

**Submission to the  
Australian Government Productivity  
Commission  
Pursuant**

**to**

**Assessing Local Government Revenue  
Raising Capacity:  
Productivity Commission Issues Paper  
May 2007**

On behalf of  
Launceston Municipal Ratepayers' And Residents' Association Inc.  
PO Box 2039  
Newnham  
TASMANIA 7248  
Email: [projex.pty.ltd@bigpond.com](mailto:projex.pty.ltd@bigpond.com)  
Tel: 03 6328 1200  
John Henshaw  
Senior Vice-President  
3rd JUNE, 2007

## TABLE OF CONTENTS

1.0	INTRODUCTION .....	1
2.0	PRODUCTIVITY COMMISSION'S TERMS OF REFERENCE.....	2
3.0	LAUNCESTON - BACKGROUND .....	3
3.1	Overview: .....	3
3.2	Population Growth.....	3
3.3	Assessed Annual Value Growth .....	3
4.0	REVENUE RAISING ISSUES .....	6
4.1	Overview: .....	6
4.2	Rates and the Community's capacity to pay.....	6
4.3	National rates comparison.....	8
4.4	Launceston's Excessive Expenditure.....	8
4.5	Latest rates increase, July 2007: .....	9
4.6	Rating method: .....	9
4.7	Differential Rating System.....	10
4.8	Water .....	11
4.9	Intergenerational Equity of Council Borrowing.....	11
5.0	EXPENDITURE ISSUES .....	12
5.1	Overview: .....	12
5.2	Role of local government: .....	12
5.4	Queen Victoria Museum and Art Galley (QVMAG): .....	13
5.5	Aurora Stadium.....	14
5.6	Regional Aquatic Centre .....	15
5.7	Tourist Information Centre .....	15
5.8	Northern Tasmania Development .....	15
5.9	Sundry promotions .....	15
5.10	Tamar River Levee Bank Repairs .....	15
5.11	Cost recovery-cross subsidies: .....	16
6.0	COMMUNITY CONSULTATION .....	17
7	SUMMARY .....	20
8	APPENDICES .....	21
	Appendix 1 Launceston City Council Statistics.....	21
	Appendix 2 – Case Study, Regional Aquatic Centre .....	22
	Appendix 3 – Case Study, Aurora Stadium and AFL matches in Tasmania .....	24
8	SOURCES .....	26

## **1.0 INTRODUCTION**

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The Launceston Municipal Ratepayers' and Residents' Association Inc. (LRA) welcomes this inquiry and the opportunity to express its concerns regarding the difficult situation faced by Launceston ratepayers in general and, more specifically, residential ratepayers and the way in which revenue is collected and spent by the Launceston City Council (LCC).

As our title suggests, we represent all ratepayers' interests within the municipality of Launceston and make this submission based upon the collective experiences of our membership. In doing so, it is our hope that this submission addresses the Commission's fact-finding task and that the Commission's outcomes will produce a more equitable rating system for the Launceston municipality and other similar centres around Australia.

## **2.0 PRODUCTIVITY COMMISSION'S TERMS OF REFERENCE**

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The Launceston Municipal Ratepayers' and Citizens' Association Inc. makes this submission having regard to the Commission's Terms of Reference (Issues Paper, page 5) which will examine the capacity of local government to raise revenue including:

*capacity of different types of councils to raise revenue*

and

*impacts of the various taxes, user charges and other revenue sources on individuals, organisations and businesses.*

The third term of reference concerning the impact of State regulatory limits on revenue-raising capacity of councils is not relative to our concerns and is not covered in this submission.

Our concerns are twofold:

How LCC raises its rates income from its ratepayer base, and particularly the residential ratepayer base,

and

How LCC spends those ratepayers' funds.

### **3.0 LAUNCESTON - BACKGROUND**

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#### **3.1 Overview:**

Launceston Council was established in the 1860's during Imperial Government and before Federation.

While Launceston is Tasmania's second-largest city with a population of about 62,000, it is, essentially, a rural regional community.

Launceston currently operates two iconic and very expensive facilities, the Queen Victoria Museum and Art Gallery (QVMAG) and a major sporting Stadium (York Park), both facilities way beyond the reasonable expectations of a population of only 62,000. Following the planned construction of the new Regional Aquatic Centre, Launceston will have a third such facility it, in our opinion, cannot realistically afford.

Launceston is a very different municipality today than it was in the heady days of surrounding rural wealth, and when there were not two other tiers of government in Australia.

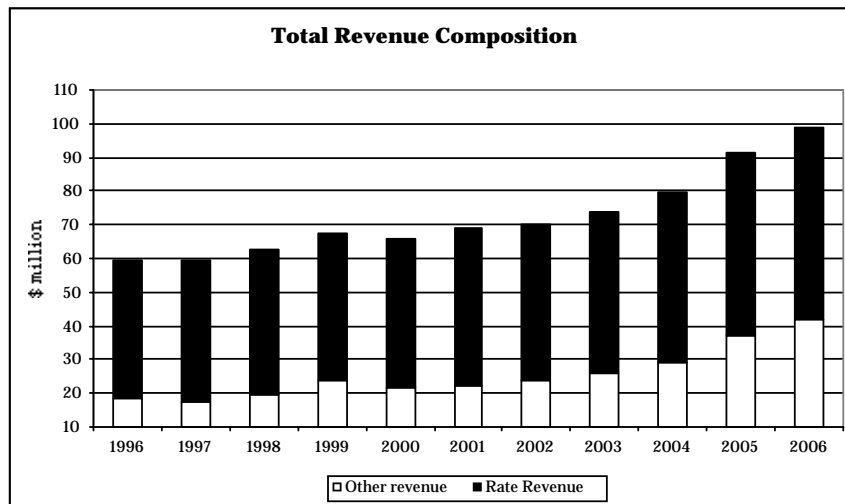
#### **3.2 Population Growth**

Launceston City Council Annual reports from 1995 - 2006 clearly demonstrate that Launceston has grown very little in the last 10 years. The only consistent pattern of growth is in Council expenditure (see Appendix 1).

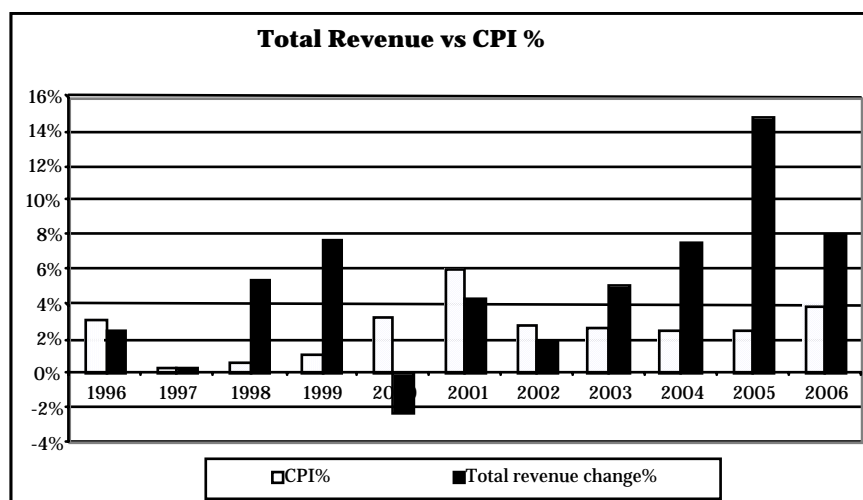
In the ten years to 2006, the Launceston population has decreased by about 2,000 to 62,218 as of the 2006 Census. The number of rateable properties has increased by about 1,500, or 6% from 27,207 in 1996 to 28,766 in June 2006.

#### **3.3 Assessed Annual Value Growth**

The Assessed Annual Value (AAV) of all Launceston properties, has grown very little, unlike the value of Launceston property and the AAV, Council total revenue has increased from \$59 million in 1996 to \$99 million in 2006 a 70% increase.



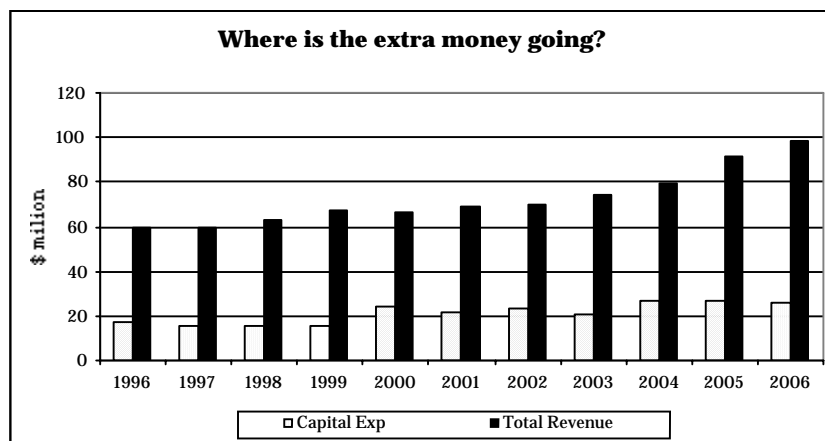
In percentage terms, Council rates have grown faster than average weekly wages and faster than inflation, as demonstrated below. It is particularly evident since 2002, the CPI has risen by just over 10% but Council revenue has risen by 30% in 4 years.



## Expenditure Growth

Most of the increased revenue is going into operational expenditure. Other expenditure has remained relatively stable. The growth is not substantially going into the oft mentioned crumbling infrastructure of the city

Between 1995-1999 Capital Expenditure averaged \$16 million per year, it jumped to \$24 million in 2000 and has averaged \$24 million since, as shown below.



## **4.0 REVENUE RAISING ISSUES**

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### **4.1 Overview:**

As of June 2006, the city had 28,766 rateable properties and approximately 25,250 (87.8%) of these are residential ratepayers.

In July 2005 LCC did not take the opportunity to review its rating method in response to early warnings it received about the effect of the revaluation of Launceston properties.

LCC's rating decision provided a substantial reduction in rates to Commercial ratepayers and the bottom end of the residential ratepayers. The top end of the residential ratepayers was burdened with approximately an additional \$4.5 million in rates.

These compounding factors including increases above CPI levels, have seen large rate increases and have resulted in financially crippling rates burdens being imposed on a significant number of Launceston's residential ratepayers.

This was as a result of:

- The failure of the State Valuation Department and the private valuation contractors engaged to undertake Launceston revaluations to ensure that municipal revaluations took place at regular and manageable intervals and to deliver that valuation data in time to the municipality in order that they may have given proper consideration to adjustment effects prior to striking their 2005/2006 rate;
- Reduction in valuation levels for commercial properties;
- Dramatic increases in the market value of residential properties in the municipality since 2002.
- A desire by LCC to reduce the rate burden on the commercial sector (Review of Alternative Rating Structures 2006, page 11)

### **4.2 Rates and the Community's capacity to pay**

This Association submits that in examining the capacity of different types of councils to raise revenue, the income of the community should be a central indicator of such capacity.

For instance, the average annual income in Launceston municipality is around \$33,386.

The average annual residential rate in 2004-2005 was \$1,389 and has increased substantially since 2004-2005. (Measuring Council Performance in Tasmania 2004-2005).



A comparison with those municipalities which adjoin Launceston, in the Table below, shows that Launceston ratepayers pay a much greater proportion of their income in rates than ratepayers in any neighbouring municipality. Launceston ratepayers in effect are being taxed at a much higher rate than others in surrounding municipalities, or even the wealthier capital city, Hobart. Launceston wage and salary earners pay 4.16% of their annual wage and income on LCC rates.

**Table Launceston Average Residential Rate and Income Relativity**

	2004-2005 Average Residential Rate \$	2003-2004 Average W&S Income \$	Rate as a % of W&S Income	2006 Median Household weekly Income \$	Weeks of household income to pay rate
George Town	635	34,454	1.84%	662	1.0
Northern Midlands	916	31,999	2.86%	787	1.2
Meander Valley	958	32,404	2.96%	809	1.2
West Tamar	1,108	34,450	3.22%	910	1.2
Hobart	1,406	39,382	3.57%	1036	1.4
Dorset	903	29,864	3.02%	648	1.4
Launceston	1,389	33,386	4.16%	758	1.8

Sources ABS Regional Profiles, Measuring Council Performance in Tasmania 2004-2005, ABS Census 2006

Another way of evaluating the rate burden, is by expressing the average rate as a multiple of weekly median household income. This shows the same pattern, Georgetown residents have higher household weekly incomes and lower rates than their Launceston neighbours.

George Town ratepayers manage to pay their rates after working less than one week. Launceston ratepayers manage to pay their rates after more than 1.8 weeks. On the basis of a 35 hour week, Launceston ratepayers must work a full 32 hours more than their George Town neighbours in order to pay their rates. Launceston ratepayers are paying an effective rate of income tax much higher than any municipality in the sample.

By comparison, Hobart, Tasmania's capital city has an average residential rate of only \$1,406, 1% more than Launceston's average yet has 18% higher average income \$39,382 than Launceston.

The LRA does not claim to be an expert statistician, but it is confident that the patterns shown in this table could be replicated by Productivity Commission analysts. LRA is confident an Australia-wide analysis would be a worthwhile exercise for the enquiry as this would indicate which municipalities are over taxing their citizens.

For many Launceston ratepayers, the effective tax increments levied by local government negate any tax cuts by the Australian Government. Good economic policy would see tax cuts left in the hands of consumers and not shifted to another level of government.

### **4.3 National rates comparison**

By the nature of the rate setting process, it is possible for LCC not to increase rates revenue, but redistribute the incidence of rate collection such that some ratepayers get substantial increases while others get decreases.

For example, until 2005 the rating system had been a defacto wealth tax for 716 ratepayers. These were the ratepayers where the property's AAV had been set at 4% of the Capital Valuation which was higher than the rental income estimate.

Following the 2005 revaluation this defacto wealth tax was extended to 8,272 ratepayers and its severity was also increased. The little available data from LCC shows that there was a shift of about \$4.5 million from commercial rates to residential, this increase is understood to have been largely taken up by the 8,272 ratepayers.

This shift resulted in some properties having rates increases in excess 140%, and has resulted in rates disproportionate to those levied on properties with similar value in other Australian cities. Thus in 2006 a Launceston home with a market value of \$1 million pays rates in the order of \$8,000 per year, a home with a market value of \$0.75 million pays rates in the order of \$4,500 per year. These numbers do not reflect well on Launceston when compared with other municipalities in Australia.

Anecdotal evidence from the Victorian Municipality of Boroondara shows that a house with a market value of \$1.7 million pays rates of around \$2,200 per year plus water and sewerage of an additional \$700 per year, a total of under \$3,000 per year. At the 2006 census, the Boroondara median household weekly income was \$1,517, and the average wage and salary income in 2003 was more than \$63,000 per annum, substantially higher than Launceston's \$33,386.

### **4.4 Launceston's Excessive Expenditure**

The reason why Launceston ratepayers seem to pay a higher proportion of their income in rates is probably due to a range of reasons but among them are:

- Profligate spending that is encouraged by the bureaucracy and councillors to favour special interests and promote perceived popular, but non-core sporting and cultural developments and activities.
- The perceived need by councillors to take a 'regional leadership' position in the funding of regional organisations and the development of infrastructure.
- The unfortunate 'ratcheting' upwards of projects in order to make them into Federal or State (or both) issues that require matching funding from ratepayers, often resulting in oversized infrastructure with attendant lifecycle costs that end up being borne by ratepayers.

Most Australian families base their expenditure on their income and not their wants and wishes. Launceston should do likewise; develop its rates strategy based on what income can reasonably be raised from the municipality and then prioritising what can core activities can be funded within those limits.

This may mean that some of the wishes and wants of councillors and management are not fulfilled, but most Australian ratepayers live with such reality in their personal lives.

It is not possible for a regional city like Launceston which according to the 2006 census has median weekly household income of \$758, substantially below the Australian average of \$1027, to have all the infrastructure of a major capital city. LCC must accept this reality and should not try to take on projects to fulfil some perceived need to outdo Hobart or fulfil the personal ambitions of councillors.

#### **4.5 Latest rates increase, July 2007:**

LCC struck its rate on Monday, 2nd July . The total rate increase is again expected to exceed CPI.

	2006-2007	2007-2008	Increase	% Increase
General Rate	8.2987	8.3160	.0173	0.2%
Sewerage	\$315	\$340	\$25	7.94%
Water Supply (20mm)	\$75	\$80	\$5	6.7%
Water	55c/Kl	70c/K	15c/Kl	27.3%
Garbage (85 litre)	\$65	\$70	\$5	7.6%

#### **4.6 Rating method:**

Page 49 of the PriceWaterhouseCoopers “National Financial Sustainability Study of Local Government” states that:

*“The States that allow councils to choose between the three rates calculation methods (AAV, UCV or CIV) tend to have the highest average rate revenue per capita, and also the highest rate revenue increases over the five years to 2004-05.”*

LCC chooses to use the AAV system despite having the capacity to use other methods.

The LRA maintains that the AAV system of calculating the rating value of properties is flawed because:

- It is not an assessment in that the responsible valuers do not make a true and considered assessment of each rateable property’s ability to produce an annual market rental.
- Instead, the Capital Improved Value (CIV) - in effect the estimated market value of each rateable property frozen at a point of time - is assessed based on sales evidence and the Local Government Act 2000 provides that the AAV shall not be less than 4.0% of the CIV.

- This calculation leads to anomalous results because many properties, particularly small rural holdings, are not capable of producing a theoretical annual market rental that equates to 4.0% of those properties' CIV.

We maintain that, if the AAV system is to be used, then each assessment should be just that – and assessment having regard to all of the pertinent facts regarding each individual property and not a mere mathematical equation.

Irrespective of the way in which the AAV is calculated, the AAV, or the CIV or UCV method of valuation is, in effect, a wealth tax. That is, because there is a nexus between value and the level of rates payable, there is an assumption that the more valuable the property, the greater its demands on council services, and vice versa. This is, clearly, not the case.

Why, for example, should the cost of water be more for one property than it is for another, cheaper property? The provision of that service by council is no different. The volumetric charge should take care of one property's usage versus another, just as a property owner's choice of what size rubbish bin service is required – the “user pays” principle which we support.

Tasmania's Brighton Council has recognised these basic facts by recently announcing a two-tiered flat rate system whereby residential properties will pay the same flat rate, irrespective value, whichever way value is determined.

#### **4.7 Differential Rating System**

LCC does not support a differential system that distinguishes between the different types of residential properties.

This means that the considerable number of residential properties located in Rural zonings – and these are not necessarily active or viable farming properties – pay the same rate-in-the-dollar as residential properties within the “built up” areas of the municipality.

While LCC will argue that it costs more to deliver its limited services to these properties, the fact remains that these properties experience a lesser level of services than those residential properties within the “built up” areas of the municipality.

For example: no street lighting, no kerb and channelling, no street sweeping, a lower level of fire-fighting capability (or none at all). There are outlying parts of the municipality where the only relationship ratepayers have with the municipality is via their Rates Notices: they do not go to Launceston proper, they make no or infrequent use of the municipality's facilities and shop outside the municipality. Yet, they pay, dollar-for-dollar, the same as their urban cousins to support the LCC's expenditure.

## **4.8 Water**

Launceston City Council buys its water from Esk Water (of which it is more than half-owner) Water at 31.9c per Kilolitre and retails it at 70c per Kilolitre – a profit of 38.1c per Kilolitre or 119.40%.

LCC has a three-part water-pricing system, as follows:

- An annual amount based on the AAV,  
plus
- a fixed annual amount based on the size of the property connection to the LCC water mains,  
plus
- a volumetric charge based on consumption. (until 2005 this was a 2-step 35 cents per Kilolitre, then 45 cents per Kilolitre then 55 cents per Kilolitre and now 70 cents per Kilolitre).

The first-mentioned is a wealth tax which means the cost of water is tied directly to a property's value.

This is further compounded by the fact that not all properties in the municipality have water meters installed. The result is that those properties which do have meters are subsidising those which do not or where no account is rendered or capable of being rendered.

This situation needs to be remedied to provide ratepayers with an equitable cost of water.

## **4.9 Intergenerational Equity of Council Borrowing**

LRA does not subscribe to 'intergenerational equity' to support the argument of increasing borrowings to fund capital works of doubtful value. Borrowing is a poor substitute for fiscal responsibility and should not be increased above current levels.

The Launceston community still remembers the years in the late 1980s and 1990s when a large proportion of rate income went in debt repayments. The repayments placed many restraints on ability of LCC to take any initiatives, however desirable or valuable. The LCC should no sooner burden future generations with such debts than aldermen or ratepayers would do the same to their own children.

The perceived need for borrowings is a function of wish lists determined by aldermen and management. LRA does not have any confidence with the way LCC goes about setting priorities.

## **5.0 EXPENDITURE ISSUES**

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### **5.1 Overview:**

Launceston City Council (LCC) is a high-taxing and high-spending council. LRA is not aware of any evidence that LCC considers the community's capacity to pay prior to making decisions that have far-reaching consequences for ratepayers.

The Association agrees with the recent "Review of Financial Sustainability of Local Government in Tasmania" that states:

*"Tasmanian Councils could improve sustainability of their long-term finances by pursuing short-to medium-term savings through further operational efficiencies and the reordering of service priorities".*

The Association would go further to say that some services should be dropped altogether, transferred to State Government or funded entirely through user-pay charges.

The data the Association has been able to collect would indicate that the effective additional rate of tax that is paid by ratepayers in Launceston is much higher than that paid by ratepayers in surrounding councils. (Section 4.2)

### **5.2 Role of local government:**

The role of local government is essentially that of a service provider - its core activity.

Page 719 of the PriceWaterhouseCoopers "National Financial Sustainability Study of Local Government" states that:

*"Policy choice is where local government bodies choose to expand their service provision voluntarily."*

And

*"It is critical in the context of expanding community demands that councils attempt to contain services to meet the reasonable and essential demands that are within the financial resources of the council."*

Such has not been, and is not, the case with LCC. "Community demands" have never required the type of non-core/discretionary activities listed above, before other more basic core priorities, at least, have been met.

### **Core v. Non-Core Activities:**

Launceston Council was established in the 1860's during Imperial Government and before Federation. Accordingly, Launceston historically also operated a water treatment plant, a hydro-electric power station at Duck Reach and an electric tramway system, but these were progressively transferred to State or special-purpose authorities.

Historically, there has always been intra-Colony then intra-State rivalry between Hobart and Launceston. For many, Launceston has been, and still is, seen as being 'the Capital of the North'. This rivalry has manifested itself in a tendency to try to 'out do' Hobart wherever possible, aided, until recent times, by the inherent rural wealth of the Northern Midlands area. The latest income data from the 2006 Census shows the wealth of the city is now much diminished.

However Launceston is burdened with its history and the LCC specially does not seem to realise that times have changed. As a consequence, over time, various layer-upon-layer of non-core activities have been grafted on to LCC's core activities. These 'extras' have not been demonstrated, of late anyway, to have been demand-driven by the community at large and have been the result of altruistic unilateral decisions buoyed by the belief that rates can rise and/or grants can be obtained to pay for them.

These non-core activities include, but are not limited to, inter alia, such areas of expenditure as:

The Queen Victoria Museum and Art Gallery (\$3.0m+ per annum)

The York Park (Aurora Stadium) complex (\$1.0m per annum)

The Regional Aquatic Centre (annual cost to be some \$2.4m per annum.

The Tourist Information Centre (total cost unknown but estimated at \$500,000 per annum)

Subscriptions to the Northern Tasmanian Development (about \$300,000 per annum)

A plethora of expense categories were referred to in a letter sent to LCC by the LRA (Appendix 4) but also relate to such other things as: sister cities programs, subsidising commercial activities who are tenants of city-owned properties, part ownership (10%) of Launceston Airport, operation of a re-badged organization (previously known as Total Workforce) which tenders for work in at times perceived unfair competition to private civil contractors, (including work outside the Municipal boundaries).

LCC is presently discussing increased grants for community activities, including AFL Football and "Festivale" a food and wine extravaganza, from \$130K/annum to \$500k.

#### **5.4 Queen Victoria Museum and Art Galley (QVMAG):**

The QVMAG is a major museum that is largely funded by ratepayers after a \$1.129M annual State grant, unlike the Tasmanian Museum and Art Gallery in Hobart that is fully funded by the State, with only a relatively small cash grant from Hobart City Council (\$13,200 including GST, 2006/07 Annual Report).

In 1993 the LCC made the decision to expand the museum to the Inveresk Railyards site. This site was upgraded with Federal Better Cities program funds and Centenary of Federation grant funds. The funds were used to upgrade the site and move part of the museum to it. The result was a large increase in the operating costs of the museum funded by Launceston's ratepayers.

The QVMAG still holds a large number of old railway buildings on the site that are in a poor state of repair, intending to attract further grants for their redevelopment prior to expanding the museum even further with likely attendant imposts on ratepayers.

In early 2007, LCC announced a series of retrenchments and curtailment in services that would allow the Council to make one-off savings of \$3.00 million and which are now stated to be dedicated to an upgrade of the original Wellington Street site.

The Recreational and Cultural Facilities Expenditure of Launceston City Council is orders of magnitude greater than the neighbouring councils whose ratepayers benefit from the QVMAG and other Cultural and Recreational facilities within LCC's jurisdiction without bearing any of the cost. This is shown in Table 4.4.1 below.

**Table Recreational and Cultural Facilities Expenditure per Capita**

	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005
Launceston	\$173	\$202	\$223	\$229	\$249
Meander Valley	\$54	\$48	\$64	\$34	\$67
Northern Midlands	\$75	\$105	\$55	\$63	\$74
West Tamar	\$49	\$51	\$55	\$72	\$62
Dorset	\$78	\$92	\$105	\$109	\$131
George Town	\$102	\$107	\$164	\$154	\$209

Source: Measuring Council Performance in Tasmania 2004-2005

## **5.5 Aurora Stadium**

Aurora Stadium, is managed by one of Launceston City Council's 'Controlling Authorities'-the York Park and Inveresk Precinct Authority (YPIPA). The facility was substantially upgraded, with most of the funding from government grants.

The upgrade has resulted in a much larger facility than the one it replaced. This new facility comes with its attendant much larger maintenance costs borne by ratepayers. Despite the alleged financial benefits to Launceston of AFL matches, since its inception in 2003-2004 YPIPA has always traded at a substantial loss of nearly \$1 million per annum and detailed further in the Case Study in Appendix 2.



## **5.6 Regional Aquatic Centre**

The Regional Aquatic Centre (RAC) is a proposed new indoor/outdoor swimming pool complex of over 6,000 square meters that will replace the former indoor swimming centre at Mowbray and the outdoor swimming centre presently at the Windmill Hill site.

The RAC was planned for a few years and its cost grew as promises of Federal funding grew from the two major political parties in the lead up to a Federal election. The upshot of this matching funding bidding war is that the RAC is budgeted to be a \$22.0 million project that will require an estimated \$12.0 million from ratepayers funds. The ratepayers would have been satisfied with a modest \$12.0 million municipal swimming centre but to attract Federal and State funding it has been made larger and labelled a Regional Centre.

The yearly cost to ratepayers of the more lavish-than-necessary facility will be more than \$2.0 million per year as detailed in the Case Study in Appendix 2. This represents more \$70 per ratepayer per year. The average ratepayers' subsidy will be in the order of \$6.00 per visitation - more than the expected entry fee.

## **5.7 Tourist Information Centre**

LCC's substantial contribution to promoting tourism in the area is another non-core activity that costs residential ratepayers and benefits a small number of businesses directly, and a larger number indirectly.

It is an anathema to residential ratepayers that some of their over-taxed rates expenses effectively transfer wealth from one ratepayer to another.

## **5.8 Northern Tasmania Development**

LCC's contribution to this regional promotional body does nothing for residential ratepayers and arguably very little for businesses and is to be condemned as a waste of ratepayers' funds.

## **5.9 Sundry promotions**

There are a number of these and, while some could be seen to have some community benefit, this Association believes that the user-pay principle should apply and that ratepayer funds should not subsidise these functions.

## **5.10 Tamar River Levee Bank Repairs**

Recently, the LCC agreed to contribute a third of the \$39.0M estimated cost to repair and reconstruct the Tamar and North Esk River levee banks, when, in our opinion this should be a totally State or Federal cost. The Tamar and Esk River systems drain a substantial portion of Tasmania and ought to be fundamentally a State responsibility, not Launceston's ratepayers. The silting of the river basin is a natural result contributed to by of rural and mining

activities throughout the catchment area. The agreement reached is for the expenditure of \$13.0m each by LCC, State and Federal.

Page 130 of the PriceWaterhouseCoopers “National Financial Sustainability Study of Local Government” states that:

*“A key finding of this study has been that some councils often spend a portion of their scarce resources in attempting to address service and infrastructure gaps that are regional or state issues.”*

and

*“Both the state and local governments need to better recognise when such issues are beyond the capacity or responsibility of an individual council, and are actually issues of significance to a wider region or state.”*

These comments are particularly appropriate in this instance.

In recently announcing the \$13M funding commitment by the Federal Government, local MHA Michael Ferguson stated that flood levees were a State responsibility to the point where there ought be a specific state authority formed to drive the project. He queried why the whole cost had not been borne by the State Government, albeit with assistance from the Federal Government, or at least without the \$13M contribution by Launceston ratepayers.

### **5.11 Cost recovery-cross subsidies:**

According to page 20 of the Commission’s Issues Paper, May 2007:

*“In a number of jurisdictions, local governments are prevented from collecting revenues in excess of the cost of providing these services, preventing the payment from being used, in part, as a ‘tax’ to cross subsidise other services.”*

We have examples of instances where this policy is not adopted by LCC.

For instance:

- LCC buys its water from Esk Water (of which it is part-owner) Water at 31.9c per Kilolitre and retails it at 70c per Kilolitre – a profit of 38.1c per Kilolitre or 119.40%. LCC could, indeed should, charge for water consumption at cost and not use this as a way of cross-subsidising other services.
- Annual fee of \$550.00 charged to property owners with aerated waste treatment systems (AWTS) being less than the contractors’ charges to LCC for servicing these units.

## **6.0 COMMUNITY CONSULTATION**

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Page 129 of the PriceWaterhouseCoopers “National Financial Sustainability Study of Local Government” states that:

*“Councils should be aware of the processes outlined in the Inter-Government Agreement Establishing Principle Guiding Relations on Local Government Matters (IGA Agreement) when deciding on priorities. Community consultations throughout this process will be critical in: adequately reflecting the community’s key priorities, managing community expectations and ensuring the community understands the trade-offs between increasing services and increasing rates/charges, increasing awareness of the vast number of council services and assets currently provided and educating the community on the implications of not prioritising their delivery service.”*

Page 72 of the PriceWaterhouseCoopers “National Financial Sustainability Study of Local Government” states that:

*“A large part of ensuring that each council is providing the right mix of services that will not place pressure on their long term sustainability is to actively engage in consultations with the local community.”*

This has not happened with respect to LCC. This Association has conducted well attended public meetings to protest the rating issues and had made verbal and written representations to Council and aldermen – without success.

Launceston City Council will, do doubt, argue that consultation has taken place – especially with regard to the QVMAG. However, as previously stated: LCC never posed the question to the ratepayers of Launceston only, as the payers of the QVMAG’s bills, in terms of obtaining their support of these measures but in the knowledge of the total and ongoing cost to ratepayers. Has this been done, the outcome may well have been vastly different.

Recently, the Association had cause to criticise the LCC when only a small and random selection of its ratepayers were contacted (via letter) of an important review of the Council Planning Scheme. We argued, quite reasonably, that ALL ratepayers should have been made aware of this review as it affects ALL ratepayers.

This Association maintains that true consultation would:

Only involve those persons contributing by rates to Council’s expenditure.

Involve full disclosure of the cost to ratepayers.

Be open and inclusive of all ratepayers.

Respect the majority view.

LCC goes through the motions of 'community consultation' and surveys community satisfaction with council initiatives. The instruments used to poll the community are often designed to come up with a predetermined answer.

Examples of this abound:

The \$40,000 round of public consultation to justify the council's decision to change the use of the Queen Victoria Museum and Art Gallery campus at Royal Park is one.

The Community Survey, a telephone survey regularly commissioned by LCC which enquires as to the importance of issues and the rating that ratepayers give council on the particular issue (see LCC annual report 2006 page 11). The nature and structure of the questions is such that council can choose how to interpret results to support its argument for increased expenditure.

Either 'the community is satisfied, we can spend more', or 'the community is unsatisfied, we must spend more'. In the Community Survey, there is no attempt to temper the community's wants with a financial aspect, no user charge, or a possible rate increment is mentioned.

If a user charge is mentioned it is likely to be misinformation, a recent example of this was to claim that proposed pool entrance fees would be lower than the Hobart pool only because the Launceston quoted fees excluded GST.

The LCC press release stated:

*'The casual entry fee proposed by the consultants (on current day comparison values) is \$4.85 for an adult swim and \$3.55 for a child, which compares favourably with other similar regional aquatic centres. For example, Tattersall's Hobart Aquatic Leisure Centre charges \$5.15 per adult and \$3.95 per child. Council will decide on fees to be charged during 2007/08'*

The proposed pool entry fees are in fact 10% higher than those cited as can be ascertained in the Windmill Hill Facility Financial Plan, SGL Group, December 2006.

Unfortunately, there seems to be a reverse correlation with the size of the project and the quality of the 'consultation'. An example is recently approved Regional Aquatic Centre, where in our opinion, the consultation was minimal and highly deficient, considering the size of the budget for the project.

From the beginning, the strategy was to sell a new swimming centre as a Regional Aquatic Centre and use this argument to extract funding from election promises from both sides of politics.

A report was put to LCC on 30 July 2001, claiming that there was regional support for the RAC and that the project costing \$17.2 million would require LCC input of \$8 million. The report further claimed that the new centre would move to an annual operational surplus of \$105,000.

A subsequent study in 2002, the Northern Tasmanian Regional Aquatic Strategy (Michael King and Associates) found that such a centre would receive nearly 500,000 visitations per year. The study was rushed and under resourced it was 'based on a tight time frame and limited financial resources' (page 1).

The community consultation was limited to a telephone survey of 1,100 people from each of the member councils of the NTMO, and a public forum. In all 398, 49% of the completed surveys were from Launceston and only 21 people attended the public forum in Launceston.

The survey found that the majority (66%) of people were happy with the pool facilities they used. Of those who were unhappy, the main reason given was poor quality and age of change rooms. Despite this, council's response has been to build a new swimming centre, when all that the consultation found was that what was needed was a much more affordable solution; upgraded change rooms.

The most recent report the Windmill Hill Facility Financial Plan, SGL Group, December 2006 now shows the RAC making an operational loss of around \$350,000 per annum and glosses over all other costs to be borne by ratepayers.

All the surrounding councils that constitute about 50% of the forecast visitation have refused to contribute funds towards the construction or operating expenses of the RAC. The Mayor said one neighbouring municipality was considering 'in kind' support, but nothing has eventuated.

One of the 'Business Units' within the RAC is a childcare centre that is forecast to trade at a substantial loss each year. This begs the question, why do ratepayers have to subsidise the childcare of people with enough time and money to visit the RAC during business hours, while the rest of the ratepayers are at work and paying market rates for their childcare?

## **7.0 SUMMARY**

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Launceston City Council is a high-spending high-taxing council that is taxing its citizens much more than surrounding municipalities.

Ratepayers are taxed via an inequitable AAV system beyond their capacity to pay and at a higher-than-necessary level in order to support extravagant municipal expenditure that goes far beyond that which could reasonably be expected by a rural regional municipality with only 62,000 residents and 28,766 ratepayers.

This Association would like to see:

- The reduction of discretionary expenditure that does not address LCC's core responsibilities and activities.
- A flat rate system of rating so that all properties of the various rating categories pay the same rates reflecting the equal access to and use of LCC services.
- Failing that, the adoption of a UCV system of rating that at least reduces the effect of a wealth tax as now imparted by the AAV system.
- Recognition of the fact that the Launceston municipality is only a rural regional municipality and, while it may well be "the largest business in town" it is a service provider that must keep in step with, and abide by the wishes of, its shareholders – the ratepayers of Launceston.
- Recommendation to the Australian Government to consider the additional burden imposed by rates as an effective additional and highly progressive income tax. Those councils that exceed the national average in their taxing of ratepayers should be discouraged from doing so. A very effective means of providing such encouragement would be to withhold capital and special purpose grants to local governments that excessively tax their constituents.

## 8.0 APPENDICES

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### Appendix 1 Launceston City Council Statistics

Source: Launceston City Council Annual Reports

	Population	No Properties	AAV	Capital Val	Rate Revenue	Total Revenue	Total Op Exp	Capital Exp	Total Debt	Debt servicing	Debt servicing/total op exp	Employees
1995	65,800				38,879,484	57,865,150	54,123,665					
1996	65,800	27,207	256,729,453	3,026,410,725	40,752,175	59,320,265	55,258,327	17,256,236	9,033,051	3,876,489	7.00	
1997	65,310	27,421	259,639,025	3,106,600,825	42,273,223	59,526,838	56,224,750	15,816,697	8,479,604	3,610,771	6.40	
1998	63,580	27,652	270,900,439	3,540,629,125	43,165,128	62,791,562	60,429,692	15,849,842	8,613,208	2,786,359	4.60	
1999	63,580	27,775	272,362,911	3,565,894,625	43,621,214	67,603,126	60,389,466	15,387,438	8,361,468	2,547,903	4.20	
2000	62,897	27,916	274,248,549	3,592,340,625	44,580,377	66,051,367	60,841,320	24,080,360	8,405,118	2,570,324	4.20	485
2001	62,897	28,006	278,127,607	3,648,737,625	46,838,497	68,964,268	65,235,290	21,939,301	10,392,657	2,611,163	4.00	478
2002	62,510	28,060	279,042,087	3,663,805,625	46,377,524	70,326,941	68,479,978	23,156,107	10,090,583	2,948,598	4.30	478
2003	60,833	28,193	281,796,725	3,698,633,625	48,247,318	73,974,503	72,549,106	20,863,902	9,968,602	2,668,200	3.70	479
2004	60,833	28,463	284,132,161	3,734,947,575	50,295,428	79,610,763	76,107,516	26,748,268	10,135,029	2,049,527	2.70	495
2005	63,339	28,776	289,541,290	3,819,484,075	54,365,775	91,387,918	80,802,542	26,780,425	10,311,001	2,353,902	2.90	505
2006	65,021	28,766	386,434,224	7,351,455,500	57,073,095	98,799,806	85,517,790	25,526,047	11,105,933	2,776,439	3.20	505

## Appendix 2 – Case Study, Regional Aquatic Centre

The Regional Aquatic Centre (RAC) is a new indoor/outdoor swimming pool complex of over 6,000 square meters that replaces the former indoor swimming centre at Mowbray and outdoor swimming centre presently at the Windmill Hill site.

The RAC was planned for a few years and its cost grew as promises of Federal funding grew from the two major political parties in the lead up to a Federal election. The upshot of this matching funding bidding war is that the RAC is budgeted to be a \$22.0 million project that will require \$12.0 million from ratepayers funds. The ratepayers would have been satisfied with a modest \$12.0 million municipal swimming centre but to attract Federal and State funding it has been made larger and labelled a Regional Centre.

The yearly cost to ratepayers of the larger-than-necessary facility will be more than \$2.0 million per year as detailed in the table below. This represents about \$70 per ratepayer per year. The average ratepayers' subsidy will be in the order of \$6.00 per visitation - more than the expected entry fee.

Table Regional Aquatic Centre Operating Costs

Acknowledged cash operating loss per year. The conservative estimate is \$575,100, average best case is \$350,700, for the sake of argument make this a round figure below the average of the two figures - \$450,00 per year. (Table 2.2, page 19)	\$450,000
Outdoor Pool. The base case estimate is for the outdoor pool operating only for the summer season. However, assume that the outdoor pool will be kept open all year to maintain the level of existing service to swimmers that prefer the current open air arrangement - \$170,000 per year (page 21)	\$170,000
Major maintenance and refurbishment. This is acknowledged as \$500,000 every 5 years, to bring it back to an annual cost, assume an average of \$100,000 per year (point iv, page 11)	\$100,000
Financial Costs - Interest only. Assume that Council's estimate of project cost of \$22 million does not blow out. Council has secured \$10 million from taxpayers. This leaves a \$12 million deficit which Council will need to borrow. Assume a conservative rate of interest of 8% per year, without principal repayments. This equates to an interest only cost of \$960,000 per year. (point vi, page 11).	\$960,000
Financial Costs - Interest and principal Loan repayments. Assume a 20 year loan, 8% interest rate, a yearly repayment of \$1,200,000	1,200,000
Building and Plant Depreciation - Sinking Fund. Depreciation is a noncash expense that reflects the decrease in value of an asset as a result of wear and tear and age. Assume the pool has a 45 year life and at the end of that period it has no value and has to be demolished—a reasonable assumption given that this what is proposed for the Windmill Hill pool and was how the Mowbray pool was effectively treated. To ensure the funds are there to replace the asset after the end of its useful life, a sinking fund is normally established. Assume straight-line depreciation method - \$500,000 per year.	\$500,000
Lowest estimate of annual cost to ratepayers-not including principal loan repayments or sinking fund	\$1,680,000
Realistic estimate of annual cost to ratepayers, including principal loan repayments and sinking fund	\$2,420,000

**Source:** SGL Report the references in brackets are to page numbers in the SGL Financial Plan of December 2006.



The RAC is a good example of how the ratepayers have been left worse off by a 'gift' of money from the State and Federal Government. The Launceston ratepayers would have been better off with a smaller facility costing the same \$12.0 million in ratepayer funds and a smaller facility would have been cheaper to run and maintain and saved millions in ratepayers funds over its lifecycle.

It would be more appropriate and equitable for LCC ratepayers for the RAC to be considered properly as a regional facility and be fully sponsored and operated by the State Government similar, for instance, as the Silverdome sporting and entertainment venue.

Despite considerable protest by ratepayers and non-swimming club users and an expensive Planning Appeal challenge to LCC's planning approval process, the RAC is to proceed. This Appeal did not include evidence about financial sustainability or whether the expensive development site selected was appropriate.

The annual cost of operating this facility is likely to be in the vicinity of \$2.4M when the shortfall in income over operating expenses, the interest payable on the LCC's borrowings of \$12 million, the cost of maintaining the facility and a whole-of-life sinking fund to replace the facility at the end of its projected life are all taken into account.

This is a further rate burden that the 28,766 ratepayers of Launceston can not afford. If such a facility is required, and we have considerable doubts concerning this, then, being a regional facility, the annual cost should be borne regionally and not be an additional burden solely on Launceston's ratepayers.

Page 130 of the PriceWaterhouseCoopers "National Financial Sustainability Study of Local Government" states that:

*"There is an example of a council...with support from capital grant funding, established a multi-million dollar sport and recreation centre...the annual operating costs of the centre...are often sizeable and can push a council towards operating deficits".*

LCC offers a mirror image of this situation being fully aware that the RAC will produce a sizeable shortfall beyond the approximately \$400,000 per annum deficit of the existing ageing facility which has, only in recent times, operated as an outdoor heated facility on a year-round basis since the Mowbray Indoor Pool was closed down.

Page 130-31 of the PriceWaterhouseCoopers "National Financial Sustainability Study of Local Government" further states that:

*"The prioritisation by councils of which services their community actually needs is essential to improving their financial sustainability and avoiding this type of sustainability trap. It is critical that the extent and scale of council facilities and services are efficiently matched to demand. Where usage is likely to be low, councils need to find more cost-effective ways to provide its people with access to the respective services".*

LCC has pursued this expensive scheme without regard to this principle.

### **Appendix 3 – Case Study, Aurora Stadium and AFL matches in Tasmania**

Aurora Stadium (formerly York Park Stadium), is managed by one of Launceston City Council's 'Controlling Authorities' - the York Park and Inveresk Precinct Authority (YPIPA). The facility, once a municipal oval was substantially upgraded by grants from The Australian Government and the Tasmanian Government as a venue for Australian Football League (AFL) football in Tasmania.

The upgrade has resulted in a much larger facility than the one it replaced. This new facility comes with its attendant much larger maintenance costs which are borne by Launceston ratepayers. Despite the alleged financial benefits to Launceston of AFL matches, since its inception in 2003-2004 YPIPA has always traded at a substantial loss as shown in the table below.

Table: York Park and Inveresk Precinct Authority financial results 2004-2006

	Revenue	Expenditure	Deficit	Deficit per ratepayer	Deficit per capita	Population	No ratepayers
2004	263,987	1,211,912	947,925	\$33.30	\$15.58	60,833	28,463
2005	277,705	1,209,356	931,651	\$32.38	\$14.71	63,339	28,776
2006	417,051	1,400,525	983,474	\$34.19	\$15.81	62,218	28,766

Source: LCC annual reports, 2006 census for 2006 LGA population

The losses have never been adequately explained to ratepayers, but a contributing factor could be that, as LRA understands, all revenue from AFL games flows to the Tasmanian Government. For a small community like Launceston the losses are not sustainable.

The subsidy paid by Launceston ratepayers to run AFL games in Launceston is substantially higher than that paid by the remainder of Tasmanian taxpayers. In 2007 the Tasmanian Government struck a five-year deal, worth \$3 million-a-year (adjusted for CPI), that will have Hawthorn football club play 5 matches per year in Launceston.

According to the 2006 Census there are 476,481 people in Tasmania, thus the subsidy to AFL football in Tasmania paid by the Tasmanian Government is \$6.30 per capita. The LRA welcomes the decision of the Tasmanian Government to subsidise AFL in Tasmania and at \$6.30 per head it may well be very good value.

What the LRA questions however is the large additional subsidy of close to \$16 per capita or more than \$34 per ratepayer that is paid by Launceston residents. Altogether, Launceston residents effectively subsidise AFL games by \$22.10 per capita, 350%, or three and a half times more than all other Tasmanians. If the YPIPA losses incurred were fairly distributed across the Tasmanian population, the subsidy from the Tasmanian Government would be less than an additional \$2 per capita.

LRA acknowledges that there are commercial benefits to Launceston tourism businesses that accrue as a result of the AFL games. Under the user pays principle, the losses accrued by YPIPA to run AFL should be recouped from a levy on those businesses that benefit from AFL and not from residential ratepayers. Residential ratepayers, who pay to attend AFL matches, go there under the user pays principle.

## **APPENDIX 4 LRA Letter to Launceston City Council, 13 May 2007**

Launceston Municipal Ratepayers' and Residents' Association Inc.  
PO Box 2039,  
NEWNHAM TAS 7248

Mr. Frank Dixon,  
General Manager,  
Launceston City Council,  
Council Chambers,  
St. John Street,  
LAUNCESTON TAS 7250

13th May, 2007

Dear Mr. Dixon,

### **RATES SUBMISSION**

The Launceston Municipal Ratepayers' and Residents' Association Inc. makes the following submission on three basic grounds:

#### **THE WAY RATES INCOME IS RAISED**

and

#### **THE WAY RATES INCOME IS SPENT**

and

#### **THE WAY INCOME IS FOREGONE**

### **OVERVIEW:**

The Association takes the view that instead of establishing a list of expenditure items and then setting a Rate that will pay for these, LCC should first determine just what level of income can be raised from its ratepayers and then set priorities as to how, when and where this income is spent.

In simple terms, the Association believes that the municipality is living beyond its means - in other words, spending more than it is capable of earning.

The unprecedented rate burden on its ratepayers is causing distress, and will continue to cause distress, for so long as ratepayer-originated funds are spent on activities that are not strictly provided for as core business of municipalities under the Local Government Act.

### **THE WAY RATES INCOME IS RAISED:**

- While there has been a token adjustment to a "user-pays" aspect of the rates bill, the Assessed Annual Value (AAV) system is still, in effect, a wealth tax.
- The AAV is not a true assessment of the net rental income value of all properties.

- If it was, then these assessments would be done individually, property-by-property, using appropriate market rental data and not be simply a mathematical calculation based on the Capital Improved Value (CIV).
- Such calculations produce theoretical AAV's that bear no relationship to market reality.
- We believe that an Unimproved Capital Value (UCV) system, common to NSW and Queensland, would produce more equitable results.
- The UCV, as a basis of valuation, is simpler to assess as the Valuer General has the data for Land Tax purposes.
- The UCV system should, therefore, reduce the cost of municipal valuation and reduce the rate burden of ratepayers.
- The UCV system does not penalise property improvements as is the case with the CIV-AAV system.
- There should be a distinction between Urban and Non-Urban properties insofar as the level of rates is concerned.
- Similar to Devonport Council policy, we believe that there should be some rate capping mechanism, irrespective of the method of valuation.

#### **THE WAY RATES INCOME IS SPENT:**

Launceston ratepayers are burdened beyond a reasonable level by the following discretionary expenditure:

- **Queen Victoria Museum and Art Gallery** which should be a totally State Government responsibility.
- **York Park** and **Inveresk precinct** generally which should be a totally State Government responsibility.
- **Tamar River** levee works which should be a totally State Government or State-Federal Government responsibility.
- **Regional Aquatic Centre** which should be a totally State Government responsibility.
- **Tourism** which should be a totally State Government responsibility.
- **Festivale** which should be a "user pays"-funded event.
- **Northern Tasmanian Development** which should be a totally State Government responsibility;

to mentioned but a few.

#### **THE WAY INCOME IS FOREGONE**

Launceston ratepayers are burdened beyond a reasonable level through Council-owned properties not being let to the public at large at commercial rental rates plus equivalent Municipal Rates (including Water, Sewerage and Fire levys etc.) and Land Tax, commonly charged in the private sector for commercial tenancies, such as, to mention a few:

- Restaurants and Chairlift at the First Basin and Cataract Gorge Reserve.
- Tenancies at Inveresk and York Park.
- Tenancies at Royal Park/Home Point.
- Albert Hall.
- Victorias.

- City Park Radio.
- Design Centre of Tasmania.
- Wood Design Collection.
- Princess Theatre.
- Earl Arts Centre.
- Cafe Eleven.
- Trustees Court.
- Carparks.
- Halls for itinerant traders/businesses.
- Mowbray Skating Rink.
- Brisbane Street Mall.

The Association looks forward to this submission being tabled and in receiving a response in due course that can be reported to its members.

Yours faithfully,

*John Kenshaw*

For and on behalf of the Launceston Municipal Ratepayers' and Residents' Association Inc.  
Senior Vice-President

## **9.0 SOURCES**

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