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Our Ref: (JE:LN)
Contact: Jane Edwards
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15 October 2013

Dr Peter Boxall
Chairman
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230

Dear Dr Boxall

Re: Review of funding framework for Local Land Services NSW

The North West Livestock Health and Pest Authority (LHPA) is pleased to respond to the Draft Report released to inform IPART's review into the development of a funding framework for Local Land Services.

Please find enclosed our submission.

This submission has been prepared by the North West LHPA, and with input from directors and the General Manager of our local authority. It focuses on issues facing our region.

We are broadly supportive of the approach taken by IPART, however we would like to stress two points which highlight the need for flexibility. We hope that they are considered when developing the final framework and noted as examples of flexibility within the framework.

These points are:

1. Service fees for LHPA services;
2. The flexibility to target the rating structure; and
3. Various minor points including detail on land managed by government.

We would welcome the opportunity to provide the Tribunal and IPART staff with a verbal briefing to discuss in further detail the points and views raised in our submission. We would also be pleased to provide IPART any further information or data you may require to support the next stage of the review.

In the first instance, please contact Jane Edwards, General Manager. Jane can be contacted on 0429 923 113 or by email jane.edwards@lhpa.org.au.

I look forward further discussions between LHPA and IPART as this final framework is finalised.

Yours Sincerely

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Review into the
development of a
funding framework for
Local Land Services NSW

Response to the
IPART Issues Paper

North West
Livestock Health and Pest Authority

1 Introduction

The North West Livestock Health and Pest Authority (LHPA) is pleased to provide IPART with a response to the Draft Report released to inform the Tribunal's review into the development of a funding framework for Local Land Services NSW (LLS).

1.1 Our region

Narrabri (district main office), Inverell, Moree, Walgett, Wyallda. A map is provided as Appendix 1.

The size and geographical reach from east to west means that the North West is one of the most diverse LHPA regions when considering land capability. Regional variation is driven by a number of factors including:

- differing agricultural production systems (e.g. cropping versus extensive grazing in the western area of our region, presence of intensive industries);
- climate and biophysical characteristics (which influences risk of disease or prevalence of pest incursions);
- land use (e.g. prevalence of smaller blocks for lifestyle purposes in the east of our area);
- scale and land title¹; and
- wide variations in productive potential per hectare due to soils and rainfall.

The difference in carrying capacity per unit area between the east versus the west of our region may be a multiple of 14. In the west carrying capacity as measured by DSE² / ha may be in the order of 0.5 where as in the east this may be 7 DSE / ha. The productive capacity and density of settlement has a direct effect on risk creation.

We encourage IPART to increase the flexibility in the application of the framework at regional scale. Our focus in this submission is centred on the activities that are relevant to our area.

1.2 Our Issues

We broadly agree with the principles proposed by IPART, that is:

- Appropriate pricing strategies;
- Administrative efficiency;
- Institutional issues;
- Transparency; and
- Consistency.

North West LHPA broadly agrees with the principles espoused. We note that there is a trade-off between consistency in the underlying principles of the cost recovery framework, and the flexibility of how the framework is to be applied.

We also welcome the move to set the minimum rateable land area to 2 hectares.

We are concerned that consistency will be used to over-ride flexible approaches at a regional LLS board level over time.

¹ For example leasehold lands in the Western Division.

² Dry Sheep Equivalents.

2 Service fees

We agree with the draft recommendation on page 50 ‘LLS boards should follow a hierarchy approach to identify who should pay the cost of a regulatory and non-regulatory activity’.

However, we note that the draft report states that:

Fee-for-service. This funding option provides the clearest and most effective price signal, and therefore should be the default option for LLS³.

It should be noted that the price signal here is a mechanism to ration resources. The value placed on services from the perspective of an individual is not necessarily appropriate and other mechanisms such as annual quotas for services may be better placed than an emphasis on price.

Fees-for-service should be the default mechanism for charging for LLS services. Circumstances will arise where the link to an individual is difficult to establish or may create a disincentive to comply. In these circumstances a broad based rate should be charged to a wider group of landholders.

Stating that service fees are the default approach is risky for the entire LSS. A thorough determination of amount of contribution versus the risk of creating dis-incentives is required for any extension of fee-for-service. Little consideration is provided in the draft report. The North West LHPA is particularly concerned that a LSS wide strategy on extending service fees will have negative impacts on the interaction that district veterinarians have with landholders and reduce bio-security capability.

Practical application of a set pricing structure versus operational flexibility will vary not only by locality but by circumstance. This approach to pricing affects the most critical element of future LSS success, the relationship between the organisation and the landholder.

It is necessary to explicitly state that the strategic plan and direction provided by a board to staff should be documented in appropriate policies that consider the risk of a default fee-for-service approach.

If a culture of service charging leads to non-reporting and the failure to detect a potential disease outbreak the default approach could have a catastrophic economic and social impact.

3 Rating base

The North West LHPA appreciates that IPART has taken the time to understand and support the current rating structure. The structure seems complicated, however, it is targeted, defensible and an understanding of the system has been built over time. It is the most appropriate and equitable method to recover the share of costs from risk creators for biosecurity services and the management of TSRs for productive purposes.

We consider that LLS should continue to use the current Livestock Health and Pest Authority (LHPA) rating system and rate structure⁴.

However, we believe that the comments on the most efficient rating base are at best cursory.

³ IPART Draft Report pg 55.

⁴ IPART Draft Report pg 62.

We generally prefer land area to the current rating base – notional stock carrying capacity (NCC) – because it better targets the actual risk creator or beneficiary. In our view, it is a better general indicator of a landholder’s relative share of the impact, risk or benefits associated with LLS activities⁵.

There seems to be little analysis to make this point. The North West LHPA would like to make the point that carrying capacity has a direct influence on a number of the LSS activities. The area of land is actually a poor indicator of likely risk. The draft report actually notes this in the report when considering the lowering of the area to 2 ha.

It is the view of the North West LHPA that to charge a flat rate per hectare across an LLS Region would produce gross inequities in amounts charged on some properties. This approach would involve some lands with a relatively low notional carrying capacity being subject to an inordinate increase in rates under an area based rating model.

The current recommendations seem to arbitrarily recommend a land area as the rating base or a NCC as an alternative rating base depending if the lowest area is 2 or 10 hectares. It is not apparent why there is an allowance for NCC in one case but not another for a sub-set of the landholders.

LLS boards should use land area as the rating base for general rates, especially if the minimum rateable land area is set below 10 ha.

We would also like to question the finding that the NCC system is not simple and cost effective to administer. The starting point here is an established system that people understand and information is available. Making the case to move to another system is not detailed and is subjective. For example there is no allowance of costs of change and no assessment of the impact on large land holding of low value.

The North West LHPA would like IPART to consider changing the recommendation to ensure flexibility by removing the conditionality of the recommendation, that is, allow the application of NCC to a sub-set of landholders even if the minimum rateable area is reduced. .

4 Other Issues

The North West LHPA would like to make the following points. These are for consideration of IPART and in some cases are minor requests for clarification:

4.1 Public Good

A strategic review of the services provided by LSS should include an assessment of the bio-security (contribution) to public good. For example the control of pests and diseases has a direct effect on protection of native wildlife.

4.2 Government land managers

It is noted that in Section 4.1 Overview of draft framework, Step 3a includes 1. impactor(s) or risk creator(s) – including land managed by government.

It has long been recognised by ratepayers that government is a risk creator. There are some examples of this having been recognised in extreme cases such as wild dog control. However, we believe that a strategic review of government owned land and risk creation should be undertaken across the State using the framework as a structure. This should not simply be done on a case by case basis.

⁵ IPART Draft Report pg 76.

To this end we would like IPART to be more explicit in identifying government owned land and potential risks.

In addition some statement on other land ownership and horizontal equity would be made. This includes any landholders who may get exemptions at the moment. There is some concern that Aboriginal Land Corporations in our area that run stock do not pay rates. As noted in the draft report *Horizontal equity refers to treating people in similar situations in similar ways*⁶.

Any policy to remove the burden of rates should be made explicit through a transfer which would be a more efficient approach to public policy.

4.3 Local Government

We believe local government should not collect rates revenue for a number of reasons including complexity, as boundaries of LLS regions are not universally aligned to local government areas (LGA's). We also endorse IPART's initial view that a centralised LLS collection mechanism is not only feasible but also the most efficient. We would like to note the complexity of dealing with multiple local governments will be problematic and is likely to cause disruption in some cases where councils are under financial pressure.

5 Conclusion

We appreciate that the Draft Report provides a strong basis for the LSS framework to be developed.

In this submission we have flagged our views on two significant issues which highlight the need for flexibility.

Our prevailing view is that the default setting for service fees and the rigidity around the rating structure reduce the flexibility required under the cost recovery framework.

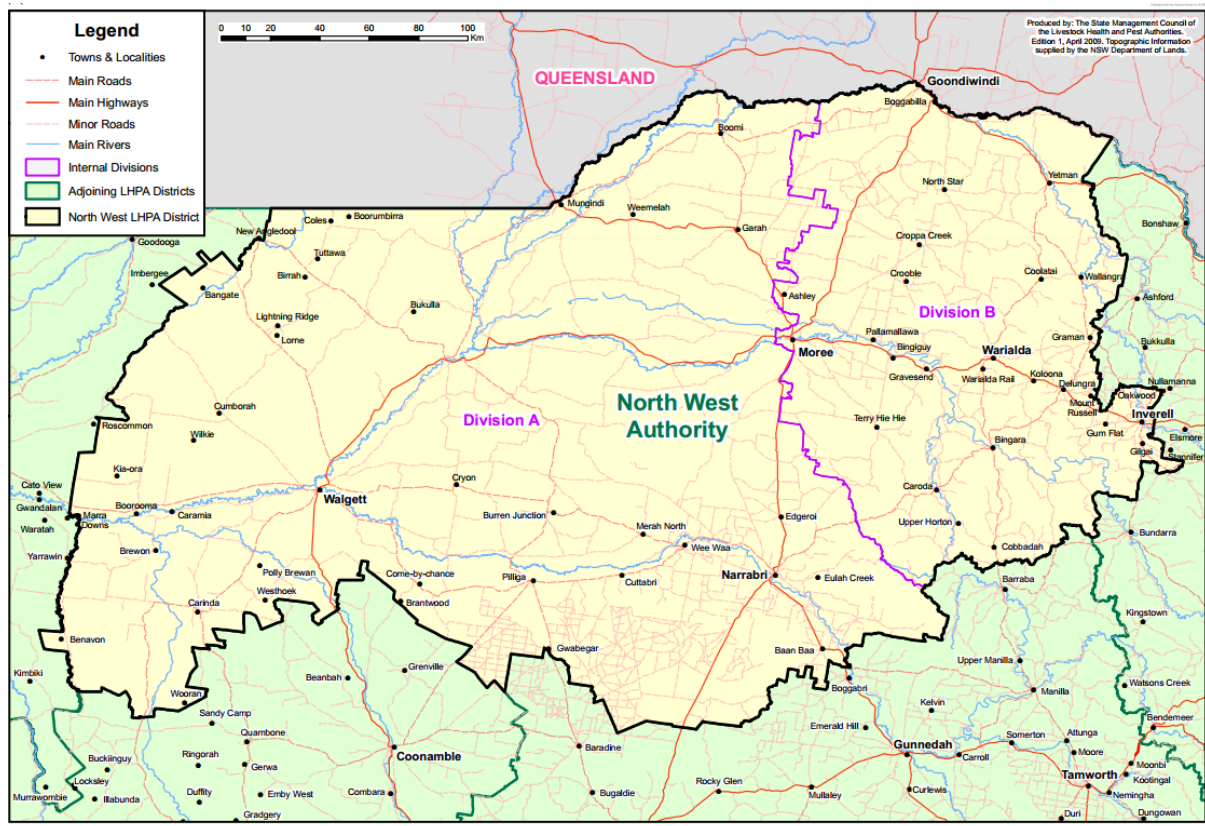
Given the importance of the framework we urge IPART to further consider the potential negative impact of service fees and the message that this approach will provide landholders if extended widely.

We also ask that IPART closely review the current recommendations on rating structure to ensure that an appropriate structure can be levied on sub-sets of landholders.

⁶ IPART draft report pg, 21.

6 Appendix 1

6.1 North West LHPA map



6.2 Indicative analysis of land values using LPI data

The following is indicative only as it is based on available typical rural values from LPI and not the entire database. However, it does highlight the issues of using land area over NCC which is a proxy of productive capacity of land and in turn the degree of risk creation. This highlights potential issues with a move to area based rating if directed under the framework if moving to a minimum rating area of 2 hectares.

Local Government Area	Typical area (ha)	Typical land value \$ per ha
Walgett	3,115	598
Moree	830	2,233
Narrabri	337	2,284