PRODUCTIVITY COMMISSION

Commissioned Study
Assessing Local Government Revenue Raising Capacity

Submission by the Local Government Association of South Australia

July, 2007

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BACKGROUND

Local Government in South Australia

Local Government in South Australia (SA) comprises 68 Councils of which 19 are metropolitan Councils and 49 are rural or regional Councils.

A large land area of the State is not incorporated under the Local Government Act but for the purposes of the Commonwealth Local Government (Financial Assistance) Act comprise five Aboriginal communities and the Outback Areas Community Development Trust. Four of these bodies are members or associate members of the Local Government Association (LGA) of South Australia (SA), however as none have taxation-based revenue raising capacity the focus of this submission is purely on the 68 Local Government Act Councils.

The Constitution Act 1934 (SA), the Local Government Act 1999 (SA), and the Local Government (Elections) Act 1999 (SA) and the City of Adelaide Act 1997 (SA), create the primary legal framework within which Local Government operates and the four-yearly election process which underpins the representative nature of Local Government Councils.

The Local Government system in SA is integral to the democratic system of government in Australia which provides vital economic, social and environmental support for communities.

Local Government in SA is typified by:

- high standards of operational competence and accountability;
- sharing resources, working consultatively and cooperatively with other Councils and other spheres of government;
- low net debt and conservative management of finances;
- expanding roles and increases in standards of service to respond to community demands, other governments and service gaps.

The LGA of SA is a member of the Australian Local Government Association (ALGA) and endorses its national submission to the Productivity Commission.

The LGA appreciates the expertise of the Productivity Commission in undertaking a study such as this one and looks forward to another significant contribution to the developing of a more informed and coherent approach to intergovernmental relationships within Australia.

ROLES AND RESPONSIBILITIES

It is difficult to address the terms of reference of the study without seeking to understand the nature and value of the Local Government's roles and responsibilities and the trends and pressures on them. Local Councils across SA provide a diverse range of services both as a provider and on behalf of other spheres of Government.

Services include:-

- business undertakings including off street car parks, sewerage/Catchment Water Management Scheme (CWMS), caravan parks, and electricity/water supply in a small number of remote locations;
- community services including public order and safety, health services, community support and community amenities
- cultural services including library services
- economic development including tourism and employment programs
- environmental services including agricultural services such as land care, waste management including domestic waste, recycling and transfer stations, and other environmental activities such as stormwater and drainage, street lighting and street cleaning;
- recreation including parks and gardens, outdoor and indoor sports facilities and swimming centres;
- regulatory services including town planning and building control;
- transport including roads, footpaths and kerbing and traffic management;
- plant hire and depot works activities; and
- Council administration including governance and support services such as rates administration.

A particular point which needs to be highlighted is the extensive infrastructure asset holdings of Councils in order to deliver these services, in relation to Local Government's operating revenue. This proportion is much higher for Local Government than for either Commonwealth or State governments.

The Table below sets out the operating revenue and expenses related to these Local Council activities for 2005-06.

Table 1: Local Government Activities, Operating Expenses and Revenues 2005-06

Local Government Activities	Operating Expenses 2005-06 ($'000)	Operating Revenue 2005-06 ($'000)
Business Undertakings	59,473	86,040
Community Services	125,389	53,336
Culture	82,273	17,095
Economic development	54,423	18,663
Environment	205,116	41,533
Recreation	138,458	23,399
Regulatory Services	77,954	38,923
Transport	268,064	66,291
Plant hire and depot works activities	54,922	3,640
Other unclassified activities	32,273	22,198
Council administration	174,541	806,763
Local Government Grants Commission – general purpose revenues	-	83,549
Total	**1,272,886**	**1,263,431**

Source: SA Local Government Grants Commission data for 2005-06
Note that this data may not reflect other published data due to the treatment of loss on revaluation of assets and loss on disposal of fixed assets in Operating Expenditure

Table 2 below sets out Local Government's capital expenditures and revenues on these major activity groups in 2005-06.

The substantial gap between capital expenditure on transport related infrastructure and capital revenue available for asset renewal or replacement is evident. More broadly, the table shows the gap between capital expenditure and available capital revenue which illustrates a backlog in infrastructure development and maintenance.

There are several reasons for this gap in capital expenditure and revenue:-

- large-scale housing development and rapid expansion of Local Council areas occurred in the 1960s, '70s and early '80s. Assets from this era - many of which were funded by State or Federal Government subsidies - are now ageing.
- in the past, Local Councils had a construction focus. When population and Council incomes were growing, this was appropriate, however today there is a greater focus on asset renewal for most Councils. During the 1990s Councils sought to keep up with growing community demand for services (such as recycling) and have increasingly acknowledged and sought to balance this with infrastructure renewal needs.
- community pressure (and including statements by State Members of Parliament from time to time) is to keep rates low and to spend on new assets, rather than on maintenance or renewal of existing assets.

Table 2: Local Government Activities, Capital Expenditures and Revenues 2005-06

Local Government Activities	Capital Expenditure 2005-06 ($'000)	Capital Revenue 2005-06 ($'000)	Capital Sales Proceeds 2005-06 ($'000)
Business Undertakings	32,997	6,724	19,113
Community Services	15,831	1,163	700
Culture	3,799	2,532	74
Economic development	1,993	1,469	2,714
Environment	47,930	20,379	520
Recreation	33,495	15,249	1,991
Regulatory Services	2,120	38	679
Transport	156,708	47,209	4,180
Plant hire and depot works activities	35,558	115	16,934
Other unclassified activities	15,403	8,288	4,935
Council administration	26,316	33	4,918
Total	**375,150**	**103,198**	**56,759**

Source: SA Local Government Grants Commission data for 2005-06.
Note that this data may not reflect other published data due to the treatment of donated assets in both Capital Expenditure and Capital Revenue.

Since the 1960s Local Councils' roles have steadily expanded. This is largely due to:

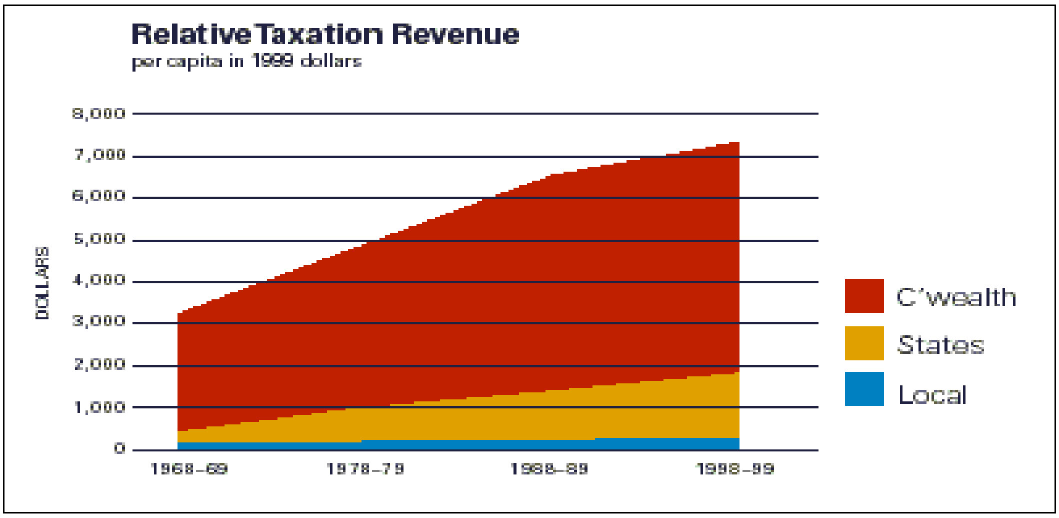
- community standards and expectations growing along with economic growth (for example a higher number of vehicles per household leads to demand for safer local roads/traffic management and the emergence of Legionnaire's Disease created new environmental health inspection requirements);
- growing confidence by other governments in Local Government evidenced for example by the legislative delegation of significant planning and development roles to Local Government (which has continued since the 1960s with 13 additional referral categories being passed to Local Government under the Development Act in the past 8 months);
- a much greater level of expectation on Councils to have a strategic focus for the whole of their areas, rather than simply a service delivery role. This includes an overt expectation that Councils will co-ordinate with State and Commonwealth activity in their areas (refer Section 8. subsections "c" and "d" of the Local Government Act 1999 (SA))
- reductions in the size of both Federal and State public services and greater legal requirements (eg building fire safety inspections now done by Councils and higher workplace safety standards affecting all employers); and
- greater demand for local services (eg recycling or immunisation of school children against Meningococcal C).

As Local Councils' roles and responsibilities have expanded they have come under compounding financial pressures from local residents and ratepayers, visitors and workers to their local Council area as well as other spheres of Government.

Local Councils are under increasing financial pressure for several reasons:

- demands on Councils often follow the growth in the economy but Local Government revenue is not keeping pace (see the graph below);
- Local Councils in South Australia get an unfair share of Commonwealth funds, in fact the lowest per capita of any state or territory for local road funding;
- legal requirements by Parliaments on Local Councils have increased over the past 30 years without required resources. This sort of transfer is commonly referred to as "cost shifting" and is referred to in a section below; and
- The need for extensive upgrading of ageing community infrastructure, eg roads, drains, footpaths, much of it constructed period between 1960 and 1980.

Graph 1: Relative Taxation Revenue for Three Spheres of Government 1968-69 to 1998-99



Source: SA Centre for Economic Studies, commissioned by LGA of SA

Graph 1 above shows the relative growth of government tax revenues over the past 30 years. Note that this data has been updated for the LGA of SA by the SA Centre for Economic Studies (SACES) and the updated version is provided as a separate attachment (Attachment A).

FINANCIAL STATUS OF LOCAL GOVERNMENT IN SA

Background
In South Australia there is a history of a strong, conservative approach in Local Government finances. The balance sheets of Local Councils show significant and growing asset registers and their operating statements show increasing revenue.

However, as the 2005 report of the Financial Sustainability Review Board (an independent board commissioned by the LGA), "Rising to the Challenge", noted, operating deficits predominate amongst Councils and there are substantial infrastructure renewal/replacement backlogs.

The following table shows the operating deficit for all local Councils in SA in 2005-06 and the capital expenditure and sources of capital revenue for that year.

The South Australian Local Government sector continues to have substantial operating deficits and a level of capital expenditure that is not funded through capital revenue or the proceeds of asset sales.

Table 3: Local Government Financial Summary for 2005-06 – Operating Expenditure and Revenue

	2005-06	
	($'000)	**%**
Operating Expenses		
Employee Related	424,511	33.4
Contract services	278,007	21.8
Materials	130,001	10.2
Finance charges	28,917	2.3
Depreciation	287,695	22.6
Donations	14,606	1.1
Other expenses	109,149	8.6
Total Operating Expenses	**1,272,886**	**100**
Operating Revenue		
Rates	829,025	65.6
Statutory Charges	38,357	3
User Charges	100,212	7.9
Grants and Subsidies – State	162,507	12.9
Grants and Subsidies – Commonwealth	45,567	3.6
Investment Income	15,151	1.2
Reimbursement	25,244	2
Income from Commercial Activities	17,428	1.4
Other Revenue	29,940	2.4
Total Operating Revenue	**1,263,431**	**100**
Net Operating Surplus/(Deficit)	**(9,454,474)**	

Table 4: Local Government Financial Summary for 2005-06 – Capital Expenditure and Revenue

	2005-06	
	($'000)	**%**
Capital Expenditure		
Land	16,201	4.3
Buildings	58,581	15.6
Infrastructure – New/Upgraded	121,759	32.5
Infrastructure – Renewal/Replacement	89,655	23.9
Plant, Furniture, Equipment & Books etc	85,803	22.9
New Finance Leases	3,111	0.8
Total Capital Expenditure	375,150	100
Capital Revenue		
Capital Grants and Subsidies – State	29,395	28.5
Capital Grants and Subsidies - Commonwealth	19,417	18.8
Monetary Contributions	9,663	9.4
Physical Resources Donated	44,723	43.3
Total Capital Revenue	**103,198**	**100**
Excess Capital Expenditure over Capital Revenue*	**(271,952)**	
Proceeds for the Sale of Non Current Assets		
Land	16,595	29.2
Buildings	8,137	14.3
Infrastructure	1,769	3.1
Plant, Furniture, Equipment & Books etc	30,258	53.3
Total Proceeds from Sales of Non Current Assets	**56,759**	**100**

Source Table 3 and Table 4: SA Local Government Grants Commission data for 2005-06
* excluding donated assets and grants specifically received for Capital Expenditure
Note that the data in Table 3 may not reflect other published data due to the treatment of loss on revaluation of assets and loss on disposal of fixed assets in Operating Expenditure
Note that data in Table 4 may not reflect other published data due to the treatment of donated assets in both Capital Expenditure and Capital Revenue.

Costs of Services

Debate frequently occurs regarding the costs of Local Government services with frequent comparisons with the Consumer Price Index. As a result the LGA supported an initiative of the Local Government Financial Management Group in 2005 to develop a Local Government Price Index. The Australian Bureau of Statistics was contracted to develop and update this index and extensive information can be found on the index and how it is calculated on www.lga.sa.gov.au/goto/priceindex.

It should be noted that while Local Council expenditure is quite different to that of an average consumer, the price of its expenditure items is only one factor impacting on Council budget decisions. Population growth, public choices and legislative changes can produce impacts beyond Local Council controls and public demands and the need to reduce infrastructure backlogs to protect future generations are other factors which need to be kept in mind.

LOCAL GOVERNMENT REVENUE SOURCES

Property Related Revenue Sources

Local Government is, under State statute, limited to only one tax – commonly known as Council rates.

As can be seen in Table 3 above, this tax compises the main source of revenue for Local Councils. In SA rates are raised by Local Councils largely on either the capital values, unimproved or land value or the annual rental value of properties. In all but two cases all values used by Local Councils in SA are provided by the South Australian Valuer-General on an independent, State-wide basis.

The Table below sets out the source of rates revenue for Councils.

Table 5: Total SA Local Councils General Rates by Type 2001-02 to 2005-06

Year	Residential ($'000)	Commercial ($'000)	Industrial ($'000)	Rural ($'000)	Other ($'000)	Total General Rates ($'000)
2001-02	389,961 (66.6%)	95,833 (16.4%)	19,973 (3.4%)	64,965 (11.1%)	15,081 (2.6%)	585,812 (100%)
2002-03	421,384 (66.0%)	99,768 (15.6%)	21,205 (3.3%)	74,221 (11.6%)	21,815 (3.4%)	638,393 (100%)
2003-04	464,625 (68.4%)	98,994 (14.6%)	24,819 (3.7%)	68,225 (10.0%)	23,048 (3.4%)	679,711 (100%)
2004-05	491,328 (66.9%)	112,992 (15.4%)	26,423 (3.6%)	77,462 (10.5%)	26,161 (3.6%)	734,366 (100%)
2005-06	522,618 (66.8%)	121,695 (15.6%)	26,450 (3.4%)	84,463 (10.8%)	26,909 (3.4%)	782,134 (100%)

Source: SA Local Government Grants Commission data for each year 2001-02 to 2005-06

As noted and is seen in the above table the main source of rates revenue for Local Councils is from rates raised on residential properties.

The Table below shows that rates revenue by type of Local Council has remained proportionately the same over the period 2001-02 to 2005-06.

Table 6 General Rates Revenue by Local Council Classification 2001-02 to 2005-06

	2001-02 ($m)	2002-03 ($m)	2003-04 ($m)	2004-05 ($m)	2005-06 ($m)
Urban, Urban Fringe and Urban Regional	459.489 (78.4%)	499.354 (78.2%)	532.492 (78.3%)	574.639 (78.2%)	612.608 (78.3%)
Provincial Cities	34.419 (6.0%)	37.778 (5.9%)	39.015 (5.7%)	42.360 (5.8%)	45.157 (5.8%)
Rural Small and Medium	28.768 (4.9%)	31.956 (5.0%)	34.077 (5.0%)	37.219 (5.1%)	39.263 (5.0%)
Rural Large and Very Large	62.136 (10.6%)	69.305 (10.9%)	74.125 (10.9%)	80.147 (10.9%)	85.105 (10.9%)
Total Local Government	**585.812**	**638.393**	**679.710**	**734.366**	**782.134**

Source: SA Local Government Grants Commission data for each year 2001-02 to 2005-06

As can be seen in Table 3, in terms of operating revenue general rates levied by Councils on properties within their Council area are their key revenue source. Within the general rates source, rates levied on residential properties have been and continue to be the main source of revenue for Councils, as set out in Table 5.

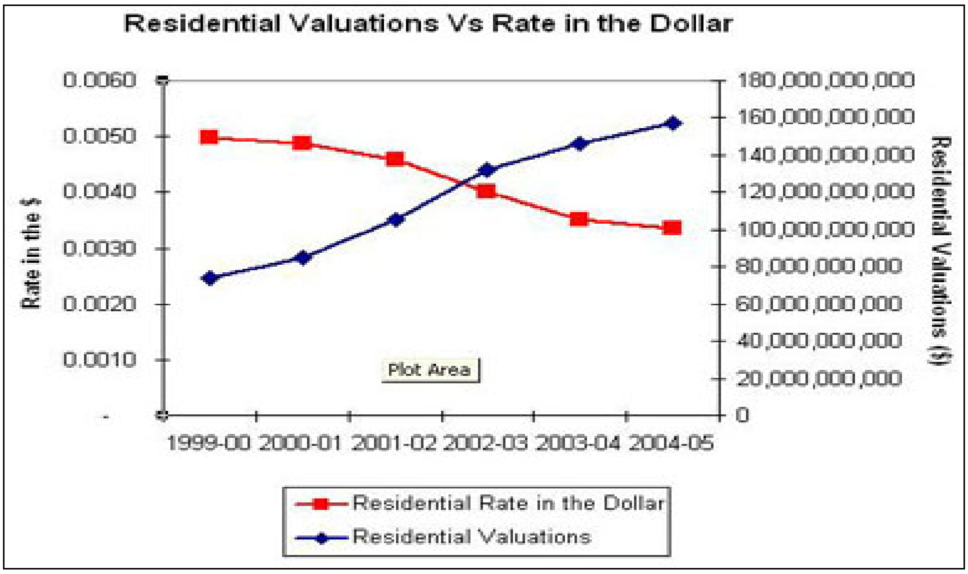
The only other sources of revenue of any substance for Councils are user charges and Commonwealth and State Government grants and subsidies. Statutory charges raised, often under State regulations, remain a very small portion of Local Government revenue.

In addition Local Councils can, in some instances, gain developer contributions to the Local Council's provision of infrastructure such as local roads, street lighting, and community facilities in areas to be developed. These contributions to capital revenue are discussed in a later section. Local Councils in SA are limited compared to both State Government and interstate Local Government capacity to raise developer contributions.

Local Councils' financial arrangements are extraordinarily open and transparent. Local Government identifies its total taxation charged to each ratepayer via a single rates notice (payable quarterly) near the start of each tax year. This is not the case for the wide range of taxes imposed by Commonwealth and State Governments.

Traditionally in SA Local Councils have also been very open and transparent about increases in revenue raised. State and Commonwealth Treasurers place significant public emphasis on what they describe as "tax cuts" but which in reality are relatively minor adjustments to "tax rates." In SA almost every Council in the State has adjusted its tax rates (rate in the dollar) downwards every year (for as long as data has been available) to avoid making windfalls from property valuation growth. Many Councils would regard it as irresponsible to market this each year as multi-million dollar "tax cuts" when the total tax take continues to increase.

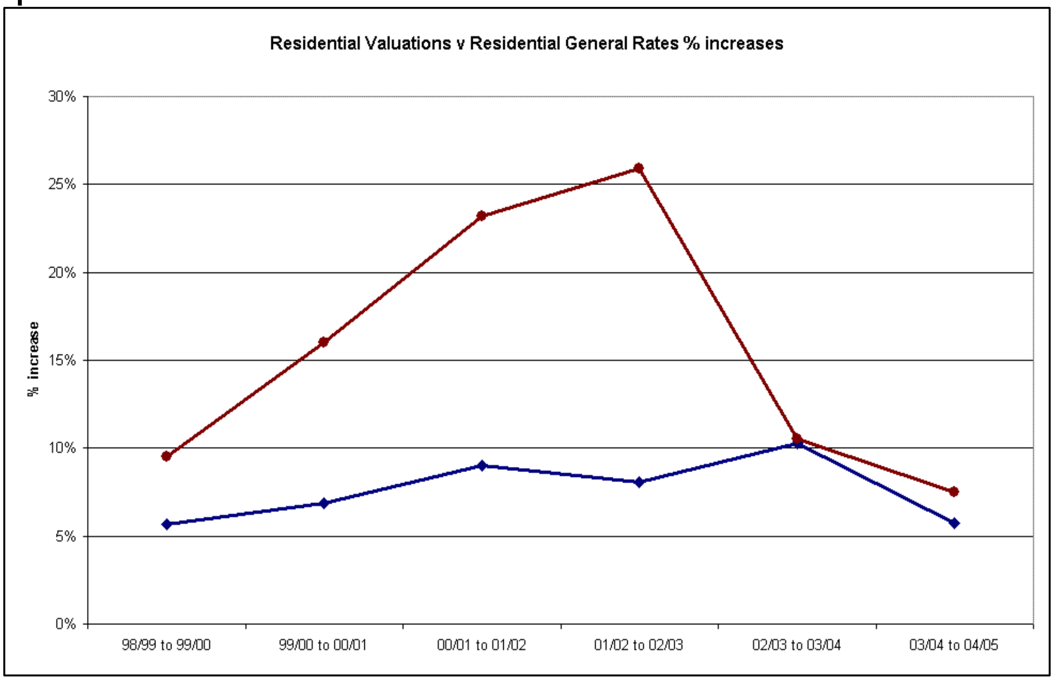
Graph 2: Residential Valuations and Council Tax Rates 1999-2000 to 2004-05



Source: SA Local Government Grants Commission data for each year 1999-2000 to 2004-05

Graph 2 above shows how total Council tax rates moved downwards during the recent property valuation "boom" and Graph 3 below shows the growth in total rates revenue across SA Councils against the growth in property valuations – effectively illustrating the windfall not taken by Local Government.

Graph 3: Growth in Total Local Council Rates Revenue 1998-99 to 2004-05



Source: SA Local Government Grants Commission data for each year 1999-2000 to 2004-05

Local Government User Charges
A small but significant source of revenue for Local Councils is user charges which include revenue from the sales of goods and services as well as some fees and charges. Fees and charges are applied to a range of Council services including access to and use of sporting, swimming and other recreational facilities, a range of tourism and holiday facilities such as caravan parks as well as services such as sewerage and effluent schemes, waste disposal, and electricity supply to a remote location and Local Council operated facilities such as cemeteries.

It should be noted that the scope of services delivered by Local Councils may be more limited in SA compared to other jurisdictions as the SA Local Government sector is not widely engaged in the delivery of commercial goods and services such as electricity or water supply. This may reduce opportunities for SA Local Councils to levy commercially based user charges.

Over the five years to 2005-06 user charges levied by Local Councils reduced in importance as a source of revenue. In addition to a smaller range of commercial services being supplied by SA Local Councils compared to other jurisdictions, there are also issues of social equity that are raised with regard to many of the goods and services provided by SA Local Councils. Local Councils are mindful of the issue of social equity and community access in setting user charges for the use of community services and amenities such as sporting and swimming facilities. These considerations often result in less than full cost recovery being achieved for access and use to these community facilities and may be regarded as a form of community service obligation.

However, the Local Government sector’s adoption of a user pays pricing regime has seen a higher share of local sector commercial-type services operating on a self funding basis. For example, in activities such as sewerage/drainage schemes, off street car parking and caravan parks Local Councils more than cover operating expenses through the revenue raised.

Table 7: Sources of Total Operating Revenue for 2001-02 and 2005-06

Operating Revenue Source	2001-02 ($'000)	2005-06 ($'000)
General Rates	585,813 60.2%	782,134 61.9%
Other Rates	30,273 3.1%	46,891 3.7%
Total rates	616,086 63.4%	829,025 65.6%
Statutory Charges	26,042 2.7%	38,357 3.0%
User Charges	104,819 10.8%	100,212 7.9%
Grants and Subsidies	233,472 24%	208,074 16.5%
Interest	8,736 0.9%	15,151 1.2%
Reimbursement Revenue	28,542 2.9%	25,244 2.0%
Commercial Activity Revenue	14,497 1.5%	17,428 1.4%
Other Operating Revenue	32,805 3.3%	29,940 2.4%
Total Operating Revenue	972,397 100%	1,263,431 100%

Source: SA Local Government Grants Commission data for each year 2001-02 and 2005-06

Whilst cost recovery efforts by Local Government have increased it is recognised that cost recovery can be difficult where many Local Council services are in the nature of a public good. Indeed, where full cost recovery including an allowance for asset renewal can be made by Councils there may be an argument that these activities and services may be the province of the commercial sector. A study undertaken for the LGA by the SACES and included in our submission to the Commonwealth 'Cost-Shifting' inquiry explored this issue and concluded that Councils in SA were applying user charges in virtually every area where private goods were able to be separated clearly from public goods.

A more recent survey conducted by the SACES for the LGA exploring limitations on Local Council revenue raising indicated that Council administrations have significant concerns regarding the extent to which Councils are prevented from raising revenue from user fees and charges. The survey report is attached, at Attachment B, and includes the actual survey questions posed.

Table 8: Survey Question - How significant are the following constraints on collecting revenue from fees and charges?

Constraints	Not Significant	Somewhat Significant	Very Significant	Total
Number:				
State Government imposes a maximum charge which is too low	4	5	8	17
State Government imposes a minimum charge which is too high	12	5	0	17
State Government prevents a charge being imposed on the user	5	8	4	17
Per cent:				
State Government imposes a maximum charge which is too low	24	29	47	100
State Government imposes a minimum charge which is too high	71	29	0	100
State Government prevents a charge being imposed on the user	29	47	24	100

Source: SA Centre for Economic Studies “Survey on Local Government Revenue Raising Constraints”, for the LGA of SA, 2007

The survey results suggest that almost half of the respondents felt that “State Government imposes a maximum charge which is too low” was a “very significant” constraint. In fact only 24 per cent of respondents rated it as “not significant”. Examples cited by respondents included development applications, building inspections and searches and where works cost more than the maximum charge allows.

Funding of Local Council Assets including Infrastructure

South Australian Local Councils spend substantial sums each year, as shown for 2005-06 in Table 4, renewing ageing roads, bridges, drains, Council buildings, parks and other infrastructure. But, to maintain the current stock would require a much greater level of annual expenditure. Evidence suggests Local Councils have applied increases in real terms to rates over the past decade and that increasingly this revenue has been applied to infrastructure renewal with a slow but steady increase in the number of Local Councils running surplus budgets. Most Local Councils would need to double their renewal spending now and provide for much larger renewal spending in the next 10-15 years to gain significant ground on the backlog of infrastructure renewal or replacement.

Without asset renewal, services that residents and business owners take for granted will decline in quality and (eventually) cease or will leave the next generation to face such infrastructure collapse or what could prove to be unacceptably high rates increases to avoid such outcomes.

Through the Financial Sustainability Program (FSP) led and organised by the Local Government Association (LGA), significant gains have been made in the development by Local Councils of asset management strategies and asset management plans as well as improved data collection and financial reporting. The FSP has followed the 2005 work of the independent Financial Sustainability Review Board appointed to conduct its inquiry by the LGA, as referred to earlier in this submission.

Even with significant improvements in managing costs and long-term financial planning by Local Councils, the funding for asset renewal and replacement remains too low. Improved funding sources include:-

- increased State and Federal funding particularly for local roads and for community infrastructure;
- regional and private sector funding (for example, through development with other Councils or regional roads of economic significance and private sector contributions from major private sector beneficiaries);
- joint ventures with other levels of government (for example, joint community facilities); and
- borrowings, particularly given the generally low level of net financial liabilities of Local Councils in relation to the size of their infrastructure holdings, whilst being mindful that borrowings need to be repaid from future Local Council budgets.

Developer Contributions

There is an ongoing debate about the extent to which a range of costs should be borne by the beneficiaries of new developments or the wider community. In SA, too much of the burden of new development falls on the wider community and the uneven impact of existing approaches creates significant inequities and economic distortions. SA legislation provides extremely limited power to require developer contributions particularly beyond a development site (except in relation to open space and car parking). In areas of high development, competition ensures the majority of developers are willing to contribute to infrastructure costs to accelerate development and to ensure quality development occurs and that services are available rapidly as residents move in. Where there is not such competition, additional infrastructure is lacking or must be funded by existing ratepayers already funding renewal of their own infrastructure.

The LGA has commissioned a number of studies in relation to the long term financial sustainability of Local Government and as a part of this process the LGA has identified the imbalance between existing ratepayers and the beneficiaries of new development as a key issue. A key challenge for Local Government is to achieve broad based and whole of life infrastructure funding and the delivery of a mechanism which enables equitable and efficient cost recovery over time.

In South Australia there is no clear, consistent and enforceable Developer Contributions Scheme that defines and facilitates timely, coordinated and consistent contributions to support the infrastructure requirements for new urban developments and renewal projects. Current legislation requires greater flexibility and scope to achieve a more equitable and transparent basis for providing economic and social infrastructure through developer contributions. The Development Act 1993 allows provisions for contributions for open space and car parking but does not contain powers to allow developer contributions particularly for infrastructure beyond the site of a development application. The Local Government Act 1999 allows different types of rateable assessments which do not extend to non-contiguous land or non-specific activities.

The recent survey conducted by the SA Centre for Economic Studies showed Council administrators are clear about the limitations on their capacity to secure developer contributions.

Table 9: Survey Question - Extent to which the legislative regime makes it possible to achieve full cost recovery

	in only a few cases	in most cases	in all cases	Total
Number:				
Developer contributions	10	6	0	16
Fees and charges	10	5	0	15
Per cent:				
Developer contributions	63	37	0	100
Fees and charges	67	33	0	100

Source: SA Centre for Economic Studies “Survey on Local Government Revenue Raising Constraints”, Commissioned by the LGA of SA 2007

Some Local Councils are negotiating their own infrastructure funding agreements with various land owners and developers to address infrastructure challenges. However, rapidly growing larger Councils tend to have stronger bargaining positions and more successful funding outcomes on a case by case basis when compared with slower growing and smaller Councils. This creates substantial inequities between Council areas for both developers and existing communities. The LGA is currently investigating both long and short term options, which will enable Councils to adequately address future infrastructure requirements in a sustainable manner. However amendments to both the Development Act 1993 and the Local Government Act 1999 legislation would be required. The SA Government has indicated a positive attitude to such an approach with the support of developers.

STATE GOVERNMENT PROPERTY BASED TAXES IN SOUTH AUSTRALIA

Introduction

The issue of vertical fiscal imbalance (where one sphere of government has greater access to revenue and transfers funding to another sphere which has greater responsibility for services) has been the subject of much work and debate both in Australian and in other federal countries including Canada. In Australia Local Government has generally been left out of real activity to address such issues – other than through the original introduction of Local Government Financial Assistance Grants by the Commonwealth in the mid-1970s. The introduction of the New Tax System and the Goods and Services Tax sought to redress the fiscal imbalance between the State and Commonwealth but left Local Government in an unaltered position.

With the introduction of the GST the Commonwealth applied reductions in Income Tax rates, removed sales taxes and by agreement the States have progressively reduced other taxes. This total Commonwealth and State Government tax take in Australia has continued to grow through this period as illustrated in Graph 1 above. The removal of a range of older taxes to make room for a "more efficient" GST was important both from a taxpayer perspective and to ensure a smooth transition while addressing the revenue needs of governments.

The Concept of the Tax "Room"

In seeking to understand "room" in the area of property taxation it should be noted that Local Government does not have an exclusive right to taxation based on property.

In South Australia the State Government raises a considerable portion of its own-source revenue from property related taxation. Some of this tax area has seen windfall growth as tax rates have largely remained unchanged but property values have grown rapidly (such as land tax which grew by more than 29% in 2004/05 - ABS 5506.0 - Taxation Revenue, Australia, 2004/05). It is acknowledged that revenue for some property related taxes where the tax rate is unaltered can fall (as did stamp duty on the conveyancing of land in the 2004/05 year). Over recent years the State Government has introduced additional property related taxes including the Emergency Services Levy, Catchment Water Management Levy, which is now the Natural Resources Management (NRM) Levy, and the Save the River Murray Levy.

It should also be noted that the NRM Levy is collected by Local Government – as the most efficient way to do so – and on-passed to State Government. This result was supported by Local Government although some remain concerned at the potential for confused accountability in communities and at tax "room" crowding.

Table 10: SA Government Taxation Revenue 2001-02 to 2006-07

	2001-02 ($m)	2002-03 ($m)	2003-04 ($m)	2004-05 ($m)	2005-06 ($m)	2006-07 ($m)
Total Property Based Taxation Revenue	**727.5**	**795.1**	**1,046.4**	**1,104.6**	**1,119**	**1,260**
Proportion Total Taxation Revenue	33.5%	33.5%	37.6%	37.9%	37.5%	39.2%
Other Taxation Revenue						
Payroll Tax	591.3	645.1	712.1	740.6	792	841
Gambling Tax	307.9	335.3	377.1	400.9	401	423
Insurance Taxes	224.8	253.2	273.3	281.8	284	299
Motor Vehicle Taxes	320.5	340	369.2	383	384	392
Other	0.7	3.8	4.6	5.4	-	-
Total Other Taxation Revenue	**1,445.3**	**1,577.4**	**1,736.3**	**1,811.6**	**1,862.6**	**1,955**
Proportion Total Taxation Revenue	66.5%	66.5%	62.4%	62.1%	62.5%	60.8%
Total Taxation from All Sources	**2,172.8**	**2,372.5**	**2,782.7**	**2,916.2**	**2,981.6**	**3,215**

Source: SA Government Budget papers, Various Years – all years Estimated Results except 2005-06 which is an Outcome

As can be seen in Table 10 the amount and proportion of property related taxation raised by the State Government has increased significantly over the period form 2001-02 to 2006-07.

As seen in Table 11 below, State Government revenues from property related taxes is estimated to have increased by over 73% from 2001-02 to 2006-07.

This has been achieved through the introduction of new taxation measures on property as well as the State Government having the advantage of a ‘heated’ property sector with property values increasing significantly over the period and increased housing market activity, through the introduction of measures such as the First Home Owners Grant Scheme as well as the changing population profile leading to greater housing density in many Adelaide suburban areas.

Table 11 below sets out the amount and proportion of property related taxes raised by the South Australian Government in recent times.

Table 11: SA Government Property Based Taxation Revenue 2001-02 to 2006-07

	2001-02 ($m)	**2002-03 ($m)**	**2003-04 ($m)**	**2004-05 ($m)**	**2005-06 ($m)**	**2006-07 ($m)**
Conveyance Duty	141.4	393.8	565.2	545.3	600	695
Land Tax - Private	351.2	158.7	203.0	150.9	158	188
Land tax- Public				110.4	133	143
Emergency Services levy on Fixed Property	55.3	56.3	62.6	67.2	73	77
Mortgage Duty	-	-	-	-	50	53
Natural Resource Management Levy	-	-	-	-	21	24
Save the River Murray Levy	-	-	-	-	20	22
Guarantee Fees	-	-	-	-	19	18
Rental Duty	-	-	-	-	15	15
Share Duty	-	-	-	-	7	13
Gaming Machine Surcharge	-	-	-	-	3	2
Other Stamp Duties on property	72.8	87.2	104.4	113.1	9	4
All Other	106.9	99.1	111.2	117.1	12	7
Total	**727.5**	**795.1**	**1,046.4**	**1,104.6**	**1,119**	**1,260**
% Change from Previous Year		**9.3%**	**31.6%**	**5.6%**	**1.3%**	**12.6%**
% Change from 2001-02 to 2006-07						**73.2%**

Source: SA Government Budget papers, Various Years – all years Estimated Results except 2005-06 which is an Outcome

The LGA has not identified a way of quantifying the impact on Local Government's revenue raising capacity of such "competition" in the same tax "room". It believes however that there is an impact and that as a result of this growth in State tax revenue there is less "room" available for Local Government in the only area of taxation available to it. External impacts such as economic growth or a reduction in income tax rates are also difficult to assess. Currently there are no mechanisms by which the State and Local Government can debate or plan taxation approaches to the area of property taxation and as a result policy decisions are taken in the knowledge only of the past decisions of the other government(s).

IMPROVEMENTS IN LOCAL GOVERNMENT FINANCIAL MANAGEMENT AND CONTROL

In 2005 the LGA received a report from the Financial Sustainability Review Board which had undertaken an independent inquiry into the sustainability of the long term financial performance and position of Councils in South Australia. Since the delivery of that report the LGA has led the Local Government sector through a range of financial management improvements including in the areas of financial management and reporting, auditing and governance. This has led to a higher standard of financial management and control in Local Councils in South Australia over a relatively short period and continues to do so.

The Commonwealth Government has acknowledged this leadership by the awarding to the LGA of a National Local Government Award in 2006. Three other State Local Government Associations have subsequently commissioned similar inquiries (New South Wales, Western Australia and Tasmania) and the ALGA commissioned PriceWaterhouseCoopers to prepare an overview of these reports.

The SA Government has also acknowledged and supported the leadership and work of the LGA especially by the Treasurer, the Hon Kevin Foley (for example Pp 4.14 and 4.15 of 2007/08 Budget Paper 3) and the Minister for State/Local Government Relations, the Hon Jennifer Rankine. The State Government has contracted to the LGA the support of a Treasury officer part-time as a part of this support.

The LGA's Financial Sustainability Program is currently established for a three-year life with a central, (that is excluding Local Council participation costs), budget of $1.3million funded by Local Government. A comprehensive overview of its activities can be found at www.lga.sa.gov.au/goto/fsp. To date the program has:

- resulted in Local Government adopting a definition of financial sustainability (both in SA and nationally via the ALGA National General Assembly);
- resulted in LGA General Meetings adopting a series of Financial Management policies;
- published 14 Information Papers;
- published model financial statements;
- established an infrastructure and asset management program in conjunction with the Institute for Public Works and Engineering (Australia);

- provided model documents to support the development of Long-Term Financial Plans;
- supported amendments to the Local Government Act 1999 which:
    - require Councils to update their Strategic Management Plans every 4 years (to coincide with elections);
    - require Councils to have a Long-term Financial Plan (at least 10 years) as part of a Strategic Management Plan;
    - require Councils to have an Infrastructure and Asset Management Plan (at least 10 years) as part of a Strategic Management Plan;
    - require all Councils to appoint audit committees (previously this was an option); and,
    - require Councils to change their auditors every five years.
- published first anniversary reports covering Council progress and LGA progress in implementing inquiry recommendations and commenced a survey of Councils for a second anniversary report; and
- arranged more than 40 training courses and seminars in support of Council Members, Managers and technical officers in relation to the above initiatives.

In addition, the LGA has in the past led in the establishment of several entities including the Local Government Association Mutual Liability Scheme, the Local Government Finance Authority, the Local Government Superannuation Scheme and the LGA Workers Compensation Scheme. As indicated in the budget papers referenced above: "These institutions deliver efficient and effective shared services for the Local Government sector and have been given strong support by individual Councils. At 30 June 2006 they were managing assets valued at $1,752 million and had a combined net worth of $74 million."

Several other significant shared services arrangements are in place including jointly supported systems for the purchasing of library materials and public internet access via libraries and through a company jointly owned by the LGA and the Local Government Finance Authority (LGFA): Local Government Corporate Services (LGCS). LGCS is managing arrangements with State Government for the joint tendering of the electricity needs of the 66 Councils on the national electricity grid, which are now in their third year. It is also involved in the development of other initiatives including after hours call centre services, bulk purchasing of electoral materials and vehicle leasing arrangements. The LGFA has set aside $2million for agreement with the LGA to be used by LGCS in establishing business cases for new shared services arrangements.

The above investment by the Local Government sector and backed by the LGA indicates that Councils believe there are further gains and improvements to be made and the sector is prepared to invest in identifying and implementing them. There are many other program level activities by Councils at the local level and a range of other joint and regional activities being undertaken by Councils in support of economies and improved financial management. Further information and examples can be provided on request.

Combined, these activities provide solid evidence of a serious commitment by Local Government to improve its own financial management and to continue to invest in operational efficiencies.

“COST SHIFTING” BY OTHER GOVERNMENTS

The report “Rates and Taxes: A Fair Share for Responsible Local Government” by the Federal House of Representatives Standing Committee on Economics, Finance and Public Administration of October 2003 noted that Councils have been ‘short changed’ by other spheres of Government , particularly State Governments, expecting more functions of Local Government but providing no or insufficient funds to undertake them.

These cost shifting pressures come from the other spheres of Government and include:

- the passing on of new responsibilities to Local Government with no or inadequate funding or revenue sources;
- increasing the complexity or standard at which Councils must provide a service;
- funding for an agreed service on behalf of another sphere of government is later stopped or reduced;
- where another sphere of government withdraws from service provision and local Councils believe that there is a community expectation that they move to then provide the service; and
- inadequate or no funding is provided for maintenance and renewal of assets transferred by another sphere of Government.

The LGA believes that the Commonwealth inquiry shed timely light on the issue of cost shifting and has supported a range of responses to the report recommendations including the establishment of a formal InterGovernmental Agreement between the Commonwealth, all States and Territories and the ALGA. This builds on the State/Local Government Relations Agreement between the LGA and the SA Premier first established in 2004. This agreement builds on a series of memorandums of understanding signed with Premiers from 1990 to 1995.

Although commonly used, the term “cost shifting” does not have a satisfactory definition. Some regard it as being a deliberate or endorsed strategy by other governments and hence requiring a proof of “motive” for “conviction.” This is rarely possible to prove. It is true however that a series of ongoing actions by other governments have the impact of both increasing costs for Local Government or increasing community demands on Local Government.

The LGA is seeking to develop a mechanism to record and quantify such actions/impacts without reference to “motives” with the longer-term objective in developing better understanding of these issues by other governments and greater consistency in responses. It is our conclusion that the Commonwealth inquiry used the term “cost shifting” broadly without assuming it required “motive” to be proven. Where it is used by the LGA it is used with similar broad meaning, however it is the negative impact of State and Commonwealth Government decisions that Local Government seeks to address not the motivation of those making the decisions.

In SA examples of cost shifting, which is taken to broadly mean decisions which have a financial impact on Local Government but are not agreed, include: -

- a change in regulations under the Development Act in November, 2006 which removes requirements for Councils to refer 13 types of Development Applications to the Environment Protection Authority for environmental assessment. Councils are now being asked to undertake these assessments;
- the shifting over a long period of time of responsibility for bus shelters from State Government public transport agencies, to the provision of grants to Local Councils to do so, to the reduction and removal of such grants – combined with the impact of the Commonwealth Disability Discrimination Act leading to an expectation that Councils upgrade shelters to meet DDA standards which effectively require Councils to meet very high standards – or remove the shelters. In addition, there is an expectation that when the State changes bus routes, the Council will meet the cost of moving bus shelters. The impact of this issue has not been properly costed but one estimate is that it will require expenditure of $20million for metropolitan Local Councils to comply;
- immunisation subsidies are, Local Councils advise, not reflective of the full actual costs of managing programs to undertake vaccinations and are not yet indexed in any way;
- a significant increase to the solid waste levy paid by Councils on every ton of municipal waste taken to landfill (greater than doubling) was included in the 2007-08 State Budget without consultation with the Local Government sector and with half of the additional funds raised being returned to the State Government's Consolidated Account $5.1million rather than being expended on recycling and landfill reduction programs. Given that to further increase domestic recycling requires program expenditure, the impact has been the opposite to that stated by the Government – effectively to make recycling harder;
- as a result of legislation dating from the 1920's Local Government is responsible for looking after footpaths and road verges on State Arterial roads. Councils are not reimbursed for this work which has grown more significant in country areas largely due to mandated bushfire clearance requirements and in metropolitan areas due to issues including increased cycling;
- a range of Commonwealth and State Government programs provide capital grants to local Councils but no accompanying maintenance and renewal funding. This often places Local Councils in the invidious position of accepting a maintenance and renewal obligation in order to gain a new asset for the community which is externally funded – or be seen to be the blockage between the offer of external funding and a community hungry for a new asset. A recent example of this is the Commonwealth's Networking the Nation program which under an LGA supported project, saw every country Local Council provided with public internet access computers. Another example cited in the LGA of SA's submission to the Commonwealth cost shifting inquiry involved a local Member of Parliament (MP) publicly accusing the local Council of blocking access to improved television reception because it refused to take on responsibility for a re-transmission tower. This placed untenable pressure on the Council when the Commonwealth Constitution gives exclusive power to the Commonwealth to legislate over telecommunications. In both instances enormous

value is provided to local communities with capital funding they and their Councils could not muster – however the maintenance and renewal costs are left with the Council;

- Commonwealth Financial Assistance Grants are distributed within States based on Horizontal Fiscal Equalisation principles – long regarded in Australian and other countries as “fair” but are not distributed on this basis between States. In addition, these funds continue to decline both as a proportion of Commonwealth revenues and Local Government revenues; and
- some advances have been made with the largest State funding programs (Libraries; Stormwater and Community Wastewater Management Schemes) based on long-term formal agreements with the LGA involving CPI indexation – however they are not indexed for population growth leading over time to lower per capita assistance. In addition a range of State programs are not indexed at all (refer P 4.17 of 2007/08 Budget Paper 3).

These decisions and actions generally continue to show a very high level of confidence in Local Government and recognise that Councils are in the best position to know their communities and to implement local programs most efficiently. However, they do not recognise the long-term impact on Local Council budgets in the context of their limited revenue raising capacity.

Generally, funding from other governments is linked to “innovation” or new infrastructure, as renewal of old infrastructure is not seen as being as attractive or visible in the community. Two Commonwealth exceptions to this are the Roads to Recovery Program and the recent allocation under the National Water Smart program of $20million for upgrading of Community Wastewater Management Schemes in SA.

Local Government is so concerned about this that ALGA’s approach to the Commonwealth based on the PriceWaterhouseCoopers study for a Community Infrastructure Fund has proposed the funding be based exclusively on renewal of assets.

It is sometimes suggested that it is not the responsibility of other governments to assess long-term cost implications for Local Government and that often Councils agree to funding arrangements when they could choose not to. While this is not the case where legislation or changes to regulations impose added costs, these points also do not adequately account for the power imbalance between Local Government and other spheres of government and the resources they can apply to media management.

Increasingly Local Councils are working through formal structures at the State and national levels (LGA and ALGA) and some advances are occurring. The Commonwealth cost shifting inquiry, its response to the inquiry recommendations and this study along with the State/Local Government Relations Agreement (SA) and the InterGovernmental Agreement nationally are all positive examples of attempts by all spheres of government to better support Local Government. There is however a long way to go.

LIMITATIONS ON RATING & “SINGLE TAX” IMPLICATIONS

SA Councils have never had unlimited capacity to apply property rates as they see fit. Indeed some accounts suggest that Australia’s first attempt to grant local democracy to communities in Adelaide in 1840 failed because the Council was not given revenue raising powers to match its responsibilities. Relative to most other State jurisdictions, however, the current legislative constraints on rating are relatively limited and are generally supported.

SA legislation places no limitations on the total amount of rates which can be raised or on growth in any one year, placing confidence in the local democratic process to balance the needs of current ratepayers with those of future ratepayers and their capacity to pay. Recent amendments to the Local Government Act reinforce these responsibilities requiring Local Councils to have long-term asset management plans and long-term financial plans and for Councils, following their adoption of an annual plan and budget, to reconcile those decisions with their long-term plans.

Based on the SACES survey Council administrators see ratepayer attitudes as the most significant factor in impacting on Council decisions about rates growth. This is followed by their Council’s capacity to effectively explain the need for rates and lastly by the perception of State Government intervention. This can be contrasted with a later question seeking information about Ministerial intervention (effectively a nil response) in rating decisions and may indicate a common confusion between “State Government” and comments by individual Members of Parliament.

Table 12: Survey Question - How significant are the following factors in determining the total amount of rate revenue that your Council collects?

Factors	Not Significant	Somewhat Significant	Very Significant	Total
Number:				
Ratepayer attitudes	0	10	7	17
State Government intervention	7	6	4	17
Councillors’ capacity to explain what is being paid for with rates	4	10	3	17
other	2	1	3	6
Per cent:				
Ratepayer attitudes	0	59	41	100
State Government intervention	41	35	24	100
Councillors’ capacity to explain what is being paid for with rates	24	59	18	100
other	n. c.	n.c.	n.c.	n.c.

n.c. not calculated

Source: SA Centre for Economic Studies “Survey on Local Government Revenue Raising Constraints”, Commissioned by the LGA of SA 2007

Considerable work has been undertaken in recent years to assist Councils to understand the options available to them within the rating provisions of the Local Government Act – particularly in responding to uneven valuation movements. Provisions have been amended to facilitate marketing of common approaches to rate deferment options to further assist Councils to support those on benefits with significant growth in property values.

The only substantial resistance to changing provisions in the Act was the State Government's unwillingness to allow Councils the option of applying "rolling" or averaged valuations directly in rating decisions (as a way of softening the impact of sharp valuation growth). While there has been little interest in this option, Councils remain able to achieve such an outcome only by applying a complex approach to rebates. It is our understanding that the State Government's view was based on a concern that such an option might lead to similar demands in relation to land tax for which the result would be quite different (impacting on total land tax raised, rather than simply on the distribution of rates among ratepayers).

As discussed above, comments by Members of Parliament either in Parliament or in local media can have a negative impact on Council's capacity to properly address challenges and to communicate effectively to their communities. While not always the case, politicians at all levels can be tempted to comment negatively on other governments simply in an attempt to gain publicity. This is not seen as a major issue in SA although Councils do take such comments very seriously. Conversely Councils generally refrain from commenting on tax decisions of other governments where they have no direct impact on Local Government.

SA's Local Councils are also highly conscious of the national impacts of more extensive interference in Council rating decisions in other States – noted clearly in the Commonwealth cost shifting inquiry report. The LGA of SA continues to express support for our interstate colleagues directly and through the ALGA. Such issues do impact on debates beyond State borders and impact on the effectiveness of equity in the distribution of Commonwealth funding (for example).

A final issue to be raised in this context is the issue of where State or Commonwealth properties are exempted from Council rates. Much work has been done in advance of and during the introduction of Competition Policy in Australia to remove anti-competitive behaviour by other governments via business activities which are exempted from Council rates. Some anomalies or grey areas remain which warrant further attention. These include issues surrounding the ratability of telecommunications infrastructure, of commercial activities on Commonwealth controlled airport land and of State properties not being used for public purposes. A comprehensive assessment of such circumstances has not been undertaken and in some instances tax equivalent payments are being made internally to offset anti-competitive impacts. In some instances ex-gratia payments are being made to Councils. Further information regarding examples could be provided on request.

“Single” Tax Implications
Council’s revenue raising capacity is also significantly impacted by the fact that they only have one tax available to them. This means for example that Local Councils have little capacity to vary rates in response to economic conditions. Other governments have options available to them to reduce one tax and increase another should economic conditions warrant – either to respond to circumstances or to encourage particular behaviours. Councils have no access to transaction-based taxes nor to income based taxes. Perhaps its one capacity is to use differential rates to shift the balance between residential or business ratepayers (or other categories allowed for differential rating).

ASSESSING THE IMPACT ON RATEPAYERS

The LGA of SA and its member Councils have been sensitive to the impact of rates increases on ratepayers. A heightened focus on this occurred through the property ‘boom’ of around 2001-2004 as a result of the impact of uneven property valuations. The LGA in collaboration with the Office of State/Local Government Relations undertook considerable work during this period to ensure Councils were well aware of all of the options available to them under the relevant legislation.

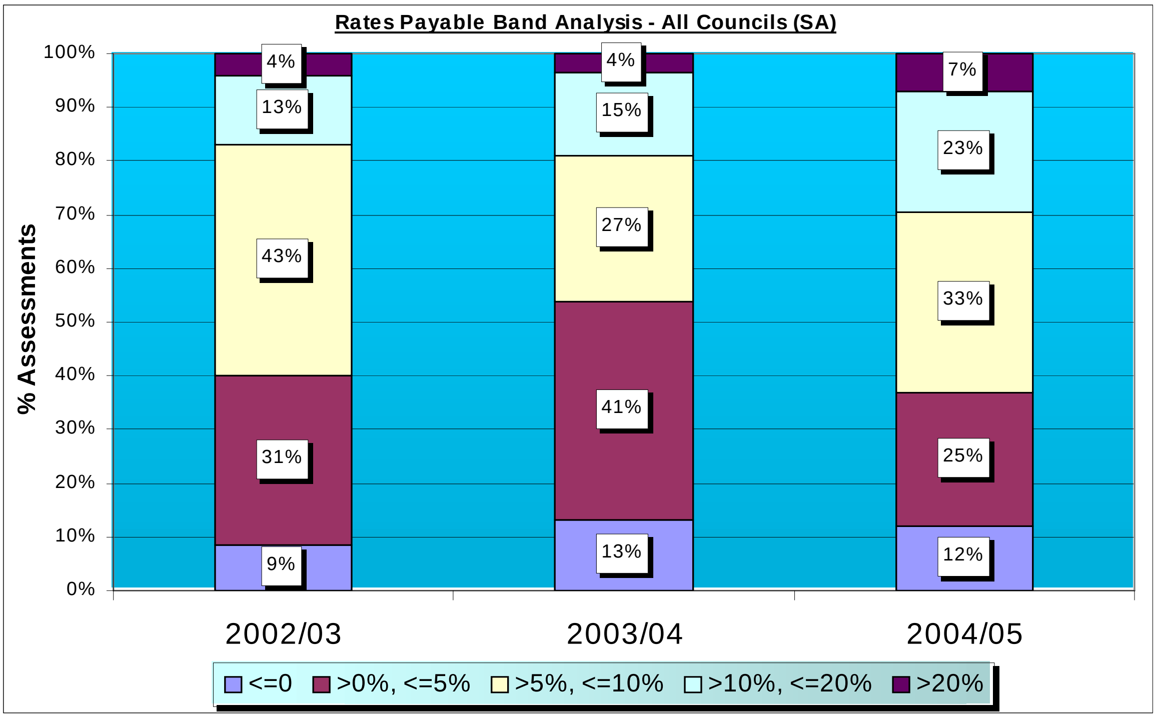
We are highly conscious that with a single tax, unlike other governments, Councils provide every taxpayer with a statement outlining the total tax to be raised at the start of every financial year. Given the diversity of transaction-based taxes it is unlikely that any taxpayer can calculate, even after a financial year, the total amount of tax paid to either State or Commonwealth Governments. Further it has been highlighted that SA’s Local Councils are now required to consult communities on annual programs and budgets before they are adopted whereas in contrast, Commonwealth and State governments “lock up” media and other stakeholders to avoid early release of budget information.

This transparency is something supported by the LGA and its member Councils, however it should be pointed out that this creates a level of public debate and accountability around Council rates which is generally much higher than for other taxes, particularly transaction-based taxes which are less visible individually and not visible in total to the taxpayer. It is reasonable to assume that while SA Councils can and do raise rates at levels above CPI or other indicators used from time to time where assessed demands warrant such rises, that doing so is a more challenging communication exercise than for other governments. In general terms Councils apply less resources to communication management to address this challenge.

Throughout the 2001-2004 period, total rates income grew strongly, reflecting both development growth in SA and Local Councils’ desire to respond to the challenge of significant infrastructure backlogs. Councils are conscious, particularly those in high growth areas, of seeking to differentiate the impact of rating on “existing” ratepayers, with that which relates to new development and the consequent increase in demands on services.

During this period total rates grew in the order of 6-8 percent in real terms in some years, however substantial proportions of ratepayers experienced actual rates reductions while a small number experienced increases above 20 percent. This resulted from uneven property valuation movement (a common example being where residential coastal strips experienced substantial growth above the average valuation movement in a whole Council area).

Graph 4: Survey Results, 2004 - Profile of Rates Increases



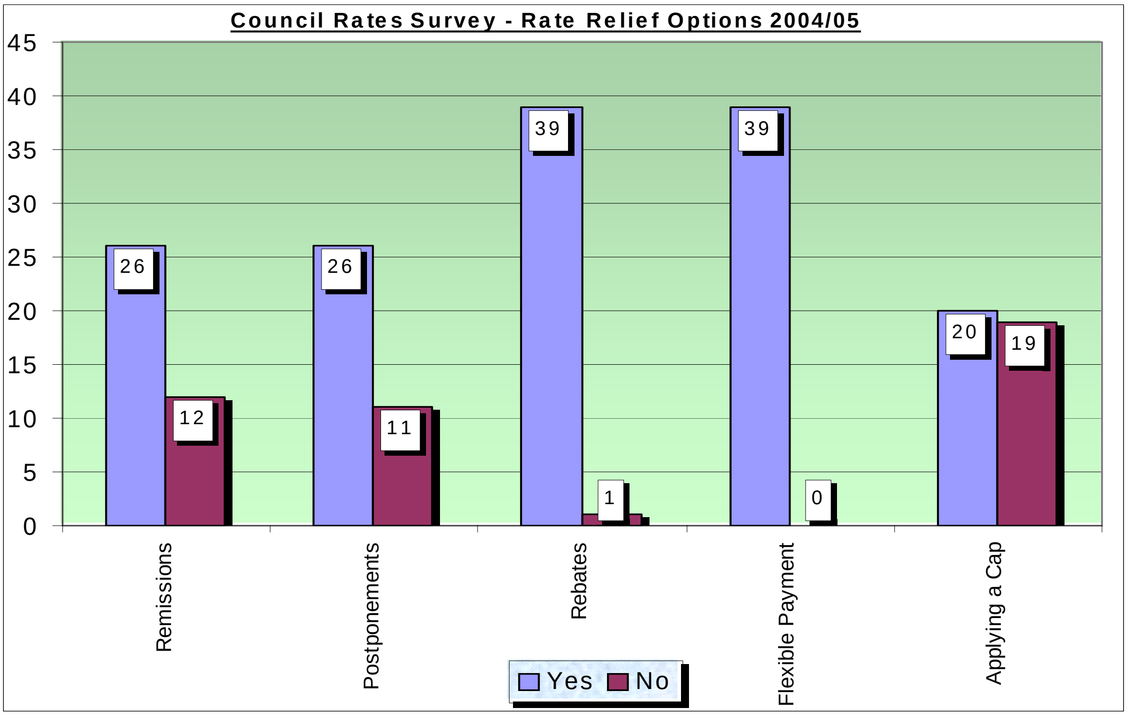
Source: LGA of SA Survey of Local Councils, 2004

Graph 4 above, while only representing 31 Councils, clearly indicated the impact of property values on the distribution of rates. While the LGA of SA does not have comparable data for more recent years it is clear that since 2004 valuations have moved more evenly hence reducing the extremes (top and bottom bands) of impact. It is a common myth that Council rates receive "windfall growth" from high property valuation increases. The LGA of SA would take this opportunity, as it has in many other environments, to indicate that this is not the case – a fact well illustrated by Graph 4 above. In short, governments experience windfall growth where a tax rate applied to an economic variable is left unchanged and the variable grows above a budget prediction. This occurs with company tax, income tax, payroll tax and land tax. Under the Local Government Act 1999 and similar legislation in other States, Councils do not have the legal power to set a tax rate beyond one year. Council rates are a tax levied using an annual "snapshot" of valuations at one point in time and changes to valuations during a year have no impact on tax liability until the following year when another "snapshot" must be taken. As a result each year a Council knows precisely what it will receive in rates and it legally cannot receive a "windfall".

Under the Act, a Council must first set its budget including an amount recoverable from rates, then it must adopt a valuation, and lastly it must calculate a rate in the dollar by dividing the two figures. The rate in the dollar is then applied to each valuation to calculate the rates payable and the total rates must therefore total the figure adopted in the budget.

Councils employed a range of tools to respond to the issue of uneven valuations including remissions, postponements (deferment), rebates, flexible payment options and applying a cap to the growth of rates for individual ratepayers. The following graph shows the results of an LGA survey looking at how Councils used these tools.

Graph 5: Survey Results, 2004 - Use of Rate Relief Options

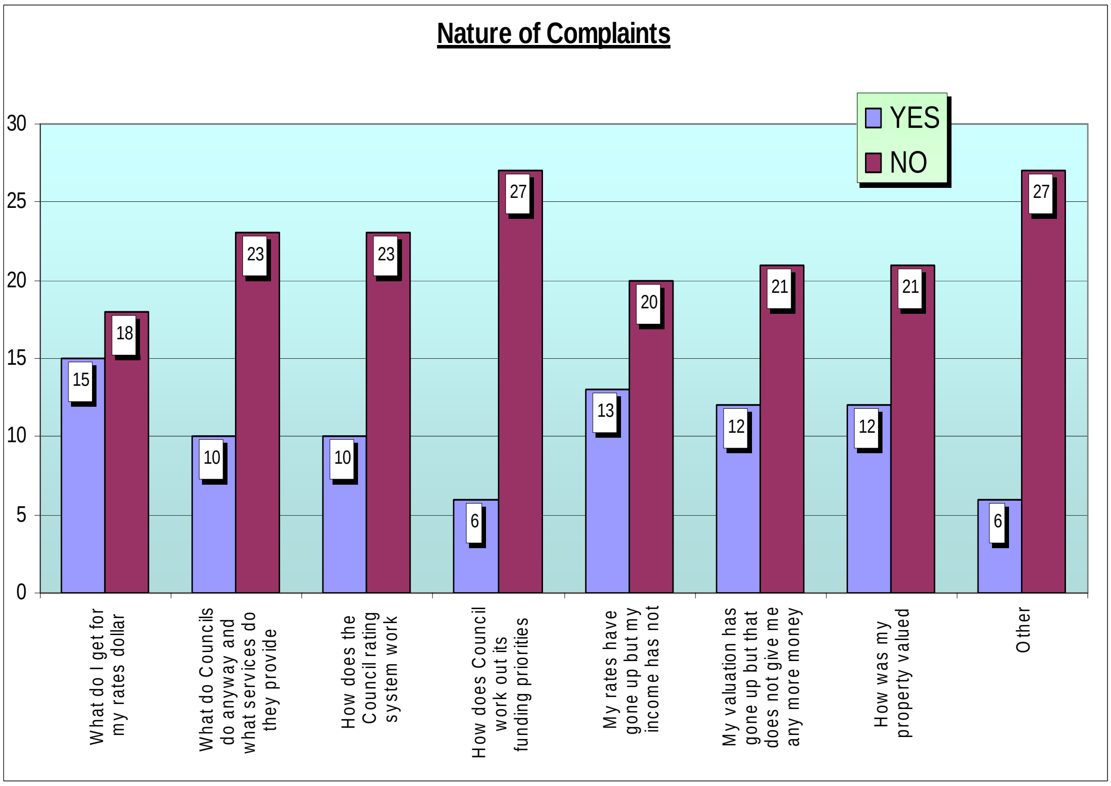


Source: LGA of SA Survey of Local Councils, 2004

It should be noted that many Local Councils applied caps as a last resort because of the redistribution onto other ratepayers, who necessarily had not experienced as significant a valuation growth effect.

Throughout the 2001-2004 period Local Councils reported to the LGA extremely low formal complaints from ratepayers and even in 2004/05 no increase in levels of formal complaint. In that year only 2 Councils out of 31 responding to an LGA survey indicated any increase at all in the numbers of complaints. The following graph provides some insight into the nature of complaints received by Councils, most of which identify an information deficit.

Graph 6: Survey Results, 2004 - Nature of Complaints in Relation to Council Rates



Source: LGA of SA Survey of Local Councils, 2004

As a result of this information one of the changes to the Local Government Act supported by this Association was to create a requirement for Councils to consult on their annual programs and budgets prior to adoption.

At the same time however the issue gained increasing prominence in media and consequently, expressions of concern from Members of the SA Parliament. Most commonly, concerns were expressed as to the impact of rates on “income poor, asset rich” people, largely senior citizens. Councils also expressed concerns regarding this issue and as a result the LGA funded the SA Council on the Ageing (SACOTA) to undertake seminars around the State to provide information and gauge concerns. A number of the sessions were cancelled as a result of low interest levels. SACOTA expressed a view that it was more concerned about “income poor, asset poor” people and that while rate deferment was a useful option for anyone in the “income poor, asset rich” category that it was difficult to promote such an option when all Councils operated such schemes in different ways.

As a result a further set of amendments to the Act provided for standardisation of rate deferment arrangements across the State to improve capacity to market this option to those for whom it may be beneficial.

The primary response to the impact of rates on those on some form of government benefit is the State Funded Pensioner Concession on Rates which was supplemented in 2003 with a concession for self-funded retirees. These concessions are fully funded by the SA Government. The SA Government's 2007 Budget Papers record an estimated expenditure on these concessions of $30.810m in 2006/07 and a budget of $32.5m for 2007/08. The increased cost of the concession relates to the growth in the number of eligible benefit recipients not to the rate of concession which has been changed once in 27 years and hence annually becomes of less value in real terms to recipients. The LGA has adopted a position that the rate of concession should be indexed and regularly seeks such a commitment from government on this point. We are conscious in doing so that if Councils were to supplement this concession it would immediately disadvantage those Councils with a higher proportion of benefit recipients which would impact on their capacity to deliver services responding to the needs of that class of ratepayers.

While the LGA remains concerned about the lack of indexation on the State-funded concessions it is our general conclusion that at the current levels of rating, there are more concerns in communities about understanding what they receive for their rates, than in the level of rating itself. The LGA of SA recognises this challenge and has been working with Local Councils to improve communication efforts.

CONCLUSIONS

Future Context

The LGA believes Local Government currently has inadequate revenue to fully fund infrastructure backlogs and meet current service commitments at the level demanded by Legislation and community expectations. Were there to be no further changes to legislation, the expectations/pressures of other governments or demands from communities most Councils with considerable effort, may be able to achieve sustainable positions over the next decade. A range of vulnerable Councils appear unlikely to achieve sustainability in the medium term without some change to external factors.

In assessing the terms of reference, the Commission needs however to make some assessment of the likely ongoing pressures and arguments for ongoing improvements in standards of infrastructure, increases in standards of services and demands for expansion in the roles and responsibilities of Local Government.

The LGA would suggest that there are no current signs suggesting pressures which have impacted on Councils over the past decade will not continue to impact in the next decade. These pressures were largely outlined above under "Roles and Responsibilities" and include:

- Growing prosperity leading to direct impacts such more vehicles per household and a greater number of inspectorial or approval responsibilities related to restaurants, swimming pools etc.
- Ongoing demands for higher service levels and higher standards of service – particularly in relation to the environment (in general as the economy grows people demand both more private and public sector goods).
- The profile of Local Government infrastructure, much of which was established in the 1960s and 1970s, facing peak replacement demands over the next 10 to 15 years;
- Ongoing confidence in Local Government by other spheres of government which are seeking to devolve functions;

- Greater expectations of a strategic local role by Councils including provision of input to the plans of other governments, rather than simply service provision.

Response Options

Local Government believes it has no choice regarding ongoing improvements in its own financial management, accountability and efficiencies. The LGA has been given a clear mandate by its Councils to implement the Financial Sustainability Program and through a wider “Strengthening Local Government Program” to work on related governance improvements. It is taken as a given therefore that with or without the support of other governments, Councils will continue to strive for management improvements and service improvements including shared services and higher levels of collaboration with other governments.

Almost all other options in relation to Local Government’s revenue raising capacity are outside of its own control. These include:

- Increased Financial Assistance Grants by the Commonwealth (and or with contributions by the State) to enable full Horizontal Fiscal Equalisation to be achieved across Australia – which to be most effective would be accompanied by removal of artificial limitations such as the unfair interstate distribution of such funding.
- Increased Specific Purpose funding by both the Commonwealth and the State governments targeted at infrastructure renewal and/or to new service requirements. Such funding should include clear forward commitments and indexation.
- An increased focus on rating growth accompanied by greater education and communication effort to promote better understanding of service demands. This would probably also need to be accompanied by improved concession arrangements with indexation for those on benefits (and to avoid unfair impact on Council areas with high numbers of people on benefits this should continue to be funded by State Government).
- An expansion of formal agreements with other governments regarding both funding and service responsibilities ensuring all ongoing program funding is indexed appropriately (with indexation more appropriate to the costs of services concerned and not simply consumer prices) for both cost increases and for numerical increases in service demands such as population growth.
- Significant investment by all governments to replace the undefined term “cost shifting” with an appropriate matrix of government actions which impact on Local Government finances/decision making and development/agreement of appropriate response mechanisms.
- A State-level review of limitations on fees and charges with a view to either removing limitations or replacing existing ones with formulae-based approaches reflective of private benefits of relevant services.
- A national review of developer contributions with a view to developing a best practice model which balances appropriately the interests of new developments with those of existing taxpayers.

- Additional research into the “tax room” implications of growth of State Government use of property-based taxes and any appropriate ways of better managing concurrent use of the same “tax room.”
- An ongoing focus on ways of reducing Vertical Fiscal Imbalance between governments in Australia while seeking to increase accountability for raising taxes for the government which spends them.

In seeking to achieve these sorts of outcomes nationally it is also noted that the initial focus of the Council of Australian Governments on Local Government finances at its 2007 meeting needs to be maintained and expanded. Local Government roles and responsibilities cross both State and national portfolios. Addressing the economic, social and environmental impact on the future of the nation of a local sphere of government with an uncertain and inadequate financial base warrants the attention of heads of government to ensure such issues are resolved in the interests of the community and the nation.

The LGA looks forward to the issuing by the Productivity Commission of a draft report and will assist in further presenting the views of its members as a part of the study.

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Abbreviations Used in Submission

LGA – Local Government Association of South Australia

LGCS - Local Government Corporate Services

LGFA – Local Government Finance Authority of South Australia

LGGC – Local Government Grants Commission of South Australia

ALGA – Australian Local Government Association

SACES – South Australian Centre for Economic Studies

SACOTA – South Australian Council of the Ageing

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List of Attachments

ATTACHMENT A
South Australian Centre for Economic Studies, Trends in Local Government Taxation, 1977-78 to 2005-06

ATTACHMENT B
South Australian Centre for Economic Studies, Survey on Local Government Revenue Raising Constraints, Draft Report, July 2007.