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Dear Helen

SUBSEQUENT SUBMISSION FOR FUNDING FOR LOCAL GOVERNMENT

Providing additional information to the Commission's study into the above matter.

The Association provides evidence of the dependence on grants for the (now eight) new local government shires for the revenue they will forego as a consequence of the government imposing rate capping and conditional rating from 2008/09. This submission goes some way to providing that evidence drawing largely on data that was available, particularly for mining and pastoral properties. At the time of writing the Association was not able to compile aggregate data relevant to commercial, residential and rural properties and hence has not included it here.

One means that the Association uses here to demonstrate the financial plight of the Shires is to take the details of their proposed rates (or rate equivalents) from their draft Shire plans and compare them to what some councils are charging interstate to demonstrate the extent to which local government in the Northern Territory is dependent upon grants.

The Impact of Rate Capping and Conditional Rating

Rate pegging and conditional rating will have the inevitable effects of constraining the Shires from raising own source revenue. The finding from the recent study into Local Government Revenue Raising Capacity ('the Study') confirmed for councils in New South Wales:

> *'Rate pegging has dampened the revenue raised from rates in New South Wales relative to other States and there seems to have been little offset from non-rates sources… In some cases this constraint may adversely affect financial sustainability by exacerbating fiscal stress on local government* (Productivity Commission 2007, P.106).

The same Study (Productivity Commission, 2007, P.37) also found that revenue raised across local governments varied considerably with '*one of the major drivers of differences between local governments is the number of people and the density of people living within a local government area.'* The Shires will typically have populations of around 6 000 residents dispersed over vast areas that are mostly remote. In general the study found that remote councils:

> '*derive more of their own-source revenue from the sales of goods and services and other revenue categories than from rates revenue. Remote councils differ in this respect from all other council types, for which on average, rates revenue comprises the largest share of own-source revenue* (Productivity Commission, 2007, P.37).

In other words, remote councils in other States have, as the largest component of their total revenues, that which is made up of rates. However, in the Northern Territory the rates revenue for the bulk of remote councils (according to the Department of Local Government) only constitutes 6% of own-source revenue which is in direct contrast to the findings in the Study about the general condition of remote councils.

To introduce rate capping and conditional rating onto the Shires therefore, only serves to:

- hinder them from achieving greater financial strength through rate revenues (and particularly from those ratepayers with capacity to pay such as mining, commercial and pastoral interests)
- negates the government's imposed requirement under the proposed *Local Government Act* for the new Shires to seek and attain 'revenue growth'
- hinders the Association from lobbying for additional funding at a national level through the Australian Local Government Association when the revenue raising effort does not favourably compare with that achieved interstate
- confirms for the Shires a status of high dependency on grants
- places great pressures on councils over their expenditure decisions
- put the councils in positions of doubtful financial sustainability.

Without adequate recourse to rate revenues the Shires become more reliant on grants as a source of revenue for financing their operations. The Study found that in general, remote councils already had the highest dependence on grants of any type of council, so rate capping and conditional rating will surely render them even more dependent. Another finding from the Study also was that even if remote councils were to increase their revenue raising efforts they would:

- still remain highly dependent on grants to meet their current expenditure and
- have higher expenditure than other classes of council due to:

  - ➢ *inability to capture scale economies*
  - ➢ *having to pay higher input costs*
  - ➢ *maintaining more kilometers of roads per person*
  - ➢ *undertaking a more extensive service mix* (Productivity Commission, 2007, Pp.42-45 & 82-83)*.*

Certainly all of the above factors in relation to expenditure are very true for Northern Territory councils.

The Rate Revenues Achieved by Councils Interstate

A useful exercise to consider is to look at the revenue raising efforts of remote or rural councils interstate to ascertain their extent and to compare them with those now proposed by the Shires. Whilst taking into account:

- the variations in operations between such councils
- the inability of some Shires to raise property rates (but which nonetheless can charge rate 'equivalents' particularly for residential properties)

it is clear that, by any measure, the rate in the $dollar proposed to be levied by the Shires across all categories of rate revenue is far below that of their council counterparts in other States as Tables 1, 3 & 5 below indicate. This particularly applies to the Shires of:

- West Arnhem (largely because of Jabiru)
- Roper Gulf
- Victoria Daly
- Central Desert
- MacDonnell

which are able to raise property rates in the usual way.

The only State that has comparable rating figures to the Northern Territory (that is, in terms of cents in the dollar $ levied) is that in Victoria although the rates are calculated on a different basis to other States by utilizing capital improved value (CIV) rather then the more usual land valuation methods for setting rates which is unimproved capital value (UCV) or, as is sometimes termed, just unimproved value (UV).

Most of the councils chosen in Table 1 are in rural/remote areas of their particular States with perhaps the Western Australian and Queensland councils being more reflective of Northern Territory conditions. As mentioned the differences in amounts levied are very significant and indeed show how far behind the new Shires will be to their intestate counterparts.

This emphasizes the reliance on the grants for the Shires.

TABLE 1
2006/7 General Rates Charged (Cents in the $dollar) for Different Types of Properties in Council Areas

Councill	Commercial Rate in $	Pastoral/Agricultural Rate in $	Residential Rate in $	Mining rate in $
Derby/East Kimberley (WA)	09.66	12.20	12.79	16.44
Kalgoorlie (WA)	06.54	04.80	06.54	12.60
Bourke (NSW)	02.07	01.03	04.10	06.50
Cobar (NSW)	05.38		08.05	08.72
Burke (Qld)	103.00	0.52 – 2.06	10.00	30-1333.000
Duraringa (Qld)	03.4 – 08.8	00.26	03.4 -08.8	03.3-17.68
Gunnawarra (Vic)	00.00423	00.003679	00.003688	None
All 8 Shires (NT)	0.00284	0.0060	0.00142	0.00284

(*Sources:* Individual Council websites and Draft Shire Plans for 2008/09 in the NT).

To further demonstrate the anomaly the rates revenues collected by councils from mining and pastoral interests in Western Australia are in stark contrast with that proposed to be collected by the Shires in the Northern Territory as Table 2 demonstrates.

What is more, the Northern Territory Government has decided that not all classes of mining tenements (for example, licenses) will be rateable (unlike other States where they are rateable) which means the Shires will not be able to raise rate revenues from these sources which again puts pressures on Council expenditures and just serves to extend the reliance on government grants.

TABLE 2

Aggregate Rate Revenues for NT Shires and Western Australian Councils

State or Territory	Number of Assess-ments	Rates Revenues from Mining Tenements	Number of Assess-ments	Rate Revenues from Pastoral Properties	Total Rate Revenues from Mining and Pastoral Properties
Western Australia	15 515	$16 759 708	580	$1 944 304	$18 704 012
Northern Territory	526	$ 407 000	217	$ 174 000	$ 581 000

(*Sources*: WA Department of Local Government 2005/06 and NT Department of Local Government 2008/09 Shire Plans)

It is also worth noting that with mining assessments in Western Australia there are many small ones and some quite large ones which can distort the revenues earned by any one council as the difference in revenues per assessment can be significant depending on the status of the mining tenement. An exploration license, for example, is likely to attract a significantly lesser amount in rates compared with a mineral lease.

It is also clear from the details with the rating of pastoral and mining revenues raised interstate that individual councils are earning more in the way of revenue from these sources than all of the eight Shires in the Northern Territory combined. Some councils are earning more revenue from single assessments compared to what is proposed in total for the eight Shires (see Table 3 in respect of mining revenues for the Burke Shire Council).

Table 3 below gives details of some of the revenues collected by individual councils in Western Australia and Queensland from mining and pastoral sectors. As can be seen from Table 3 each individual councils are earning more than double the revenue (and in one case five (5) times that revenue) that is proposed for all of the eight Shires - and this only takes into account revenues from two property sources. The data on commercial, residential and urban farmland properties would no doubt reveal similar findings to that of the above two property sources especially when you consider the differences in the ‘cents in the dollar $’ listed in Table 1. Taken together it is not hard to see that Northern Territory councils will be collecting rates revenue which is lower than in other parts of Australia by more than a factor of 10.

TABLE 3

Aggregate Rate Revenues from Mining and Pastoral Sectors for Interstate Individual Councils

Council	Number of Assess-ments	Rate Revenues from Mining Tenements	Number of Assess-ments	Rate Revenues from Pastoral Properties	Total Rate Revenues from Mining and Pastoral Properties
City of Kalgoorlie – Border (WA)	2305	$2 550 000	70	$ 58 000	$2 608 000
Derby/East Kimberely	136	$ 858 000	44	$ 644 000	$1 502 000
Mt Isa City Council (Qld)	35	$ 470 000	42	$ 644 000	$1 114 000
Burke Shire (Qld)	1	$1 700 000	331	$ 624 000	$2 324 000
Cloncurry Shire (Qld)	160	$1 560 000	166	$1 810 000	$ 3 370 000

(*Sources:* Council emails and budget papers on Council websites. Amounts rounded to nearest thousand)

Rate capping alone will limit councils over the next three years to raising rates revenue by no more than the Consumer Price Index (CPI). Therefore, the rates component of the revenues listed in Table 4 below will only vary over the next three years by the value of the CPI, an index which bears little relevance to the makeup of local government expenditure.

To exemplify this point Appendix A details work done by the Local Government Association of Queensland in establishing a 'Local Government Cost Index' which typically is 2 to 3 percentage points higher than that of the CPI. This is due mostly to local government expenditure being more appropriately aligned with the construction index rather than totally with CPI. Appendix B details the use of the Local Government Cost Index in its 2007/08 'Budget Facts Sheet' put out by the Mt Isa City Council. Clearly this council has been endeavouring to structure some of its rating policies around meeting the Local Government Cost Index and, as the graph on page one (1) shows, it has taken five years for the council to meet this objective for its water rates. If this happens for a council which has access to 'growth' rate revenues the question needs to be asked:

> *'How long will it take the Northern Territory Shires to come somewhere near meeting a Local Government Cost Index?*

TABLE

4

Proposed Rates and Charges Revenues for 2008/09 as detailed in Draft Shire Plans

Shire	**Proposed Rate and Charges Revenues**	**Proposed Rates from Mining Properties**	**Proposed Rates from Pastoral Properties**
Tiwi	356 000	Nil	Nil
West Arnhem	1 053 405	18 000	Nil
East Arnhem	511 086	15 000	Nil
Roper Gulf	596 059	26 000	
Victoria Daly	516 663	34 000	
Barkly	2 216 195	273 000	
Central Desert	130 748	28 000	
MacDonnell	644 000	13 000	
Totals	$ 5 380 800	407 000	174 000

(*Sources:* Shire plans and budget papers)

Rate capping linked to the CPI means that the Shires will not be able to keep their rates revenues in line with their costs. It also means when the Government finally decides to lift the requirement for rate capping the Shires will potentially take many years to achieve the quantum of revenues that they will need in order to get close to the above benchmark.

Taking into account the proposed rates for pastoral properties, even if they were set at a level of 0.5% of UCV (which is still far below that levied in other States) the difference is some eight times greater than that which is proposed under rate capping for 2008/09 as Table 5 shows. The total UCV of pastoral properties in the Northern Territory is estimated to be $ 290 000 000.

TABLE 5

Comparison of Various Rates Levied for Pastoral Properties

Property Rated	Current Proposed Aggregate Rate Revenue for the Shires	Using Bourke Shire Rates	Using Derby/East Kimberely Rates	Using the rate of 0.005 cents in the $
Pastoral	$ 174 000	$2 987 000	$ 35 380 000	$1 450 000

(*Sources:* Council websites)

Similarly with mining tenements, if rates were able to be charged at a rate per hectare which was more in line with practice interstate the amount of revenue raised would be far more significant than that limited to the minimum rate of $710 per annual that it currently proposes for most tenements. For example, the formula used to calculate the rateable value for a mineral lease in Western Australia is 20 times its annual rental.

In the Northern Territory the annual rental is currently set by the Government at $10 per hectare so a mineral lease of 1000 hectares would have an annual rental of $10 000. Using the above formula the rateable value of such a mineral lease would be 20 times that number, namely $200 000. Councils then set a rate in the dollar and multiply it by the rateable value to arrive at a rate for a mining lease as is demonstrated in Table 6.

TABLE 6

Comparison of Varies Rates Levied for a Mineral Lease

Mining Tenement	Current Proposed Rate Revenue for the Shires	Using Bourke Shire Rates and Formula [20 x annual rental) x rate in the $]	Using Derby/East Kimberely Rates and Formula [20 x annual rental) x rate in the $]	Using the rate of 0.005 cents in the $ and Formula [20 x annual rental) x rate in the $]
Mineral Lease of 1000 hectares	$ 710	$ 13 000	$ 32 000	$ 1 000

An exercise for the future will be to extrapolate the above equation for all mining properties that are rateable in all the shires.

The Shires will require grants to a level that gives recognition to revenue sources that are essentially foregone because of the rate capping and conditional rating. In order to consider what might be fair compensation the proposition put so far in this submission is evidence that demonstrates:

1. the very low level of taxation rates [cents in the dollar $] for the setting of property rates that the Shires will be held to over the next three years (and possibly beyond for some properties)
2. the consequent potential revenue foregone as a result of rate capping and conditional rating in the Northern Territory
3. the exemption from rates of certain classes of properties
4. the low levels of revenues to be collected by all eight Shires in comparison with councils in other States (and in some cases individual rate assessments within individual councils)
5. that even if the rate revenues were increased in the Northern Territory for pastoral leases and mining tenements alone by a factor of ten that they would still be below what other councils are raising in the form of rate revenues from these properties.

Taking into account incomplete data and the timetable for budget Cabinet the Association proposes that the Government use the factor of ten as the basis for determining an allocation that could possibly be made available to the Shires during 2008/09. This factor would then suggest that, as a minimum, funds in the order of $5 181 000 ($407 000 + $174 000 x 10) would be needed to compensate councils for the revenue foregone from mining and pastoral properties. The Association estimates that similar amounts would be needed to compensate councils for rate revenues from residential, commercial and urban farm land properties. The Association also considers there to be a likelihood that some roads will transfer to the Shires during 2008/09 and that funds need to be allocated for this purpose as well.

There are approximately 8 700 kilometres of roads that are due to become the responsibility of local government in the future and it will be necessary for the government to systematically transfer monies it has for this purpose to local government. The Association estimates that $4M could potentially transfer during 2008/09 subject to negotiation. The Association understands that you will need to talk to the Minister for Infrastructure about this matter.

The makeup of funds sought from the Government for the Shires during 2008/09 are detailed in Table 7. As the process of finalizing the Shire plans is brought closer to completion and accuracy the Association will work on fine tuning some of the data so that more accurate figures can be provided for the 2009/10 and 2011/2012 financial years and particularly in respect of rate revenues in respect of residential, commercial and urban farmland properties. There is no question however, that in both aggregate terms, taxation levels, (cents in the dollar $) and Productivity Commission findings from its Study that funds of the order requested are valid and should be given serious attention.

TABLE 7

Breakdown of funds sought from the Territory Government for the Shires during 2008/09

Revenue Source	Amount Sought
Rate revenues foregone from mining and pastoral properties	$5 181 000
Rate revenues foregone from residential, commercial and urban farmland properties	$5 181 000
Roads funding transfers	$4 000 000
Total funds sought during 2008/09 for the Shires	**$14 362 000**

The Association welcomes any input you can give to support its request for funding for the Shires during 2008/09 and looks forward to meeting with you again to learn about the outcome of this submission.

Yours sincerely

Kerry Moir
President

BIBLIOGRAPHY

Productivity Commission 2007, *Assessing Local Government Revenue Raising Capacity,* Draft Research Report, Canberra.