

Queensland Government
Response to the Productivity Commission Issues Paper
LG Revenue Raising Capacity

Questions	Queensland Government Comments
<i>Capacity to raise own-source revenues - Page 16</i>	
<i>What scope is there for local government (LG) to augment their revenues with fees and charges collected from non-residents?</i>	<p>The <i>Local Government Act 1993</i> (LGA) provides two principal bases for the setting of fees and charges; either a regulatory or non-regulatory nature.</p> <p>The general powers granted to local government (LG) by the State in s.36(2)(c) of the LGA make it clear LGs and joint boards may, as legal entities make commercial charges for services and facilities they provide. This power is distinct from those services and facilities for which a regulatory fee might be imposed. LGs may set commercial charges for commercial transactions where it is prepared to provide a service and the other party to the transaction can choose whether or not to avail itself of the service. Commercial charges are charges which are purely commercial in application with there being no compulsion to accept the LG's offer.</p> <p>This power provides a very broad scope for a LG to enter into contractual or service arrangements with any individual for services and facilities provided. There is no limitation on the status of the purchaser of services which may be residents or non-residents alike. Many LGs, especially rural LGs have contractual arrangements with the Department of Main Roads for the construction and maintenance of State roads. This work provides LG revenues. Other LGs have a range of services and facilities which are available to any person willing to avail themselves of them, (e.g. sale of quarry materials, private works, hire of council facilities). There is really no limit on the type of activity that a LG may enter into or make available on a commercial basis. A council may make a reasonable level of profit on these activities which can be used to offset the burden on ratepayers to fund LG activities.</p> <p>The converse situation is with the power authorised by s.1071A of the LGA which provides that a LG may, by local law or resolution, fix a regulatory fee for any of the following:</p> <ul style="list-style-type: none"> • an application for, or the issue of an approval, consent, licence, permission, registration or other authority under a LGA; • recording a change of ownership of land; • giving information kept under a LGA; and • seizing property or animals under a LGA. <p>Fees of any of these types are known as regulatory fees which comprise a not insignificant proportion of a LG's own source revenue. The proceeds of a regulatory fee must be used to provide the particular service or facility, to which the fee relates, to the community. There are opportunities in certain circumstances for a regulatory fee to be charged to non-residents of the LG for example, application fees for certain activities or the giving of information. However as the amount of the fee cannot be more than the cost to the LG of providing the service or taking the action, then the revenues of the LG are not augmented by the proceeds from a regulatory fee.</p>
<i>Land rating and valuation methods- Page 17 & 18</i>	
<i>To what extent do limits on land categories that LG can adopt for rating purposes restrict their capacity to raise rate revenues?</i>	The LG system in Queensland provides the greatest flexibility of any Australian jurisdiction to set rates and charges. The Queensland Government does not impose any limits on the number or type of land categories that may be adopted.
<i>Do restrictions on land valuation methods affect the capacity of LGs to raise revenue? If so, how and to what extent?</i>	No, there are many options for the LG to diminish the impact of a valuation through the use of differential general rate categories, minimum rates, separate and special rates and charges, averaging of valuations over two or three years, limiting the increase to a percentage of the previous years rates. These powers may be used individually or in combination or may only apply to certain categories of land. The scope to raise adequate revenue is not linked to valuation methodology.

	The LGA does not mandate any particular rates must be made except that a LG must levy a general rate or differential general rate on rateable land each year. All other rates and charges are at the discretion of the LG.
Rate pegging - Page 18	
What are, or might be, the reasons for rate pegging?	Queensland does not have a State imposed rate peg or cap. A LG may choose to apply a limitation of increase in accordance with s.1036 of the LGA at their discretion. This may be for all or certain stated classes of land decided by the LG. Using this power, rates levied in the previous financial year may be increased by a percentage decided by the LG. It has some limitations especially in areas undergoing significant growth in that a rate must have been levied on that particular land in the previous financial year. New land will not be captured by the cap and will pay the full amount of the rate.
To what extent does rate pegging limit the ability of LGs to raise council rate revenues?	As there is no compulsory rate pegging this does not limit the ability of a LG to raise rate revenue.
Concessions and exemptions- Page 18-19	
To what extent do mandated exemptions and concessions limit the ability of LGs to raise council rate revenue?	<p><u>Exemptions</u></p> <p>Section 957 of the LGA provides that all land is rateable but excludes generally speaking:</p> <ul style="list-style-type: none"> • vacant state land; • land occupied by the State or a government entity; • land in a state forest or timber reserve; • Aboriginal land other than that used for commercial or residential purposes; and • other land identified by regulation. <p>An example of where this affects the LG's ability to levy rates is where forestry reserves occupy a large proportion of the LG's area. As such the total value of rateable land for the council is reduced and therefore the rate burden must be shared amongst the remaining ratepayers. If local roads in the LG area are damaged by the vehicular traffic from the forestry activity, LGs are unable to recover the cost of increased maintenance on the road.</p> <p>The state however provides a considerable portion of council revenues as grant funds under specific purpose grants such as sporting facilities, water/sewerage infrastructure and Financial Assistance grants.</p> <p>Schedule 4 of the <i>Local Government Regulation 2005</i> identifies the following exemptions:</p> <ol style="list-style-type: none"> 1. land vested in, or placed under the management and control of, a person under an Act for recreation, sporting or charitable purposes if the land is used for 1 or more of the purposes 2. land used for charitable purposes if the relevant local government has, by resolution, decided the land should be exempt 3. land used for purposes of a public hospital if— <ol style="list-style-type: none"> (a) the public hospital is— <ol style="list-style-type: none"> (i) part of a private hospital complex; or (ii) a private and public hospital complex; and (b) the land used for the purposes is more than 2ha and separated from the rest of the complex 4. land owned or held by a local government unless the land is leased by the local government to someone other than another local government 5. land owned by a religious entity if the land is less than 20ha and is used for 1 or more of the following purposes— <ol style="list-style-type: none"> (a) religious purposes, including, for example, public worship; (b) the provision of education, health or community services, including facilities for aged persons and persons with disabilities; (c) the administration of the religious entity; (d) housing incidental to a purpose mentioned in paragraph (a), (b) or (c) 6. land owned by a community entity, including, for example, the Queensland Country Women's Association, if the land is less than 20ha and is used for providing the following— <ol style="list-style-type: none"> (a) accommodation associated with the protection of children; (b) accommodation for students; (c) educational, training or information services aimed at improving labour market participation or leisure opportunities 7. land used for a cemetery 8. land used primarily for showgrounds or horseracing, other than land mentioned in

	<p><i>item 1, if the relevant local government has, by resolution, decided the land should be exempt.</i></p> <p>The majority of these exemptions are designed to facilitate some form of community benefit or a sense of social well-being and as such the overall benefit outweighs any possible revenue shortfall.</p> <p><u>Concessions</u></p> <p>A variety of concessions are provided for under the LGA, however all of these have to be justified according to one of the following principles:</p> <ul style="list-style-type: none"> • An owner of land is a pensioner, or is an entity whose objects do not include the making of profit, or is an entity that provides assistance or encouragement for the arts or cultural development; • That payment of the rate would cause the owner of land hardship; • The assistance or encouragement of economic development of the whole or part of the area; or • The preservation, restoration or maintenance of structures or places of cultural, environmental, historic, heritage, or scientific significance to the LG's area. <p>Almost every situation where the council wishes to apply a concession can be justified by one of these principles. The types of concessions can include payment of arrears of rates under an arrangement or remissions for all or part of the rates for pensioners or hardship. Other concessions can provide financial incentives for economic development or preservation of certain types of land or structures. Every concession comes at a cost and the overall benefit must be considered during the budgetary processes of council.</p> <p>Concessions may also be given in the amount charged for goods, services and facilities provided by the LG such as tip fees for residents or concessions for community groups hiring council halls and facilities. There is no impact on the giving of these types of concessions as the cost is factored into the overall budget of council.</p> <p>Concessions are also provided for subdivided land under s.25 of the <i>Valuation of Land Act 1944</i>, whereby a LG is required to discount the valuation for each parcel of land, including a balance parcel by 40% before rates are calculated. In addition, the LG may not levy a minimum amount of a rate on this land. This concession must end when the land is no longer held by the original subdivider or when the land is built on. The cost to LG may be significant where there is considerable growth and large scale subdivision occurring.</p>
<i>What are the existing arrangements in each State and Territory regarding the payment of council rates and rate-equivalents by Australian, State and Territory landholders?</i>	State and Commonwealth Government owned corporations make ex-gratia payments of rates to the LG and there are generally no adverse revenue implications by their operations. In other situations strategic port land in commercial use is subject to a rate equivalent scheme administered by Queensland Treasury (Treasury).
<i>What are the existing arrangements in each State and Territory regarding the provision of concessions, and the compensation by State and Territory governments for the loss of revenue by LGs from these concessions?</i>	With regard to pensioners, the State pays 20% of the rates, up to a maximum of \$180 per annum for eligible pensioners. The State Pensioner Rate Subsidy Scheme is administered by the Department of Communities (Queensland).
<i>To what extent do exemptions and concessions limit the ability of LGs to raise revenues?</i>	Any exemption or concession must be considered in the overall budget formulation process and adjustments made accordingly to either the type and/or level of concession provided or the level of rate imposed.
<i>Setting fees & charges - Page 20-21</i>	
<i>What are the regulatory requirements and guidelines</i>	Section 36(2)(c) of the LGA states that LGs and joint boards may, as legal entities make commercial charges for services and facilities they provide.

<i>applied to LGs for setting fees and charges?</i>	<p>In respect of regulatory fees and charges, the power authorised by s.1071A of the LGA provides that a LG may, by local law or resolution, fix a regulatory fee for any of the following:</p> <ul style="list-style-type: none"> • an application for, or the issue of an approval, consent, licence, permission, registration or other authority under a LGA • recording a change of ownership of land • giving information kept under a LGA • seizing property or animals under a LGA. <p>A fee made under s.1071A must have a statutory basis for setting the fee.</p>
<i>To what extent are LGs constrained in setting fees and charges?</i>	<p>Under s.36 of the LGA there are no constraints upon the setting of commercial charges apart from normal commercial considerations.</p> <p>The proceeds of a regulatory fee (s.1071A of the LGA) must be used to provide the particular service or facility, to which the fee relates, to the community. The amount of the regulatory fees cannot be more than the cost to the LG of taking the action or providing the service for which the fee is fixed. There must be no augmentation or enhancement of council revenue from a regulatory fee.</p>
<i>To what extent does LG legislation or other relevant legislation explicitly provide the power to set fees and charges in excess of the cost of supply?</i>	<p>Section 1071B of the LGA provides that a regulatory fee may include an amount which is a tax where a regulation has been made for that purpose. To date no regulation has been made.</p>
<i>Developer charges and contributions - Page 22</i>	
<i>To what extent do LG employ developer contributions and charges to finance investments in new and upgraded assets?</i>	<p>Developers are expected to provide infrastructure internal to their developments. In addition to this, legislation allows council to charge developers for the full cost of the share of trunk infrastructure (which is shared between different developments) which can be apportioned to them.</p>
<i>Are there legislated limits to contributions that can be required or charges that can be collected?</i>	<p>The <i>Integrated Planning Act 1997</i> (IPA) limits development infrastructure to the five networks that provide basic and essential services and facilities. Development infrastructure includes water cycle infrastructure (water supply, sewerage, drainage, and water quality), transport infrastructure and local community infrastructure.</p>
<i>Are there legislated constraints on the use of revenue raised from developer charges?</i>	<p>An Infrastructure charge levied and collected for a network of trunk infrastructure, must be used to provide infrastructure for that network.</p>
<i>What are the effects on individuals, organisations and businesses of the use of developer charges and contributions?</i>	<p>Charges are limited to infrastructure providing direct, private benefits to the users of the infrastructure, basic and essential services and facilities, and are formulated based on plans for the supply of the infrastructure. This is stipulated in statutory guidelines under the IPA.</p>
<i>What is the most appropriate way to recover the costs of new and upgraded assets?</i>	<p>The Priority Infrastructure Plans prepared by LGs provides a transparent account of the cost of the trunk infrastructure being charged for, indicates when new trunk infrastructure is likely to be provided and states the charge various users will be required to pay.</p>
<i>Interest income - Page 23-24</i>	
<i>To what extent are LG cash reserves the result of State government imposed borrowing limits?</i>	<p>The Department administers the loans program (for loan borrowings) on behalf of the State and Treasury for all LGs, including councils, joint LGs, urban water boards and joint boards and LG owned corporations.</p> <p>The <i>Statutory Bodies Financial Arrangements Act 1982</i> (Queensland) provides that statutory bodies must have the Queensland Treasurer's approval to obtain borrowings. Under a general approval of 23 May 2003, the Treasurer's approval is granted for statutory bodies to borrow from the Queensland Treasury Corporation (QTC) subject to approval. Statutory bodies wishing to borrow from other lenders (i.e. not QTC) must have Treasurer's approval prior to funds being accessed. The request to borrow funds from a lender other than QTC is not common.</p> <p>The Department receives and assesses all loan applications from LGs within the jurisdiction of Queensland. Loan applications are made using a 10-year forecast model. This model requires LGs to input hard data (from previous</p>

	<p>audited financial statements and the current year budget) and estimates (percentage growth rates for future years) in order to allow the Department to assess the financial stability of the LG and determine whether the loan application should be approved. Financial stability and loan approval is assessed under five sections, namely: Forecasting Integrity; Debt Capacity; Fiscal Flexibility; Equity Maintenance and Liquidity.</p> <p>Loans are assessed and approved on a case-by-case basis, with consideration given to LGs in terms of significant financial and demographic features.</p> <p>Each year the Department submits to Treasury a request under the State Borrowing Program for an allocation of funds, known as the Global Borrowing Limit (GBL). A GBL is allocated for all councils, joint LGs, urban water boards and joint boards and LG owned corporations, except Brisbane City Council (BCC) which are allocated a separate GBL by Treasury. This GBL indicates the limits to which the Department can approve borrowings from QTC. This amount, except for BCC, is allocated on a whole, so should an individual council exceed what was estimated for GBL purposes, it does not matter, as long as the limit as a whole is not exceeded. Should the Department find that funds under the GBL are not sufficient to meet the loan borrowings requirements for statutory bodies (or BCC as a separate GBL allocation), then the Department would write to Treasury to request an increase to this amount. Treasury would then make the determination of whether it would be appropriate to approve the increase or not and inform the Department.</p>
Financial and asset management skills - Page 26	
What effect might the lack of financial and asset management skills of managers and lack of appreciation of the relevant issues by councillors have on the revenue raising capacity and effort of LGs?	<p>Significant. Elected members and officers need to have a very good appreciation and understanding of their responsibilities for asset management and financial management. If they do not, long term asset management plans and financial management plans will be poor, leading to poor corporate planning, operational planning, budgeting, monitoring, reporting, stewardship, and accountability. This will lead to assets being run down and not replaced, and a significant reduction in the level of services. Under these circumstances, other levels of government, such as State and Commonwealth, will need to intervene to recover the situation for the benefit of the community, ratepayers, and taxpayers.</p> <p>Amongst Councillors generally there is an inability to fully understand the scope of powers available to Council to generate adequate levels of revenue. There is also a lack of ability generally to apply innovation to revenue generation opportunities.</p>
To what extent do LGs find difficulty in attracting and retaining suitably qualified experts in financial and asset management?	Significant. LGs have an inability to attract suitably experienced and qualified professionals. This may be due to non competitive remuneration, location issues, career options and plans. The situation appears to be reflective of the current shortage of accounting and other professionals on both a local and global level.
What types of LG experience the greatest difficulties?	Rural, remote and indigenous councils.
Incentive effects of grants & subsidies - Page 26-27	
What grants and subsidies are provided to LG by State and Territory governments?	The Department administers a range of funding programs which provide capital funding for specific infrastructure projects across a range of functions including water supply, sewerage, environmental infrastructure, sport and recreation.
Are there any terms and conditions attached to these grants?	In addition to terms and conditions dealing with administrative matters, acquittals and reporting requirements, most of the programs administered by the Department require a financial contribution from LGs with the LG providing the major portion of the funding.
Do these terms and conditions distort the incentives of LGs to raise their own revenue? If so, how and why?	As most funding is provided in the form of a subsidy and LGs are required to fund the major portion of the projects from their own revenue sources, it is considered that the State funding programs generally provide an incentive to LGs to raise their own revenue although they also have the effect of making otherwise non-viable projects achievable within the context of LG finance and resourcing.