

The Vaucluse Progress Association

Established 1915 ABN 12 756 395 726 Box 29 P.O. Vaucluse NSW 2030

Local Government Study
Productivity Commission
LB2 Collins Street East
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Assessing Local Government Revenue Raising Capacity: Draft Research Report, December 2007.

We commend the Commission on the quality of the analysis and the information in the draft Research Report.

In particular, we see the Commission's approach to *Principles for Revenue Raising* as being potentially helpful and practical for local governments, and reassuring for ratepayers. Among the *Principles*, we think the Commission's observations on *Evaluating and setting priorities* are valid and important. Implementation of the *Principles* in practice might well be another matter. As the Commission observes, elected members are not necessarily competent in such matters, nor are council staffs/consultants. At the community level, we observe that there is a tendency (not exclusive to local councils) for staff and elected officials to nominate mainly very popular services for cutbacks when budgetary stringency is mooted, thus ensuring that the resultant community outcry effectively extinguishes the proposal. The ability of the community to assess the budgetary strategy and tactics of a local governing body is probably varied, and that of elected officials no less varied. This is one more reason why we favour high-level rate pegging.

We have some reservations about the Commission's approach to measuring the capacity and willingness of ratepayers to pay rates at various levels – and hence the capacity of councils to raise revenue from rates. In addition to council rates, State land tax is also a clear and substantial burden on certain landowners, and taxes/rates based on that single asset are cumulative in impact on affected owners. Despite the income tax deductibility of rates and land tax, such owners see themselves being annually taxed twice on the capital value – not the income – of the same asset, and resent it. Their willingness to tolerate additional rate burdens might understandably be less than that of other landowners who are not liable to land tax. Their acceptance of rates levied by elected members who are not necessarily required to pay rates themselves – by virtue of not being landowners – is perhaps qualified at best. In that kind of context, too, ratepayers may well put a high value on a high-level rate-pegging mechanism as constituting at least some kind of brake on fiscal adventurism.

While rates fall on property-owners (at least in the first instance), the rates/person element of the Commission's *statistical analysis of the factors affecting revenue raising by local government bodies* is akin to viewing rates as a community-wide poll tax. Local

government rates are not a poll tax, and some of the perceived inequities of the rating system derive from that distinction. If the Commission's further work on its statistical analysis can remove or reduce recourse to the poll tax concept, we think it would be desirable in the interests of clarity.

(In passing, we note that the draft repeatedly refers to the NSW valuations for rating purposes as being based on *unimproved capital value*. The relevant local government and valuation of land legislation actually refers to *land value*. We understand that there is a conceptual difference between the two valuation methods, and that it primarily relates to improvements that have been fully incorporated into the land itself. The distinction has been thought to be important in some rural areas, at least).

A handwritten signature in black ink, appearing to read "Michael Rolfe". The signature is stylized and includes a long horizontal flourish at the end.

Michael Rolfe, President
31 December 2007