

24 January 2008

Ms Carole Gardner  
Local Government Study  
Productivity Commission  
LB2 Collins Street East  
MELBOURNE VIC 8003

Dear Ms Gardner

**DRAFT RESEARCH REPORT - ASSESSING LOCAL GOVERNMENT  
REVENUE RAISING CAPACITY**

Further to our submission of 3 July 2007, and following release of your draft report, the following comments are provided.

The findings are noted and acknowledged as providing valuable input to furthering the general understanding of the funding challenges faced by local governments and particular issues that impact on revenue raising capacity.

Boroondara contends that the lack of a significant natural growth element within local government rates combined with statutory requirements to set the rate of taxation each year and a high level of public scrutiny of the taxation process means that local government finances are generally constrained; this should be more strongly acknowledged by the Commission. Local governments are particularly disadvantaged when compared to Federal and State governments in that growth in expenditure requirements of Federal and State governments are funded via revenue generated by growth taxes.

Revenue constraints have been a major factor contributing to local governments' significant infrastructure renewal shortfall that was acknowledged in the Hawker Report on Cost Shifting. If local governments are to provide for asset renewal, meet community expectations into the future and deal with cost factors that are beyond base inflation, the identification of a growth based source of revenue is required for future sustainability.

The following issues are also raised:

**Finding 6.6 (page 113)**

***Most fees and charges are set by the councils. A small number of fees and charges are statutorily set by other levels of government, although mainly at the State level.***

The research paper contends that most local government fees are set by Councils with a small number of fees and charges statutorily set by other levels of government. This

statement under states the range and impact of fees and charges set by other levels of government on a Council's overall financial position.

Fees and charges have significant revenue implications in terms of cost recovery for a particular service. While statutory fees do not form a large proportion of a Council's revenue, the quantum is important in terms of a local government's capacity to receive adequate compensation for the provision of the statutory services.

Statutory planning fees and land information certificates provide an example. In these two instances, failure by the Victorian government to index fees for many years resulted in considerable cost shifts from specific service users to the general ratepayer. In fact for Boroondara, the cost of the State government's failure to index statutory planning fees between 2001 and 2007 is estimated at \$320,000. The land information certificates fee was established in 1992 at \$20, and is still \$20!

The revenue lost in this way is then sourced from the general ratepayer via rates, otherwise Council's capacity for service provision to the community is restricted.

**Finding 6.7 (page 118)**

***Nationally, developer contributions per new dwelling commenced have increased substantially over the four years to 2005-06, thereby adding to Council's revenue.***

New Developer Contributions frequently take the 'in-kind' form of an infrastructure asset (treated as revenue on receipt). This asset usually generates a maintenance cost burden for a local government without offsetting recurrent revenue. The asset rarely results in an income stream for a local government.

Additionally Developer Contributions are more difficult to raise in the brownfield sites of established parts of municipalities.

**Finding 6.1 Comment (page 92)**

***Choice of valuations methods, however, will have implications for efficiency and distributional consequences of local government decisions. Using UCV (or SV) as the rates base is the better option in terms of efficiency. Compared with raising rates on SV and UCV, using CIV (or annual rental equivalent) might distort land use decisions because the latter might create a disincentive to make capital improvements to property. Thus, the prescribed use of UCV and UV in New South Wales, Queensland and Western Australia might well have efficiency advantages (while not constraining rates revenue, in aggregate,) over other methods.***

Boroondara believes that this statement is difficult to sustain and the preference for Site Value or Unimproved Capital Value should be removed from the final report.

The use of a capital improved rating system provides the "best" reflection of the value of a property and therefore the best measure of the property for taxation purposes. The Capital Improved System also provides a mechanism, through supplementary rates, to generate a growth (albeit minor) in the rate base as properties are improved and as subdivision occurs. Under a site value or unimproved value rating system the

rate base does not grow with increased property density. Accordingly there is no “natural” increase in rate base to accommodate the provision of the finance to provide for the additional properties that must be serviced. As a result the distribution of property rates under a site value system becomes more inequitable as the density of a city changes. For example, two identical residential house blocks containing a single dwelling and the other multiple units would pay the same total rate under Site Value. The unit owners contributing a smaller individual contribution to the operation of the City and no 'extra' revenue would be available to service the requirements of the units.

The report asserts that the additional rates resulting from capital improvement could be a deterrent to the additional capital expenditure. It is difficult to envisage such a situation where the additional rate related to the increased value of an investment through capital improvement would be of such magnitude to be a deterrent to undertaking the capital improvement. The increase in rate value would be very small relative to the cost of the capital improvement and the added investment value.

### **8.1 Principles to guide effective revenue raising (page 146)**

Boroondara notes the principles outlined and also provides a copy of Boroondara's Financial Strategy Principles for the information of the Commission (refer **Attachment A**).

Thank you for the opportunity to express our views on this important matter.

Yours sincerely

Peter Johnstone  
**Chief Executive Officer**

Our Ref: Dwks No: 1674678

Attach.

## FINANCIAL STRATEGY PRINCIPLES

**The Financial Strategy Principles provide the framework for the development of Council's Long Term Financial Strategy, and annual Budget development. The Financial Strategy Principles are reviewed and endorsed by Council annually to ensure relevance to current circumstances. These principles enable consistent and informed decision-making by the Council.**

### **SUSTAINABLE BUDGETING PRINCIPLE**

***Council will implement a sustainable budget and financial strategy that caters for short and long term planning responsibilities.***

Community expectations are a key driver of the strategy, and Council strives to adequately resource current and future need across the City. Council has limited financial and non financial resources and faces wide-ranging and complex community wants and needs.

Council is committed to delivering an annual operating surplus to provide funds for capital projects and infrastructure renewal, for both current and future generations.

When identifying sources of revenue and determining expenditure needs, Council will ensure that these community needs can be adequately addressed in the future.

### **FINANCING PRINCIPLE**

***Council will fund all operating and capital expenditure in a prudent, ethical and responsible manner.***

Council will seek to maximise all external funding opportunities, including transfers from other levels of government and other financing opportunities where appropriate, having regard to the financial impacts and outcomes for the community.

Debt within prudent levels is considered to be a legitimate funding source, particularly for the creation of income generating assets and assets servicing current and future generations.

Council maintains debt at levels that are serviceable and sustainable, while ensuring community needs are adequately addressed.

Financing options are evaluated using accepted accounting methodologies.

### **CASH MANAGEMENT PRINCIPLE**

***Council will monitor its Working Capital Ratio (current assets/current liabilities) to ensure the maintenance of the required level of cash to meet operational requirements. .***

***The ratio will remain at or above 1.1 to 1.***

Council will maximise the return on cash funds invested and ensure investment placements remain within ethical and legislative constraints.

Outstanding debtors will be converted to cash by adopting commercial practices and benchmarks.

#### **RATING REVENUE PRINCIPLE**

*Council will review rate revenue annually. Rate levels will be set within the context of the Council Plan having regard for the Long Term Financial Strategy and current expenditure commitments.*

Revenue from property rates will be determined according to approved expenditure needs in the context of the Council Plan and will not necessarily rise with property revaluations.

‘Special Rate Schemes’ may be used to provide direct benefits to clearly identified ratepayer groups, such as retail shopping centres.

#### **PRICING OF SERVICES PRINCIPLE**

*Council will set fees and charges for services having regard to specific policies in applicable areas of Council, whilst incorporating cost recovery principles and marketplace competition. User capacity to pay, equity in the subsidisation of services, community service obligations, statutory or service agreement limitations and results of benchmarking of similar services also impact the striking of a fee or charge.*

Council will decide on the levels of cost recovery that are suitable for each service. The accurate measurement of costs, including overheads, enables identification of any level of subsidy provided to a service. This information further contributes to the pricing of services model.

Council does not have discretion to alter fees and charges set by the State Government however will continue to advocate for these fees to be set at levels where cost recovery is possible.

Where fees for a service provide a surplus, the funds will be used to maintain the general level of services in the City.

Council considers pricing signals and/or price disincentives as legitimate methods to encourage the community to adopt relevant Council policies.

#### **INTERGOVERNMENTAL FUNDING PRINCIPLE**

*Council will maximise the amount of funding transfers from the State and Federal Governments to achieve a better share of these government taxes for the Boroondara community.*

Where cost shifting from other levels of government is apparent, Council will communicate to its community the impacts of these cost impositions.

Access to growth revenue is critical to meet the demands of a growing economy.

Funds received from other levels of government for will normally be expected to meet the full direct and indirect costs of providing those services. In circumstances where Council provides a subsidy to a service, a determination will be made ensuring the contribution does not outweigh the community benefit.

#### **PROPERTY HOLDINGS PRINCIPLE**

***Council will manage, acquire and dispose of property in the best interest of the Boroondara community, and will protect the integrity of all assets by using the principles of responsible asset management.***

Council will not necessarily hold property that has no current or future identified purpose, or if that purpose can be met more effectively in other ways. Existing holdings or strategic acquisitions must meet existing needs, new identified needs or adopted strategies.

Regular reviews of asset holdings will be conducted to identify opportunities for asset realisation. Asset management plans, asset usage, land use planning documents and community benefit will be considerations in such reviews.

Assets will not be sold where there is no planned project or debt to which the realised value will be applied and the present asset is considered a satisfactory investment of the value.

All property considered for disposal will undergo a thorough evaluation based on both financial and community benefit factors. Any proceeds derived from asset realisation will be directed towards funding new, upgrade and renewal capital works or debt reduction and will not be available to fund operating expenditure.

#### **ASSET MANAGEMENT PRINCIPLE**

***Council will provide well-maintained community assets that are fit for their purpose and provide maximum community benefit. Council's budget and long-term strategy will commit, with specific budget provision, an appropriate level of expenditure to ensure ongoing asset renewal.***

Council will plan and appropriately resource the necessary work on infrastructure to ensure all assets are maintained fit for purpose. Accurate asset data and condition assessments will be drawn upon to inform the annual budgeting and works programs.

Asset management involves anticipating and managing risk and asset failures. Council is committed to increasing expenditure on asset renewal, in order to sustainably manage its community infrastructure. Appropriate expenditure is allocated to ensure compliance and safety regulations are addressed for all assets.

The separate asset renewal component of total capital works expenditure will be based on needs identified in asset renewal plans which will include amounts sufficient to

extinguish the asset renewal backlog by 2029. Each asset renewal obligation will be determined by the asset renewal provision based on the replacement cost and remaining useful life of the asset.

Council will seek the most effective community outcome from the application of asset renewal funds, which may not necessarily result in the replication of existing facilities, but could involve the adaptive re-use of an asset. In such circumstances, asset renewal funds will complement new and upgrade funding as appropriate.

### **CREATING COMMUNITY ASSETS PRINCIPLE**

*Council will ensure that the community has access to required community infrastructure, now and in the future.*

Construction of new community assets must respond to existing needs, new identified needs or adopted strategies. Such facilities must remain within the limitations of Council's financial and resource capacity and provide clear and tangible benefits.

In reviewing any proposal, Council will consider means of assigning capital costs to present and future generations, and will also have regard to consequent operational maintenance and renewal costs.

The creation of new assets analysis will also consider contributions to the public realm and environmental and social benefits.

### **WASTE MANAGEMENT PRINCIPLE**

*Council will use waste management pricing strategies that encourage recycling and waste minimisation, and will be supported by educational programs and appropriate services.*

The identification and separate billing for a waste service is intended to encourage and promote waste minimisation in the community.

Council seeks to recover costs for these services.

### **EMPLOYEE COSTS PRINCIPLE**

*Council will attract and retain suitable staff through remuneration levels and workplace policies, whilst ensuring that there is effective and efficient management of staff costs and number of employees.*

The cost of employment is a major budget component in the provision of Council services. Council values committed staff and recognises their critical role to the well-being of the Boroondara community.

Council remains committed to the provision of learning and development for staff and a workplace culture appropriate for an Employer of Choice.

### **CONCEPT MASTER PLAN PRINCIPLE**

*Council will ensure that the short and long term interests of the community are appropriately addressed. Concept Master Plans are an aid to future planning for the allocation of resources.*

Concept Master Plans do not represent a commitment to implement all components of the plan, which will be reviewed at regular intervals, and may be subject to change. The Concept Master Plan components will be considered annually as part of the budget process, in conjunction with all Council Plan and Budget priorities.

Concept Master Plans must inform Asset Management Plans and future works planning.

### **PRIORITY WORKS EXPENDITURE PRINCIPLE**

*Council will separately fund projects of a non-recurring operating nature identified in the Council Plan as Priority Works. The aim is to complete these projects within the financial year.*

Priority Works projects that are not started or completed within the budget year are subject to future budget and planning considerations. These projects will be reassessed against any revised Council priorities.

### **MANAGEMENT OF EXPENDITURE PRINCIPLE**

*Council will review all Council expenditure. Fundamental to this process is community consultation and benchmarking of cost and quality standards of service and efficiency against like services in the public and private sectors.*

Ongoing commitment to Best Value Boroondara is integral to this principle.

Where possible, increased service levels, or increases in demand for a service, are to be provided or funded through productivity gains.

Ongoing service reviews will assess services in accordance with:

- A demonstrated community need.
- Stakeholder views.
- Access, equity of need and benefit to the community.
- Community expectation of service level and quality.
- Legislative imperatives.
- Identification of alternative providers, both public and private.
- Council's capacity to provide the service.
- Budget priorities.

### **AMENDED BUDGET PRINCIPLE**



***Council will amend the annual budget for internal management reporting purposes to ensure prudent and transparent budgeting and financial planning.***

Council will ensure a rigorous approach to budget management. The budget will be amended twice per annum where necessary, in September following finalisation of the annual accounts and February following a mid-year budget review process.

Amended budgets enable Council to review and approve variances to revenue and expenditure resulting primarily from external factors, ensuring accountability and optimal budget control for management reporting purposes. The amended budget will not seek to reallocate funds and therefore amendments to the adopted budget are only considered under the following circumstances:

- Additional income has been received.
- Reduction in income due to identified reasons.
- Transactions required subsequent to finalisation of end of year accounts.
- Expenditure increases matching additional income.
- Additional non discretionary expenses.
- Deferred expenditure.
- Sound accounting processes to meet audit requirements.

The Annual Report will detail performance against the original budget, provided to the Boroondara community in draft form for Public Inspection, and adopted by Council as the Annual Budget.

Quarterly budget forecasts are primarily aimed at recording predicted end of year position, with the emphasis on reporting financial performance against budget (original or amended).

Rigorous financial control is critical for the success of Council's Long Term Financial Strategy.