the strong export performance of Victoria's food and fibre industries.

The 2002/03 year is likely to be more challenging for farmers. ABARE forecasts show farm incomes are expected to fall sharply in 2002/03, while farm costs are expected to rise⁴. Milk company opening prices for the 2002/03 season are 25 per cent down on last year and ABARE forecast saleyard prices for cattle to fall by 20 per cent and lamb by 12 per cent this year⁵. Increasing official interest rates will also impact significantly on farmers with farm debt and interest payments rising. Recent statistics for agriculture show average levels of gross Victorian farm debt increased by 22 per cent over the two years to June 2000⁶.

If farm incomes reduce, increases in municipal rates and charges will have a greater impact during the next 12 months. Farmers sell their produce onto competitive markets and are price-takers, being unable to pass on rising municipal and other production costs.

Rising municipal rates and charges on farmers will exacerbate feelings of inequity by the farm sector.

3. Local government current roles and responsibilities.

Local government bodies are the focus of higher expectations for service delivery from ratepayers and residents. They also have increasing responsibilities imposed on them by other tiers of government, especially State Government, without receiving appropriate financial resources to undertake increased responsibilities.

There has been a change in the types of services provided by local government, as identified in the review of the Local Government (Financial Assistance) Act undertaken by the Commonwealth

³ Source: ABS, *Agriculture*, p. 19.

⁴ Source: ABARE, *Australian Commodities*, volume 02.2 June quarter, p. 305.

⁵ Source: ABARE, pp. 326-329.

⁶ Source: ABS, *Agriculture* (Cat. No 7113.0, table 4.15).

Grants Commission⁷. The review found a shift in service and expenditure priorities away from property-based services to human services. This shift has exacerbated the crisis in local government funding by increasing the inequity and unfairness of the property based taxation system upon which councils' are reliant for revenue.

Local government in Victoria has power under the Local Government Act to provide functions including:

- Health, education, welfare and other community services such as services for children and families; health inspection services; child care and development services and youth services; aged, disabled and disadvantaged persons services; public conveniences and migrants services;
- Road services, including bridges, footpaths and nature strips, traffic control and lighting and drainage of municipal roads;
- Recreational and cultural services such as public halls and buildings; sport and recreation, leisure and arts, parks, gardens and reserves; libraries and museums; public entertainment and historic buildings and places;
- Planning and land use such as building controls and housing and other accommodation;
- Property services such as water, drainage and sewerage, gas and electricity; land development schemes; and street maintenance and cleaning;
- Public services such as fire prevention and protection and local emergency and safety services; animal impounding, control, protection and conservation, plant control, tip operation, litter control and the collection and disposal of refuse;
- Other functions including parking; tourism; public information; environment control, protection and conservation, encouragement of employment, commerce, industry and agriculture; and
- Municipal administration and trading or entrepreneurial enterprises.

A number of the functions above are primarily the responsibility of State Government, but have been devolved or cost-shifted to local government over time. This devolution of functions results from direct transfers of responsibilities, or the withdrawal of State Government activity or resources for certain services leaving local government to pick-up on-going service provision.

The Commonwealth Grants Commission found local government expenditure on education, health, welfare, public safety, recreation and culture and housing and community activities has increased in relative importance, and there has been a decline in the proportion of expenditure on roads⁸.

In addition to these findings, the experience in Victoria has been that many councils, especially rural municipalities, are now placing an increased focus on providing regional development and tourism services and environmental management.

Local government amalgamations in Victoria have resulted in councils adopting proactive strategies to address community issues and facilitate regional development. The then president of the Victorian Local Governance Association, Cr Julie Hansen, stated the following to the Parliament of Victoria Economic Development Committee:

⁷ Commonwealth Grants Commission, *Review of the Operation of the Local Government (Financial Assistance) Act 1995*, June 2001, pp. 53-54.

⁸ Source: Commonwealth Grants Commission, p. 53.

“... we find local governments are increasing the size of their administrations rather than their parks or roads crews. So some local governments, particularly in the urban areas, have drug officers, community development officers and social planners – things that prior to amalgamation local governments were not into at all. As local governments have taken those opportunities in terms of engaging in those issues which really impact on their communities – global, complex issues – and taken on that role of working with their communities to find those local solutions, we have local government going into new areas where they have had new office positions being created.”⁹

The Economic Development Committee found many rural and regional councils had also introduced similar positions into their staff.

The increased focus by rural municipalities on regional economic development activities is partly a result of policy choice by councils, and partly a response to community expectations. Council amalgamations in Victoria have strengthened the ability of councils to provide strategic regional leadership.

The Economic Development Committee’s Inquiry found:

“... a greater emphasis on proactive economic development through the creation of economic development units by individual councils. The Committee found many examples of increased economic activity such as business promotion, investment attraction and export growth in municipalities as a consequence on a council’s economic development focus.”¹⁰

A further consequence of the greater focus on regional development priorities, many councils are increasing the resources allocated to lobbying State and Federal Governments.

4. Current funding arrangements for local government.

The VFF believe substantial reform of local government funding is required if councils are to be able to maintain road and capital assets, meet the costs of providing the range of health and community services demanded by residents, and achieve requirements set by State and Federal Governments.

There is a need to reduce the reliance of local government on own revenue and increase the proportion of funding provided from income and / or goods and services tax revenue.

The property rating system is an inappropriate means of collecting revenue for many of the services and functions provided by local government. Land value is both a poor indicator of an individual ratepayers capacity to pay and the level of service received. Land ownership is only one form of wealth, which has no regard to the owners' income or debt position.

Property based rating particularly disadvantages farmers relative to other non-farm businesses. Farming in Australia is, by its nature, a land-based activity. Farm businesses have a very large proportion of their total assets invested in land. Farm families often invest the majority of their wealth in land.

⁹ Source: Parliament of Victoria Economic Development Committee, *Inquiry into the Impact of Structural Changes in the Victorian Economy*, May 2002, p. 114.

¹⁰ Source: Economic Development Committee, pp. 120-121.

In addition, farms are generally located outside the main centres of population and farmers do not have equal access to the services provided by councils. As a consequence of these factors, farmers pay a disproportionate share of the cost of local government. This is illustrated very clearly in the case of the Gannawarra Shire in north-west Victoria. Gannawarra Shire Council applies a flat rate on all properties. Farmers represent just 13 per cent of ratepayers in the Shire but they pay 58 per cent of total rates. On average, farm families in Gannawarra pay over ten times the rates paid by non-farm families.

Land valuations, as a basis for taxation, is an outdated concept. Property-based rating was more appropriate when the main role of local government was the provision of property-based services, particularly the construction and maintenance of roads. The emphasis of local government activity has increasingly shifted from property-based services, but this change has not been matched by an appropriate change in the rating system, or local government reliance on property rating and service rates and charges.

Like other levels of government, local government should primarily be funded by taxes on income and consumption. Such a change would add to the equity of Australia's whole taxation system.

Property based taxes, if they remain at all, should be restricted to funding the limited range of property-based and local administrative services provided by local government.

Expenditure on the local government road network represents a very substantial cost to councils. The provision of road infrastructure in rural Victoria is not suited to user pays funding. Use of municipal roads is not limited to residents and businesses located within specific local government areas and it is not equitable for such roads to be funded from property based taxation.

The VFF believe the local government road network should be funded from fuel taxation revenue and not from property based rating. Farmers already contribute to pay for rural road use through consumption of excised fuels.

The Commonwealth's March 2002 Fuel Taxation Inquiry report identified revenue raising as the primary government objective for fuel excise, and that fuel taxation is not an appropriate mechanism to address externalities of fuel use, such as road wear and maintenance costs¹¹.

With implementation of the broad goods and services tax to raise revenue, the VFF does not support the continued use of fuel excise as a revenue raising tax. The use of fuel excise for revenue raising, in addition to GST, distorts price signals for fuel. These costs flow through to the costs of production for goods and produce reliant on use of excised fuels. However, there is a clear relationship between fuel use and distance travelled. While fuel excise doesn't take account of vehicle load mass, nor of some fuel use externalities including congestion, and emissions, it can act as a limited instrument to charge road users to raise revenue for road funding.

5. Inappropriate use of user charges and rating powers.

The wider range of service demands has put pressure on local government revenue sources and resulted in some council's adopting more aggressive approaches to adoption of user charges

¹¹ Source: Fuel Taxation Inquiry Committee, *Fuel Tax Inquiry Report*, March 2002, see discussion in chapter 2, pp. 63-84.

schemes to recover the costs of service delivery. An increased reliance on user charges was identified by the Commonwealth Grants Commission¹².

The Victorian experience has seen several councils explore the adoption of user charges to finance road maintenance. In some instances, these user charges proposals have pushed the interpretation of powers to levy charges under the Local Government Act.

Road wear cost recovery

Council's have limited ability to charge parties for the costs of extraordinary damage to roads. The Yarriambiack Shire council recently proposed imposing a levy on Gypsum sales, with the intention the levy would pay for upgrades of roads servicing the gypsum pits.

The Moira Shire council, in Northern Victoria, recently proposed requirements that dairy farmers re-construct their milk tanker entrances in accordance with council requirements. Under the proposal, if tanker entrances did not comply, the council would pass on to farmers the costs of rural road maintenance resulting from wear caused by milk tankers entering and exiting farmland.

The VFF has argued, in both instances, that the Local Government Act does not empower councils to impose such charges and levies. These issues currently remain unresolved.

City of Whittlesea rural road strategy.

The Victorian Local Government Act provides councils the power to declare a special rate or charge to cover the costs of providing services, which the council considers are of special benefit to those subject to the rate. Special rates or charges can be imposed with or without the support of affected ratepayers.

The City of Whittlesea recently proposed funding the cost of sealing certain rural roads through special charges on properties fronting the unsealed roads. Property owners were not given reasonable options and many would prefer the road remain unsealed, if they have to meet the full cost of the construction work.

The VFF believe road construction and maintenance is a core function of local government. It is an important service rural ratepayers expect from councils, and should not be forced back onto affected ratepayers in rural areas.

The increasing demand for councils to provide other services is having a detrimental effect on the resources available to councils to maintain roads to acceptable standards. This has resulted in proposals for user charges that will have negative impacts on agricultural industries if implemented.

6. Issues of cost shifting.

The Commonwealth Grants Commission reported local government bodies have identified five reasons for changes in expenditure priorities. These are devolution of responsibility from another level of government; other levels of government raising the bar on service standards by legislation; cost shifting where another level of government withdraws from a role or service leaving the local

¹² Source: Commonwealth Grants Commission, p. 53.

government to step in; increased community expectations; and areas of policy choice determined by individual municipalities.¹³

Regulatory requirements

Changes in State Government policies over time have resulted in significant increases in administrative and regulatory compliance for local government. Undertaking compliance measures and reporting to Government on compliance involves additional costs. Issues, such as rate pegging, fee capping and the granting of rate concessions/exemptions to industries, have been referred to in the Commonwealth Grants Commission report¹⁴.

Additional areas of compliance include compulsory competitive tendering requirements; requirements to undertake more frequent (every two years compared with six years previously) re-valuations of properties for rating purposes; and the Local Government Best Value Principles framework.

The Victorian Government's Best Value Principles involve additional compliance measures, necessitate regular community consultation on service provision and requires council's to achieve 'continuous improvement' in the provision of services for the community. This provides for a continual rising bar for service delivery and expense, which must be reported to government and the community.

The Victorian Government has also proposed a further range of initiatives as part of the Local Government (Update) Bill 2002, which will require additional regulatory compliance with codes of conduct for councillors; requirements to keep public registers of delegations to council officers; reviews of delegated powers; six yearly reviews of local government electoral boundaries; regulation of council election campaign donations; additional financial management and reporting requirements; additional regulatory requirements for planning entrepreneurial activities; and increased regulation of council plans and strategic resource plans.

Councils provided evidence to the Economic Development Committee of cost shifting within community service provision. Areas identified in the Inquiry report include libraries, home and community care, and kindergartens¹⁵. Other services affected by State and Federal Government cost shifting, as identified by councils, include maternal and child health and school crossing supervision¹⁶.

In a recent report, the Municipal Association of Victoria indicated councils would need to spend an additional \$31 million in 2000/01, as a result of cost shifting, representing more than 40 per cent of the increase of rates for that year¹⁷.

Pest weeds and animal control

The Department of Natural Resources and Environment (NRE) is responsible for strategies and enforcement concerning the management of pest weeds and animals. There is growing evidence of

¹³ Source: Commonwealth Grants Commission pp. 53-54.

¹⁴ Source: Commonwealth Grants Commission, p. 55.

¹⁵ Source: Economic Development Committee, p. 125.

¹⁶ Source: Macedon Ranges Shire Council Annual Report 2000/01, pp. 6-7.

¹⁷ Source: Macedon Ranges Shire Council, p. 7.

these responsibilities and costs being transferred to local government, as a result of both devolution of responsibility by the NRE, and withdrawal of service.

The NRE has recently produced a draft five-year cockatoo control project plan for the control of cockatoos and long billed corellas in Western Victoria. The plan states “the role of government will change from taking on the responsibility for management of the problem”¹⁸. Instead, the NRE will undertake training and extension to provide local government and the community with the skills to undertake pest cockatoo and corella control.

A number of municipalities in Victoria are adopting weed and environment control rebate schemes to more effectively address control and enforcement of pest weeds. The Mount Alexander Shire, Hume City, Whittlesea City, Melton Shire, Wyndham City, Macedon Ranges Shire, Manningham City, Mitchell Shire and Strathbogie Shire councils all offer a form of environmental management incentive scheme to pick up where the NRE has under-resourced pest weed control.

In proposing its scheme, the Hume City Council has stated:

“DNRE currently has clear responsibility for administration of the CALP Act [Catchment and Land Protection Act 1994], one aspect of which is enforcement of landholders that do not comply. It is agreed that thus far DNRE has failed to deliver effective levels of enforcement in Hume City.”¹⁹

These programs all require local governments to undertake priority setting with regard to weed and environment control objectives and enforcement. Councils are not resourced, professionally or financially, to undertake these additional responsibilities.

Many of these incentive schemes have been implemented as replacements for farmland differential rating. In these instances, the costs of increased weed enforcement activities are being carried solely by the farming sector, compounding inequities in the property rating system.

At the same time the NRE is cost shifting pest weed and animal management and enforcement to local government, the NRE budget is being reduced. The NRE budget for 2002/03 has been cut by \$69 million from \$1.21 billion estimated expenditure 2001/02 to \$1.14 billion budget for 2002/03. The forward estimates provide for a further cut in funding to \$1.06 billion in 2003/04²⁰.

The Environment and Landcare

In addition to the cost shifting of pest animal and weed control programs mentioned above, councils are facing new and increased environmental standards imposed by the State Government. Shire of Hindmarsh Chief Executive Officer, Neil Jacobs, has raised concerns with the ability of the shire meeting the costs of these regulatory standards.²¹

In an example of costs, the Macedon Ranges Shire council created a new Environment Policy Officer position in 2001 to meet councils’ environmental responsibilities²². This position is in

¹⁸ Draft *Five Year Cockatoo Control Project* document, prepared by NRE and presented to the Wimmera Cockatoo Reference Group.

¹⁹ *Proposed Farm (Weed Management) Rebate Scheme*, report to Hume City Council meeting, 11 June 2002.

²⁰ Source: Treasurer of Victoria, *State of Victoria Budget Statement 2002/03 - Budget Paper number 2*, May 2002, p. 157.

²¹ Source: Economic Development Committee, p. 125.

²² Macedon Ranges Shire Council Annual Report 2000/01.

addition to Councils' existing Environment Resource officer and Environment Advisory Committee.

State Government policy imposing controls on clearing of native vegetation under the Victorian Planning Scheme has also imposed significant costs on councils. Councils are required to administer the restrictions on clearing, including the development of municipal native vegetation clearing strategies, the requirement to develop or purchase relevant expertise within staff, and processing land clearing requests received from landholders. This often involves council officers undertaking inspections of the land and consulting with the NRE. For example, where native vegetation clearing permits are rejected, councils have responsibility to defend appeals at the Victorian Civil and Administrative Tribunal.

Farmers in the Mildura Rural City have raised concerns that local government has been left to provide greater assistance to local Landcare groups, as a result of State and Federal Government's withdrawing funding for specific Landcare initiatives.

A number of Victorian municipalities have increased provision of resources, both financial and professional assistance, to local Landcare groups. The reduction in Landcare funding available through the Commonwealth National Heritage Trust has accentuated this problem for local governments.

It is not appropriate that property taxation finance the costs of regulatory compliance initiated by changes in State Government policy, or the costs of human and community services and pest control, which have previously been provided by State and Federal Governments. Such services have historically, and are more appropriately funded from taxation, which is more reflective of equity and ability to pay, such as income taxation and goods and services tax.

The VFF supports the Commonwealth Grants Commission statement that:

“Where the source of the financial pressure is the result of changing policies or actions of other spheres of government (the State or the Commonwealth), it would be appropriate for that sphere to acknowledge the effect of its actions on local government. Where these actions impose extra functions on local government greater financial assistance could be appropriate.”²³

7. Review of equity of taxation to finance local government services

The inequities of the property-based rating system as a means of financing local government, and the growing range of services provided by local government, have been outlined.

The VFF believe there is an urgent need for significant reform of local government funding to reduce local government's reliance on property-based rating. There is need for increased local government funding from income taxation and / or goods and services taxation.

It is recognised that the terms of reference for this Inquiry specify that the outcomes be budget neutral for the Commonwealth. Such an outcome is inconsistent with the need to seriously address the funding crisis facing local government, especially rural councils. A budget neutral outcome will

²³ Source: Commonwealth Grants Commission, p. 55.

not address the inequity of property-based rating in today's economy, or the growing inequity of funding increased levels of human and community services from the rating system.

The VFF recommends this Inquiry recognise the fundamental flaws of the rating system, and call for a further review into the equity of funding arrangements for local government activities. Such a review should provide specific analysis and recommendations for the equity of taxation, rates and user charges adopted to finance each of the broad range of local government services, activities, roles and functions.

The VFF further recommends State and Federal Government ministers for local government institute a process to implement reform of local government funding.

8. Conclusion

There is a crisis emerging in local government in rural Victoria, resulting from the reliance of councils on an unfair property rating system and growing community, and government demands for service without appropriate financial resources to do the task.

The financial challenges are most pronounced for small rural councils, which have limited rating bases and face higher operating expenditure, road and infrastructure maintenance costs per head than metropolitan councils.

Local governments are responsible for providing an increasing range of services to their communities. Amalgamations have provided increased ability and demands for councils to adopt regional development and strategic planning initiatives. Councils are having increased costs imposed on them by State and Federal Governments through new and increased regulatory compliance and cost shifting for human, health and community services, environmental management and pest weed and animal control. Each of these additional costs places pressure on rates and on council's abilities to keep up with road and infrastructure maintenance.

Farmers are particularly disadvantaged by increasing expenditure pressures facing councils as farming is, by its nature, a land-based activity requiring property to undertake production. Farmers are unable to pass on rising municipal rates and charges costs to the customers of farm produce.

Substantial reform of local government funding is required if these issues are to be adequately addressed. Local government across Australia, should be funded from a fixed share of GST and/or income taxation revenue, with a greatly reduced reliance on revenue from property rates.

It is recommended the Commonwealth initiate a review of the equity of funding sources and service provision, and that the Commonwealth and States initiate a process for implementing reform of local government funding.