

25 February 2008

Ms Carole Gardner
LB2 Collins Street East
MELBOURNE VIC 8003

Dear Ms Gardner

Maroondah City Council would like to congratulate the Commission on the Draft Research Report – Assessing Local Government Revenue Raising Capacity and providing an opportunity to comment.

As outlined by phone recently the Report has been the subject of a report to Council which was considered last Monday 18 February. While the minutes for this Council meeting are still to be confirmed by Council in the March cycle, I am able to provide you with the views held by Council. These comprise general feedback and specific detailed suggestions regarding the report.

General Feedback

1. The report is a very technical document outlining the current themes in local government Australia wide. The data contained within it, while using the best available, many of the findings requiring numeric interpretation are interpretive.
2. The report has interpreted the terms of reference literally and not moved beyond this literal interpretation; in other words has not explored the broader context. For example it is a bit like asking what type of car or shoe do you need without asking for what purpose or under what circumstances. Hence, no discussion has been undertaken regarding the current or future service standards or advocacy role.
3. Similarly, the longer term community needs, expectations and aspirations given known demography change in local communities has not been considered in detail.
4. The relationship between Federal, State and Local Government via the recently signed Inter-Government Agreement and other granting mechanisms currently and in the future haven't been explored.
5. It does not clearly define the current proportion of revenue, expenditure and asset portfolios of the three levels of government to show that local government is the minor revenue raising partner @ 3%; expenditure @ 11% with total assets @ 35.6%. This equation does not stack up financially into the future if these percentages are to be maintained.
6. Following this point further, it does not explore or consider other than rate revenue options for local government for example an increase in general and specific purpose grants as a percentage of the Federal Taxation System; and
7. Is silent on the infrastructure back-log issue which exacerbates the pressing financial sustainability issues facing the local government sector including rural and remote communities.

Specific Feedback

The specific feedback is provided directly in relation to the actual document and follows for your consideration.

- Identify specific inclusions to broaden meaning and understanding of current report e.g. page 7 states “Local Governments play an important role in Australian society through their delivery of goods and services and their regulation and planning activities”, needs the word “advocacy” somewhere which they do describe later in the document.
- Some table information requires correction or further clarification e.g. table 2.1 page 11 has Victorian Local Government bodies as “80” not “79”; unless this includes Docklands?
- In discussion of roles and functions of Local Government page 13, the matter of public goods, externalities and natural monopolies is outlined, however, this doesn't describe associated market failure issues (top of page 13 just above box 2.1 Role of Local Government).
- Further information regarding the role of function of Local Government in Victoria relates to the intervention of the State in particular in reference to commercialisation of some Council services such as electricity supply in the early 1990's. Council's didn't have a choice regarding the transfer, nor were they in a negotiating position regarding the transfer price (page 16).
- Strengthen Council's planning and performance framework which articulates community needs, expectations and aspirations via Council Planning, Long Term Financial Planning and Annual Budget cycle processes. These are costed relating to all non-rate income and expenditure. The difference is raised in rates (page 20).
- Most non-discretionary fees e.g. planning, cat and dog registrations go nowhere near the cost of providing these services (page 20).
- Local Government revenue in Australia increases in real terms between 98/99 and 05/06 - \$186 to nearly \$246 relates to issues of increased services, level of services, efficiencies and increased emphasis of financial assumptions such as user pays. (page 24)

- While “averages” are useful generic descriptors, they can hide specifics for example page 25 table 2.4 has Council rates sitting about 40% of Councils Total Revenue. This is much lower than the majority of Victorian Councils, which typically have rates sitting between 45-60% of revenue depending on the Council. Real Total Revenue per person @ \$1,182 seems high Nation- wide unless it includes water or sewerage; Maroondah’s sits at around \$819. This is actually the same as the \$’s per head of population of services provided.
- Revenue per person from sale of goods and services should have water and sewerage figures deleted to provide a more accurate comparison between the States (page 29 table 2.7)
- Composition of own-source revenue should have the words “which often translates to cash reserves balances” (page 36) added to the end of the sentence.
- Own-source revenue of Council’s grouped by modified ACLG classification table 3.3 doesn’t take into account services or level of service provided (page 38)
- Variation in rates revenue by Council classification doesn’t take into account the impacts of differential rating (page 38). For example, a municipality with a majority of residential assessments will have the majority of the rating burden born by those residential assessments. Typically, municipalities with a larger commercial/industrial base will see those assessments cross-subsidise the residential base and associated services.
- However, Council will need to provide a majority of these services, if their respective communities wish to have Council provide them should they not be available from the private sector (page 40 paragraph above table 3.5)
- Council rates can be claimed by the business community and property investors from the Australian Tax Office as part of running business or property investments; rates on owner occupied residential properties cannot be claimed (page 50)
- Regression analysis interpretation statements (page 73 under table 5.4) would be assisted by adding the words “when compared to services provided to residents within the Local Government area or compared to business activity in other Local Government Areas”, to the end of the last sentence in this paragraph which currently reads “A higher level of business activity is likely to be associated with higher levels of Council expenditure or services to business”.

- The key points in the effects of Legislative and Regulatory factors chapter 6 page 85; sub point which currently reads “Some fees and charges appear to be set at below cost through the policy choices of Local Governments”. The words “and State” should be inserted before “Local” since Local Governments are a product of State Government legislation and service delivery system.
- Nowhere through the report is the point made that an increase in grants to Local Government by State and Federal Government would result in either a reduction in own-source revenue raised by Local Government or an increase in services or service levels; or any combination of the three (page 87 constraints on rates).
- In box 6.2 rate revenue – some efficiency and distributional issues, page 88 “Councils might adopt risky entrepreneurial activities”. In Victoria these are actually regulated by the Local Government Act section 143 Investments; section 189 and 190 Restriction on power to sell or lease land; section 193 Entrepreneurial powers where anything over \$5m must have Ministerial approval amongst other things.
- The sentence “Administrative simplicity appears to be a primary reason for not more fully utilising differential rating options, such as property type sub-categories” (page 93). This may have been the case in the past, however, is progressively changing as pressure is placed on Council’s to increase revenue to meet community needs, expectations and aspirations.
- In the sentence “However, there are often administrative costs associated with a wider choice of prescribed rating structures”, page 94 mid-way 2nd paragraph under sub header “Assessment of differential rates and rating structures”; these administrative costs are minimal in the long term as most Councils have rating software, which is able to generate differential rate information relatively easily. Where costs are incurred in the short term, (but again these aren’t significant), they relate to the communication strategy and activity to property owners affected and training of staff. These admin costs are usually minimal when compared to the potential political cost.
- In foot note 3 relating to Assessment and rating exemptions (page 96) in Victoria not only do Local Government receive exemptions on payroll tax, so do all businesses in salary thresholds less than \$500k and only employing staff in Victoria, according to the Victorian State Revenue office. These thresholds are reviewed annually as part of the State Budget process.
- Regarding the exploration of rate pegging in NSW and the associated finding 6.5 (page 106), what isn’t explored is the rate base at the time of the introduction of the rate pegging with the associated comparison to rating levels in other parts of Australia at that time.

- Further to the statements made under the partial cost recovery and costing and pricing frameworks on page 108, Councils have different philosophies regarding overhead recoveries. For example some Councils in setting their waste charges would include percentages of management and other associated corporate administrative costs; other Councils would have an alternative view.
- The first sub-point under the first dot point in key points, chapter 7 impacts on individuals and business header page 119 refers to 'lack of information about incomes received and payments made on rates.....'. Information on the payments on rates is contained in the mandatory schedules required as part of the annual budget documents in Victoria. Only generic ABS information on incomes is publicly available by municipality.
- Regarding the application of minimum and variable rates of user fees and charges is the application of both principles (page 119). The test most Local Governments use is contained in the user survey instruments, which regularly review a range of factors relating to a particular service including quantity, quality, timelines, cost etc elements. Often this surveying is undertaken with current, previous and potential users to gauge the sensitivity of the user pays pricing points. Further if Councils pricing policies do not meet the mark, Councils typically will receive communication from the community accordingly.
- Further to the statements made regarding assessing the impacts on individuals, business and organisation of revenue raised, it must be appreciated that Councils have long, intimate knowledge of their respective communities and do not operate in isolation or without regard for the general community needs, expectations and aspirations as articulated in Council Planning and Strategy activity with associated financial planning.
- The footnote 4 on page 124 doesn't take into account the current individual Australia wide credit or borrowings elements to provide a more realistic view beyond pure 'income'. For example if I earn \$100 per year but have access to a further amount through credit or borrowings, the benefit I receive is my income and whatever credit or borrowings I have. This impact relative to propensity to consume would be worth exploring given the high levels throughout Australia of credit and borrowings by individuals currently.
- In finding 7.6 it appears the word 'net' has been left out prior to the word 'income'.
- Water and Sewerage should be excluded from table 7.6 to provide consistent comparison on page 143.

- Council Planning and Performance frameworks and processes (page 148) are a valuable way to assist communities evaluate and set priorities. This includes community visioning, long term financial planning, Council Plan and Annual reporting processes.
- Nationally there are aggregate demand companies such as Strategic Purchasing Ltd, which provide a further alternative for Local Governments to increase volumes of purchases providing increased economics of scale (last paragraph page 151). This could be a further dot point.
- Service and funding agreements are already in place in Victoria between local and State Government and between local and Federal Government.
- Further work needs to be undertaken by the three levels of government regarding what the IGA actually means page 160.

Conclusion

Maroondah appreciates the amount of work undertaken by the Productivity Commission in developing this Draft Report and looks forward to participating in the upcoming roundtable in Melbourne and receiving the final report.

Yours sincerely

Marianne Di Giallonardo
Director Corporate Services