



**LOCAL GOVERNMENT ASSOCIATION  
OF THE NORTHERN TERRITORY**

**SUBMISSION TO THE PRODUCTIVITY COMMISSION  
INQUIRY ON ASSESSING LOCAL GOVERNMENT  
REVENUE RAISING CAPACITY**

**June 2007**

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## **1. ABOUT THIS SUBMISSION**

This submission is provided by the Local Government Association of the Northern Territory ('the Association') in response to the Productivity Commission's ('the Commission') Inquiry into Assessing Local Government Revenue Raising Capacity.

The submission largely contains responses to some of the questions contained in the Commission's Issues Paper of May 2007 and is confined for the most part to local governments in the Northern Territory.

The submission is constrained to some extent by a lack of data and the intermediary stage of local government reform that currently exists in the Northern Territory. More relevant data may be available later in the year when the proposed new shires have formulated their business plans.

The Association's Executive approved the submission at its meeting on 25 June 2007.

## **2. TRENDS IN LOCAL GOVERNMENT REVENUE**

### **2.1**

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

The principal factors that determine the magnitude of the various revenue raising bases available to local governments are probably some of the following:

- barriers or constraints from legislation
- human and physical resources available to local governments
- the capacities and willingness of residents, organisations and businesses to pay
- the benefits derived from delivery of a service

### **2.2**

***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?***

They differ between councils in the Northern Territory largely for reasons of size. Darwin City Council for example, has greater human and physical resources than any other council. It therefore, has greater capacity to leverage off the full range of revenue raising bases that are available to local governments.

The infrastructure that this council also has under its control and the population it services enables it to gain revenue from sources that are not readily achievable for local governments such as those in remote areas. Parking fines for example, would not be worth pursuing in such locations because the cost of enforcement is likely to far outweigh the revenue gained from it whereas it is a significant revenue activity (as well as a significant activity for the council to control) for the Darwin City Council.

The great majority of councils in the Northern Territory would not be able to avail themselves of the types of revenue raising bases that councils like Darwin City Council can do.

## 2.3

***Do local governments have policies, which in effect, limit their own-source revenue raising? If so, what are these policies and what might be 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 to raise revenues?***

The principle of capacity to pay will often influence whether a council pursues a policy which holds it back from increasing its own source revenue. This particularly applies to remote councils in the Northern Territory where a large proportion of residents are on low incomes.

Another factor is the degree of simplicity in the processes for revenue raising. If processes are cumbersome councils tend not to pursue them or have difficulty in achieving the level of collection that was planned. Rent collections based on the number of tenants in a house is one such process that has proved to be problematic for revenue raising in the Northern Territory for some councils. The mobility of people is one factor that has limited council efforts here.

A further factor is the undesirability of introducing revenue raising for a service that traditionally does not incur separate user fees or limits councils under contract from introducing one. Public libraries is a case in point. Many people support the principle of libraries (and therefore information) being free and grant conditions for councils in the Northern Territory generally specify this requirement (apart from usual fees and charges associated with Internet usage or photocopying).

## 2.4

***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, nonresidents? Would any new strategies provide stable resources of revenue over time or would they be subject to variability over time?***

Strategies that local governments could employ to increase the capacity and willingness of local residents to pay for goods and services provided include not only getting people to understand why they need to pay for a good or service but also making it simple and easy for them to pay. The use of online information and communications technologies are obviously important tools for achieving both of these strategies.

As long as the above strategies are achieved it is reasonable to expect that they will provide stable resources of revenue over time. It is clear though that improved marketing of goods and services is one strategy that councils in the Northern Territory

could employ more appropriately and frequently so that greater understanding is achieved amongst residents and non-residents of the role and purpose of councils functions.

Many residents accept that where they use a particular local government service (which lends itself to be charged separately from general rates) they should have to pay for it. Swimming pools and CBD parking are two such examples simply because they involve individual choice.

Other strategies councils might use include raising local or special rates to offset the cost of services in particular areas. In such circumstances councils may have to survey residents or undertake a plebiscite with them before deciding to take such action. Sometimes though, whereas councils might recognize a need and engage with community before making a decision the result of that engagement might be to reject what council is proposing.

## **2.5**

***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?***

The chief untapped revenue sources that local governments and the Northern Territory could use in the future are those relating to the rating of all properties in unincorporated areas. There should be achievable after July 2008 when it is planned for the Northern Territory to be totally incorporated into local government areas.

The *Local Government Act* provides a degree of discretion and power for councils to use to raise revenue from fees and charges as well as general rates.

## **3. LAND RATING AND VALUATION METHODS**

### **3.1**

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

One land category that restricts the capacity of local governments to raise rate revenues is that which is held as Aboriginal land under the *Northern Territory Aboriginal Land Rights Act*.

The reason for this is because land is inalienable and held in trust under a form of 'communal title' (multiple land owners and very few individual surveyed land allotments) which not only makes rate recovery impossible but negates Section 77 of the *Local Government Act* which says in part 'the owner of land in relation to which a rate or charges is levied is liable for the payment of all such rates and charges'.

Local governments operating on Aboriginal land have tended (as a means of overcoming the above limitations) to set 'general charges' base on households as a means of recovering rate equivalent revenues. Great variation exists over the setting and collection of such charges between the current mix of councils in the Northern Territory. This is likely to change once the new shires are created under the new local government reforms. If leases on Aboriginal land increase to the extent proposed by the Federal Government (see media release at **Appendix A**) then it is possible councils will be able to rate them in the future.

### 3.2

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

The principal reason for some local governments not pursuing differential rate settings in such circumstances is possibly one of simplicity, that is, some councils find it easier to declare their rates on a 'flat rate per parcel' rather than use more usual land valuation methods. The Litchfield Shire Council levies rates in this way at the moment. Councils can, of course, even with a flat rate per parcel categorise their own land. Palmerston City Council does this as part of its rates declarations.

### 3.3

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

A restriction that local governments may endure in their efforts to raise rate revenue using land valuation methods could be a rise in valuations in one portion of a local government area and no rise in another for the same category of ratepayers. The result of this is that whilst increased revenue will be raised for the area which experienced the rise in valuations there will be no increase for the area that had no change in valuations.

## 4. RATE PEGGING

### 4.1

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

A State or Territory government may introduce rate pegging for local governments in order to achieve their own political ends some of which might include to please particular lobby groups or constituents. Another reason could be because those same governments perceive that local government is not to be trusted with its own taxation powers.

## 4.2

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

Rate pegging is a serious detriment to local governments raising rate revenues particularly in situations where such councils are facing cost imposts which far exceed the level at which rates are pegged. Fortunately to date in the Northern Territory rate pegging is not in existence and councils are free to determine their own levels of taxation without interference from the Territory Government.

## 5. CONCESSIONS AND EXEMPTIONS

### 5.1

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

One such mandated exemption in the Northern Territory relates to be provisions within section 58 (2) (h) of the *Local Government Act* which states:

*'land exempted from the payment of rates by reason of another Act '.*

For example, Section 19 (1) of the *Power and Water Corporation Act* exempts the Power and Water Corporation from having to pay rates, fees and charges of local government.

### 5.2

***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?***

Section 58 (2) of the *Local Government Act* prescribes, amongst other things, that land occupied by the Territory or owned by the Commonwealth shall not be rated. The existing arrangements therefore preclude any payment of council rates or rate-equivalents.

### 5.3

***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?***

Division 5 of the *Local Government Act* deals with concessions which are at the discretion of council to impose and mostly relate to issues of hardship.

#### **5.4**

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

Exemptions and concessions only limit local governments in the Northern Territory to the extent that such bodies choose to impose limits (or that are imposed by virtue of their Australian or Territory government status).

### **6. SETTING FEES AND CHARGES**

#### **6.1**

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

Division 4 of the *Local Government Act* deals with the payment of rates and charges including the requirement for public notice. Essentially councils have to adopt business plans which set out their revenue policies and allow the public to provide submissions.

#### **6.2**

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

Section 74 of *Local Government Act* gives power to municipal councils to charge for services in relation to land. Section 74(4) constrains these bodies to the extent that 'services' includes only those services relating to the functions of environmental control, sanitation and garbage, and litter control.

Other councils however, have less constraints, as is evidenced by the extent of service charges and fees that were adopted by the Walangeri Ngumpinku Community Government Council's business plan 2005-2008 given at **Appendix B**.

#### **6.3**

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

The Association is not aware of any major breaches by local governments in the Northern Territory of the legal requirements in relation to fees and charges.



## 6.4

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

In past years local governments, particularly in remote areas, which have responsibility for the local management and control of water, sewerage and electricity on behalf of the PowerWater Corporation have under-recovered the cost of providing these services on an agency basis. Whilst the agency contracts do cover normal operating expenses they do not always cater for expenses associated with recruitment or housing.

## 7. COUNCIL RATES

### 7.1

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

The obvious effects on individuals, organisations and businesses from local governments increasing rates is that they will have to pay more than they have in the past. If they clearly understand the reasons for the increases they are more likely to accept them and particularly if that awareness includes specific detail about the application of rate monies to goods and services now, or in the future.

Generally there is poor understanding in communities about rates, their purpose and application. Responses to rate rises are often reported negatively (as can be seen from the article at **Appendix C**) and inflation is often seen as the benchmark for rate rises although council costs are often exceed inflation.

*..the measure of rating effectiveness is the extent of rate rise vis-à-vis council cost growth. On an aggregated level, rate revenue income has had an annual increase of 6.1% between 1998/99 – 2004/5, which compares to an annual CPI increase of 3.2%, and increases in council expenditure of 6.5% per annum. This reflects the higher cost growth of local government services which are more closely aligned with the construction cost inflator rather than CPI, the increase in the standards of service and introduction of new services’*  
(PriceWaterhouseCoopers, 2006, p.58).

## 7.2

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

Individuals, organisations and businesses are likely to support rate pegging if it is in use. They are also likely to support land valuation methods that entail having to pay the least amount of rates. If a council were to change its land valuation method to capital value (rather than unimproved capital value which is the more common) there is likely to be discrepancies between the old valuation systems and the new, which will cause angst for those ratepayers that have to pay more.

Councils would probably have to employ a long term strategy involving information about the merits of the changes before introducing them. They might even have to do this over a couple of financial years in order that a level of understanding is achieved in communities about the changes.

## 7.3

### ***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?***

The Association is not aware of the full extent of rate revenues that are used to subsidise the delivery of goods and services for which fees and charges are collected. It does know however, that some services, like swimming pools are heavily subsidized. The Jabiru Town Council for example, had revenues of \$147, 095 (which included a grant) and expenditures of \$260,363 during the 2005/2006 financial year for its swimming pool.

Swimming pools generally have to be heavily subsidized by rate or other own source revenues simply because the fees and charges collected will never go anywhere near meeting the costs of pool operations.

## 7.4

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

Council rates, in general terms, meet all of the requirements of the principles of taxation (including those of efficiency and equity) and to that extent are attractive as a source of local government income. The levying of rates is efficient from the point of view of ease of collection and the methods offer equity in that those with higher valued properties will pay more than those with lower valued properties. This is also a reflection of capacity to pay.

## **8. SALES OF GOODS AND SERVICES**

### **8.1**

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

***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?***

In general where services are subsidised by local governments in the Northern Territory in remote areas they are not funded by a higher rates or other fees or charges. They are normally funded from untied grants.

For the larger urban councils where services are subsidised (for example, library services) they are funded from higher rates or other own-source revenue.

### **8.2**

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

The larger urban councils in the Northern Territory are more likely to not cross subsidise services by using the return on their long-lived assets. Remote councils however, due to their restricted revenue bases, are more likely to do the opposite.

### **8.3**

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

The principal implication for individuals, organisations and businesses applying or removing cross subsidies would be that many of the local governments in the Northern Territory, and especially those in remote areas, would be likely to discontinue the services that are being subsidised. However, this is always easier said than done. Generally speaking councils find it most difficult to discontinue a service especially when it is well used and appreciated. Confronting communities about decisions like these are difficult for elected members to bear.

## **9. DEVELOPER CHARGES AND CONTRIBUTIONS**

### **9.1**

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

Only local governments in large urban areas in the Northern Territory employ developer contributions and charges to finance the above investments. The reason for this is that such contributions are covered under the *Planning Act* which only applies to such areas in the Northern Territory. A large proportion of the contributions relate to car parking and roads infrastructure.

### **9.2**

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

There are not limits to contributions. Councils have the discretion to set the amounts of charges based on their own policies. The Litchfield Shire Council's policy factors in a general charge for roads and drainage and the charges are different for land block sizes and localities.

Councils are required under Part 6 of the *Planning Act* to carry out consultation (including giving public notice) and include certain content in their contribution plans if they chose to have the plans prepared. Amongst other things, the plans should provide for car parking and other infrastructure and the contributions may be for part or all of the total cost of such works.

### **9.3**

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

The constraints limit councils to expend monies in accordance with the contribution plans so in most respects the contributions have the same status as special purpose grants to local government, which means they must be kept in trust until they are expended and only expended for the purposes intended.

### **9.4**

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

The most significant effects will be in the form of the benefits to be had from infrastructure that has been built to standard. If developer charges and contributions were not required the task of ensuring infrastructure was to standard would lie solely with local government and that is not only inequitable (the developer benefits from

councils having to pay) but equally not financially sustainable (councils would not have the capital funds to invest given other more important commitments).

## 9.5

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

The most appropriate way to recover the costs of new and upgraded assets depends very much on the nature of the assets and their uses. For example, councils are able to recover some of the costs associated with a new asset like a swimming pool from user charges. The sealing of a local road however, would best have its costs recovered through the application of a local rate or through savings generated from council surpluses and placed in reserves.

In the examples above with the swimming pool is most unlikely that costs could be fully recovered from the provision of such an asset. It is also most unlikely that a council in the Northern Territory would recover all of the costs associated with sealing the road by applying a local rate. Usually there is some subsidisation of such work from grants or own-source revenue.

## 10. FINES AND OTHER PECUNIARY PENALTIES

### 10.1

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

The behavioural effects are likely to range from creating a deterrent from engaging in such activity (which caused the penalty in the first place) to one of concern at receiving it or knowing about its increase. Councils are charged with the peace, order and good government of their areas and fines and other pecuniary penalties are just some of the regulatory functions that councils perform to fulfil this responsibility.

### 10.2

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

The measures that are in place are largely those to do with the processes surrounding the business plans of councils and the degree of community engagement that lies with them. The business plans provide estimates of the fines proposed to be collected. A reduction in revenue may indicate the deterrence is working. It could also be because of work process problems.

Councils will always have the protection of the rule of law when administering fines. If there is a perception in the community that council is inflexible and Draconian with the

imposition of its fines there could be some 'voter backlash' at the next election. In other words, councils can be voted out of the basis of their policies and their implementation.

## **11. OPERATIONAL EFFICIENCY OF LOCAL GOVERNMENTS**

### **11.1**

***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?***

The scope for local governments to reduce the unit costs of their operations is probably greatest at the macro level where real savings can be achieved through economies of scale. This applies particularly to costs such as insurance premiums, banking fees, telecommunications, purchasing and the like.

There is also some scope for councils to 'market test' some of their services by calling for tenders from the private sector and comparing the costs with an 'in-house' operation. The lack of private sector firms in remote areas however, negates to some extent this process.

Technological advances can also assist in reducing costs of operations by improving work processes.

### **11.2**

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

There will be some affect from the above cost reductions but in operational terms it is unlikely to be a large one particularly if a council is generating only a small annual surplus from its operations and is not adequately meeting its future asset renewal and replacement needs. This applies to many of the remote councils in the Northern Territory.

### **11.3**

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

Only one study has been done in the Northern Territory for the Department of Local Government since the introduction of reforms in 2004 and advice from that department is that the reforms, in a general sense, have led to operational efficiencies such as payroll processing.

## **12. SERVICE LEVELS AND PRICING**

### **12.1**

***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 principal guidelines and requirements which are available to assist local governments to determine their revenue requirements and set rates and fees and charges are laid down in the *Local Government Act, Local Government (Accounting) Regulations* and the *Local Government Accounting Code*. These, (in particular the latter) lay down the requirements for council business plans. The framework is available to enable councils to complete this task.

Under proposed local government reform legislation provisions will exist for the new shire councils to comply with service delivery standards which will form the new requirements. There will also be a requirement for these councils to deliver core services, that is, services that are mandated.

### **12.2**

***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?***

The guidelines are based more on matters of principle than practical application which then leaves the requirements to the discretion of each local government as to whether they fully employ them or not. Councils will, after July 2008, be required under legislation to comply with standards associated with asset management. To this extent the standards will properly take into account the allocation of the above infrastructure costs.

## **13. FINANCIAL AND ASSET MANAGEMENT SKILLS**

### **13.1**

***What effect might the lack of financial and asset management skills of managers and lack of appreciation of the relevant issues by councilors have on the revenue raising capacity and effort of local governments?***

The most obvious effect is that councils will fail to perform their stewardship role in respect of public assets. It also means that councils will fail to take into account the long-term effect of their decisions. These failures are likely to have a detrimental impact on the revenue raising capacity and effort of local governments particularly in times when a large financial investment is needed to renew or replace such assets.

## 13.2

***To what extent do local governments find difficulty in attracting and retaining suitably qualified experts in financial and asset management question?***

In the Northern Territory considerable difficulty exists in attracting and retaining suitably qualified experts in financial and asset management. In the 2005/2006 financial year the Association recruited 30 Chief Executive Officers (CEO). One council in the Northern Territory has had 15 CEOs in eight years.

## 13.3

***What types of local governments to experience the greatest difficulties?***

Councils in remote areas experience the greatest difficulties because they are unable to compete with their urban counterparts for expertise and often do not have funds to employ or commission it. This in turn also means that the functions of financial and asset management suffer as a consequence.

## 14. INCENTIVE EFFECTS OF GRANTS AND SUBSIDIES

### 14.1

***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 grants and subsidies provided to local government by the Territory government broadly fall within the categories listed at Table 1 below. Some of the grants originate from the Australian government and are paid through the Territory government.

Operational subsidies are untied grants paid to 56 councils other than the six municipal councils and Jabiru Town Council (special purpose town). Their purpose is to provide funds in recognition of the lack of revenue raising capacity of many of the rural and remote councils in the Northern Territory. The grants assist councils to perform their functions and are allocated using methodologies similar to the NT Grants Commission. Commonwealth financial assistance grants (general purpose and local roads) are also untied.



**Table 1**

**Estimated grants paid to local governments from the Territory Government for the 2004/05 financial year**

<b>Grant type</b>	<b>Amount \$</b>
Operational subsidy	15,655,000
Library subsidy	3,091,000
Infrastructure maintenance	2,388,000
Specific purpose grants	3,423,000
Commonwealth Financial Assistance	21,736,000
<b>Total</b>	<b>46,293,000</b>

(Source: Department of Community Development, Sport and Cultural Affairs, 2004, *Report on Local Government Grant Programs for 2004-5*)

All other grants paid are for specific purposes and are subject to grant conditions which usually entail:

- an annual acquittal report detailing income and expenditure
- a statement of activities undertaken or outcomes achieved

It is doubtful that the terms and conditions of grants distort the incentives of local government to raise their own revenues particularly with funds that are untied. The only exception might be with library funding (see section 5.3 above) which is a tied grant but even then politically, and to some, morally, it would be most difficult to change the practice of making library services free.

## **14.2**

***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 government to raise their own revenue? If so, how and why?***

There are a plethora of grants provided by the Australian government to local government. The most significant is that provided by the Department of Employment and Workplace Relations in respect of the Community Development Employment Program (CDEP). In some cases it makes up more than 50% of a council's budget.

The problem here for many councils is not so much that the terms of conditions of grants distort the incentives of local government to raise their own source revenue because in many instances it is being done or it is a requirement. Child care services

are a good example. Councils have to raise revenue (in addition to their subsidies) to keep the services operating yet there are limits to which child minding fees can be set.

In many respects it is not the grants and subsidies that cause the distortion it is the economies of scale that go with delivering a service and whether there is enough own source revenue to be gained from delivering it. In many rural and remote council areas the income levels of residents restrict the incentives of local government to raise own source revenue plus there are often restrictions due to scale.

### 14.3

#### ***Are there anomalies with the interstate distribution of Commonwealth financial assistance grants?***

The general purpose and local roads financial assistance grants paid from the Australian Government to the Territory Government (and then allocated by the NT Grants Commission to Northern Territory councils) are an inadequate source of revenue for councils in the Northern Territory.

The Association has long held the view that the interstate distribution of these grants is flawed because they are allocated to the States and Territories on the basis of population and not on need. As a consequence Northern Territory councils are grossly under funded in comparison to their interstate counterparts. The Australian Government's *Local Government National Report* for 2004-05 (and all prior years) confirms this finding.

The objects of the *Local Government (Financial Assistance) Act 1995* are for improving:

- the financial capacity of local governing bodies: and
- the capacity of local governing bodies to provide their residents with an equitable level of services: and
- the certainty of funding for local governing bodies: and
- the efficiency and effectiveness of local governing bodies: and
- the provision by local governing bodies of services to Aboriginal and Torres Strait Islander communities.

The Association contends that the financial capacity of local governing bodies of the Northern Territory is impeded by the current interstate distribution. It considers that the anomaly is particularly evident when there are single councils interstate that receive more funding than all 63 councils in the Northern Territory which are spread throughout the Territory and have to service residents (most of whom are Indigenous) in 63 towns.

The Association acknowledges the political difficulties in bringing about a change in the distribution and agrees with the Australian Local Government Association that the Australian Government needs to look closely at an alternative measure such as allocating 1% of Commonwealth taxation revenue in place of the current escalation method for financial assistance grants.

The local government reforms will see 13 councils in operation after 1 July 2008 servicing the entire geographical area of the Northern Territory (currently only about 20% is incorporated at the moment) including many more properties and residents. This will no doubt exacerbate the current situation with funding and especially with local roads grants (which include factors such as road length and type as part of their grant methodology) but will not change as a consequence of councils inheriting more road length responsibilities.

The Association is working in conjunction with the Department of Local Government in the Northern Territory to influence the Australian government to alter the allocation of local roads grants to councils in the Northern Territory so that funding is available for the 2008/09 financial year. Without a commensurate increase in local roads funds the newly reformed councils in the Northern Territory will struggle with financial capacity.

#### **14.4**

##### ***What incentive grants should the Federal Government consider to assist councils to achieve greater financial capacity?***

The Federal Government should consider providing infrastructure grants to councils enable them to meet some of their infrastructure renewal and replacement backlogs that exist. In the Northern Territory many councils are in infrastructure 'catchup' mode, the towns are expanding in population due to high birth rates and the demands for infrastructure and housing are continually increasing.

Infrastructure contributes to quality of life and financial capacity. If infrastructure is in place and is to standard it allows councils to increase their revenue bases from fees and charges and supports financial capacity.