Inquiry into Local Economic Development Initiatives in Victoria.

Attached is a submission for the attention of the enquiry into Local Economic Development Initiatives in Victoria. I have no objection to this being published by the Committee. However, there is some information that I would like the committee to be aware of that I would prefer to not to be published because I have not sought the permission of people named later in this document, to do so.

This is an issue that I have been pursuing for over 50 years. It has been evident that country people have been short-changed whichever side of politics has been in office.

In 1991, the then [redacted] told me he had access to a new aid to find information. My immediate request was to find out how the public transport in other cities was funded. He assured me that he would be able to ascertain such information. After some weeks, he advised me that, while he had access to every thesis in every university, there seemed to be none on this question. He then sought information from other Commonwealth Parliamentary Libraries. That also proved to be futile although the library in Wellington did respond. The aid to which Davidson was referring was the Internet.

When I retired from Parliament in 1992, I was able to connect to the Internet myself although it was very costly as I had to connect by means of a service provider in Melbourne which meant an expensive trunk call. I made contact with a transport consultant in Scotland, who agreed that it was difficult to obtain information on how public transport was funded but estimated that taxpayer funding appeared to be about 10%.

About the only information I had was the policy of the Bolte government that passenger services were expected to return 50% of their operating costs and freight services were expected to pay their way. I could never get a logical explanation for this policy. As more information became available on the internet, it became apparent that Victorian taxpayers were paying a vastly greater contribution to the cost of public transport in metropolitan Melbourne than cities in comparable countries. An American consultant whom I contacted, [redacted] stated that there was no reason why a large city should not pay the full cost of
its public transport.

In 1999, Craig Ingram was elected as Member for Gippsland East and circumstances led me to employment as a permanent part-time electorate officer. With his full approval, I put some time into following up this issue. The MAV had released a report into the financial plight of small rural municipalities. As this was only three years after the Kennett government’s drastic reorganisation of local government, it seemed evident that this reorganisation was not working.

The Auditor-General’s report on ministerial portfolios in 2000 revealed that the government was paying $1,400 million annually to the operators of the transport system. The Kennett government had sold all the rolling stock to the operators for $3.00. This appeared to be a ploy to conceal the real cost to taxpayers for Melbourne’s public transport system as its purpose was to reduce the amount that would otherwise have to be paid.

Although I suspected that something of this kind had been the case for decades, I could not believe the extent that was becoming apparent. I sent to [redacted], then at Charles Sturt University, a copy of a comparison I had made with information I had located on the internet showing that Toronto, Canada, a city 20% bigger than Melbourne, received only $107 million dollars and Auckland, New Zealand, about $45 million from their respective governments. She replied that she found the comparison of interest and that she was not aware of any similar comparison.

With the growing trends towards free trade agreements and a global economy, it seemed reasonable to seek information on internal financial arrangements in countries with which we had to compete. I found that almost universally, freeways and public transport that were needed by growing cities were paid for by fares and rates on land that benefitted by their construction, not taxpayers who did not benefit. In fact, by far the most common system in comparable nations was to establish Transit Authorities, funded substantially by rates on land that benefitted from the construction of freeways and public transport. They are both serving the same purpose, viz. conveying people to and from the Central Business District and should be accounted for jointly, not separately.

I sent information on financing of roads to [redacted] who was then a [redacted] in the Department of Commerce and Finance of the Australian National University, in Canberra. He replied that I “had a point”. He did not say that I was missing some important points or drawing wrong conclusions from the information to which I referred.

When I found the BITRE statistics, I believed they were irrefutable evidence of the truth of the argument I was pursuing. I send a copy of the document I had prepared to [redacted] who replied that he found them very interesting. He did not question the accuracy of the statistics nor the conclusions I drew from them. He even suggested that he would examine ways to make use of them. As I am not a regular reader of his comments, I do not know if he
did so but one article is not going to bring about necessary changes to political Party policies.

I also emailed a copy to every Member of the House of Representatives and received five replies – four of them were automatically generated acknowledgements. The other was from an officer of Treasury. In a covering document, I pointed out that it was pointless reciting what the Commonwealth Government was doing for local government by way of financial assistance grants because the rate struck by each Council was determined after all such government financial assistance had been taken into account. In due course, I received a reply from Treasury that gave an account of the financial assistance already provided to local government.

There also appears to be a large number of accountants/economists at the Victoria Grants Commission working on a great variety of formulae purporting to ensure that Commonwealth financial assistance is applied in accordance with the Act.

At least they have calculated an ‘implied’ rate, which is a calculation of the rate in the dollar that would be needed if there was a uniform rate applied across the State and the only variable was the valuation. This demonstrated that the ratepayers in the wealthiest municipality in metropolitan Melbourne are levied a rate only half of the average while rural, regional and most outer metropolitan ratepayers pay two or three times the ‘implied’ rate.

I believe this information is relative to your enquiry because congestion and overcrowding in Melbourne is the other side of the coin of rural decline and neglect. If rates in highly rated municipalities were cut by 50%, it would give an immense financial boost to those municipalities. On the other hand, ratepayers in municipalities with high real income per taxpayer (RIPT) would still be far better off than those in low RIPT municipalities.

Due to the somewhat dated statistics I have used, it would not take long for a qualified person to check them and establish if projections are being realised. If they are, this country is headed for serious trouble, the rumblings of which are becoming more apparent in rural areas.

Yours faithfully,

Bruce Evans.
THE REAL CAUSES OF RURAL DECLINE.
Submission by Bruce Evans.
The valuation of property in each of the five areas coloured on the map above is approximately the same but there is a big variation in the rates collected.

<table>
<thead>
<tr>
<th>Color</th>
<th>Valuation</th>
<th>Rate Revenue</th>
<th>Rate Revenue/Valuation %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Blue</td>
<td>1,229,471,500</td>
<td>41,286,000</td>
<td>3.35%</td>
</tr>
<tr>
<td>Yellow</td>
<td>1,147,652,500</td>
<td>130,694,500</td>
<td>11.39%</td>
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<tr>
<td>Green</td>
<td>1,208,691,803</td>
<td>128,777,530</td>
<td>10.65%</td>
</tr>
<tr>
<td>Pink</td>
<td>1,401,627,500</td>
<td>139,251,000</td>
<td>9.95%</td>
</tr>
<tr>
<td>Grey</td>
<td>1,203,596,000</td>
<td>140,435,500</td>
<td>11.67%</td>
</tr>
</tbody>
</table>

If ratepayers in the municipalities classified as “metropolitan” by the Victoria Grants Commission paid the rate-in-the-dollar now paid by ratepayers in Buloke Shire, the amount raised would be an additional sum of over $6,000 million annually.

This would be ample to cover the cost of a first class public transport system and/or the freeways the metropolitan area needs. There would be enough to enable city residents to share with country people, the costs of providing local government services, such as roads, kindergartens, health services etc., that are just as vital for country people as they are for those who live in the cities.

After paying a contribution to cover community service obligations, such as the various concession fares required by the government, the State government would have $2,000 million to meet the needs of disabled and disadvantaged; health, education and environmental.
There is no practical reason why this cannot be done and no ethical or moral justification not to do so. Is there any reason why the ratepayers of the Mallee, struggling with drought, international trade issues and corporate machinations of which they had no knowledge, be expected to pay five times the rates on property of equal value to a ratepayer living in Stonnington City?

Any assessment of productivity without first establishing the proverbial “level playing field” will perpetuate already established disadvantages and inequalities. As a first step, it would be useful to establish why the minute area of the State named the City of Stonnington is valued more than the whole province of Gippsland or the Cities of Ballarat, Bendigo and Geelong combined. If resources mean wealth, the comparison is absurd. Stonnington, unlike Gippsland, does not have any forests or rivers, it has no coal or gas reserves, it produces negligible amounts of food – in short, it is completely dependent on manmade facilities and resources, most of which are not within its own boundaries.

Gippsland supplies almost all the electric power Stonnington uses, its residents enjoy the benefits of natural gas and oil extracted from the Gippsland Basin while many Gippsland residents will never obtain any access because of the economies of scale. Even those who do, pay more because of the additional costs of supplying small towns. There are numerous other examples such as milk, vegetables and other vital needs but it could be argued that the residents of Stonnington could import these needs, but from producers in countries that do not subsidise their large cities.

The reason why Stonnington has such a high valuation is because it is serviced by two railways, seven tram routes and numerous bus routes, all heavily subsidised by Australia’s taxpayers. This subsidy to metropolitan Melbourne far exceeds all the money spent on roads, including freeways, in Victoria by all levels of government.

These give them quick access to all the facilities and other benefits provided at taxpayers’ expense in capital cities that include numerous public buildings and an army of people employed in them. While those in public ownership may not pay rates, they add considerably to the value of surrounding properties because of the employment they provide.

While all these things add value to surrounding properties, the system breaks down if property owners do not pay rates reflecting this enhanced value. Yet Melbourne City Council is cutting staff because it does not have sufficient revenue even though its ratepayers would mostly be corporations, not private residents.

As National Competition Policy states, subsidies cause a misallocation of resources. A public transport system that is not paid for by users and/or those who benefit from it adds excessive value to real estate. This leads to perfectly good buildings being torn down to build even bigger ones and single residences being replaced with blocks of flats. Living in the CBD becomes ever more expensive and workers are forced to the outer suburbs, further from their workplaces, adding to congestion.
Background.

Australia is a big country but the burden of caring for it falls unfairly on people who live outside the big cities. A culture has developed that, because cities have the political clout, the rest of the country is theirs to exploit, and this right must not be challenged or discussed.

The fact that this creates a problem is demonstrated by the almost continuous inquiries at Commonwealth, State and local level into various issues affecting local government. These inquiries seem to be dominated by submissions from the wealthiest councils complaining about cost shifting and the need for more funding from State and Commonwealth governments. The effect on individual ratepayers is ignored. Any examination of financial resources for local government should investigate why there is such a massive difference in the rate-in-the-dollar paid by non-metropolitan ratepayers compared with their metropolitan counterparts.

This submission argues that there is a need for a reassessment of the way infrastructure is funded by each level of government to test whether it is fair, and whether it is in the best long term interest of the nation.

The test should not be confined to financial considerations – the increasing concern for global warming raises the question of whether money would be better spent to encourage the growth of country towns instead of trying to alleviate the daily gridlocked traffic problems of the bloated cities. Simple justice and common sense should dictate that those who cause the problem of congestion and overcrowding or benefit from its mitigation should bear the costs.

The productivity of the metropolitan area is distorted if the all the costs of operating a city are not taken into account.

Financial challenges.

In January 2000, the Municipal Association of Victoria (MAV) published the Milbur Report, *Economic and Financial Challenges for Small Rural Councils*.

The Report quoted Prime Minister, Rt. Hon. John Howard MP on 19th October 1999 “...there are many people in rural and regional Australia who are not sharing the national economic plenty... at a time when the rest of the country is doing well, the sense of being deprived, of alienation, of not sharing in the economic plenty is all the more acute”.

Almost thirteen years have passed since that comment and the problems for country residents have increased considerably. There has been no one in a better position to do something about this deplorable situation than the Prime Minister.

The Commonwealth government has indicated that it does not intend to change a “conflict” in the Act providing for financial assistance to local government but will leave the Grants Commission to interpret what Parliament intended. The people most affected by a record drought pay the highest rate-in-the-dollar on their properties while those who benefit most from publicly provided facilities pay one third to one fifth the rate-in-the-dollar.

Drought and floods have aggravated the problem but they are not the major cause. The problem is that city people appear to believe that people who live in the country should carry the costs of living in the country. They do not seem to understand that
the reverse argument is more valid – that those who choose to live in cities should pay
the costs of doing so and all should share the costs of living in a big country. They
enjoy the advantages but expect country residents to cope with all the disadvantages.
The fact is that all Australians live in a big country whether they like it or not. The
choice city residents make is to live in a big city. They enjoy the benefits, and should
pay the costs, arising from their choice.
Drought affects the productivity of farmland, which in turn affects the productivity of
communities based on rural activity and the municipalities that provide their services.
There is a general expectation in the community that farmers should be able to plan
for, and cope with, the effects of drought, but it is obvious that governments have not
been able to establish ways of achieving this objective.
The only way that this could be achieved is for farmers to be able to accumulate
substantial cash reserves. They have to contend with high turnover but low profits that
become losses all too often. They would need several years of operating expenses in
reserve. Even then, a prolonged drought would see their cash reserves steadily drained
away until they dissipated completely. In the case where drought is widespread as
well as prolonged, the consequences without government assistance are inevitable.
There are double standards involved when dollars spent on drought relief are, by
implication, viewed as “handouts” but dollars spent on public transport are considered
to be a right. The farmer is subject to prolonged and demeaning inquiries by
governments to first determine that a municipality should be drought declared. This
has the immediate effect of banks becoming more cautious in their lending in those
areas.
Applicants for financial assistance then have to apply and have their financial
situation scrutinised. Generally, any farmer who has the resources is expected to use
them before they become eligible for government assistance. Many farmers are too
proud to seek assistance and are faced with assets accumulated by several generations
being used to keep livestock alive. Many forms of assistance have the effect of
increasing the price of fodder in its various forms to primary producers in
neighbouring areas who may well be in just as dire straits. Rainfall does not respect
municipal boundaries.
On the other hand, there is no such requirement for the enormous contribution of
taxpayers’ funds towards public transport.

Productivity.
The concept of “productivity” is difficult to comprehend for people like farmers who
have been traditionally expected to produce primary products at an affordable price.
For example, the price of milk was determined by governments for decades. The only
way dairy farmers could survive was by increasing efficiency - not by increasing the
price of their product.
A basis principle in the design of supermarkets is to place milk and dairy products as
far from the entrance as possible and to use them to attract customers.
“Market forces” is another concept that disadvantages country people. When water
resources are put up for sale, large cities and wealthy people can outbid those engaged
in trying to produce essential products.
"Productivity" has several interpretations and, in the absence of specific indications of the factors that will be taken into consideration by the Productivity Commission in its inquiry into local government finances, this submission assumes that they will be broadly based.

One definition of productivity from official documents is as follows:

\[
\Delta \text{MFP} = \Delta Y - \sum s_i \Delta X_i - \ldots - s_k \Delta X_k
\]

where \( \Delta Y \) is the growth rate of output, the \( \Delta X_j \) s are the growth rates of the inputs of production (e.g., labour and capital) and \( s_j \) is the share of input \( j \) in the value of output, i.e.

\[
s_j = \left( \frac{P_j X_j}{P Y} \right) \quad (P_j \text{ is the price (or price index) of the } j^{th} \text{ input and } P \text{ is the price (or price index) of output). The } s_j \text{ s are assumed to sum to unity.}
\]

While MFP is, in principle, a better indicator of true productivity (or technology) growth than any of the single factor measures, it is not without difficulties, both conceptual and practical. In particular, notice that since MFP is calculated as a residual, any mis-measurement of the inputs \( X \), output \( Y \) or the shares \( s_j \) will show up in MFP. Some of the potential problems with MFP are as follows.

If that is a “straightforward” explanation of productivity, it will be understandable if there are few submissions from the general public.

The productivity of local government in non-metropolitan areas is affected by the same disadvantages experienced by all residents in the same area. However, councils can increase local government revenue by the simple expedient of increasing the rate-in-the-dollar, not by increasing their productivity as their ratepayers are expected to do.

If the inputs \( X \) do not include the cost of inputs provided by taxpayers that affect the valuations that are the base for rate revenue of all municipalities, measurement of productivity will be distorted. Cities expect the advantages of economies of scale, such as telephone charges, electricity charges, access to resources (e.g., water and natural gas) and competition arising from a large population, much of it generated by government itself providing a massive workforce and demand for office space within the city. However, they reject the responsibility to carry the diseconomies of this same growth, such as the need for freeways (or alternative public transport).

The terms of reference suggest that the Commission will concentrate on “existing” sources of finance for local government. To ignore the effect of policies of other levels of government on local government will perpetuate a grossly unfair system.
Grants Commission.

The Victoria Grants Commission compiles statistics on all municipalities in the State to assist it distribute Commonwealth funds provided under its legislation to provide financial assistance to local government. From these statistics, it can be proved that country ratepayers pay up five times the rate in the dollar paid by the lowest rated metropolitan ratepayers. Every business operating outside the metropolitan area pays local government rates three to five times the municipal rates paid by their metropolitan counterparts. This fact must affect the “productivity” of all non-metropolitan areas.

The following extract from the guidelines for the distribution of Commonwealth financial assistance illustrate a fundamental lack of understanding of the causes of imbalance within the States. The Horizontal equalisation requirements are completely negated by the Minimum grant which ignores the fact that sparsity of population, not density of population, adds to the per capita cost of delivering services. While this is not the only cause of the imbalance, it directs attention to the fact that, while the problem is recognised, the logical solution is ignored.

general purpose grants to local government bodies (councils) conforms with the relevant national distribution principles:

(i) Horizontal equalisation
General purpose grants are to be allocated to councils, as far as practicable, on a full horizontal equalisation basis. This aims to ensure that each council is able to function, by reasonable effort, at a standard not lower than the average standard of other councils in the State/Territory.

(ii) Effort neutrality
In allocating general purpose grants, an effort or policy neutral approach is to be used in assessing the expenditure requirements and revenue raising capacity of each council. This means as far as practicable, the policies of individual councils in terms of expenditure and revenue efforts will not affect the grant determination.

(iii) Minimum grant
The minimum general purpose grant for a council is to be not less than the amount to which it would be entitled if 30 per cent of the total amount of general purpose grants were allocated on a per capita basis.

(iv) Other grant support
In allocating general purpose grants, other relevant grant support provided to local governing bodies to meet any of the expenditure needs assessed is to be taken into account.

(v) Aboriginal Peoples & Torres Strait Islanders
Financial assistance is to be allocated to councils in a way which recognises the needs of Aboriginal peoples and Torres Strait Islanders within their boundaries.

With regard to (i) Horizontal equalisation, the rate-in-the-dollar is the standard that interests ratepayers and should be the basis of comparison between municipalities.

One reason for the disparity is the payment of huge subsidies to the metropolitan public transport network and the acquisition of resources such as water, natural gas and electricity and other products of brown coal without compensation to regional and country areas. In a report to State Parliament in June 2000, Victoria’s Auditor General listed amounts paid as “subsidies” to the operators of the public transport network. In order to try to understand how this complied with National Competition Policy, the issue was raised with the National Competition Council. The reply stated: - - It is the responsibility of all Australian governments to ensure that any CSO’s in relation to urban public transport or other areas of expenditure are clearly specified.
The National Competition Council did not indicate whether there was any substance in the question whether the payment of $2,145 million is a subsidy but neither did it say there was no substance in it. The ‘privatisation’ of Melbourne’s public transport took place about the time of the introduction of National Competition Policy. It bears all the hallmarks of a confidence trick to avoid the effects of that policy. The State government simply paid private companies similar amounts as it was already losing in operating the system.

It seemed from the second last paragraph of the letter, the National Competition Council interprets terms a little differently from popular usage so there appeared little purpose in pursuing the matter. Most people are unaware of the massive subsidy paid by the government.

The following extract is from p. 58 of the Herald Sun financial pages dated Jan 26, 2005

VICTORIA’S Auditor General will investigate Connex's takeover of the suburban train network and Yarra Trams' stranglehold on suburban trams. Specifically, the Auditor General's Office will ask whether Melbourne's public transport arrangements mean value for money for taxpayers.

The Auditor General’s Report following this investigation reveals that the Victorian Government established a “benchmark” of $2.146 million for public transport for the metropolitan area and the payment was within 3% +/- of this amount. The report did not receive the same prominence as the initial announcement, leaving the impression that all was in order. (The report did not provide any information on how the government arrived at this huge figure without consulting with the company supplying the service.) There can be no argument that this huge expenditure adds considerable value to real estate in the metropolitan area but the benefit goes to property owners, not the taxpayers who pay the subsidy (that is, of course, unless it is accepted that this is a legitimate way to rectify flaws in the Commonwealth government’s tax regime referred to later).

This enables the municipalities that benefit most from the increased values to strike a lower rate in the dollar for vastly greater services. In turn, it gives business operations in the metropolitan area a productivity advantage over non-metropolitan ones. These businesses like to take advantage of economies of scale but shy away from the consequences of overcrowding, such as the need for public transport and freeways.

Evidence that this is not the usual practise in comparable overseas countries is ignored. In New Zealand, North America and Europe, the normal practise is that public transport and freeways are largely funded by local government bodies with limited Community Service Obligation contributions from central governments.

New Zealand Treasury advised by email that it contributed about $20 million towards the costs of running Auckland’s regional public transport which includes regional roads. Given that the City of Auckland has about half the
population of metropolitan Melbourne the difference is outrageous - $20 million cf. $2,146 million.

A question that these facts pose is: - What constitutes a subsidy? Victoria’s Auditor General in his 2000 Report unambiguously described the payments to Melbourne’s public transport as a “subsidy”. There can be no disputing the fact that these subsidies, if ignored in any estimation of productivity, put non-metropolitan municipalities and businesses at a great disadvantage.

Who asks Victoria’s Auditor General why an item of expenditure, described as a subsidy in 2000, becomes a “benchmark” in 2005 and how the amount of the benchmark of $2,146 million was determined? Did the Victorian Treasurer arrive at that figure without consultation with the transport companies?

**What is a subsidy?**

Drought assistance is granted only after investigation of each applicant’s financial situation. The subsidy to public transport is indiscriminate. The wealthiest citizens in the State benefit from it without any scrutiny or justification. Even if they do not actually use it, they have the advantage of less traffic on the roads they use. It is not a once-only subsidy but a continuing one and growing at about 10% per annum. It gives city dwellers more ready access to facilities funded by taxpayers (everything from airports to zoos) that add substantially to the value of property but to which ratepayers do not contribute. They have the further advantage of using nearby facilities available in other municipalities.

Country Councils have to bear costs arising from floods, bushfires and drought, to which, because of their area, they are more vulnerable. While governments usually provide grants to assist with this work, it becomes merged with normal operational expenses and thus ceases to be additional assistance.

**Roads are for everyone.**

The early surveyors provided wide road reservations all over Australia to enable livestock to be driven to markets or agistment in more favoured areas when drought affected any district. A major factor in the extension of the railway networks was to convey livestock and fodder in times of drought. In recent decades, rail freight services have been abandoned by governments in most areas and large trucks now carry out these functions. They use ‘local’ roads in rural areas and have transferred the costs from State government to Local Government.

As Australians crowded into cities during the 20th century, they demanded to be drought-proofed and steadily lost touch with the realities of the Australian climate. In the second half of that century, they were joined by many thousands of migrants who have never experienced such conditions.

It shows the narrowness of the Prime Minister Howard’s concept of fairness and justice that he allowed people to suffer from consequences of nature over which they have no control while being generous in the extreme to solve the problems of those who choose to live in overcrowded cities and thereby add to the problem. This is demonstrated by the fact that the vast majority of migrants in the last 50 years have settled in the cities. Very few are engaged in agriculture although many came from a rural background. The fact is that rural communities have been deliberately weakened financially and politically by successive governments.
The government acknowledges that Australia’s present prosperity is derived from resources, which are virtually entirely produced in country areas. Far from being a common-wealth, Australia’s wealth is being diverted to the large cities in a grotesque struggle for power between two political philosophies.

With the development of motor vehicles, all roads are available to all people and should be funded from the one source. The effect of such a proposal on the municipalities most under financial stress should be investigated.

The past decade.

Only six years prior to the release of the Milbur Report in 2000, the Kennett Coalition government had carried out a major reconstruction of Local Government in Victoria. Given the timescale needed for the crisis to become apparent, the Milbur report to be commissioned and the research and preparation needed to write the report, it is very obvious that there was something seriously amiss with the whole system right from the start. A soundly based system could not have floundered in such a short space of time.

It was significant also that the Milbur Report was specifically into small rural councils. A rather obvious step that was not taken was to compare the role, duties and responsibilities of all councils within Victoria to ascertain which areas of responsibility were causing excessive financial demands and whether some councils had access to substantial revenue not available to others. (Parking fees provide a significant income for some and nothing for others).

During the first few decades following the establishment of the Colony of Victoria, a number of municipalities were established based on gold mining. In most cases, no provision was made for some of the wealth extracted from the earth to be reinvested in the area that yielded it up, to ensure the viability, or even rehabilitation, of those communities when the gold ran out. A similar situation applies to timber and other resources.

Any farmer who concentrates on extracting the wealth from the soil and ignores the need to retain its fertility eventually owns an unproductive piece of real estate, plagued with weeds and vermin. The same applies if governments do not return something to replace resources extracted from the country.

Examples.

The Thomson River flows from the Great Divide to the Gippsland Lakes. In 1967, the government decided to impound the waters of the Thomson to augment the water supplies of Melbourne and to provide 106,000 megalitres for use in Gippsland. In 1983, the supplies allocated to Gippsland were arbitrarily diverted to the metropolitan area which now takes about 95% of the flow. No compensation was paid to the region for the water that has been diverted from the Gippsland Lakes catchment and irrigators on other rivers in the system are restricted by demands to maintain water quality in the Gippsland Lakes. This reduces the productivity of the region while enhancing that of the city. Gippsland is less productive and Melbourne is richer as a result of this decision.

In 1964, natural gas and oil were discovered in the Gippsland Basin in Bass Strait. Although this valuable resource was part of the common wealth, the benefits have gone principally to the metropolitan area. Having taken advantage of this valuable resource to increase its productivity and growth, the metropolitan area then uses the
political power thus engendered to require residents of country areas that do not have this advantage, to subsidise the costs of providing the facilities it needs.

Gippsland also has huge deposits of brown coal which have provided base power for the State and undoubtedly have contributed immensely to the productivity of the metropolitan area. For three decades prior to the Kennett government, uniform tariffs for electricity were applied across the State, giving some semblance of sharing the benefit of this huge resource among all Victorians. In the interests of National Competition Policy, the industry was privatised in the 1990s, effectively transferring the costs of servicing scattered rural consumers to residents of the country and allowing metropolitan residents to take advantage of the economies of scale. This means that country based businesses have to share the costs of servicing country users while their city competitors do not. If current plans to sue the power distribution companies for damages are successful, it will be country people and not city people who will foot the bill.

These are just three examples that demonstrate how the natural advantages of Gippsland have been transferred from one region to another. This argument should not be interpreted to mean that compensation should be paid directly to Gippsland. In the true meaning of common-wealth, it means that all citizens should be entitled to share in the common wealth, not penalised for living outside the metropolitan area.

**The current system of funding.**

The current system of funding public facilities by both Commonwealth and State governments results in an unfair financial burden devolving on to local government which has become biased against non-metropolitan municipalities. It is recognised that rural municipalities are becoming increasingly unviable but the bias is not confined to non – metropolitan municipalities. Victoria Grants Commission statistics show that inner city municipalities of Melbourne have below average “implied” rate and are surrounded by municipalities with an above average or near average “implied” rate.

There is a need for a clear definition of the purpose of property taxation (rates). If it is judged to be just another form of tax, it does not comply with a basic principle of taxation, viz. that it should be related to (a) the ability to pay and/or (b) the benefit received from the expenditure of the revenue so raised.

On the other hand, if imposition of rates is designed to enable a part of the value added to a property by publicly provided facilities to be captured for the benefit of the public generally, then all such facilities should be taken into account. A gravel country road may serve just one or two farms but almost all provide access to public land by heavy vehicles for vermin and weed control, fire fighting and general maintenance purposes but are maintained at the cost of ratepayers, but a public transport system does not attract a ratepayer contribution.

This is not the sole reason for the decline of rural communities but it is typical of an attitude that has developed that appears to be peculiarly Australian, namely, that there is no need to explain or justify these policies because political power is all that is necessary.
Over two decades ago, the Public Bodies Review Committee of the Victorian Parliament commissioned the Centre of Policy Studies, Monash University to investigate who were the beneficiaries from publicly provided irrigation projects. In its report, CoPS stated:

**Primary "Beneficiaries"**

10. Those who have benefited most from the investment of public funds in the construction and operation of the irrigation system were those who, at the time the investments were made, owned land to which water rights were assigned. These benefits took the form of immediate appreciation of the value of their properties by amounts which reflected the difference between the expected future value of the water in production and the amounts that people expected to pay for water in the future.

11. The capital gains were substantially larger than they otherwise might have been because water has been supplied at prices lower than the cost of providing it, including the cost of capital invested in the system.

It defies comprehension why these same arguments do not apply to public transport and the building of freeways.

**Services provided.**

Over the past seven years, there has been a succession of inquiries into the operation of local government by State and Commonwealth governments and local government associations. It is obvious that either they have not come up with answers to the issues they investigated or that governments have ignored their suggestions.

This submission is based on the premise that this inquiry will not only study existing sources of revenue for local government but also the all important questions of (a) what services and facilities local government should provide, (b) and whether a basic principle of taxation is applied, viz. that a tax should be related to the ability of the taxpayer to pay and/or the benefit received.

One attempt to deal with the problem, the amalgamation of municipalities in Victoria in 1996, was ill conceived. This was because the cost of administering and servicing small, unviable municipalities was transferred to neighbouring ones that were in little better shape while already financially strong metropolitan municipalities were amalgamated into even bigger and politically stronger units.

A culture seems to have developed that local government is the preserve of councillors and their executive staff who, in turn, rely heavily on bodies such as the Municipal Association of Victoria (MAV) to make representations to State and Commonwealth governments, including inquiries of this kind.

The MAV is dominated by metropolitan municipalities, many of which levy a rate of one third or one quarter that levied in rural municipalities. They not only have the benefit of community of interest and more frequent and direct communication among themselves, their residents enjoy average household incomes about $10,000 per annum more than non-metropolitan residents.

In the late 1990s, the MAV engaged a consultant to report into the financial problems facing rural councils. Known as the Milbur Report, it contained statistical information
on all municipalities in the State of Victoria. These statistics were made available on the MAV website. It was relatively simple to calculate from these statistics that the rate in the dollar paid by ratepayers across the State varied by a factor of almost 5. In the belief that the figures were the property of the MAV, a request was made for a copy of the spreadsheet in order to make comparisons between municipalities or groups of municipalities. This became important because the Victorian Minister was publishing comparisons based on “community satisfaction”, an extremely subjective criterion, whereas the rate-in-the dollar is an objective basis of comparison.

Despite repeated requests that were never refused, the spreadsheet was not provided. It took some time to realize that the MAV had no intention of providing this information and it was not long before the statistics were removed from the MAV website. The MAV did not ever deign to advise that the statistics could be obtained from the Victoria Grants Commission.

This submission has not been compiled by qualified researchers or experienced report writers.

The rate struck by a council is public information and there was never any problem in obtaining it from individual councils. A request was made through the research section of the Library of the Parliament of Victoria advising them that the MAV had the statistics. However, after obtaining figures directly from eight municipalities, the Library found the process too slow and tedious and suggested contacting a Ministerial Advisor in the Victorian government. This leads to a conclusion that there is some kind of coterie that believes local government finances should not be open to close scrutiny.

At that time, the City of Kingston had on its website the rates payable on a hypothetical residential property valued at $250,000. It seemed reasonable to request a table showing the amount payable on a property of that type and value in each municipality across the state. With access to the statistics, this can be calculated in seconds. The Advisor strenuously disputed this as a fair basis of comparison although the Department itself compares municipalities based on the number of complaints received. It was not until it was intimated that a Freedom of Information request would be lodged that two spreadsheets were finally supplied by email. One of these was prepared by the MAV; the other was from the Victoria Grants Commission.

The former lacked information for approx 20% of municipalities and contained errors that should have been obvious to anyone with any knowledge of mathematics. The latter was some 78 rows and 30 columns in extent but contained information for all Victorian municipalities. Over a period of some two years requesting these figures, the MAV did not explain that they were available on the Victoria Grants Commission web site.

The VGC statistics provide the total valuation and rates paid in varying categories within each municipality and calculate an average or “implied” rate for each municipality from those figures. This is surely a much fairer and more reasonable basis of comparison than one based on the number of complaints, yet the MAV and the government reject it.

The statistics demonstrate that property owners in some municipalities pay almost five times the rates on property of equal value as are paid by owners of property in the lowest rated municipality in metropolitan Melbourne. This would not be wrong if property owners receives five times the benefit from publicly funded facilities and
amenities but, in fact, it is those who receive the least benefit who pay the highest rate in the dollar.

If a standard rate was applied across the State, it would mean that there would be millions of dollars left in the hands of ratepayers in the poorer municipalities. There could be no greater impetus to rural and regional development. It is not seeking favours but simply seeking equitable treatment by governments.

In a statement answering a suggestion that a uniform rate should be applied across the State, published in the Weekly Times of July 27 2005, the CEO of the MAV, Mr Spence is quoted as saying, “The problem was that if rates were struck on a standard implied rate, the average Stonnington rate bill would double, which was hardly equitable”.

This confirms the substance of the argument (that the most affluent ratepayers in the municipalities that get the most benefit from publicly provided facilities pay the lowest municipal rates) but the inequity is that ratepayers in the City of Latrobe that produce the bulk of the electricity on which the State depends and provides a substantial amount of the food, water and other essentials, pay 4.88 times the rate in the dollar than that paid by ratepayers in Stonnington.

Even if the ratepayers of Latrobe City receive the same level of public facilities and services as the ratepayers of Stonnington, the MAV seems to accept that it costs four times the value of those services simply to deliver them. Unless the MAV can explain why it is that ratepayers in Latrobe City pay such a high rate or alternatively why Stonnington ratepayers pay such a low rate, the MAV stance lacks substance and is simply a matter of opinion.

If the justification for the lower rate in Stonnington is implied in the question: - “Why should residents in Stonnington be asked to make such a contribution to other councils over and above the one they already make through Commonwealth taxation?”, it is an outrageous argument.

Assurances should be sought from the respective State Grants Commissions that they are not attempting to rectify by subterfuge any Commonwealth taxation measures perceived to be unfair.

Ratepayers in non-metropolitan municipalities have a right to know that the organisation that purports to represent their interests at a local government level endorses such underhand practises, if that is the case.

Farm rate.

The Australian government has taken a leading role in freeing up world trade although we represent only about 2% of world trade. As evidence of its good faith, almost all rural subsidies and marketing schemes for farm produce have been dismantled despite the refusal of major trading nations to make similar moves.

In any examination of terms of trade, consideration must be given to the cost structure of competing countries. As indicated previously, there are ways to disguise a subsidy such as by calling it a benchmark or giving terms a meaning differing from popular usage.

It is reasonable to assume that other Australian cities pay similar amounts to prop up public transport at taxpayers’ expense. Otherwise, Melbourne has a productivity
advantage over those other cities. The New South Wales government has stated that the subsidy to public transport in that State is ‘unsustainable’.

When it comes to international trade and free trade agreements, the taxation structure in other countries becomes relevant. There is no doubt that orange growers in California compete with our home grown product in Australian supermarkets as do dairy farmers in New Zealand. Cities in North America and Europe do not receive huge amounts of taxpayers’ funds for their public transport; neither do the residents of Auckland.

The Victorian Parliament makes provision for a farm rate in its Local Government Act but councillors of a municipality have the difficult problem of deciding if and to what extent it should be applied. There are good reasons for applying a farm rate but there is no good reason why other ratepayers in the same municipality should be called upon to either pay higher rates or accept a lower level of services.

Some municipalities have little urban development and 80 to 90% of their rate revenue is spent on ‘local’ roads. Others have negligible numbers of farm properties and spend negligible amounts on ‘local’ roads.

Other countries recognise that the value of farm land depends on factors other than publicly provided facilities apart from roads and bridges. For example, a farm may be assessed at the same value as a building used as a supermarket. The farm needs road access but not footpaths, streetlights, drainage and the services of substantial urban development around it.

In England, land and buildings used for agriculture have not been rated for any purpose since the 1930s.

It is difficult to draw direct comparisons with other countries because of the differing responsibilities undertaken at local government level. These can include housing, education and local law enforcement (England has 42 separate police forces; the United States has 13,000 separate law enforcement agencies implying that country people do not pay costs like traffic or crowd control in big cities).

There is also widespread use of Transit Authorities, funded largely by ratepayers, which are responsible for roads and public transport in urban regions. Residents living hundreds of kilometres away are not expected to contribute equally with those who use these facilities daily.

The same applies to freeways. In Australia, country people are brainwashed into believing that freeways are there for their benefit even though they may rarely, or never, use them. In any event, the benefit they receive would be reflected in the valuation of their real estate just as it is in the cities.

For that reason, it makes sense to establish a metropolitan transit authority in each city to fund public transport and freeways using the rating capacity available in metropolitan municipalities. If metropolitan Melbourne ratepayers paid a rate-in-the-dollar similar to ratepayers in Buloke Shire, there would be ample additional revenue for this purpose. The case for a central rating authority to pay the cost of valuations and strike a uniform rate is dealt with elsewhere in this submission. Suffice to say that 95% of taxation is already collected in that way.
Then the State government would have over $2 billion annually to help the needy and care for the environment. It would be giving all Australians a share in the value of natural resources that are the property of all, not just those who exploit them.

As evidence in support the above claims, the following statement has been extracted from the internet.

……the Ontario Budget.

Tax Rates

The tax rate applicable to the farmlands property class is 25% of the tax rate applicable to the residential property class. The 75% tax rate reduction applies to both the municipal and education portions of the tax.

The tax rate reduction for the farmlands property class was implemented in 1998 as a replacement for the former farm tax rebate program whereby eligible farmers used to receive rebates of 75% of their property tax.

During the consultations, concerns were expressed about the rigidity of the requirement that the farm tax rate must be a fixed percentage of the residential tax rate. This concern was particularly pronounced among communities in southwestern Ontario where the values of farm properties increased at a much faster rate than the values of residential properties upon the last reassessment, and as a result, many farmers faced tax increases that were proportionately higher than those experienced by residential taxpayers.

It should be noted that governments create residential land but farm land is finite. The value of residential land is determined by availability and demand, both controlled by government.

The Australian Capital Territory.


Rates Calculation for 2004-05

The variable factors used to calculate Rates are now determined by disallowable instrument under s139 of the Taxation Administration Act 1999. See Disallowable Instrument DI 2004-43 for current amounts and percentage rates.

Calculation of rates for different types of property is as follows:

Standard Properties: $330 + ((AUV - $21 500) x P)

The amount of rates payable for 2004-05 has two components - a fixed charge of $330 (except for rural properties) and a valuation based charge for each rateable property. The valuation based charge is calculated using a rating factor or percentage (P) and the average of 2002, 2003 and 2004 unimproved land values of your property (AUV), that exceeds $21 500 (rate free threshold). You do not pay the valuation based charge on the first $21 500 of your AUV.

Unit Properties: $330 + (((AUV x UE) - $21 500) x P)

Rates for units that are part of a registered Unit Title Plan are subject to a similar calculation that is applied to standard properties. Each unit is liable for the $330 fixed charge together with the valuation based charge. The valuation based charge for each unit is calculated using the average of 2002, 2003 and 2004 unimproved land values (AUV) of the entire Unit Title Plan which is
multiplied by the individual unit entitlement (UE). The rating factor \((P)\) is then applied to the individual unit value that exceeds $21,500 (rate free threshold). There is no liability for the valuation based charge if the individual unit portion of the AUV is $21,500 or less.

**Rural Properties: \((AUV - 21,500) \times P\)**

Rates for rural properties are calculated on a valuation based charge only. The rating factor \((P)\) is applied to the average of 2002, 2003 and 2004 unimproved land values (AUV) that exceeds $21,500 (rate free threshold). There is no fixed charge component for rural properties.

**Rating Factors (P)**

There are differential rating factors for residential, commercial and rural properties that are applied to the AUV of each property that is above $21,500 (rate free threshold). The rating factors for 2004-05 are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Rating Factor</th>
</tr>
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<tbody>
<tr>
<td>Residential</td>
<td>0.3870%</td>
</tr>
<tr>
<td>Commercial</td>
<td>1.2182%</td>
</tr>
<tr>
<td>Rural</td>
<td>0.1935%</td>
</tr>
</tbody>
</table>

In the ACT, farms are exempted from the municipal charge and pay only half the residential rate and one sixth the commercial rate. This reflects the differing degrees of reliance on publicly provided facilities of the respective sectors. These include the need for footpaths, drainage, kerb and channelling, car parking, street lighting and the fact that owners of farm land are denied the right to subdivide the land for residential purposes.

Given that the Commonwealth Government has the right to disallow this Act; it can be assumed that all sides of the Commonwealth Parliament agree with this system of local government rating.

**Conclusion.**

Country people lack the political power to gain fair treatment from the government. This is partly due to the fact that there is far less community of interest among country people compared with metropolitan residents and Members representing country electorates have to spend as much as one working day each week travelling to and from the capital city as well as the time spent servicing scattered communities in their electorates.

The so called ‘one vote- one value principle’ has disastrous consequences for a very large and sparsely populated country like Australia. The obvious consequence is a continuing concentration of population and wealth in the capital cities and the use of this as a political weapon to extract unfair advantages from the government. Although the wealth of the nation comes basically from its resources that are largely derived from the country, the money generated goes largely to the cities.

The role of government should be to balance inequalities that arise in any society. This responsibility seems to no longer a priority of governments in this country because our political machinery is driven by popularity not justice and fairness.

The blame lies substantially with the media, which fails to inform the public about official documents that prove the truth of these comments.
Although governments proclaim the importance of accountability and transparency and the media demands freedom of expression, few people are aware of the dimensions of the subsidies provided to encourage the growth of the capital cities in Australia.

With global warming becoming more widely acknowledged, productivity needs to be measured in terms of environmental effects instead of dollars. Allowing “market forces” to determine government policies is a recipe for global disaster.

Submission to Victorian Competition and Efficiency Commission inquiry into congestion, June 2006.

Response by Bruce Evans to draft report.

Victorian Competition and Efficiency Commission.

Introduction.

The draft report on Making the Right Choices: Options for Managing Transport Congestion lists three core functions of the Commission. The third of these is: improving the awareness of, and compliance with, competitive neutrality.

It is not clear whether that function is interpreted to mean competitive neutrality within Victoria, within Australia or internationally. My previous submissions were based on the assumption that the Commission is concerned with the effects that its recommendations may have on all Victorians no matter where they live. Competitive neutrality within Victoria is compromised if infrastructure is provided at ratepayers’ expense for some communities and taxpayers’ expense for others. The same factors affect competitiveness in international markets.

While noting that the Commission is restricted to suggesting options to resolving congestion, the potential impact on Victorians living outside major cities, if current funding practices are maintained, is such that this aspect should not be ignored.

The draft report provides no evidence that the Commission is considering the most logical and most sustainable way to deal with congestion which is to discourage the growth of the metropolitan area. One way to do this is to require that infrastructure required by big cities should be paid for by those who benefit.

A further course of action would be to require the metropolitan area to pay regions for resources they provide that contribute to the wealth of the city. One example is that almost all the water yield of the Thomson River is diverted to the metropolitan area without which it could not grow. Although it adds immense value to the metropolitan area, government apparently considers this resource of no value to Gippsland. In fact, the regions are treated in much the same way as imperial powers treated their colonies – exploit their resources and let the natives be content with the jobs they provide.

Similarly, natural gas is considered an essential service for metropolitan people – it is piped from Gippsland to Melbourne, Sydney and Tasmania but residents of Lakes
Entrance who can see most of the extraction rigs out to sea are still without it after fifty years. Farmers will never have the advantage of natural gas because of the economics of distribution. In other words, economies of scale play an important role in the provision of services but those outside the pale get nothing to compensate for their inability to share the common wealth.

If city people claim the benefits of economies of scale, they should carry the costs of diseconomies, such as congestion and other disadvantages. The usual rejoinder to this argument is that country people should then carry the high distribution costs resulting from low levels of population. Australia is a big country and metropolitan residents enjoy the benefits of that fact. The current boost to the economy is not by utilising the resources of the cities but of Australia’s wide open spaces. Therefore it is reasonable that metropolitan areas should share the costs of caring for a large continent just as they bear their share of the cost of defending it. Country people cannot do anything about the size of the continent. It is outrageous for country people to be penalised for something over which they have no control. Congestion in the cities is caused entirely by the people who live there.

An extract from Microsoft Encarta states: -

Of fundamental importance is that any tax must be fair—that is, citizens should be taxed in proportion to their abilities to pay (a concept that Smith defined somewhat ambiguously as “in proportion to the benefit they derive from the government”). A tax is considered fair if those who have the means to pay are assessed either in proportion to their capacity to pay or, depending on the situation, in proportion to what they receive from the government. Both “ability to pay” and “benefits received”, therefore, are criteria of fairness. When government services confer identifiable personal benefits on some individuals and not on others, and when it is feasible to expect the users to bear a reasonable part of the cost, financing the benefits, at least partly, by taxing the people who benefit is considered fair, as in the repayment of loans to students by subsequent taxation.

There is nothing ambiguous about who benefits from public transport at less than half its cost. Page xxiv of the draft report states “if motorists do not bear the cost of congestion, they will seek the most expedient form of transportation and a substantial part of any increased capacity will be absorbed by ‘induced demand’”. It is not the motorists (or commuters) who induce demand; it is the high rise buildings and the concentration of business activity that results from heavy subsidisation of infrastructure in the CBD that induces the demand.

The people who benefit the most are those who own property where infrastructure is most concentrated. A quick look at a map of public transport facilities demonstrates where that occurs.

A problem of cities.

One fact stands out - congestion is a problem of cities. It further appears that no city has solved the problem. A significant fact is that the great majority of cities in comparable countries have created Transit Authorities or bodies of a similar kind. Property taxes (rates and congestion charges) are levied to fund a substantial portion
of the operating costs of public transport and major roads. Where the latter are part of a State wide or National Highway system, a proportional contribution is made from tax revenue.

Transit Authorities work with municipalities within their urban area to plan development. There is no doubt that New Zealand has a competitive advantage because it is a compact country and has better soils and more reliable rainfall. Natural advantages that should assure Gippsland’s prosperity are taken from the region without compensation.

Efficiency.

Efficiency is not enhanced if the net result is that some sets of traffic lights are eliminated and motorists merely move to other sets where they waste the same amount of fuel. In the country, the fuel used is working all the time.

The greater Melbourne area should establish its own transit authority like other cities around the world, many of them with a much smaller population. Vancouver has been quoted as a city with a good public transport system. It has superseded Melbourne as the “world’s most liveable city” (which appears to have caused dismay among Melbourne residents), it is little more than half the size of metropolitan Melbourne and is not even the capital city of the province.

Causes of congestion.

No consideration is given to the extent taxpayer subsidisation of public transport is a factor in the burgeoning growth of the CBD. Because property owners are not required to meet the costs of infrastructure that increases demand for their property, land values in the areas that benefit increase substantially, responding to the salesmen’s catch cry – “location, location, location”.

In order to capitalise on the ever-increasing values, perfectly good buildings are torn down in order to build bigger ones; single residences are converted to blocks of flats. This, in turn, leads to more jobs in the CBD, more commuters adding to the demand for further infrastructure. The certainty of making a substantial capital gain leads to speculation, thus forcing up prices even further. The capital gain is in the value of the land as a direct result of availability of infrastructure, not the building thereon.

The result is that poorer people are forced to go to the outer suburbs to find affordable housing. Instead of living close to their work place, they have to travel greater distances adding to the congestion. They are then faced with higher fares, higher fuel prices and the payment of tolls in order to get to the CBD for work, business or pleasure. Those who benefit the most, the owners of property in the CBD, who may not even be Australian residents, reap the financial benefits of the State and Commonwealth funding of metropolitan infrastructure. It is not just trains, trams and roads that add value to land – it includes everything from airports to zoos.

The whole system appears to be driven by a philosophy that people who live outside the metropolitan area are less worthy than those who live within it. The Government is a major contributor to employment and the demand for office space in the CBD and, as a consequence, to congestion. If the real cost of accommodating the public
service in the heart of the city had to be paid, it would increase the incentive for the largest employer in the State (the government) to do something substantial towards decentralising its own administration.

One way would be to reduce the grossly unfair burden placed on country people to maintain infrastructure for scattered communities. Many country people would have no services unless other country people subsidise them. It is impossible to avoid every form of subsidy. Natural gas will never be available to many country people because of the cost of infrastructure and they are denied their right to share in the common wealth of which, natural gas is part. A small additional charge to those who do benefit from this cheap fuel would enable country people to obtain the alternative of LPG at much the same price.

National Competition Policy states that subsidies distort the economy and cause mis-allocation of resources. A policy to this effect was introduced in Victoria in the 1980s following recommendations of the Public Bodies Review Committee. Subsidies that were previously applied to water and sewerage services in country towns, and considered by country people as an offset to public transport subsidies in the city, were eliminated and the bodies providing these services now contribute a Public Authorities Dividend to the State government approximating $1,000 million. Infrastructure that was previously provided for irrigation districts was transferred to regional management and was required to become self-funding.

Furthermore, because the State government required railway freight services to pay their own way, rail freight services have disappeared in many country areas leading to the use of much bigger road transport vehicles using roads and bridges never designed for their size. While big business fights over the spoils of the most lucrative freight routes, small country communities are being crushed by the cost of maintaining roads and bridges that were never designed carry the traffic they now have to carry as a direct result of closure or reduction of rail freight services. Country people are now saddled with council rates up to almost five times the rate applied in the wealthiest municipalities yet when city roads can no longer cope with the traffic they were designed to carry, the government pays to fix the problem.

Methods of funding in other cities.
This submission should not be interpreted as opposing proposals to reduce congestion-- it is putting a case based on the instruction by the Treasurer in his letter dated 14th September 2005 for an inquiry to take into account “international best practise”.

It is interesting to note that the Report of the Auditor General on the “Franchising of Melbourne’s trains and trams” was tabled in the Legislative Assembly at approx. 10 a.m. on 14th September 2005, the same day of the Treasurer’s letter of referral (of this inquiry). It is not an unreasonable conclusion to draw from that remarkable coincidence that the Treasurer was so alarmed at the contents of the Auditor General’s Report that he acted immediately to institute some damage control. The Auditor General’s Report stated as follows:
“As a result, DoI was able to enter the negotiations with the franchisees as a well informed purchaser with tools to evaluate the reasonableness of the Connex and Yarra Trams offers. Using the benchmarks, Dol effectively negotiated Connex and Yarra Trams offers to within about 3 per cent of the relevant public sector benchmark (for trains - $1548 million and for trams - $598 million)”

(The benefit of Melbourne’s trams to country people is minimal).

**The true costs.**

It is surprising that in the draft report, p. 138, Table 4.4 quotes train and tram funding for 2005 at $486,101 and $282,731 respectively compared with the Auditor General’s figures, “for trains - $1548 million and for trams - $598 million”.

In his report of June 2000, the Auditor General tabulates the “subsidies” to the then operators of the public transport system (see table below). That statement seems unequivocal and it was not too difficult for anyone interested to add amounts mentioned in several announcements in the meantime of an increase in these payments to estimate that they now exceed $2 billion. There were letters in the press expressing dismay at the amounts involved that clearly indicated that the writers thought that a “blow out” of $90 million was the total amount, not merely the increase.


<table>
<thead>
<tr>
<th>Component</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real annual franchise payments (b)</td>
<td>923.6</td>
</tr>
<tr>
<td>Rolling stock adjustment payments (c)</td>
<td>801.9</td>
</tr>
<tr>
<td>Capital grants - infrastructure lease</td>
<td>136.2</td>
</tr>
<tr>
<td>Capital grants – franchise agreement (d)</td>
<td>70.8</td>
</tr>
<tr>
<td>Core infrastructure lease rental (e)</td>
<td>(2.4)</td>
</tr>
<tr>
<td>Non-core infrastructure lease rentals (e)</td>
<td>(58.0)</td>
</tr>
<tr>
<td>Net cost to the State</td>
<td>1 872.1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Net cost to the State per franchisee:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bayside Trains</td>
</tr>
<tr>
<td>Hillside Trains</td>
</tr>
<tr>
<td>Swanston Trams</td>
</tr>
<tr>
<td>Yarra Trams</td>
</tr>
<tr>
<td>V/Line Passenger</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

The following paragraph from the same report reveals the fact that even this amount is substantially understated by means of a very questionable process.

6.27 Under the sale arrangements of the 5 passenger transport businesses to the 3 separate franchisees, the State received a nominal consideration of $3 for the transfer of the rail businesses' net assets, which mainly comprised rolling stock and plant and equipment, to the franchisees. As a result, an abnormal loss of $665 million for the sale of the net assets of the businesses was reported in the State's operating statement. Although the State only received a nominal consideration for the transfer of these net assets, the State
nevertheless received a right to receive future services from each franchisee at a reduced subsidy payment from the State.

It can be seen from these figures that the subsidy for Melbourne’s trains and trams has increased from $1.4 billion to $2.146 billion or 50% in five years. That does not take into account the reduced subsidy referred to in the preceding paragraph. These figures alone should destroy the urban myth that the city is subsidising the country.

(For those who note that the subsidy for V/Line Passenger services is not taken into account in this argument, it should be noted that the V/Line amount probably includes interstate services. It is also a fact that country services benefit property-owners the full length of the route. As they all terminate in Melbourne, the greatest benefit is at the Melbourne end. They are part of a state-wide system.)

Consultation, transparency and cost-benefit.

A report on congestion states: “Consultation is likely to be more effective when the costs and benefits of different solutions to a problem are transparent to all… In addition, transparent airing to the public of the costs and benefits of particular projects should provide some protection against the implementation of projects that do not pass a cost-benefit test.”

As is demonstrated in this submission, the costs of Melbourne’s public transport are anything but transparent. Unless there is a dramatic change in the way works to deal with congestion are funded, the costs will be continue to be borne by taxpayers and the benefits received by property owners. The people of Victoria, and indeed Australia (because Commonwealth funding is also involved) deserve better.

If the cost of congestion can be calculated, it must also be possible to identify who receives the benefit from alleviation of congestion and to devise ways to obtain a contribution to meet that cost.

Property Taxes and Transportation

The report on congestion refers to measures used in Vancouver to deal with congestion, no mention was made of the following extract from that city’s transportation website

Property Taxes And Transportation

Municipalities fund the services they provide to their residents mainly through the revenue they get from property taxes paid by the owners of homes and businesses. This includes roads that are municipal responsibilities and public transit costs that aren’t covered by transit fares. When the provincial government created TransLink in 1999, it was given responsibility for public transit in the GVRD as well as a network of major arterial roads that join the 21 municipalities in the region. To fund road and transit operations and to allow for improvements and expansion, the province gave TransLink specific sources of revenue including a share of the motor fuel tax, transit fares and a portion of property taxes collected in each municipality. The reason for using property tax as one of the ways to pay for the regional transportation system is that the system provides benefits to all residents; even those who don’t use transit or
might not even drive. The efficient movement of people, goods and services is vital to our economy, our environment and our quality of life.

The City of Auckland also has such a scheme. By all accounts, they are much more efficient than Melbourne’s system, perhaps because the Auckland system is largely funded in the way outlined in Vancouver and there is a pride in ownership that is absent in Melbourne.

As indicated in the paragraph quoted above, some of these appear to be of recent origin and it may be that other governments are coming to the realisation that metropolitan areas have been an unfair drain on taxpayers in the past.

**Designed to deceive.**

Following release of the congestion report, articles appeared in Melbourne’s daily press which seem to be designed to perpetuate a grossly unfair and unsustainable method of funding. Even these articles cannot agree on the real cost to taxpayers to prop up Melbourne’s public transport.

The Commission did not heed its own advice that “Consultation is likely to be more effective when the costs and benefits of different solutions to a problem are transparent to all”. The starting point should be an honest assessment of what it is costing taxpayers at the present time for trams, trains, buses and the regional roads that are part of the infrastructure of a big city and are recognised as such in other western countries.

To test the knowledge of the general public, a random survey should be conducted among Victorians asking how much they think the government pays annually to provide them with public transport. If governments are proud of this huge outlay, they would be advertising the facts to the whole community.

No realistic attempt to rectify the situation will occur until the public are made aware of the facts. Then they may understand that the cost of providing the infrastructure should fall on those who benefit – not just those who use it - as so succinctly stated in the second last sentence of the above quote.

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Privatisation blamed for $1.2 billion loss.

Transport lets us down.

News Item. 11/04/2006.

Private operators are running trams and trains badly, costing Melbourne its "most liveable city" title, and being paid a lot for doing so, transport academics claim.

They say Vancouver--- which last year stole Melbourne's liveability crown--- runs a public system on a third of our private system's subsidies.

In a report released yesterday, the academics called for public transport to be returned to state control. But the Government dismissed the ambitious scheme.
saying it had no plans to roll back privatisation of the city's trams, trains and buses.
The transport boffins claim privatisation has cost taxpayers $1.2 billion.
But Transport Minister Peter Batchelor's office said the academics appeared to have made basic errors in calculating their figures.

Melbourne's private operators get $800 million a year subsidies, not counting money from ticket sales.

By contrast Vancouver funds a state-run system $263 million a year.
The Canadian city which has a population of 2.2 million has a system of trains, buses and trolley buses - buses that run on electrical wires.
"Fares are lower there, patronage is expanding and it is bringing people back off the roads. They haven't looked back.
They're showing the way," said Dr Paul Mees, who co-wrote the report Putting the Public Back into Public Transport."
The privatisation of Melbourne's trams and trains has been an expensive failure."
But while Melbourne's public transport system is attracting brickbats locally, it has been getting bouquets from interstate.
Sydney Lord Mayor Clover Moore said Melbourne did it better when it came to public transport, leaving their system for dead.
"They had 80,000 people at the MCG for the Games opening ceremony and they moved them in and out on public transport," she said.

"It was mind blowing watching these trams loading up and moving on.
"Here, every time something is on at the SCG or Aussie Stadium, we have terrible traffic congestion."
The academics said Connex and Yarra Trams were lobbying for still more subsidies - a claim the operators deny. "We do not blame any problems that may exist on the system on the level of subsidy paid to us," said Connex spokeswoman Kate De Clercq.
Yarra Trams said its recent lobbying for a $1 billion upgrade of its fleet was separate to subsidies.
The Government said it was too early to speculate whether subsidies would increase.
Transit Authorities.
The foregoing article appeared in the HeraldSun, April 11, 2006. The following day, a further article appeared headed, “Taxpayer money gets derailed”. The author states, “By June 2006, the private contractors will have received $1.2 billion more than we would have paid the PTC to do the same job”. That statement implies that the author knows the total amount taxpayers pay but he does not appear to be willing to reveal it. It also challenges the accuracy of the statement in the draft report, p. 138, Table 4.4 of train and tram funding for 2005 at $486,101 and $282,731.

The above statement challenges the whole credibility of the VCEC inquiry if it does not question the accuracy of the figures on which it relies.

Over thirty years ago, it was stated policy of the State government that rail freight services were expected to pay their way and passenger services were expected to return only 50% of their operating costs. No government has claimed to have reduced this proportion in the meantime. This makes the Auditor General’s figure the more credible. It appears unlikely that the 50% recovery rate has been maintained.

In a plea that the people who live and work in Melbourne should be looked after, the article goes on. “Other cities do it. They have smart planners, and their public transport is designed and planned by a public agency”.

On April 21, 2006 a further article appeared in the same newspaper in a similar vein. It is difficult to know whether each author has independently drawn on the incomplete information in the draft report or whether it is part of a continuing campaign to deceive the community about the real cost of public transport in metropolitan Melbourne. Like many great cities around the world, Vancouver has a Transportation Authority and does not have access to unlimited funds from Federal, or State/Provincial governments. It is hard to believe, given their positions, that the authors of those articles are unaware of the fact that the vast majority of these public agencies are regional transit authorities, funded to a very substantial degree by property taxes. These authorities also have responsibility for regional roads, which is an acknowledgement that public transport and regional roads are intimately linked as part of...
metropolitan infrastructure and are not deemed to be State or National infrastructure.

It should be noted that the Greater Vancouver Transportation Authority is also responsible for policing the transportation system.

The first item on this part of the Greater Vancouver Transportation Authority’s website deals with property taxes and transportation. It points out how property owners are beneficiaries of both public transport and the construction of freeways and why a substantial contribution should come from that sector. In some cities, this principle is extended even further by imposing a congestion charge on properties, which are identified as contributing substantially to congestion in the Central Business District eg. San Francisco. The Commissioners note this in the draft report and, for the sake of all Australians; it should be implemented to the maximum. This could be done as part of the valuation of a property and open to the same appeal provisions.

There is strong evidence that any road space freed up by attracting commuters to public transport will be immediately taken up by other motorists attracted by a freeing up of traffic flows. This is further evidence to support the argument that Australian cities are doubling up on demands for taxpayer funded freeways on top of massive funding of public transport.

A fundamental factor in tackling traffic congestion is the question of who should pay to fix it. The evidence is irrefutable that a great deal of the taxpayers’ money that is ploughed into subsidies for public transport and freeways finds its way into the pockets of those who own property in the central business district of the biggest cities. The benefits of each route spread like the ripples in a pond and, because virtually all routes converge on the CBD, that area benefits from every route.

**Extracts from Vancouver Regional Transportation Authority’s website.**

*Property Taxes And Transportation*

Municipalities fund the services they provide to their residents mainly through the revenue they get from property taxes paid by the owners of homes and businesses. This includes roads that are municipal responsibilities and public transit costs that aren’t covered by transit fares. When the provincial government created TransLink in 1999, it was given responsibility for public transit in the GVRD as well as a network of major arterial roads that join the 21 municipalities in the region. To fund road and transit operations and to allow for improvements and expansion, the province gave TransLink specific sources of revenue including a share of the motor fuel tax, transit fares and a portion of property taxes collected in each municipality. The reason for using property tax as one of the ways to pay for the regional transportation system is that the system provides benefits to all residents; even those who don’t use transit or might not even drive. The efficient movement of people, goods and services is vital to our economy, our environment and our quality of life.
TransLink, the Greater Vancouver Transportation Authority, is a small organization involved with transportation planning, administration of service contracts with subsidiary companies and contractors, the management of capital projects, financial management and planning, public affairs and supporting business functions.

TransLink’s Security and Law Enforcement provides security and enforcement for Coast Mountain Bus, SeaBus, SkyTrain, and West Coast Express.

The actual delivery of public transit services takes place through subsidiary companies and contractors while the maintenance and improvement of the Major Road Network is done in partnership with the municipalities.

The major sources of funding for TransLink are transit fares and fuel taxes, with additional funding from property taxes, the Hydro levy, parking sales taxes and advertising revenues. The GVRD must approve new or increased property taxes, parking sales taxes, toll charges and vehicle levies.

End of extracts.

Further comments.
A fundamental principle behind National Competition Policy is that subsidies distort the economy and cause the misallocation of resources. There is no better example of the truth of that principle than the subsidisation of public transport and regional roads necessary to sustain a large city.

Unless a substantial portion of the funds needed are raised by “Betterment capture” and/or “congestion taxes” on the properties and/or businesses that benefit from the provision of these services, the result is sky rocketing land values in the CBD leading to the construction of ever bigger buildings to capitalise on these rising values. This, in turn, leads to greater demand for freeways and public transport.

If the same amount was spent in encouraging development of regional and rural areas, there is likely to be a more productive outcome. It makes more sense to require metropolitan public transport and freeways to be self funded (given the vast array of other services and facilities provided by taxpayers) and country freight and roads to be fully funded to reduce the demand that leads to congestion.

There is no logical reason why country people should be paying three and four times the local government rates than those paid by the owners of the most valuable property in the metropolitan area.
The government should establish a single authority to manage metropolitan Melbourne’s transport infrastructure, funded in a similar way as comparable bodies in North American cities. I do not have the resources to establish if there is still an element of political domination even in those cities but as the eminent American consultant on transportation, Wendall Cox stated in an email to me ten years ago, large cities should carry their own infrastructure costs. His guiding principle is:

GUIDING PRINCIPLE

What government does for one it should do for all;
What government does not do for all it should do for none.

In reply to my request for information on subsidisation of public transport, particularly railways, WENDELL COX CONSULTANCY replied as follows:

(wcox@publicpurpose.com) replied by email:

"...among highly auto dependent nations, London's underground does the best, covering 137 percent of its current costs and something like 95 percent of its costs and renewals. New York claims to cover 70 percent, Paris is much lower. As regards who pays, there is surely no reason that the urban area should not shoulder the entire cost."

No payment was offered or paid for this information.

The relevance of the above communication is that Australian farmers have to compete with New Zealand, Canadian and United States products, at home as well as on overseas markets. The competitiveness of country based industry in Australia is seriously compromised by gross subsidisation of metropolitan infrastructure.

The following communication spells out the requirement that taxpayer subsidies be clearly defined as 'community service obligations'. It is time the government (and the press) displayed the same standards of honesty and integrity that it demands of others.

National Competition Council.

Hello,

The National Competition Policy does not restrict governments in their decisions to subsidise public transport. It does however require that taxpayer subsidies be clearly defined as 'community service obligations'.

30
The Council does not have the sort of information you are looking for. I would suggest you try the Federal Dept. of Transport, the Bureau of Transport Economics or each State and Territory government.

Regards,

…………………………
National Competition Council
Lvl 12, 2 Lonsdale Street, Melbourne

From: "………………………………….
To: "beejayee"
Sent: Tuesday, 6 March 2001 14:27
Subject: RE: Public transport subsidies

Dear Bruce,

As the National Competition Council (NCC) does not have particular expertise in transport matters, the following points are rather general but I hope will be of use.

The NCC's interest in public transport springs from the Competition Principles Agreement of 1995 in which all Australian governments agreed to apply competitive neutrality to their businesses.

Competitive neutrality principles seek to encourage competition and better use of the community's resources. In essence they require that publicly owned businesses should obtain no advantage as a result of their public ownership, for example, through tax exemptions, access to capital at a lower cost or exemption from regulations that would normally apply to private sector businesses.

Community Service Obligations (CSOs) come about when a government business is required to undertake activities that it would not undertake on a commercial basis - in order to meet the government's social objectives. One well known example is discounts on power bills for some groups of low income consumers.

It is important that governments clearly specify and carefully fund the CSOs that they impose on their businesses. Failure to do so means that it is impossible to determine if government funding for the business is for services provided to the government or whether the business enjoys a general subsidy which may breach competitive neutrality obligations if the business competes with private providers.

The NCC is aware of only one case in which a government owned public transport business competes with a private provider of public transport.

This is in South East Queensland where Queensland Rail (QR) competes with Sita Australia, a coach company.

In this case, the Government purchases transport services it requires from QR via the Citytrain Rail Service Agreement between Queensland Transport (representing the Government) and QR.

While the contract itself does not appear to be a public document, QR's
annual report for 1999-2000 lists service outputs for which it receives payments from the Government. These include Citytrain. Queensland Transport's annual report for 1999-2000 identifies the introduction of performance based contracts for public transport operators as a strategy for improving public transport. It states that it has increased the efficiency and transparency of the urban passenger rail services funded by Government through the implementation and management of the $283m per annum Citytrain Rail Service Agreement with QR.

Also, the NCC has been informed by the Queensland Government that rail services in general are provided at an efficient cost, and that the terms of the Citytrain Rail Service Agreement were exposed to external scrutiny prior to the Agreement being finalised.

It is the responsibility of all Australian governments to ensure that any CSO's in relation to urban public transport or other areas of expenditure are clearly specified. Governments undertook to do this as part of their commitment to National Competition Policy. However the whereabouts of this information will vary from government to government and the Council is unable to direct you to the relevant publications. Annual reports from transport providers and State/Territory budget papers may be the best place to start.

If governments fail to clearly specify the CSOs required of their businesses, they would be in breach of their NCP undertakings. In such a case, the NCC may recommend to the Commonwealth Treasurer that competition payments to that State or Territory be reduced. Competition payments are dividends from reform, made by the Commonwealth to the States/Territories in return for implementing competition policy.

From the Council's perspective a "taxpayer subsidy" is regarded a little differently from how the term might be popularly used. It would occur when government funding for a government enterprise cannot be justified by a transparently defined and costed CSO.

Please contact [Redacted] or [Redacted] if you require further information.

Regards,

[Redacted]

National Competition Council
Lvl 12, 2 Lonsdale Street, Melbourne

cc: [Redacted]

Subject: Public Transport

Good afternoon Bruce

You requested some information on "Does the New Zealand government make any financial contribution towards the cost of the City Of Auckland's public transport operations? If so, what proportion of these costs does it contribute?"

Central Government does contribute to the City of Auckland's (and other city's) public transport. This assistance is given both directly for individual services and on infrastructure.
For public transport services the Government pays 40% of the combined central and local government subsidy on buses and 60% of the subsidy on trains. In dollar terms this involved $20 million NZD in 1999 (cf $25 million from Auckland ratepayers).

For infrastructure the Government funds between 40% to 100% depending on the type of work (probably averaging around 50%). All subsidised work must pass a benefit cost ratio of 4:1 prior to any assistance being given. As this work is project based the actual expenditure varies hugely between years.

Hope this helps

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Reply from Auckland Regional Council, New Zealand

In response to your email of 21/2/2000.

My apologies for the delay – of Auckland City Council advises the following:

"The Auckland Regional Council advises that it plans to spend $35.8m this financial year on passenger transport contracts. These are the contracts that support those services that cannot operate commercially.

Because roughly 55% of all services are commercial, and the ARC has no information on the revenue collected through these services, we do not have an overall figure for the percentage of operator revenue accounted for by the farebox versus subsidy.

The Auckland Regional Council’s funding comes from a combination of central government funding and rates. Central government, through Transfund, funds 40% of the cost of the bus passenger service contracts and 60% of the cost of the rail passenger contracts. The remainder is collected from regional ratepayers. Local authorities, such as Auckland City, collect this on the Auckland Regional Council's behalf."

I trust this answers your queries.

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A standard council rate across Victoria is not the answer to rural councils' funding woes, according to Victoria's local government body.

The Municipal Association of Victoria said a proposal by East Gippsland MP Craig Ingram for all ratepayers to pay the same rate per dollar of property value, would not work and would be unfair.

Standard “implied” rate to apply to all rural councils, after figures showed Melbourne’s wealthiest residents paid the lowest implied rate while some rural councils paid the highest.

The implied rate is the ratio between the total value of property in a council area and its revenue. The analysis showed residents of Swan Hill council pay five times the rates as residents in Melbourne’s Stormnington Council on a property of the same value.

But MAV chief executive officer Rob Spence said no valid conclusions could be made about the fairness of rates by comparing the implied rate.

The level of the implied rate is not a good indicator of the fairness of rates,” he said.

“Councils with relatively higher implied rates may have relatively low rates per head and low rates per assessment, and vice versa.”

As an example, he said average rates per property were $923 in Stonnington but $856 in Gannawarra shire.

The problem was that if rates were struck on a standard implied rate, the average Stonnington rates bill would double, which was hardly equitable, Mr Spence said.

“Why should residents in Stonnington be asked to make such a contribution to other councils over and above the one they already make through Commonwealth taxation?” Mr Spence said.

The Victorian Grants Commission existed to help poorer councils by distributing Commonwealth grants in a way that ensured they could provide basic services and infrastructure.

But Mr Spence acknowledged many rural councils still struggled financially because they had to service large, thinly populated areas.

“There’s no doubt there is a widening gap between what councils are expected to do and their ability to pay for it,” Mr Spence said.

The MAV was lobbying for a special federal fund to help the 15 or so rural councils struggling with low revenue, debts and a backlog of infrastructure.
Part 2.
Economic Development and Infrastructure Committee
Parliament of Victoria
Rural and Regional Development.
For over half a century, Parliaments at all levels in Australia have been investigating means to encourage development, or at least, arrest decline in the population in rural and regional areas. In the 1950s, a Minister of Decentralisation was appointed and a whole department created to assist him to achieve whatever objective the government of the day had in mind.
In the 1970s, after a long investigation, five places in Victoria were selected for “accelerated development”. The five places were Ballarat, Bendigo, Geelong, Latrobe Valley and Portland. They were already the places most likely to grow. Later, there was a joint effort by the Commonwealth, Victorian and New South Wales to establish an inland city based on Albury – Wodonga. The only noticeable result appeared to be that any increase in those chosen places was achieved by bleeding neighbouring smaller townships of population.
Any effort to draw attention to the shortcomings of these inquiries was swamped by Government propaganda implying that success was being achieved. Before personal computers were developed in the 1970s, it was virtually impossible to analyse government budgets to establish a picture of how and where governments spent our money or comprehend the intricacies of the Budget Papers.
Governments consistently underestimated the cost of delivering infrastructure and services to rural and remote areas. Local councils were pressured to accept offers of government and any shortfall of funds was passed on to those who lived in those areas. On the other hand, governments are also very much aware of the costs involved in the provision of infrastructure needed by their capital cities but choose to spread these across the whole nation. There is a need to constantly remind Australians that we all live in a big country and we all have a responsibility to care for it and protect it. Living in an Australian city does not absolve any citizen from that responsibility nor should living outside a city be used as an excuse to deny any citizen the right to share in the prosperity of the nation as a whole.
This submission will, using official statistics, demonstrate that those living in rural and remote areas are falling ever more rapidly behind the average level of prosperity enjoyed by the nation’s population. It is not a recent phenomenon as Melbourne’s initial growth was spawned by the gold of Ballarat, Bendigo and numerous other gold fields discovered in the eighteenth century.
The purpose of this submission is to illustrate that unless all citizens are treated equitably and fairly by all levels of government none of these bandaid ‘fixes’ has any hope of succeeding.
In 2008, the Bureau of Infrastructure, Transport and Regional Economics (BITRE) published on the Internet, a very large spreadsheet, one sheet of which contains the average Real Income per Taxpayer for each of the more than 600 municipalities in Australia over a 25 year period from 1980 to 2005. This spreadsheet is a mindboggling 25 columns and in excess of 600 rows of figures.
As the preamble to the statistics state, the figures demonstrate the ability of the average ratepayer in each municipality to “purchase goods and services”. In the preamble to the statistics, the authors state that “RIPT (Real Income per Taxpayer) provides a regional insight into average income and is likely to be especially useful in the understanding of interregional equity issues”. This is, without doubt, a measure of the prosperity of taxpayers in each municipality.
As it is impracticable to include over 600 municipalities in one chart, the following chart illustrates the change that took place over that 25 year period in just the 12 highest and 12 lowest. The spike that led to the “recession we had to have” clearly occurred in the wealthy municipalities, not the poor ones but it was the poor ones who were hit with increases in interest rates and remained so at the end of the survey period.

In the 21st century, economists talk about the “two speed economy” and “the widening gap” between rich and poor as though there are some immutable causes, and politicians claim credit for how the economy is managed. These are mutually exclusive arguments – either the causes can be dealt with or economists cannot manage the economy.

There are far too many examples of prejudice against rural and remote areas in the allocation of government spending to mention them all in a submission such as this. To give a couple of illustrations:

(a) The State government requires the Victorian Electoral Commission to undertake a revue of Local Government Ward boundaries periodically to ensure compliance with the requirements of one vote – one value. This is arguably the most blatant example of the ‘nanny’ State. In rural areas, the need to meet this stipulation completely overrides all other considerations. The imperative of meeting this specific target in a rural municipality leaves no scope for any other consideration to be even considered.
The VEC carried out a revue of East Gippsland Shire about three years ago. As a Commissioner of East Gippsland Shire following amalgamation of five pre-existing municipalities, together with three fellow Commissioners I participated in establishing the then existing electoral setup. During the our consideration, I was impressed by the strength of support for an un-subdivided municipality from ratepayers at Bendoc, a small community more closely associated with New South Wales than Victoria. Unfortunately, my fellow Commissioners did not agree with my point of view and the result was the shire was split into two wards.

Before making a determination following its revue, the Victorian Electoral Commission published four alternative proposals, indicating their preference for a three ward municipality, one electing four councillors, a second one electing three and a third electing two. I was driven by this outrageous proposal to make a submission to the Commission. I pointed out that as a ratepayer in the most populous proposed ward, my one vote elected four councillors but the vote of a resident in the most remote areas elected only two. It is difficult to comprehend how this could be interpreted as ‘one vote – one value’.

The Chairman conducting the hearing indicated that the VEC considered that their preferred option was designed to ensure that ratepayers living in isolated areas received representation by encompassing them in one ward. I was dismayed to realise that the VEC apparently considered isolation a unifying factor when the contrary is the case. It is a fact that some of the bitterest controversies occur between small neighbouring towns, and if there is no neighbouring town, there seems to be divided camps in isolated communities. I was asked how remote communities could be represented under an un-subdivided municipality.  I replied that the ratepayers of East Gippsland would have to resolve that problem because it is unlawful to try to rectify it. At the subsequent election for a nine member unsubdivided Council, two were elected from Benambra, one of the most isolated communities in East Gippsland. This demonstrated that country people have a different concept of how democracy works.

There are other illustrations of the way the costs of providing infrastructure and services to rural areas are being shifted to local people in order to allow political parties to bribe metropolitan residents with ever increasing subsidies for services not even available to country people.

While preparing my submission to the VEC, I wanted to raise another aspect and wrote to the Commission seeking the *per capita* cost to the ratepayer of this periodic exercise compared with the same exercise in the metropolitan area. The Commission promptly replied indicating that it did not keep *per capita* costs but that the cost to East Gippsland Shire was slightly less than the average for metropolitan municipalities. I pointed out that, as most metropolitan municipalities had four times the population of East Gippsland, the *per capita* cost to East Gippsland ratepayers is four times that to a metropolitan ratepayer. This proves that it can cost as much as four times as much to provide a specific service to country people as it does for city people. This is reflected in the fact that rural ratepayers pay as much as four times the rate in the dollar as do ratepayers in the wealthiest municipalities. Even if the services and infrastructure provided in each municipality was the same (which is patently not the case), rural municipalities charge local government rates at up to four times those charged to the wealthiest. As a value for money proposition, the comparison between rural and inner city rates is scandalous.

Some 80% of Gippsland East is public land providing no revenue to the municipality and adds considerable cost to the provision of infrastructure and services to those ratepayers living in remote areas. This example suggests that it could be as much as a
factor of four or five. In addition, East Gippsland residents have to contend with the failure of governments to properly care for the land under its sole control. There are not many votes in protecting country people from bush fires, floods, the ravages of wild dogs or the control of noxious weeds.

There are other examples to support the contention that country people are unfairly expected to carry the burdens of living in a big country while city people enjoy the benefits. The Bureau of Statistics compiles the Australian Remote Area Index (ARAI). This is used to determine the number of people a census taker can service in a specific period of time. Again, there is a similar variation of approximately five to one.

It should not be forgotten that people living in these remote areas are also carrying similar costs in their daily activities. They are burdened with similar costs in the operation of their farms and small businesses. There is no running to a local store or repair shop when some item is needed or repair to be undertaken for citizens living in remote areas.

A new plan.

Since the introduction of “one vote – one value”, the Australian Electoral Commission determines when a redistribution is required and carries out an extensive inquiry to ensure all electorates are within 10% of the average enrolment. In order to minimise the frequency of redistributions, the fastest growing areas receive the benefit of the lowest number of enrolled voters. This means that areas with the slower growing or declining population are landed with the higher end of enrolments.

The State governments, when the faster growing areas start to exceed the 10% variation, also engage in a similar exercise. When it comes to Local Government, the Victorian government cannot bring itself to allow municipalities to determine for themselves, the most appropriate boundaries of wards within their own municipality or the number of Councillors appropriate to their needs even though there are stringent laws regulating what they can or cannot do.

That means three levels of inquiries all looking into the same issue but none of them necessarily having any knowledge of the particular issues confronting country people. They are all certainly dominated by people very familiar with the interests of metropolitan voters.

There is a very simple way to eliminate two thirds of this duplication of effort. It can be achieved by making each Commonwealth electorate a municipality and eliminating wards or ridings. Even though there was a substantial reduction under a coalition government in the mid 1990s, there are still calls to reduce the numbers of municipalities still further. If this simple proposition was adopted, the only revue needed would be the Commonwealth electorate boundaries, paid for by all taxpayers. There would never more be a need for rural ratepayers to pay people to come from the city to tell them how democracy must function.

In Victoria, it would mean a reduction in municipalities from 79 to 37. Many would argue that municipalities of this size would be too hard to cover adequately but the boundaries of the City of Stonnington are contiguous (or nearly so) with those of the Electorate of Higgins. This seat was held by a Member who also was Treasurer of the Commonwealth and who obviously looked after the interests of his constituents. The Councillors of Stonnington did not appear to be overwhelmed by the numbers they had to represent. This proves that it is not the numbers of voters but the area over which they are distributed that creates political differences. These are not necessarily party political issues.
A further step needs to be taken to resolve the issues arising from the growing gap. That is for each State to establish a Rating Authority. The Australian Capital Territory already operates on such a system. The State government should establish the amount it expects local government to raise by way of rate revenue. The government should also set out the purposes on which rate revenue can be legitimately spent. It should be grounds for a ratepayer to object if it can be shown that there is no enhancement of value to the property of the ratepayer of the proposed expenditure.

The Rating Authority would finance the two yearly revaluation required by the State Government. It should not need to be explained that this is a far more expensive requirement for a country municipality. It also should pay the cost of any farm rate concession instead of the current situation where other ratepayers in the municipality have to carry the financial burden. However, this may be better dealt with by using unimproved capital valuations. It is absurd that, at a time when the government is calling for increased productivity, farmers who improve the productivity of their farms are taxed for ever for doing so.

The Rating Authority should also pay the salaries of senior staff of all municipalities. As they would all be dealing with the same number of people, they should all be on the same salary. It should also eliminate the payment of bonuses. Any employee should be expected to carry out his or her responsibilities to the best of their abilities and not look for a confidential handout each year.

As another guide to the real cost of delivering facilities and services to country areas, the Australian Bureau of Statistics also compiles the Australian Remote Area Index (ARAI) based on a broad range of criteria to determine the size of a Census Collection District (CCD). (A CCD is the smallest geographic area determined on a population basis and is used to determine how many people can be serviced in the period of time allowed for the collection of statistics). Despite its name, the Index embraces city as well as country. These can be combined on an electorate basis and again country electorates can be shown to require four to five times the time to collect these statistics. For any State or Commonwealth government grant, the construction cost should be isolated and the amount adjusted on a formula based on the ARAI calculation for the municipality.

The following chart demonstrates what will happen over the next 12 years if nothing is done to change the policies of political parties. This will give rise to social problems that are frightening in their consequences. It proves that political parties are providing facilities and services to city people to win votes while ignoring the legitimate needs of rural and regional voters.
There are other statistics available, particularly from the Victoria Grants Commission, where there are apparently a large number of people engaged in trying to implement the original idea of the Commonwealth Financial Assistance to Local government Act to enable local government to function “at not less than average”. All the evidence points to the fact that the situation is deteriorating. As the population of the cities grow, rural people will lose what little political influence they have and demands for country people to share the costs of dealing with the problems arising from congestion and overcrowding, will continue to grow. This submission deals with only a few of the issues destroying the ability of rural and regional areas to develop or even survive while city people are encouraged to believe that they have some immutable right to take, neglect or destroy resources of rural areas without compensation.