Local Government Association Tasmania

Assessing Local Government Revenue Raising Capacity

Productivity Commission

July 2007

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Productivity Commission

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1. Local Government in Tasmania

Introduction

The Local Government Association of Tasmania (LGAT) is the representative body of Local Government in Tasmania. Established in 1911, the LGAT is incorporated under the *Local Government Act 1993* with membership comprising the 29 Tasmanian councils.

The objectives of the Association are:-

- To promote the efficient administration and operation of Local Government in the State of Tasmania;

- To watch over and protect the interests, rights and privileges of municipal Councils in the State of Tasmania;

- To foster and promote relationships between Local Government in the State of Tasmania with both the Government of Tasmania and the Government of the Commonwealth of Australia;

- To represent the interests of the members of the Association generally, and in such particular matters as may be referred to the Association by its members; and

- To provide such support services to the members of the Association as the Association may by resolution in meeting determine.

The LGAT has prepared this submission in relation to the revenue raising capacity of councils. The subject matter of this Inquiry has long been an issue of concern to Tasmania and the Association appreciates the opportunity to be able to contribute to this debate.

2. Revenue

Trends in Local Government Revenue

What are the principal factors explaining the trends in revenue from councils' various sources?

The findings of the recently completed Access Economics Review of the Financial Sustainability of a Local Government in Tasmania indicate that own source revenue is much more important to Tasmanian councils than operating grants from other governments. In part, this highlights the small contribution that other spheres of government are making to Tasmanian councils' financing task.

Table 2.1 summarises the sources of operating revenue available to Tasmanian Councils in 2005-06.

TABLE 2.1 : COMPONENTS OF OPERATING REVENUE
TASMANIAN COUNCILS, 2005-06

	$M	%	%
Rates revenue[a]	383.446	74.7%	
plus Fees and charges	105.397	20.5%	
plus Other own-source operating revenue[b]	24.186	4.7%	
equals **Own-source operating revenue**	**513.029**	**100.0%**	**86.5%**
plus Operating grants from other governments	80.125		13.5%
equals **Total operating revenue**	**593.154**		**100.0%**

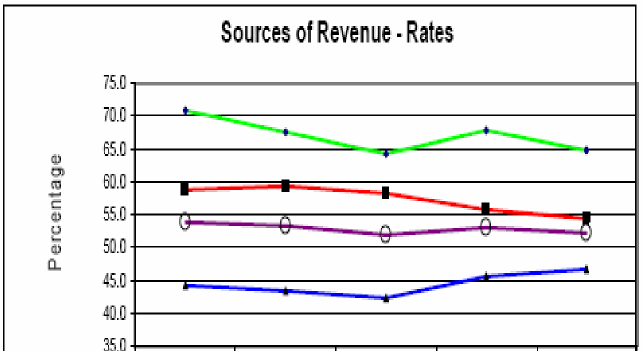
[a] Includes annual water and sewerage charges

[b] Includes any operating contributions and all investment income

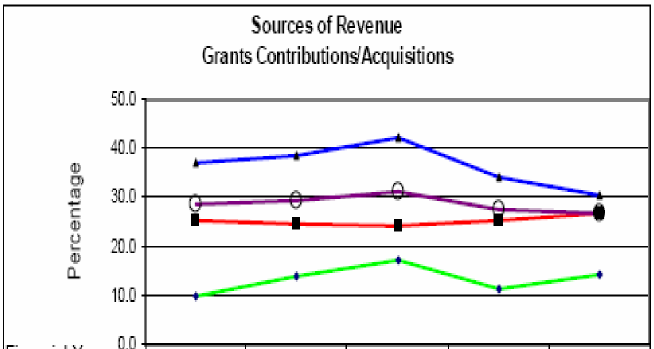
Source: The Review of the Financial Sustainability of Local Government in Tasmania

Chart 2.1 indicates that city councils are raising a greater proportion of their revenue from rates relative to smaller councils, with smaller councils more dependent upon grants. The introduction of a new formula for the distribution of General Purpose Financial Assistance Grants will mean that this trend is likely to continue in future years, as the formula is phased in.

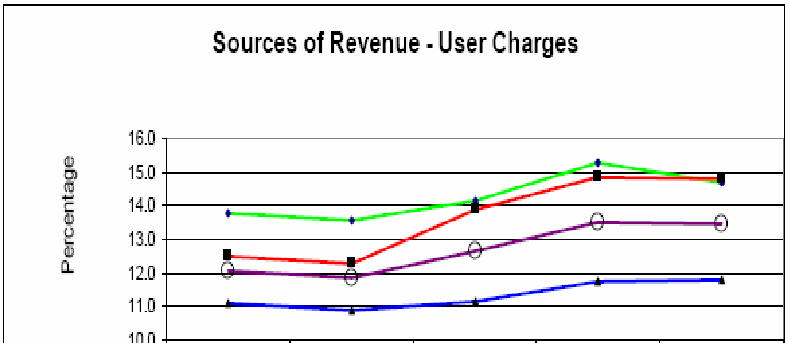
CHART 2.1 SOURCES OF REVENUE 2000-01 TO 2004-05



Financial Year	2000 - 01	2001 - 02	2002 - 03	2003-04	2004-05
Cities	70.8	67.5	64.4	67.8	64.7
Medium Councils	58.7	59.5	58.2	55.9	54.4
Small Councils	44.4	43.4	42.5	45.7	46.7
State Average	53.9	53.3	52.0	53.0	52.4



Financial Year	2000 - 01	2001 - 02	2002 - 03	2003-04	2004-05
Cities	9.9	13.8	17.2	11.4	14.4
Medium Councils	25.2	24.6	24.2	25.3	26.9
Small Councils	37.3	38.7	42.2	34.3	30.4
State Average	28.5	29.4	31.3	27.4	26.8



Financial Year	2000 - 01	2001 - 02	2002 - 03	2003-04	2004-05
Cities	13.8	13.6	14.2	15.3	14.7
Medium Councils	12.5	12.3	13.9	14.8	14.8
Small Councils	11.1	10.9	11.2	11.8	11.8
State Average	12.1	11.9	12.7	13.5	13.5

Source: Measuring Council Performance in Tasmania 2004-05

Some of the factors impacting on changes to revenue sources include the adoption of National Competition Policy and a sharper focus on user charging across the board. While rating revenue is the only real taxation base available to councils, there has been a focus on ensuring that communities understand the purposes to which that funding is being directed. Councils have tended to “strip out” direct and user charges and to minimise the relative amounts collected through general rating. This has seen a relative increase in user charges overall.

It should be noted that in some instances charges have been introduced as a replacement for a rate. For example a water charge replaces a rate or a sewage charge replaces a sewage rate. In these instances, just because the tax is now calculated as a charge and not a rate, does not mean that it is a user pays charge.

Why has 'other income' been growing at a faster rate than council rate revenues and sales of goods and services?

The focus on other income by councils in recent years has come about through a range of factors. National Competition Policy required councils to move to a more cost reflective arrangement for the provision of certain activities in councils. Full cost attribution across specific operations of councils has tended to focus on and foster a shift to a user-pay culture. While rating remains a progressive taxation arrangement, based on property value and a notional concept of capacity to pay, the consumption of particular products and services is deemed to be more fairly or appropriately paid for based on the actual usage. This has seen a much stronger emphasis on user-pay principles being adopted across councils.

Do these trends differ between State and Territories, and between urban, rural, remote and indigenous local governments? If so, what are the primary factors explaining such differences?

In 2005-06, Tasmanian Councils were recovering around 24% of their own-purpose expenses through just their fees and charges (as opposed to rates). Differences evident among Tasmanian Councils in their cost recovery ratios in 2005-06 are shown in Chart 2.2.

**CHART 2.2: COST RECOVERY RATIO
TASMANIAN COUNCILS, 2005-06**

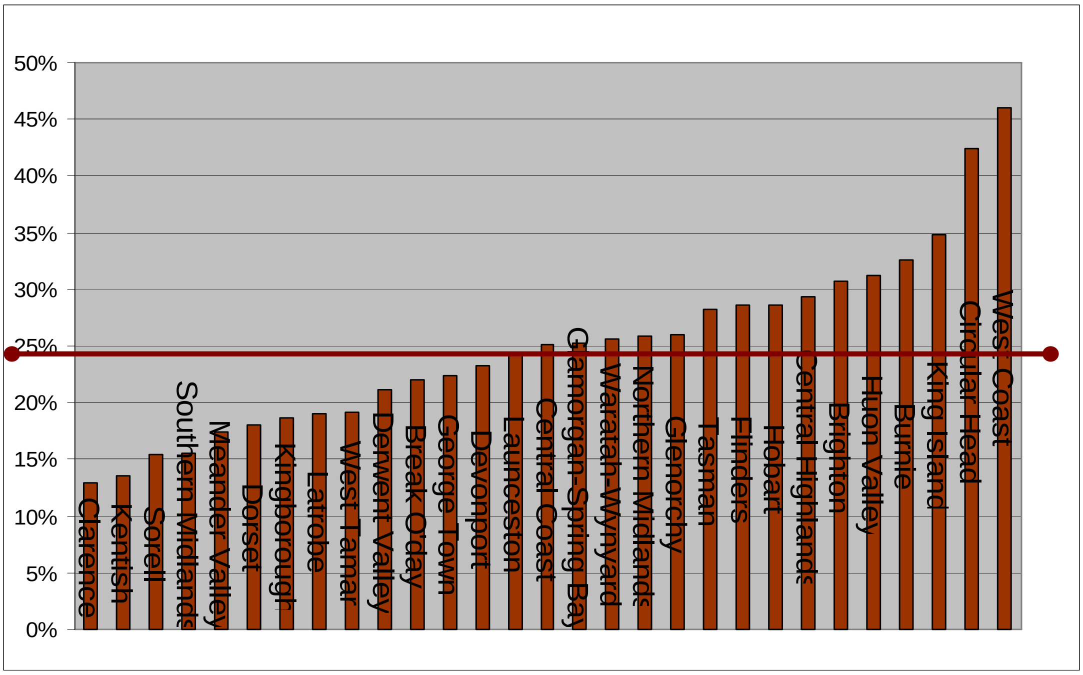
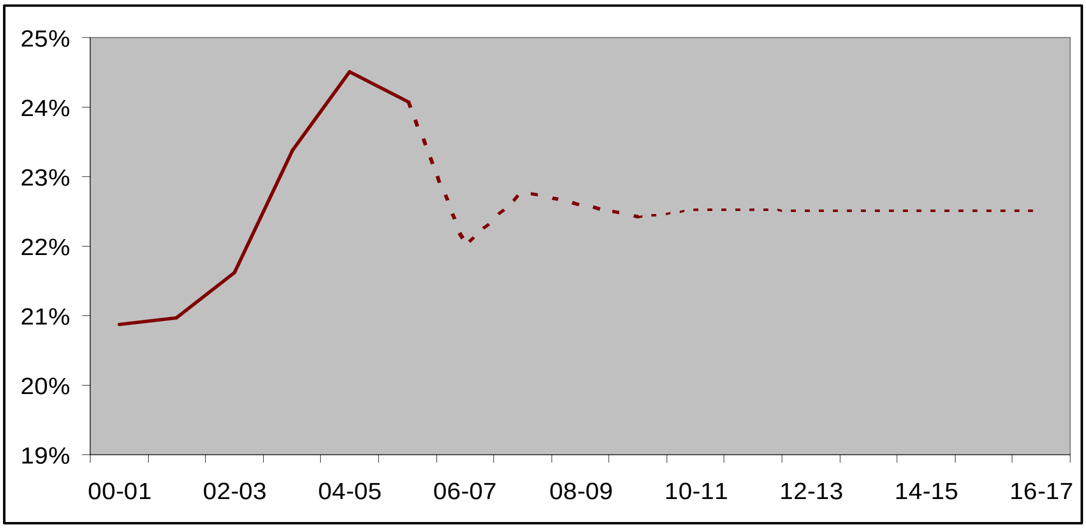


Chart 2.3 shows the time series for Tasmanian Councils' cost recovery ratio.

Chart 2.3: Cost Recovery Ratio
Tasmanian Councils, 2000-01 to 2016-17



Does the composition of council revenue (shares of each own source revenue – rates, fees and charges, and other) differ between States and Territories, and between urban, rural and remote local governments? If so, what are the primary factors explaining such differences? Do these factors have implications for the potential revenue raising capacity across different types of councils?

The evidence in Tasmania suggests that there is a significant difference in the composition of council revenue between urban, rural and remote councils. The reliance on rating income is heavily weighted in favour of cities compared to small councils whereas the converse is the case in relation to grant income. User charges are roughly the same although there is a lesser contribution at the small council level. Other charges are greater in the cities principally because of the size and scale of new development and the capacity/need in some instances to charge developer contributions. The rating arrangements largely reflect both a perceived capacity to pay and broader rate base as well as the services available.

The smaller the council, the fewer the services generally provided to and on behalf of the community. As indicated above, grant income is more heavily relied upon by smaller and remote councils due to the smaller population base and, in many cases, the perceived capacity of ratepayers to pay.

Table 2.2 : Components of Operating Revenue
Tasmanian Councils, 2005-06

	Cities	Medium	Small
Rates	65%	55%	47%
plus Grants	14%	27%	30%
plus User Charges	15%	15%	12%
plus Other	5%	3%	1%
equals Operating revenue from all sources	100.0%	100.0%	100.0%

Capacity to Raise Own Source Revenues

What are the principal factors that determine the magnitude of the various revenue raising bases available to local governments?

The overall ability of councils to increase taxes is restricted. Property taxes represent a measure of wealth but are less closely aligned to capacity to pay than Commonwealth and State taxes. The Australian Government's taxing regime is based on the income of individuals, businesses and non-residents, goods and services (GST), fringe benefits and superannuation. State Governments obtain GST revenues collected by the Australian Government and have access to payroll taxes, stamp duties, land taxes and taxes on gambling and vehicle use.

The property taxation system is relatively narrow in relation to the burden it imposes on individuals and businesses. It does not recognise the circumstance of being cash poor but asset rich. While the family home may be considered a premium asset, particularly in the case of many elderly Australians, the low level of disposable income and the inability and lack of desire to realise on that asset, makes a property-based system of taxation particularly insensitive to the plight of many community members in a council area. This circumstance is exacerbated by the ageing population of the state and the increased demand for services by the group that is likely to be able to contribute the least toward their provision.

How and why might they differ between Local Governments within and between States and territories (for example by council type or location and functions required of them) and over time?

Metropolitan councils are generally subject to greater throughput of activities such as planning and building approvals as a result of higher population and density. Although the provision of regulatory and inspection services has associated costs, the revenue stream from such activities would generally be significantly higher than rural and remote councils. Similarly, revenue from parking activities, including fees and fines, is limited to major urban councils in Tasmania with smaller and rural councils not having access to this form of revenue.

In the past decade Tasmania has experienced a significant property boom and while all municipalities have experienced growth, the larger centres continue to be in higher demand with a shift to apartment living and infill developments.

What are the key determinants of the capacity and willingness of resident households, organisations and businesses to pay for services provided by their local governments?

Capacity to pay is not a factor that councils are able to arbitrate upon because they do not have access to income information. General rates are, therefore, based on a notion of fairness.

The rating system of councils is a progressive tax that largely relies on property values as a measure of wealth and capacity to pay. While most residences in a municipal area will receive a similar level of service, the price paid for the provision of that service varies considerably and is based on the value of property.

This system takes no account of the wealthy individual living in a modest residence or the pensioner living in a once modest abode that is now considered "exclusive" as a result of the changing demand for particular suburbs or locations in a municipal area.

While difficult for councils to differentiate between the two examples above and the various circumstances in between, councils do take account of census data in relation to average incomes and the broad-based demography, employment, welfare and health of those living in their communities. These factors provide councils with a sense of what is 'fair and reasonable' in relation to an ability to pay. This capacity is balanced against the needs and demands of communities in relation to the range of services and quantum of resources that can be made available. Councils generally have a very rigorous and open dialogue with community members about these matters and aim to provide adequate information and seek as much input as possible in the deliberation of budget and rate setting. Councils also have a range of processes that allow for public input to their business processes. These include public question time, complaint processes, strategic planning development, special committees of council, budget setting and the Annual General Meeting. Various groups and individuals are also able to make representations to individual elected members or the collective council on matters of concern.

The willingness of the community to pay is always a moot point. In many cases, councils have recognised the need to provide for additional services or infrastructure and have needed to 'sell' this concept to the community. Some councils have achieved remarkable success and acceptance of double-digit rate increases on the basis of being able to explain fully to the community the reasons for the increases and the resulting benefits that will flow. Communities are generally more willing to pay if they understand the basis of the costs and the benefit that will accrue as a result of increased funding.

An added constraint is that council rates are highly visible as they are raised on a single annual rate notice. Any significant movement in the amount of rates is open to criticism, making them vulnerable to political pressure. On the other hand, income and consumption taxes are paid continuously by individuals.

What scope is there for local governments to augment their revenues with fees and charges collected from non-residents?

Some opportunities do exist for augmentation and examples are provided below. However, it must be understood that there is generally a community reluctance to support and accept the administrative cost of implementing charges for public facilities such as parks and museums.

There are some opportunities for increasing revenue from non-residents but generally they are not considered acceptable. An example that has been mooted by some councils in Tasmania that benefit from high levels of visitors is a bed tax. The arguments in support of such a tax are that visitors enjoy all the amenity provided by the council - roads, recreational facilities, information centres, rubbish collection but contribute nothing towards the cost of these services. A bed tax on overnight stays would provide a revenue stream that targets non-residents specifically and would acknowledge that their presence in a municipal area for an extended period requires a contribution toward basic council facilities.

Some councils are engaged in entrepreneurial activities involving functions that are core to council but that have applicability and demand in the broader commercial market. One such activity is the establishment of a software company by Brighton Council. Initially developed for in-house use, the software has been further enhanced on a modular basis and is now offered to the general council market via a subsidiary company of the council. Although the income generated overall has been modest, the intellectual property of the council has been harnessed and the benefits that accrue from sales lead to a revenue stream to council that would otherwise be required to be met by ratepayers.

Do local governments have policies, which in effect, limit their own-source revenue raising? If so, what are these policies and what might be the factors holding back councils from increasing their own-source revenue? What might stand in the way of changing the policies to expand the ways, and extent to which local governments raise revenue?

Although there have been some examples of Councils providing services to the public in competition with the private sector, these have not been particularly successful in raising revenue.

It has long been the practice of councils in this state to raise rate revenue by the Consumer Price Index (CPI) or less. This has been done on the basis of both seeking to maintain real terms revenue and acknowledging the broad-based principle of the community's capacity to pay. The latter is largely based on the fact that wages and the cost of essential services are linked to the movement of this index.

In recent times the LGAT has moved to develop an index which better reflects the cost of councils doing business. Although movements in the CPI have a bearing on elements of council activity, many of the functions of council are influenced more directly by such measures as movements in the general construction index. The LGAT publishes an annual Council Cost Index which is released to councils and the public as a means to demonstrate that while the CPI has shifted upwards, the cost of councils providing their usual range of services has increased by a greater amount. In determining rate setting a large number of councils now use this index as an initial consideration prior to their final determination. A few have chosen to adopt the index in its own right for rate setting purposes. The intent of the LGAT in publishing this information is to make councils more aware of the real cost of undertaking their activities and to then make judgements about either reducing services or increasing revenue to pay for the maintenance of the services, even though they are being maintained at the same level.

Although councils in Tasmania are not subject to concepts such as 'best value' in a formal sense, some of the services they provide are subject to pricing regulation while others are subject to pricing policies resulting from National Competition Policy requirements. Understanding the true cost of providing the service through full cost attribution has seen a shift to user charging. This reflective pricing provides councils with better controls on the costs relative to consumption and reduces the overall ask through the generic general rate.

What strategies might be available to local governments to increase the capacity and willingness of local residents to pay for goods and services provided, and where applicable, non-residents? Would any new strategies provide stable sources of revenue over time or would they be subject to variability over time?

Although a difficult message to sell to residents, there tends to be a general acceptance of an onus to pay where a service is being used or a product being consumed. Ratepayers are familiar with concepts of paying for water consumption and have, after a period of time, become more comfortable with paying for the disposal of waste at landfills. Contrary to the views of the pessimists, this has not resulted in people dying of thirst or masses of waste being strewn on the roadside. Certainly the notion of user charges has an applicability to the wider life experiences of individuals. While some will always consider that governments have an obligation to provide fundamental levels of service, there is a stronger willingness to pay for those products they actually consume. Such arrangements, where not directly billed at the residence, are generally non-discriminatory between residents and non-residents.

It is difficult to contemplate councils being able to significantly expand on the user charges regime they currently have in place. There is a general acceptance that at least some level of revenue should contribute to a consolidated pool which provides services for the whole community, irrespective of whether all partake or get the benefit of those services. This may include such activities as youth services or aged care, the provision of housing, general maintenance, recreational facilities, parks and reserves and general beautification. While many bemoan the levels of funds that are attributed to these activities there are generic expectations of amenity within municipal areas and it is unlikely or impractical that a user pay regime would or could be implemented to adequately fund these types of activities.

Are there any untapped revenue sources that local governments could use to augment or change the mix of their revenue raising? Would any potential new revenue sources be stable or variable over time?

As indicated previously, there have been some examples of Councils providing services to the public in competition with the private sector, but these have not been particularly successful in raising revenue.

With regard to the general mix of revenue raising there are some potential business rules or models that councils could consider. In effect, all ratepayers are the beneficiaries of the same level of amenity and service in relation to the various activities undertaken by councils. There are exceptions of course with some in the community having greater or lesser needs than others. However, if everybody is receiving the same level and standard of service then it is conceivable that all ratepayers should pay the same amount for the enjoyment of that service, regardless of the value of their property.

Brighton Council has adopted such a rating methodology for 2007/08 which sees different flat rates being applied across its various land categories but all within those categories paying the same amount. It has acknowledged that there are some areas of the municipality that are subject to greater financial hardship than others and has implemented some transitional arrangements in its residential rating regime. Brighton Council has a strong record of user pays for the provision of services and has received strong support from its community to implement this particular mix of revenue raising.

Land Rating and Valuation Methods

To what extent do limits on land categories that local governments can adopt for rating purposes restrict their capacity to raise rate revenues?

When a full municipal revaluation occurs all properties are individually valued and so land categories should not be an impediment to rating. The recently introduced valuation indexation process in Tasmania relies heavily on land categories and may result in some of the following.

The limitation on land categories could present difficulties to councils on the basis of being able to differentiate between particular classes or entity types within those categories. An example is the commercial sector. While valuations for commercial properties may have spiralled in a particular period, it is possible that small retailers are suffering an economic downturn and large retailers are benefiting from a buoyant economy. The influences may be macro or micro but the problems faced by councils are how to differentiate between the classes of business in the overall category such that they can maximise equity and fairness.

The same examples apply to the rural sector. In recent times in Tasmania the values of rural properties have continued to climb despite the fact that drought conditions have prevailed and returns to farmers from on-farm activities are at very low levels. A surge in plantation activity and pressures from property development have seen market prices continue to rise. Councils have little ability to make judgements about the various players in the industry in terms of the rating arrangements available to them and would likely benefit from a different categorisation. There may very well be practical difficulties with appropriate identification of new categories that could deliver greater equity across this category but the present circumstance provide councils with limited capacity to differentiate.

What are the principal reasons why some local governments do not pursue differential rate setting even where they are free to categorise their own land?

The use of assessed annual value as the basis for rating means that a differential mechanism has already been included in the method of calculating rates.

The inclusion of a differential rate (on top of a differential valuation base) has the potential to

- (a) politicise the rating process;
- (b) create thresholds which will be difficult to remove even when the justification for the differential no longer exists; and
- (c) skew the rating process.

The capacity exists to impose trade waste or volumetric charges in conjunction with rates. These mechanisms are more objective and transparent than differential rating. They also create an incentive for the property owner to reduce the cost (to themselves and the community) an outcome that isn't achieved by differential rates.

Councils are able to levy either a uniform rate or one or more differential rates. A uniform rate is where all rateable properties in a municipality are charged based on the same rate in the dollar. Differential rates are where councils set different rates in the dollar for different categories of rateable land. The council may have differential rates for rural land, various categories of residential property or commercial/industrial properties – each paying a higher or lower rate in the dollar.

Where a differential rate is applied, this is usually to achieve greater equity or efficiency. There is no limit on the number or type of differential rates that can be levied. When applying differential rates councils will usually consider three equity principles.

- the benefit or user pays principle – some groups have more access to, make more use of and benefit more from specific council services
- the capacity to pay principle – some ratepayers have more ability to pay rates than do others with similarly valued properties
- the incentive or encouragement principle – some ratepayers may be doing more towards achieving council goals than others in areas such as environmental or heritage protection

The capacity to differentially rate is available to councils in Tasmania under the *Local Government Act 1993*. A number of councils utilise this mechanism to spread the rating load across particular land categories. The method is largely utilised to offset substantial impacts of revaluation where property values in rural areas, in particular, would see significant redistribution of the rating task, notwithstanding the ability of the sector to meet the increased costs of rates. This has been prevalent in recent times when during times of major drought, rural property values in the state have continued to climb while farm incomes have dramatically reduced. Farmers find themselves asset rich and cash poor and differential rating is utilised as an offset.

Do restrictions on land valuation methods affect the capacity of local governments to raise revenue? If so, how and to what extent?

Councils in Tasmania have the ability to assess rates in a range of ways including the land value, the capital value or the assessed annual value of land. The basis of valuation provides a fundamental framework or foundation for councils to distribute their rating regime across properties in the council area. Tasmanian councils have tended to opt for the assessed annual value (AAV) of properties on the basis that it is considered to more appropriately provide equity across and within property classes.

Rate Pegging

What are, or might be, the reasons for rate pegging?

Where rate pegging exists it is understood that the government sets a limit on the total amount of income that a council can raise from certain rates and charges. This rate-peg percentage is specified each year. Because of rate pegging, councils' overall rates revenue cannot increase by more than the percentage increase approved by the Minister. If overall land values rise, councils may have to reduce or otherwise adjust the amounts levied per dollar so that total income does not grow by more than the percentage increase approved by the Minister.

The LGAT does not support the concept of rate pegging and cannot consider a conceivable reason for such a practice. Local Government is a sphere of government in its own right and is the government that works closest to the people and is arguably more accountable to the people.

Fundamental decisions on the amount of funds to be collected and how they are to be applied should appropriately rest with Local Government.

To what extent does rate pegging limit the ability of local governments to raise council rate revenues?

See above

Are local governments able to raise revenues from other sources to compensate for the potential revenue raising limits imposed by rate pegging? How, and with what consequences?

See above

Concessions and Exemptions

To what extent do mandated exemptions and concessions limit the ability of local governments to raise council rate revenue?

Exemptions are mandated for land owned and occupied exclusively for charitable purposes and Aboriginal land which is used principally for Aboriginal cultural purposes.

Councils have generally respected both of these principles although tests applying to charitable activities vary significantly across councils in Tasmania. Some councils adopt the Australian Taxation Office definition of a charity and to the extent that an organisation meets the ATO criteria, an exemption is provided. Other councils make judgements across classes of activities (i.e. church related or not-for-profit) and provide blanket exemptions. The Local Government Act is specific in terms of the provision of an exemption but allows councils discretion on application.

To the extent that there is a limitation of revenue, most councils would consider such services to be for the public benefit and would likely continue an arrangement of exemptions even if not compulsory. There is an expectation on the part of communities that these services are afforded particular treatment.

If a purest model was applied and rating was calculated but rebated in such a way as to reflect the council's "community service obligation" with transparent reporting, it is likely that broader consideration would be given to a non-mandatory exemption regime.

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?

In Tasmania, the State Government is largely responsible for the payment of rates for all properties it owns or over which it has control. Following a review of the Financial Relationships between Local Government and State Government in 2002, it was agreed that State Government Agencies (including Government Business Enterprises and State Owned Corporations) would pay general rates to councils. In turn councils are now required to pay a series of previously exempt State-based taxes including land tax, payroll tax and sales tax.

There are some exemptions relating to national parks, reserves, conservation areas, forest reserves, roadways, rail corridors and public parks. The State's major energy generator, Hydro Tasmania is also exempt from the payment of rates to councils but pays a rates equivalent to the State Government to comply with both National Competition Policy requirements as well as National Energy Market considerations. In cases where concessionaire arrangements are afforded to private operators in areas such as national parks or forest reserves, full rating provisions apply through the leasehold arrangements.

The Australian Government does not pay rates for any of its landholdings, including major airports where significant commercial leases to the private sector are now in play.

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 local governments from these concessions?

The State Government funds a pensioner concession for rates each year. The concession for each pensioner is capped and indexed annually. Some councils provide concession arrangements in excess of the funding allocated by the State Government but this is the financial responsibility of councils and there is no supplement from other sources.

To what extent do exemptions and concessions limit the ability of local governments to raise revenues?

The *Local Government Act 1993* exempts land owned and occupied exclusively for charitable purposes as well as Aboriginal land.

There are no existing guidelines in relation to what constitutes a charitable purpose. Some councils rely on the criteria set down by the Australian Taxation Office and require organisations to submit proof of such status whereas others simply have a range of categories that they exempt on a uniform basis (eg churches, private schools, non-commercial elderly care providers, etc.) It is arguable that to the extent that these exemptions did not exist there would be an opportunity for councils to access increased revenue. However, it is likely that councils would view these operations as supporting the health, well-being and amenity of the community and would undoubtedly prefer to provide them with rate relief to ensure their continuing existence and contribution to the community.

That said, the exemption from the general rate provided to some educational and health facilities represents a cost shift to local governments. It should also be noted that revenue exemptions are not often quantified when considering the benefit that is provided by Local government

Are local governments exempt from taxes and charges by other tiers of government? If so, what are they? Does any lack of reciprocity favour or disadvantage local governments?

Earlier this decade, the LGAT negotiated with the State Government on behalf of Local Government to revamp the financial arrangements between the two spheres of government. While reciprocity of taxation arrangements was largely the outcome of the review process, there remains some areas that are still not subject to council rating processes.

At the time of negotiating the arrangements, a fundamental principle agreed by the parties was revenue neutrality. This meant that whatever the outcome, neither party was to be in a worse or better financial position than they were at the beginning of the process. It was further agreed that places of public assess such as conservation areas, parks, reserves, roads, rail lines, marine and recreational facilities would be exempt from the taxing regimes of both parties.

The State Government pays council rates on all of its properties with the exception of its electricity generation business, Hydro Tasmania. In return councils pay land tax, payroll tax, motor tax and stamp duty. The net result of these new arrangements is an amount in favour of Local Government to the extent of some $2 million per annum, based on the arrangements existing in the base financial year – 2000/01. To the extent that councils do not receive rates from Hydro Tasmania (which pays rate equivalents to the State Government), it could be argued that councils are being disadvantaged in terms of strict reciprocity.

Setting Fees and Charges

What are the regulatory requirements and guidelines applied to local governments for setting fees and charges?

Under the *Local Government Act 1993*, a council may impose fees and charges in respect of the following

- The use of any property or facility owned, controlled, managed or maintained by the council;
- Services supplied at a person's request;
- Carrying out work at a person's request;
- Providing information or materials, or providing copies of, extracts from, records of the council;
- Any application to the council;
- Any licence, permit registration or authorisation granted by the council; or any other prescribed matter

Fees and charges cannot be imposed in relation to a matter if fees or charges are otherwise prescribed or where that particular matter is specifically exempt under legislation.

Councils are required to maintain a list of all fees and charges which is also to be made available for public inspection.

To what extent are local governments constrained in setting fees and charges?

Various fees and charges are set by statute that allow for review from time to time. The processes for setting these prescribed charges vary across relevant legislation.

In setting those charges for which councils do have authority to determine, the fundamental element associated with the calculation is cost recovery. Many of the services provided have a regulatory basis and councils are the sole or monopoly provider of those services. Profiteering or monopoly rents are not condoned in the fee setting process. Councils must be able to justify their pricing regime on cost recovery principles.

To what extent are the requirements and guidelines followed by local governments?

There is no knowledge of councils not complying with these principles. There are occasional complaints from organisation representing interest or industry groups that suggest that the inconsistent pricing policies of councils warrant closer scrutiny. This relates to such matters as the costs associated with building and planning assessment and inspection. The means by which councils deliver these services can vary markedly with some utilising in-house resources and others relying on private sector accreditation or outsourcing. The ultimate costing structure ideally reflects the effort of council in providing the service.

To what extent do local governments under or over-recover the costs of supplying goods and services?

There are some particular services which cause councils particular angst in terms of the fees they are able to collect for their provision. An example is a council certificate issued under Section 337 of the *Local Government Act 1993*. The certificate details all information council holds relating to a particular property and is a fundamental prerequisite in the purchasing of a house or land. While the majority of these certificates are handled with minimum fuss or duress, there are a number that create significant workloads for councils. This is particularly the case in relation to urgent settlements. In setting the charges, there is often little consultation with Local Government to understand the implications or intricacies of the effort required to process these instruments.

Other areas of under-recovery relate to the impoundment and enforcement of legislation relating to animals. Regardless of the number of animals registered or impounded, each council is generally required to provide a facility and a dedicated officer to fulfil this important function of council. The charges for dog registration and fees and fines associated with catching and keeping stray dogs does not in all cases cover the associated outlays.

Another factor that impacts the capacity to cost recover effectively is the practice of several councils to brief external resources to address enforcement of breaches. The cost of legal advice and services in many cases in not fully recoverable.

While it would be difficult to place an absolute measure on the extent to which councils over or under-recover costs, it is anticipated that on balance, councils would under-recover.

What scope would there be to raise additional revenue if the limits were removed?

If limits were removed totally councils could charge whatever they wished for particular services. This may have a positive or negative effect depending upon the diligence and capability of the individual council. As indicated earlier, there are a range of services and products provided by councils that are simply not provided by others. Councils either have a regulated advantage or are the providers of last resort. In the event that all limits were removed there would be the possibility for councils to effect monopoly rents from ratepayers and users of services. It is anticipated that the vast majority would continue to operate on an averaged cost recovery basis.

To what extent does local government legislation or other relevant legislation explicitly provide the power to set fees and charges in excess of the cost of supply?

The charging for the provision of water and waste water removal and treatment requires that councils make a return on their asset above the cost of supply. The regulator provides for a sliding scale of percentage charges within which councils can set their fee structure. The cost of providing the service is required to take into account fixed and variable costs, including depreciation and maintenance. The “above the line amount” translates to a profit or dividend on the service provided.

If powers are not explicitly provided, to what extent, if any, does this limit the ability of councils to raise revenue from introducing new fees and charges?

Where powers are not expressly provided for council fee setting and charges in relation to new services or functions, the general rule of thumb is to charge on a cost recovery basis.

3. Impacts on Individuals, Organisations and Businesses

Council Rates

What would be the effects on individuals, organisations and businesses of local governments increasing council rates?

The extent to which parties will be affected by increased rates will largely depend on the extent of the increase in the rating task. While councils tend to increase rates in real terms annually, the redistribution effect of valuations means that in any given year there can be significant winners and significant losers. Seaside suburbs and towns have been the subject of massive valuation increases over the past decade and relative to other property classes and categories in council areas, have borne the brunt of substantial rate increases.

The effects on various parties of large increases in rates is dependent upon the perceived value that is being obtained for the increased financial impost. In the event that a council is embarking on a major infrastructure expansion program that is well supported by the community and with which there has been strong communication with ratepayers, the likelihood is that rating increases, while not welcomed, will be understood and more likely accepted.

Conversely, a council that constantly pushes up rates but without perceived benefit to the community and a poor communication strategy to advise of the need and use of such increased revenue, is likely to receive significant negative response from the community.

What effects might rate pegging and the choice of land valuation methods have upon individuals, organisations and businesses?

A change in the valuation base from assessed annual value to either of the alternative bases would see a significant redistribution of rates between ratepayers.

To what extent are council rate revenues used to subsidise the delivery of goods and services for which fees and charges are collected? What are the consequences?

There are instances where the fees charged for a particular service may not cover the final cost of providing that service. Actions undertaken by councils to appeal or defend decisions in court or tribunal hearings are likely to exceed the revenue stream applicable to those functions, particularly in the event of losing the action. The briefing of solicitors, the requisite costs of pursuing the action and any other costs that may accrue can be considerable. While some averaging of charges is undertaken, acknowledging that some will be relatively straight forward and others complex, there are likely to be circumstances where rating revenue might be necessary to "top up" particular shortfalls.

It should be noted that this is not an intended consequence. Where fees and charges are imposed there is a conscious and determined effort on the part of councils to achieve cost targets for those services. There are, of course, some levels of community service obligation. It is highlighted elsewhere in this paper that the charges associated with animal control are generally insufficient to recover the full cost of having that service available. In these cases there is a deliberate action on the part of councils to meet the costs of that service from rate revenues in the interests of broad public safety and prevention of nuisance.

To what extent do efficiency and equity considerations contribute to the attractiveness of council rates as a source of local government income?

As indicated previously, rates are the only real taxation available to councils. It does not have the luxury of having a range of taxes across a broad taxation base that allows for greater sensitivity and attribution of the revenue-raising task.

Councils constantly strive to do more with less and are conscious of the demands of communities to provide a greater range of services with increasingly higher levels of service. Strategic planning and the broader public accountability and scrutiny of councils all work towards ensuring that councils are providing services effectively and efficiently. When setting budgets councils have a range of issues to consider. Having determined what is desirable and the levels of service preferred there are processes to assess cost cutting measures or more effective/efficient means by which to achieve proposed outcomes or there is the opportunity to seek more funding.

If councils simply maintain their current services at the same service levels, the reality is that they will require additional revenue. Costs of inputs for councils increase at a rate greater than CPI, so councils are constantly required to make assessments about internal efficiencies and choices on the services provided and programs pursued. In recent years it could be argued that the shifting emphasis on the provision of human services has been at the expense of capital and maintenance programs of assets and goes some way to explaining the current asset renewal gap of councils in this state and around the country.

Matters of equity are addressed elsewhere in the submission in relation to capacity to pay. The reality is that there is a very fine balance between councils' ability to generate even greater efficiencies while maintaining levels of service and ensuring that broad based equity of funding is applied across community members and organisations.

Sales of Goods and Services

To what extent do councils cross subsidise the prices of goods and services?

See above

If services are subsidised, are the subsidies funded by higher rates or other fees and charges? Could full cost-recovery fees and charges be collected? What would be the consequences? Are any other revenue sources used to subsidise services?

While cost attribution occurs in some elements of council business, there are likely to be some instances where revenues received for a particular service are insufficient to meet the cost of provision. Rating or general purpose grant income may be utilised to offset the additional cost of providing the service.

Full cost recovery is simply not possible in all cases. Throughout this document the example of animal control is utilised to demonstrate this point. While dog owners are prepared to pay a sum of money for registration for their pets, there is a threshold level which when reached owners may determine is simply too high and could opt out of participation in the registration program and the responsibilities that go with it. If such participation declines dramatically, significant problems arise in relation to management of animals and public safety. A key factor for councils to consider in the establishment of their fee structures is not simply the cost of providing the service but the broad tolerance level in terms of payment coupled with capacity and equity issues.

Waste Management is another area where significant cross subsidies occur, with kerbside recycling, in particular, being a heavily subsidised service.

Do councils use the return on their long-lived assets (profit and depreciation) to cross subsidise services? If so, what are the consequences for the sustainable provision of infrastructure services?

The premise that councils profit from infrastructure is ill-founded. The fact that councils are not able to fund depreciation and use the funding for asset renewal highlights the very reason for the analysis into Local government's revenue raising capacity.

It has become clear that councils have tended not to focus as much attention on their asset management task and have succeeded in many cases in under funding their assets and perhaps even diverting funds that should have been attributable to assets to the provision of services. It is likely that this has not been an intentional action and a large number of councils are now heavily committed to gaining a stronger appreciation of their asset base and the costs associated with maintaining it at the appropriate level while setting aside sufficient funding for renewal.

What would be the principal implication for individuals, organisations and businesses of applying or removing cross subsidies?

If cross subsidisation was completely removed from the sale of goods and services it would achieve a result of pre-transparency but would also likely see the reduction or elimination of those services for which the price to be paid for the services was considered by users to be prohibitive.

In some of these cases the service has a broad public benefit beyond the direct benefit assigned to the service user and there would likely be a diminution of community satisfaction in certain areas.

It is unclear whether the use of rate revenue in addition to fees is the cross subsidy that is being referred to or whether it is the issue of pricing structures. In some activities such as planning, it is appropriate for there to be a community contribution to the process as there is a community benefit in good planning outcomes.

The fee structure for planning processes could potentially be improved if there was a greater variable component so that developers could contribute more where their application is particularly time consuming.

The issue of cross subsidies between "ratepayers" and "fee payers" also commonly arises in the provision of facilities such as sports grounds, swimming pools, theatres, halls and museums. In general the reason the facilities are provided by government rather than the private sector is because sufficient revenue cannot be generated through user charges. Elimination of taxation cross subsidies would see the closure of some facilities as well as the elimination of some services.

Developer Charges and Contributions

To what extent do local governments employ developer contributions and charges to finance investments in new and upgraded assets?

There are two components to developer charges. Firstly those that relate to the onsite infrastructure such as roads, footpaths and drains. Secondly, the offsite or headworks infrastructure such as treatment plants.

The recovery of appropriate headworks costs has been the challenge for Tasmanian Local Government. While the power to impose the charge has been addressed, not all councils necessarily adopt the practice of charging. There are a couple of reasons for this.

(a) Competition between Councils for development
(b) Infill rather than green fields developments

In interstate areas of high growth headworks charges seem to be accepted.

There are two models that professionals use to calculate the charges.

(a) Marginal cost; and
(b) Share of equity.

The marginal cost calculates the additional cost created by the development. The share of equity model is based on the concept of paying an amount to contribute to the total value of the available infrastructure.

In recent times the practice of imposing developer charges has become more prevalent across councils, particularly in urban and high growth areas. For many years the property market in Tasmania was relatively static and with a less than buoyant economy, property development was quite stagnant. The past decade has seen unparalleled growth in the economy and the growth in house and property values has risen at a rate greater than other mainland states.

The extent of growth and the impact it has had on the requirement for increased infrastructure and the pressures it has placed on existing facilities has prompted many councils to introduce a system of developer charges.

For many years there has been a practice of pseudo contributions being made by developers as part of the development approval process. Conditions placed on development approvals have involved direct infrastructure provision or contributions toward adjoining or future infrastructure that may be necessary for a particular development. The range and extent of such contribution largely depends on the negotiation capabilities of the parties and the significance of the development to the developer.

The regime overall is not particularly transparent and provides little certainty for developers.

Are there legislated limits to contributions that can be required or charges that can be collected?

There are no legislated limits to the contributions that can be required or charges that can be collected. Unlike other jurisdictions where there are regulated formulae and maximum limits, Tasmanian councils have the ability to determine their own level of contributions.

However, councils do not seek to utilise this revenue stream as a profiteering exercise and have developed intricate models to ascertain the fair value of contributions toward infrastructure. There is a belief among councils that the charges should be able to be justified and set at a level that does not discourage appropriate development.

The legislative provisions available to councils to apply developer charges are not as strong as councils would prefer with an almost passing reference made to the ability for councils to seek contributions from developers under a specific type of agreement allowable under planning legislation.

Councils would prefer a more direct charging mechanism or regime that provided them with greater certainty and developers with more confidence in the charging regime.

Are there legislated constraints on the use of revenue raised from developer charges?

There are no existing legislative restraints imposed on collections from developer charges. However it is the practice of councils that collect such funds to set them aside in reserves and apply them at a later stage to the particular category of asset for which they were originally collected.

What are the effects on individuals, organisations and businesses of the use of developer charges and contributions?

When the matter of developer charges is raised in public forums there are often concerns expressed about affordability and “double-dipping” but evidence in other jurisdictions indicate that affordability has not been a significant issue. The developer contribution as part of the overall development cost and subsequent selling price of land, is generally relatively small across Tasmanian councils.

What is the most appropriate way to recover the costs of new and upgraded assets?

It is not clear that there is a right or wrong way or a better or worse way. The arguments are largely philosophical. Effectively, developer charges and contributions allow for the council to realise funds now for investments made in the past. The charges reflect a contribution by new parties to offset outlays made by other parties in the past.

There are cases, however, where significant development activity will impact dramatically on council infrastructure in terms of its adequacy to cope with the preferred expansion. In some cases borrowing capacity may be limited for councils and if the appropriate infrastructure is to be provided, contributions towards its construction or expansion may be necessary to allow the proposed developments to proceed.

There is no doubt a rating regime can achieve the similar outcome over a longer period but the capacity to recoup one-off costs provides for earlier intervention on asset maintenance, extension and renewal.

Fines and Other Pecuniary Penalties

What are the effects on individuals, businesses and organisations of fines and other pecuniary penalties and increases in them?

The majority of individuals, businesses and organisations operate in an environment where they understand and respect the law and acknowledge that when they breach provisions of the law there will be a financial penalty.

In the case of Local Government, it is generally the asset-based fines that create the most angst and grief for individuals in particular. Pecuniary penalties are applied in areas such as planning, building and animal control but it is parking fines and penalties for late payment of rates that tend to cause the most ire among ratepayers and residents. Both of these circumstances are avoidable but the relative behaviour of some is not necessarily in keeping with broad community expectations.
Councils do not focus on targeting wrongdoers. Like all levels of government, councils have compliance requirements and standards and expect that residents and users of services will respect and comply with the rules or guidelines laid down. The provision of limited time parking is done on the basis of ensuring that those seeking to shop or obtain commercial services have appropriate time and access to conduct that task. Once the time has expired there is an expectation that the motorist will move on, thus allowing another person to undertake their preferred requirements. The demand for parking often outstrips supply and without deterrents there would simply be a breakdown of the orderly arrangements for parking with many being denied fundamental access. The majority of parking attendants conduct their business in a friendly and cooperative manner, seeking to assist motorists and pedestrians where possible.

Individuals expect reasonable access and equitable treatment, businesses expect the facility of parking to be provided to ensure appropriate access and high customer throughput. The balance between charges and fines in the case of parking needs to be carefully managed.

What measures are there in place to protect against the possibility that local governments might view fines as a revenue raising instrument more than as an appropriate deterrent?

As well as providing a range of human and infrastructure related services, councils have a responsibility to look after the interests of their community. In addition to ensuring that there is equitable treatment of residents, ratepayers and visitors, councils also have an obligation to assist with the facilitation of the economic prosperity of that community. The intention of parking meters and car parks is to provide shoppers and users of services access to retail and service outlets for limited amounts of time. This allows for orderly allocation of the parking resource while raising revenue sufficient to meet the cost of providing the service.

Fines are generally administered as a deterrent but in many cases warnings are given or opportunities provided for motorists to rectify the error. In recent times, the cost of parking has been linked to climate change as a possible deterrent for motorists to outstay their time allocation but, again, this is not considered to be utilising the fine structure as a revenue raising instrument.

Indeed, in Tasmania is that there are substantial levels of unpaid fines and the cost to retrieve the fines through court process is often prohibitive. The amounts outstanding for the two major cities alone runs into the millions of dollars.

It is acknowledged that there are few measures that limit the potential revenue that could be generated from fines. However, it should be noted that it is the error of the user of the service in this case and not the fault of the council for imposing a fine. Another indicator of effort of councils in this area is through the budget setting process. It is the position that councils would allow for a certain level of revenue from activities such as parking but would not make a distinction between fines and parking fees at the time of setting budgets. Historical data certainly comes into play but there are not obvious budget strategies to increase revenue from this source through increased fine activity.

If conflicts of interest arise between deterrence and revenue raising, is there any evidence of the effects on individuals, organisations and businesses?

To the extent that individuals, businesses and organisations have particular issue with councils in relation to matters such as the balance between deterrence and revenue raising, there are several opportunities for representations to council including, public question time, standard complaint processes, annual general meetings and direct representation to councillors. At the ultimate level there is also the ballot box although this is very remote.

Interest Income

To what extent are local government cash reserves the result of State Government imposed borrowing limits?

Under the *Financial Agreement Act 1994,* the Treasurer is required to approve the Loan Council borrowing allocation of Local Government Authorities (LGA). The Loan Council is a body comprising representatives of the Commonwealth, States and Territories, which approves the borrowing limits for each State and Territory Government. Local Government borrowing limits are included as a memorandum item which forms part of each jurisdiction's total Loan Council Allocation.

In addition, the *Local Government Act 1993* requires the Treasurer to approve any loans undertaken by a LGA. A process for recommending the allocation by the Treasurer for each LGA and for the total Local Government sector is therefore required.

In recent years, the total borrowing allocation requested by councils has been growing. However, it has been Treasury's policy to only recommend to the Treasurer modest increases in the total Local Government borrowing allocation so as to ensure that Local Government borrowings do not increase to an unsustainable level.

The previous process followed by Treasury in developing recommendations for allocation of the total Local Government borrowings to individual councils was based on the capital projects that each council was planning to undertake, adjusted for any internal reserves held by the council and any debt refinancing planned. This presented particular difficulties to Treasury in terms of its capacity to assess the merits of various capital projects.

The Treasurer is required to approve all council loans undertaken during a period, whether new borrowings or refinancing. A survey is forwarded to all councils and local government authorities. Upon their return an assessment is made as to whether they fit the Net Debt to Revenue and Net Interest Cost Ratio benchmarks of 40% and 7 % respectively. Councils and Authorities are advised of the outcome of the process following the Treasurer's approval.

What are some of the implications of these limits and how do they affect capacity of local governments to raise revenues?

In recent times, Tasmanian councils' reliance on borrowings has fallen to very low levels. The recent Access Economics report was critical of the trend of many councils toward a zero public debt policy on the basis of its lack of intergenerational equity. Access Economics highlighted that it was inappropriate that current ratepayers are expected to meet the full cost of infrastructure assets, most of the benefits of which accrue to future ratepayers. It considered that councils, overall, were able to access higher debt without it resulting in a need for additional revenue, over the short to medium term, to meet the extra debt servicing charges. Higher borrowings would free up cash flows that are otherwise paying for asset acquisitions and could contribute to servicing the additional debt involved.

There are some councils in the state facing significant infrastructure backlogs or challenges associated with the need to access borrowings that exceed the allowable benchmarks. Rapid growth in a number of municipal areas and population shift has contributed to problems for at least four municipal areas in the state. With little reserves and an inability to borrow the requisite funds councils are faced with circumstances of assets falling into disrepair or an inability to fund infrastructure necessary for expansion of the municipality.

What are some of the implications of cash reserves on both efficiency and intertemporal equity in the community?

The renewal of Council infrastructure in perpetuity cannot be financed by borrowing. Borrowing is appropriate as one of the elements of Local Government finance where new or upgraded assets are being constructed.

The funding of depreciation is the primary accounting mechanism for achieving intergenerational equity. The ongoing funding of long term asset renewal programs requires a mix of funding sources, the fluctuation of cash reserves are part of this process.

4. Factors Influencing Expenditure and Revenue Raising

Operational Efficiency of Local Governments

To what extent is there scope for local governments to reduce the unit costs of their operations? If so, how might they most effectively reduce their costs?

Council amalgamations are usually promoted on the basis that small councils lack administrative and technical capacity compared with larger councils and that amalgamations will generate a greater range of services and an improved quality of service.

However, the major benefits of amalgamation can usually be obtained without the need for enforced structural reform.
There are a range of examples across the state and the nation that demonstrate the benefits of councils working together to overcome skills shortages, achieving cost efficiencies through the sharing of resources and standardising processes, services and the use of enabling technology.

Councils in Tasmania have developed a range of responses to meet the demands of their communities and regulatory requirements. In many cases, the decision to enter into resource sharing is driven by necessity with little opportunity for cost savings. The inability to attract appropriately skilled staffing resources can lead to decisions to increase salary packages, engage consultants to perform the work or seek to enter into shared arrangements with other councils. The latter does not necessarily reduce the price of the service but compared to the alternatives, at least maintains the unit cost of the service.

There are, of course, examples where the unit cost of operations are reduced through resource sharing. A cluster of councils in the North West of the state utilise the financial system and information technology skills of a large council that hosts these resources and provides expertise and hardware on a contract basis. The savings are realised through each of the councils not having to invest in both hardware and expensive resources to manage and maintain the systems. While each council has an on-ground requirement for resources to undertake the necessary work at the local level, the savings overall are significant.

The potential to make savings through pooling of back office activity is significant but is dependent upon not only the will of councils but also the lifecycle of systems and personnel. Sunk investments in major systems generally extend to operating systems and processes that are very difficult to simply retire. Cultural indifference to this type of change also requires careful management.

There are three regional groupings of councils in the state and each has an array of sharing and pooled arrangements that seek to maximise resource capacity and drive cost savings for councils.

The LGAT is presently investigating the benefits and most appropriate means by which to introduce statewide pooled procurement to enable purchasing savings for councils through economies of scale. These arrangements already exist in other states and provide significant unit cost savings to councils.

There are also opportunities for the rationalisation of infrastructure such as waste water treatment plants and streamlining processes such as planning

What effect would such cost reductions have upon their revenue raising requirements?

The outcome of any cost savings is likely to be improved financial sustainability through a reduction in the infrastructure renewal backlog.

Any cost reduction made by councils triggers the question of balancing between reducing the amount of revenue that may otherwise be necessary to deliver the services required or extending the range or quality of those services for the same outlay. The decision in relation to these matters should largely be driven by the individual council's relationship with its community in relation to the range and level of services to be made available.

How and to what extent have structural reforms, such as boundary changes of local governments and service sharing arrangements, affected operational efficiency?

There is very little research evidence to suggest that amalgamations have been successful in achieving operational efficiency. The major problem that arises in this regard relates to the lack of measurement and quantification of the "before and after" situation. Anecdotally there are those that look back to the "good old days" and fondly recite how much better it was prior to amalgamation. Conversely, there are others who believe that without structural reform the organisation would not have been equipped on a range of levels to undertake the functions required of a modern council.

The critical issue is the extent to which a new entity is different to the sum of its parts. There are examples of both outcomes at Launceston City Council. The same number of waste water treatment plants exist as did prior to amalgamation in 1985. Planning for the rationalisation of these plants is underway but it will have taken thirty years to complete this task, whereas in the areas of recreation and culture, changes could be changes incrementally and therefore more quickly.

The structural reforms have the potential to improve operational efficiency provided the new organisation has the capacity to implement the changes that enable the benefits to be realised.

Past amalgamation processes have tended to operate on the basis of lines on maps and while some measures of sustainability may have been considered, too often there has been the circumstance of two or more councils that were previously unsustainable being bundled together to form a single entity. Commercial reality dictates that if you merge two companies that are each making a loss, you do not necessarily create a profit-making entity. There are likely to be efficiencies of scale and some operational efficiencies achieved in the short to medium term but broader savings are real operational efficiencies are a long term exercise and require significant discipline and management expertise, factors often not considered or available when such mergers occur.

As indicated above, there is more clarity and measurable data in relation to the service sharing arrangements between councils. Realised savings or extensions of services have resulted from councils working cooperatively on service delivery outcomes. This is generally driven by the fact that these arrangements are voluntary, albeit that some are driven by necessity, and are entered into on the basis of goodwill.

There is no doubt that a dedicated effort of facilitated exploration of resource sharing possibilities, supported by business case analysis, could provide even greater operational efficiencies across the sector but this requires significant resourcing, skills and focus by councils.

Service Levels and Pricing

What guidelines and requirements are available to assist local governments to determine the appropriate range and standard of services, to measure and allocate their costs, to determine their revenue requirements, and to set rates, and fees and charges, accordingly?

The recent review into the financial sustainability of Tasmanian councils highlighted this as a key area requiring attention. The consultants identified that, along with an enhanced asset management regime, which included 10-year asset management plans integrated with long-term financial plans, the need to develop a standardised methodology for Local Government to engage the community in asset management issues and the process of establishing service levels. The consultants further proposed the development and publishing of a services policy statement by each council. Such a policy would clearly state the roles and functions that each council is prepared to adopt/undertake with specifications as to the number and nature of services to be delivered and the methods for delivery.

Templated asset management plans linked to long-term financial plans was another recommendation of the financial sustainability report together with a recommendation to seek to standardise the treatment of depreciation and categorisation of assets and reporting structures. This would ensure that councils not only understood the actual costs of managing and maintaining their assets, but had a long term plan of action and associated strategies to fund necessary works.

In a number of areas the service standards are set by legislation or regulation. They are a minimum and maximum standard and all Local government can do is comply with the requirement.

At the present time councils rely on financial and technical guidelines to assess and allocate costs such as depreciation and condition of assets. It is considered that implementation of the proposed recommendations will improve the understanding and practices of councils in this area.

Work is yet to commence on the implementation process.

Do guidelines properly take into account the allocation of infrastructure costs over the life of long-lived assets such as local roads, libraries and other facilities?

See above

Financial and Asset Management Skills

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 local governments?

The matter of asset management has long been the domain of the experts and has only in recent times been broadened to include or receive the appropriate attention from elected members. There has been a reliance on professional engineers and related disciplines to manage the council's assets without councillor's having a true understanding and working knowledge of their custodial role of those assets.

Although there has been a recognition by councillors and managers of the need to provision and reserve funds for maintenance and renewal, the reality is that this area of council operations has received less attention than it should have over the past decades. Tasmania, as with most jurisdictions, has recently undertaken analysis of the financial sustainability of councils and a key finding is that asset renewal gaps are increasing and that more attention needs to be given to prioritisation, service levels and intervention at the appropriate levels to ensure that assets are being appropriately managed. The Association introduced the Tasmanian Asset Management Implementation (TAMI) Program a few years ago to assist councils with the fundamentals of asset management. The program has been adopted by more than half of the state's councils with another 3-4 councils having in place programs with as much or more rigour.

One of the recommendations of the Access Economics Report pointed to the need for more work in this area and this activity will receive greater attention in the roll out of the implementation of the study's findings.

In terms of the impact on council revenue raising capacity, the lack of overall awareness of infrastructure backlogs and asset renewal gaps places significant pressure on future capacity to raise increased revenues. The catch up required places the council in an almost confrontational position with ratepayers due to the increased revenues that will be necessary to meet demand for past shortfalls.

A well understood position in relation to overall asset holding and condition provides councils with an improved situation in terms of managing the revenue stream necessary to support the sustainability of community assets and the council's finances overall.

To what extent do local governments find difficulty in attracting and retaining suitably qualified experts in financial and asset management? What types of local governments experience the greatest difficulties?

Local Government in Tasmania has significant problems in attracting appropriately qualified and experienced personnel across a number of disciplines including financial and asset management. A survey conducted in 2005 found that the core professions of planning, engineering, building surveying and environmental health were the areas of most critical concern. A number of factors contribute to the inability of councils to attract suitable personnel, including remuneration levels, professional development opportunities, professional support and mentoring and the limited opportunity for professional career advancement in relatively small or remote workplaces.

In relation to qualified financial management personnel, councils are generally able to attract staff with adequate qualifications and experience to undertake the tasks necessary of the organisation. Many such staff are often born locally and return to the community once qualified with the council providing a secure and relatively challenging opportunity for their skill set. Clearly, smaller and remote councils have greater difficulty attracting and retaining such personnel for many of the reasons detailed above.

Asset management skills present an even greater challenge to most councils in the state. Although all councils employ engineering staff directly or through consultants, the Access Economics report suggested that a more formal and rigorous approach to managing infrastructure is necessary, including the establishment of long-term asset management plans. The observations from this report highlighted the need for a series of activities and disciplines that were presently lacking. This would suggest that while many councils are involved in asset management activities, the full benefits are not being derived as a result of these shortcomings. Access Economics cited the need to resolve a range of inconsistencies including standard formats for asset registers, regular valuation of infrastructure at fair value, standard depreciation schedules for assets and common definitions to enable maintenance, renewal, upgrading and expansion assets to be distinguished.

Incentive Effects of Grants and Subsidies

What grants and subsidies are provided to local government by State and Territory governments? What is the value for each category of grant? Are there any terms and conditions attached to these grants? Do these terms and conditions distort the incentives of local governments to raise their own revenue? If so, how and why?

The level of grant funding provided by the Tasmanian Government to Local Government is minimal. Councils receive approximately $1.5 million per annum from heavy vehicle motor taxation to compensate for damage by heavy vehicles to local roads. A further $0.6 million is directly spent on council owned roads for linemarking, signs, signal maintenance and operation.

A range of miscellaneous grants are provided annually to councils through agency programs but these are generally as a result of arrangements agreed through partnership processes or negotiation. Although a source of revenue they tend to be spasmodic and are not recurrent.

Exceptions to the recurrent rule include grants to the Launceston City council of $1.1 million per annum for the operation of the Queen Victoria Museum and Art Gallery and $0.4 million per annum towards flood levee and river management.

Generally, the funds provided by State Government are for specific purposes. It is not considered that they distort the incentives of councils to raise their own revenue as the funds are relatively small in volume and cannot be relied upon on an ongoing basis.

What grants and subsidies are provided by the Australian Government? What is the value of each category of grant? Are there any terms and conditions attached to these grants? Do these terms and conditions distort the incentives of local governments to raise their own revenue? If so, how and why?

The major grants provided by the Australian Government include Financial Assistance Grants ($25 million of General Purpose and $25 million of Local Road Grants) and Roads to Recovery funding of approximately $7.5 million per annum.

General Purpose Grants are untied and have no limitations placed on their consumption. Roads Grants are required to be spent on road infrastructure while Roads to Recovery funding is spent and acquitted on the basis of program budgets provided prior to the release of funds.

Additional funding is received through such programs as Regional Partnerships, the Black Spots Program and the Natural Heritage Trust. Data is not readily available to quantify the amounts received across the state from these programs but it should be noted that these funds need to be spent and acquitted in accordance with program proposals and budgets.

Specific grants for capital projects for regional facilities, disaster mitigation and tourism infrastructure are also available to Local Government on application across arrange of grant programs.

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