WALGA

Western Australian Local Government Association Submission to Inform the Productivity Commission's research into *"Assessing Local Government Revenue Raising Capacity".*

July 2007

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Terms of Reference

In making this submission, the WA Local Government Association acknowledges the following Terms of Reference, issues by the Federal Treasurer, are in place and will guide the Productivity Commission in its research:

> *"The Productivity Commission is requested to undertake a research study assessing local government revenue.*
>
> *In undertaking the study the Commission is to examine the capacity of Local Government to raise revenue including:*
>
> - *the capacity of different types of councils (eg capital city, metropolitan, regional, rural, remote and indigenous) to raise revenue and the factors contributing to capacity and variability in capacity over time;*
> - *the impacts on individuals, organisations and businesses of the various taxes,*
> - *user charges and other revenue sources available to local government; and*
> - *the impact of any State regulatory limits on the revenue raising capacity of councils.*
>
> *In undertaking the study the Commission is not to investigate the scope for Local Governments to borrow.*
>
> *The Commission is required to provide both a draft and a final report, with the final report due within twelve months of receipt of this reference.*
>
> *The report is to be published."*

Acknowledgements

The Association would like to acknowledge the contribution of its member Local Governments, the work of the Systemic Sustainability Panel and associated Task Force and Expert Teams, the assistance of the Australian Local Government Association and the cooperation of Productivity Commission staff in assisting and facilitating the preparation of this submission.

Introduction

There are 142 Local Governments in WA, *(including the Cocos Keeling and Christmas Islands)*, collectively mustering the volunteered efforts of over 1400 community representatives in the form of elected councilors. In turn, they oversight the activities of approximately 12,000 qualified professional staff and skilled workers.

The total value of this effort equates to roughly $1.8 billion per annum, or around 17% of the WA State Government's total budget. This makes Local Government the third largest sector in the WA economy, behind the State itself and the Resources sector.

In light of the apparent social, political and economic significance that these facts suggest for Local Government in WA, it is reasonable to ask ; "*What vision does the State have for the Local Government sector as it moves forward into the 21st Century ?"*, particularly given that Western Australia is in one of the strongest economic and social "booms" in its history.

Sadly, the State Government has no reply.

WALGA has attempted to fill this void and defined a vision for Local Government in the following terms:

> *"Local Governments in Western Australia will be built on good governance, autonomy, local leadership, democracy, community engagement and diversity.*
>
> *Local Governments will also have the capacity to provide economically, socially and environmentally sustainable services and infrastructure that meet the needs of their communities."*

It was in the search for a means to deliver on this vision that the Association established its most ambitious research project – the Systemic Sustainability Study.

In presenting this submission, the Association will offer;

- an outline of the historical development of Local Government in Western Australia;

- an insight into the Systemic Sustainability of Western Australian Local Government;

- discussion of the Terms of Reference, focusing on:
    1. Comparative Local Government Capacity
    2. Tax impacts *(Local Government generated taxing mechanisms)*;
    3. Existing Local Government revenue source options, and;
    4. State impacts on Local Government revenue raising;

- conclusions and recommendations.

In doing so this submission draws heavily on, and quotes substantially from, *"In Your Hands"*, the final report of the Western Australian Local Government Association (WALGA) commissioned review of the Systemic Sustainability of Local Government.

<u>WA Local Government in Historical Context</u>

The establishment of Local Government in WA dates back to 1838 with the enactment of the *Towns Improvement Act* that authorised the establishment of Town and Country Trusts for the purpose of building roads.

In 1871, when the population had just reached 25,000, the *Municipalities Act* and the *Road Districts Act* were passed to lay the foundations of our current Local Government structure. The *Municipalities Act 1871* transformed the Town and Country Trusts into authorities responsible for services touching the daily lives of people in country towns. Added powers that were conferred on these new municipalities included the licensing and regulation of slaughter-houses, markets, carts and carriages, straying and grazing of livestock in towns, and dogs. Councils could also draft by-laws to carry out these functions; they could condemn food considered unfit for human consumption, plant and preserve trees and shrubs and regulate weights and measures. Councils were also given the power to establish and maintain public libraries, museums, botanical gardens and places of public recreation – although the Governor's approval was required in order to spend municipal funds on these establishments.

The *Road District Act 1871* made locally elected Road Boards responsible for communications in the country. Road Board powers, as distinct from those granted to municipalities, were restricted to the construction and repair of roads, bridges and drainage works.

By the end of 1871 there were eight municipalities and 21 road boards.

> *"Following the discovery of gold there was a big upsurge in the formation of new local authorities and by the early 1900's as many as 43 towns existed. With the decline of the gold rush many local authorities were disbanded but this was offset by the development of primary industry resulting in the establishment of road boards in other country areas.*
>
> ***In the early days road boards received no revenue from rating but relied on grants from the Government as their source of revenue****. This encouraged the formation of new authorities in any area where settlement was taking place and the residents wished to develop a town site.*
>
> *Isolation was probably the biggest influence on the formation of new authorities. The State was comprised of small isolated pockets of settlement each of which wished to become self-contained to some degree. This growth preceded that of the State itself.*

As the State developed, lines of communications (mainly railways) began to extend into the country and it was along these railways that the bigger communities were formed and around which other authorities were formed.

This then was the pattern by which Local Government has developed to its present form – not by a systematic and economic division of the State but in accordance with the immediate requirement."

(Local Government Assessment Committee Report, 1968)

During the 1970's there was a growing sense that quality of life issues associated with resources conservation, planning, health and welfare services for the disadvantaged needed to be addressed and this resulted in shifts in Council responsibilities. From 1975 onward there was a substantial investment in recreation and cultural facilities by Local Governments in WA, and a movement into a broad range of community services, including aged care, in response to community pressures. Local governments still played a major role in providing and maintaining streets, footpaths, drainage, rubbish removal, street lighting, sweeping and sign posting, and the numbering of houses and other buildings. Their responsibilities increased dramatically to include intricate town plans, health and building control services, recreation, cultural and children's services, and services for the aged. They also became responsible for the control of bush fires, dogs, parking, cemeteries and aerodromes.

The late 1980s saw an increasing recognition of the importance of Local Government's role in promoting economic and regional development as communities began to increasingly turn to their Local Governments for the direction and leadership impinging on all areas of economic and social welfare.

It was not until the 1990s that any substantial effort to share resources and collaborate was undertaken. In 1992 a report conducted by the Western Australian Municipal Association *(later to become WALGA)* into restructuring the sector, *Opportunities for Local Government,* found that while 45% of councils claimed to have an inadequate resource base over 60% of all councils had never considered a resource sharing arrangement.

The level of resource sharing increased dramatically over the 1990s, with the formation of many voluntary and statutory Regional councils and alliances. In the last decade three voluntary amalgamations have occurred – Albany Town and Shire Councils; Geraldton City Council and Greenough Shire Council, and; Northan Town and Shire Councils.

WALGA Systemic Sustainability Study

In January 2006, the Western Australian Local Government Association (WALGA) commissioned a review of the Systemic Sustainability of Local Government – positioned as an industry-led assessment of the condition and prospects for Local Government in this state.

An independent Panel was established to provide direction for the review and to provide WALGA with advice, strategies and a plan for the future sustainability of the industry for its further consideration and development with Local Government in Western Australia.

The Systemic Sustainability Study was undertaken as a three-stage process:

1. A program of research, consultancy advice and industry submissions was used to inform an assessment of Local Government sustainability. An interim report was presented at the WALGA's annual conference in August 2006. This report provided observations and a point of view drawn from consultancies conducted between March and July 2006 and also from a number of thoughtful submissions and representations made to the review.
2. A series of industry dialogues was conducted in October and November throughout the State. This engagement process provided an opportunity to explore and road test the issues raised in the interim report and to focus on the strategies and actions the industry has available to it in moving forward. Input from these discussions was also invaluable in shaping the final report.
3. Final Report & Recommendations

The Final Report focused on strategies and actions that the leadership of local Government can consider as practical responses to the range of challenges facing communities and their Councils. Some of these provide endorsement or support for initiatives already underway in the industry – others necessarily confront current practice and policy settings.

The aim is to strengthen Local Government to ensure it remains vibrant, sustainable and well equipped for the task of meeting community needs well into the 21st century.

The report is focused on a systemic view of Local Government, using in the main the information base the industry uses for day–to-day management and in reporting to its own communities and funders.

The dialogue process has acknowledged that there is a set of related issues impacting the better performance of Local Government. These are in most cases statewide challenges beyond the scope and capacity of individual authorities to address. An industry plan for recovery and rejuvenation is envisaged as a 10-year program. A successful plan will require investment by the industry and its State and Commonwealth partners to address a suite of systemic or 'inconvenient truths' as essential preconditions for change.

The report does not contemplate a list of prospective amalgamation targets. Instead, it leans towards improving performance of underlying financial instruments, strengthening industry capability and challenging existing policy settings and management practices which adversely impacting the industry as a whole.

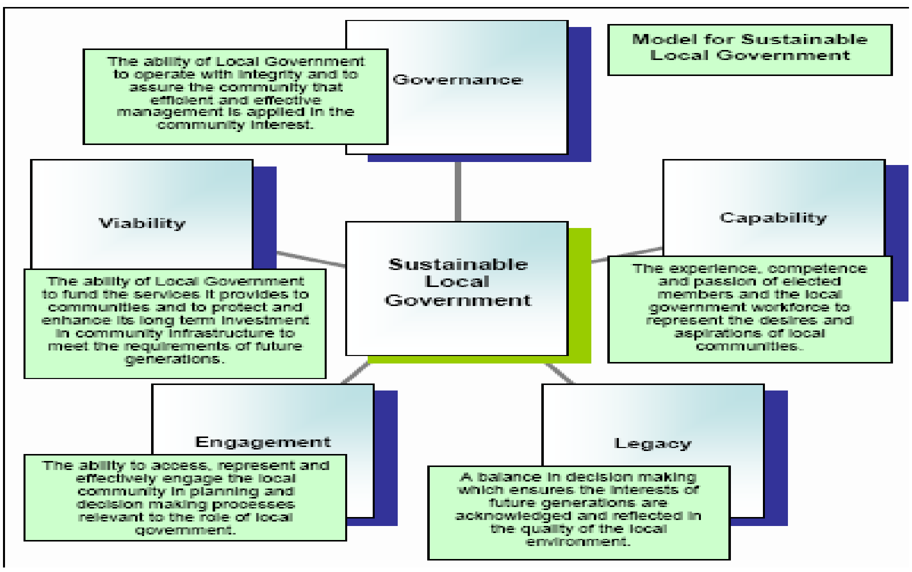
In the main, prospective efficiencies available to Councils attach to mechanisms which provide for the future services, skills and capabilities of Local Government on a regional basis. In time these models may evolve into genuine regional governance arrangements once the performance of various revenue instruments available to local authorities is improved and the inconsistent nature of information used for management and policy purposes is addressed.

The study was conducted at a time when reform and structural change for Local Government was underway or contemplated in most Australian jurisdictions. A national industry context shaped by heightened community expectations and intense fiscal pressure has exposed most Councils to the signficant challenge of maintaining current levels of community infrastructure and the daily task of ensuring the provision of valued services to communities and citizens.

In Western Australia, the review also took place against a backdrop of unprecedented growth in the State economy – bringing with it significant short and long-term infrastructure, capacity and service expectation challenges for every Council in the State. Recent ABS data shows Western Australia's Gross State Product (GSP) grew at 4.9 per cent in 2005-06 or almost twice the national rate of 2.8 per cent over the same period. The State's domestic economy recorded 10.9 per cent growth over the year, higher than any other Australian State or Territory.

Cognisent of these political and economic influences, and recognizing that the Local Government Act of 1995 was amended in 2004 to reflect the Western Australian Government's Sustainability Strategy requiring Councils to apply their *"best endeavours to meet the needs of current and future generations through integration of environmental protection, social advancement and eonomic prosperity",* the report explores a framework to better inform practical ways in which the idea of sustainability can be applied by individual authorities and at the level of the industry in its Western Australian setting.

Model for Sustainable Local Government



Types Of Councils - Comparative Local Government Capacity

The State of Western Australia is fully incorporated and currently administered by 142 Local Governments, a number that has remained relatively stable since the 1920s.

Table 1: Changes in number of Local Governments

	1910	1991	Sept. 2001	July 2007	% change 1991-2007
WA	147	138	144	142	2.9%

These councils are classified, according to the Department of Transport and Regional Services, into three categories: urban, agricultural and remote. The diversity of population and range make it difficult to adopt uniform standards across the sector.

Table 2: Population of Councils within WA

Population Range	Rural	Remote	Urban
0 – 1,000	32	6	-
1,001 – 2,000	21	5	1
2,001 – 3,000	4	3	-
3,001 – 5,000	13	2	2
5,001 – 10,000	5	3	5
10,001 – 20,000	6	2	6
20,001 – 40,000	1	-	12
40,001 – 60,000	-	-	4
60,001 – 100,000	-	-	7
>100,000	-	-	2

The following assessment of financial sustainability of WA Local Governments was conducted by Access Economics as part of the research program for the Systemic Sustainability Study. It demonstrates that 58% of all Local Governments, 69% of small Local Governments and 75% of Local Governments with declining population are facing significant financial sustainability challenges.

Table 3: Financial Sustainability Assessment by Types

Type of council	Councils whose long-term finances are assessed as unsustainable:			
	number	% of total	% of type	% of State pop'n
Metropolitan	3	4%	10%	5%
Regional, with large towns	19	23%	70%	11%
Regional, without large towns	61	73%	71%	5%
Above-average growth	13	16%	45%	8%
Declining population	53	64%	75%	9%
Largest 25%	11	13%	31%	12%
Smallest 25%	24	29%	69%	1%
All WA Councils	83	100%	58%	21%

However, 31% of the largest Local Governments and 45% of Local Governments with above average growth are also assessed as financially unsustainable.

This suggests that more factors are at work in explaining the sustainability of a Councils long-term finances than just whether it is small in size or has stagnant growth characteristics.

Some Local Governments are working proactively to address the future financial sustainability of their operations – others appear to have few options available to redress the challenges they face, or simply await contributions from other governments to ensure they can maintain baseline activities. This "hope and pray" mentality is encouraged by certain past and present practices of the other spheres of government, such as;

- the historical role of State and Federal Governments as capital funders of infrastructure;
- the regular appearance of "salvation funds" in the form of capital grant programs (*often non-recurrent, with no depreciation or maintenance consideration*), to address infrastructure crises at times of political opportunity (*elections*) and;
- the manipulation of Disability Factors within the WA Grants Commission allocation formula.

The current WA Grants Commission policy of maintaining grant allocations to amalgamating Local Governments for a period of five years also creates a distortion in the funding system, insofar as the opportunity cost of maintaining those allocations to amalgamating Local Governments – *which in theory are more financially efficient and sustainable and therefore in less need* – is the inability to reallocate those funds to other Local Governments.

State Governments across Australia remain concerned over the operational efficiency of Local Governments. This concern has witnessed a wave of structural reform and other initiatives to improve the cost effectiveness of Local Government service provision. During the 1990s, South Australia, Tasmania and Victoria all underwent episodes of municipal consolidation of differing degrees of intensity. More recently, restructuring involving councils amalgamating under some measure of State Government oversight is occurring in Queensland and the Northern Territory.

Despite all of this effort in manipulating Local Government boundaries and populations, it appears *(as evidenced by the various sustainability studies conducted by Local Government representative Associations)* that financial sustainability still confronts Local Governments in all States and Territory jurisdictions.

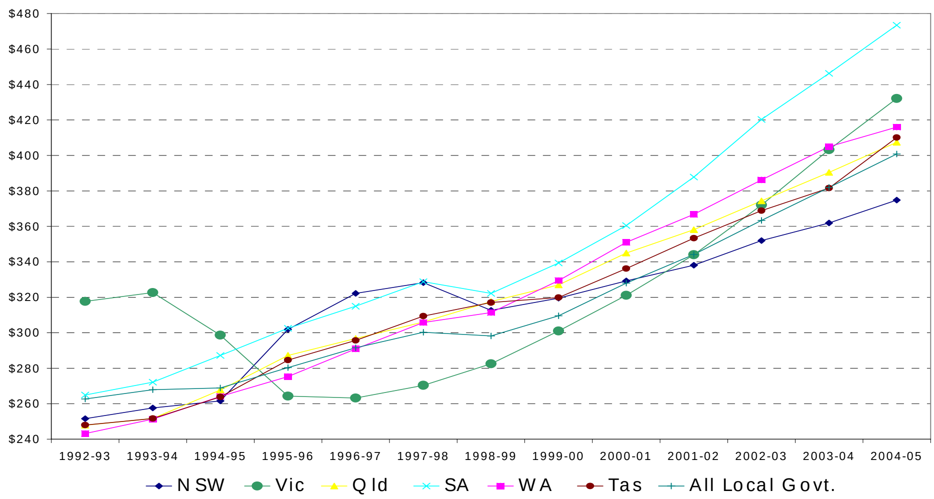
It would seem that there is little point in focussing too much discussion on the capacity of the "types" of councils. Large, growing, metropolitan councils appear just as financially challenged as small, declining, rural councils.

Tax impacts : individuals, organisations and businesses

The impacts of the various Local Government revenue raising mechanisms on individuals, organizations and businesses is essentially a discussion on taxation equity and appropriateness of the various mechanisms for funding the applications to which the funds are put.

Rates **:** The following chart compiled by the Municipal Association of Victoria demonstrates that the rating effort by WA councils per head of population is reasonable in terms of comparisons with other States. It shows that Local Government rates have gone from the lowest in the nation in 1992/3 to the mid-level in 2004/5.

Table 4 : Local Government Rates (*National per head comparison*)



Property rates are a tax on the land value, either net or inclusive of improvements, (depending on the valuation system applied). The essential justification for property taxing is that the revenue raised is applied to delivering services to the property.

If applied in its pure sense, it can be argued that those receiving the benefit of property services are paying for those services and therefore the rationale for the tax is appropriate. However, the validity of this rationale is diminished by the degree to which rate revenue is applied to non-property related services, such as services directed at populations or segments of populations.

The Commonwealth Grants Commission in its *"Review of the Operation of Local Government (Financial Assistance) Act 1995",* (2001 pp 52-53), identified five main reasons for the financial difficulties that are currently being faced by Local Governments:

- 'Devolution' where one sphere of governments gives Local Government responsibility for new functions;
- 'Raising the bar' where another sphere of government increases the complexity and/or standard at which Local Government services must be provided;
- 'Cost shifting', where either a council agrees to provide a service on behalf of another sphere of government (with funding later reduced or halted) or where some other tier of government removes what is judged to be an essential service thereby forcing a local authority to take over;
- 'Increased community expectations' where a given community demands improvements in existing municipal services or the provision of a new service; and finally,
- 'Policy choice' where councils have voluntarily expanded or enhanced their services.

Given these financial pressures it seems as though service arrangements have only been established and maintained at the cost of existing physical infrastructure maintenance, (i.e. property services). The final report of the House of Representatives Standing Committee on Economics, Finance and Public Administration, entitled *Rates and Taxes: A Fair Share for Responsible Local Government,* observed that; '*there is a significant infrastructure renewal gap across the country and asset standards are decreasing.'*

It seems reasonable to conclude that rates are being utilized to fund growth in human services at the expense of property services and therefore ratepayers- as distinct from taxpayers – are being inappropriately impacted.

This perspective reinforces the call for a reassessment of the distribution of general tax revenues and to allocate a set percentage of that revenue to Local Government, so that funding will grow as the economy grows

The system is also flawed to the extent that it assumes that property value reflects capacity to pay, and this is not necessarily so. For example, property prices – and hence property values – have achieved record growth in recent times in Western Australia.

Whilst the valuation does not necessarily increase the rates paid of its own volition, it does allocate the rating burden between ratepayers, and therefore shifts in relative values between classes of property will shift the distribution of the payment burden between ratepayers, regardless of any shift in their respective capacity to pay.

<u>Assumption : Boom Economy = Increased Valuation = Increased Rates</u>

This is not necessarily correct. Whilst growth in that portion of the global valuation for the Local Government due to the development of new properties can increase the amount of rates collected, changes to the valuation base for existing properties due to market shifts effectively only changes the distribution of the rate collection burden between ratepayers. This is because the rates are a function of the valuation divided by the Councils budgeted expenditure to give a "rate in the dollar", which is applied to each property valuation to determine the rates paid by each property. It is important to understand this because it dispels the myth that council rate revenue benefits from a boom economy in the same way as GST and PAYE tax revenue does.

Service Charges **:** The WA Local Government Act empowers Local Governments to establish certain service charges to fund specific activities. These charges are effectively based on service cost recovery and cannot be applied to raise general revenue. Whilst effective as a means of specifically identifying and sheeting home service cost responsibility, there are disincentives to utilizing them, such as the inapplicability of the pensioner rate rebate scheme to, say, rubbish collection charges when these are separated out from the general property rate.

Fee Structures **:** Councils can apply fees for certain activities, such as swimming pool entry, hall hire, recreation reserve allocation and the like. The fiscal reality of these fees is that they are only ever a contribution towards the operating costs of the facility, and never capable of supporting the full operational and capital cost.

To utilize fees to fully offset cost would likely make the use of facilities prohibitively expensive and inaccessible for the vast majority of users.

A number of fees and fines are also established under a range of Acts and Regulations and mandated at set levels, which are not automatically indexed and do not necessarily reflect real cost recovery for their administration.

Existing Local Government Revenue Source Options

Property Rates **:** Under the Local Government Act, Councils only have the power to set a rate which is expressed as a rate in the dollar of relevant value of ratable land within its district. The Act provides that a general rate on ratable land within a Councils district:

- may be imposed either uniformly or differentially;
- may involve a specified area rate on ratable land within a portion of its district for the purpose of meeting the cost of the provision by it of a specific work, service or facility; and
- may involve a minimum payment which is greater than the general rate which would otherwise be payable on that land.

Local Government is in the difficult position of having only a limited revenue base of its own and being dependent on additional funding from the States and the Commonwealth Governments in the form of Financial Assistance Grants (FAGs) and Specific Purpose Payments (SPPs).

A very significant proportion of Local Government revenue comes from rates. The balanced budget calculations of the WALGGC confirm that the residential, commercial and industrial rates equate to over 70% of Local Government revenue.

Access Economics found that Local Government has vigorously applied the rating mechanism over the last four years. On average, across Western Australian Councils over the years to 2004-2005, per-property residential rates revenue grew at an annual average of nearly 2.5 times more than the consumer price index. This shows willingness to use the rating mechanism to fund activities.

> ***Submission - Shire of Broome***
> ***Successful or Unsuccessful Utilisation of Differential Rates Regimes***
>
> *In 2000, the Shire of Broome adopted a Tourism Differential Rating Strategy which saw all commercial and tourism properties differentiated and rated higher than residential properties. Commercial properties and industrial properties pay an extra 3% and tourism properties pay an extra 13%. The proceeds of this differential rate (ie. the extra 3% or 13%) are forwarded to the regions Tourism Marketing Association (Australia's North West) for the purposes of specifically marketing Broome.*
>
> *Prior to the differential rating system the Association was providing a "non-exclusive" service to Broome commercial and tourism properties via the marketing campaign. The differential rate strategy sees a fair and equitable contribution by all business operators towards the marketing of Broome which in the end, benefits those operators.*

The Local Government Act however doesn't allow differentiation on the basis of use, if that use is not the predominant use. An example is that Bed and Breakfast properties, which again benefit from the marketing of Broome, don't pay any extra rate because the predominant use of the Bed and Breakfast property is residential.

Fees and charges **:** provide Councils with an important form of own-source revenue. $517 million worth of fee revenues were generated in 2004-2005. in prescribed circumstances, regulations may prohibit the imposition of a fee or charge or limit the amount of a fee or charge. In addition, Councils raise other non-investment revenue through fees and fines, operating contributions and from other sources.

Table 5 : Fees And Charges by Type, All WW Councils, 2004-05

Category of Fees and Charges	$M	%
Fees and fines	15.2	2.9%
Plus Service charges	97.0	18.7%
Plus User charges	322.1	62.2%
Plus Operating contributions	32.3	6.2%
Plus Other income (not including investment income)	51.3	9.9%
Equals Fees and charges	517.9	100.0%

According to its enabling Act, Local Government's own sources of revenue are principally only fees and user charges and taxation on property in the form of Council rates. However, unlike personal income tax, corporate taxation and consumption taxes, Council rates, which are calculated on the basis of land value, do not grow in proportion to other taxes linked to national economic growth rates. This impedes the ability of Councils to expand their services in line with general economic growth.
Despite intensifying demands on Local Government, these revenue bases have remained unchanged over the years and the share of national tax revenue available to Local Government through financial assistance from the Commonwealth Government is in steady decline.

Submission – City of Melville
Community Security

In response to a growing community perception of slow response times and inadequate Police attendance in the suburbs, the City of Melville

(COM), in 1999, established a Community Security Service (CSS) to provide a visible presence acting as a deterrent to reduce both crime and the fear of crime.

The City of Cockburn (COC), with its mixed socio-economic demographic, and crime and the fear of crime showing high on community feedback scores, responded to the community's safety and security concerns by developing the Safer City Programme. One of the initiatives included the need for a community security service providing patrols and incident first response.

The City of Melville's CSS was identified as the perfect solution and the COM and the COC began the newly "Joined Up" service on 1 December 2004.

The partnership has produced a competitive advantage when compared to a similar service provided by private contractors by:

- *Cost efficiencies achieved whilst achieving 'Whole of Business' improvements.*
- *The community receiving improved responsiveness to their requests whilst still providing key patrol coverage across seven zones within the two Cities.*
- *Increased security coverage*
- *Improved training and development programs, ensure high standards of customer care and cultural awareness*
- *Joint educational and promotional/publicity coverage targeting safety awareness and the reduction of the fear of crime in relation to the two Cities have been obtained.*
- *Efficiencies of scale obtained (includes financial, human, time, knowledge and capital resources.*

The CSS saves unnecessary and extra costs in supporting the service because it shares management and back office arrangements on a 50:50 basis. The "Joined Up" service demonstrates its effectiveness in many ways, both with routine activities and by responding to major incidents and emergencies. There have been several examples where being able to call on nine officers (seven zone officers, one roaming officer and a Team Leader) has resulted in a faster, more effective result for the residents concerned. Previously Melville would only have had four officers to call on and Cockburn would have had none.

With more resources to deploy the Team Leader can direct responses and share the staff numbers to resolve issues more quickly and more safely both for the officers and the residents.

Close liaison between the CSS and the local Police District is a critical success factor. The CSS Team Leader attends briefings each Wednesday at each of the three Police stations in the districts to discuss issues for the coming week. We get access to confidential information at these briefings. Arrests as a result of cooperation and monitoring by the CSS on a range of criminal behaviours are becoming common.

By sharing the overheads 50:50 and the capital equipment costs on a 3/7 and 4/7 basis (three zones in Melville, four in Cockburn), Melville has not had to increase its levy on ratepayers to support the improved back office support and its resulting business improvement plans. Cockburn has benefited from a fully developed service and only has to pay a proportion of the costs which is much less than setting up a service from scratch.

A reduced start-up capital expenditure in excess of $200,000 and reduced operating costs in excess of $100,000 per year has been identified for each participant. These savings are achieved through reducing the direct support costs of management and customer support officers. By joining the service together and eliminating one set of management this has provided a more focused effort in responding to higher volumes of calls and incidents than each service could expect to process on their own.

The CSS has an open book policy of sharing routine financial transaction information with the COC and agreeing exceptional expenditure in advance. Monthly invoices are raised to the COC to recover their share of expenses, and these are supported with pro-forma schedules covering staffing and vehicle costs and with copies of all expenditure invoices.

The CSS has continuously improved and modified the service to benefit customers. Since the service "Joined Up" the CSS has improved responsiveness with ten Officers able to response to a major incident instead of four. Staff morale and team spirit has improved due to an unified in-house team which provides more flexibility of employment and improved promotion and personal development opportunities.

Customers and residents benefit due to affordable and sustainable staff training and development programs delivering consistently high customer standards and cultural sensitivity. .

The CSS is an ideal solution for Local Governments to deliver cost effective outcomes without the bureaucracy of setting up a Regional Local

Government or the additional expense of establishing individual security services or employing third party providers. The COC is set to expand nearly 25% over the next ten to fifteen years under the Metropolitan Region Scheme and it is very simple to re-design zone boundaries as required.

The CSS is not a profit centre but is structured to generate income for services outside the levy drawn from rates. In 2005/2006 the draft budget for additional services is $50,000 with projects in the Business Plan for more new services to be developed. These include crowd control for resident functions and alarm monitoring for non-commercial / not for profit organisations.

Developer Charges **:** Developer charges are lump-sum charges designed to recover costs incurred in the provision of infrastructure from the beneficiaries of that infrastructure. the are typically levied on the owners/developers rather than the occupiers of land or the users of specific services.

Access Economics estimated that in 2004-05 developer charges funded an average of around 20% of all additions to non-financial assets, as described below;

Table 6 : Developer Charges WA Councils, 2004-05

	$M	%
Capital contributions (i.e., cash)	55.5	35.4%
Plus Assets donated (i.e., non-cash)	101.3	64.6%
equals Developer charges	156.8	100.0%

The main reasons for imposing developer charges are:

- to augment Council funding by taxing those who benefit directly from infrastructure improvement; and
- to levy those responsible for the development so that infrastructure costs are included in development decision-making.

Ideally, developer charges should involve full net cost recovery from the beneficiary, reflect variations in the cost of servicing different development areas, result in new developments meeting no more than the cost of the services provided through developer charges, cover infrastructure expenditures which can be clearly linked to the development and be reliably forecast, and be calculated in a transparent manner so that developers can understand and assess the calculated charges.

New policy settings for developer charges need to address mechanisms to:

- avoid ‘double-dipping’ or overcharging: residents who have purchased property on which a developer charge has been levied to construct capital facilities should not then be asked to contribute monies towards the capital cost from rates or other levies;
- ensure equity on account of incidental benefits delivered to existing ratepayers through facilities to serve new ratepayers; and
- Coordinate State versus local arrangements. Any imbalance between the two is liable to distort the proper pricing of residential land.

Councils on Perth’s outer metropolitan fringe will service approximately three quarters of Western Australia’s new residents between 2006 and 2021, (over 300,000 new residents). These Councils face significant challenges to provide and renew infrastructure to new neighbourhoods and communities.

The UDIA, WALGA and the Department for Planning and Infrastructure have developed a new framework for developer charges. The proposed methodology requires definition of “catchment” areas for the facilities or services, quantification of need and a demonstrated nexus to connect the proportion of use attributed to growth and the proportion associated with servicing the needs of the existing community. Local Governments will need to develop long-term (5-10 year) community needs plans so that developer charges can be apportioned in a more transparent manner according to their contribution to community infrastructure.

State Regulatory Limits On Revenue Raising Capacity

There are many examples where Local Governments revenue raising capacity is being impinged by rate exemptions which flow from decisions at the State level, including independent living units within retirement villages; former (rate paying) State Housing, devolved to Community Housing Associations and subsequently determined as “charitable”, commercial activities of charitable organizations, and commercial activities which have Boards comprised of charitable entities.

Any concessional treatment determined by State Government legislation or policy should be funded by way of a Community Service Obligation (CSO) or similar payment to the authority where the benefit is claimed.

In addition, the capacity for Local Governments to be entrepreneurial is restricted by parental legislative restrictions. These should be lifted and replaced with appropriate accountability regimes to give Local Governments the freedom to responsibly explore revenue opportunities.

The types of impacts on Local Governments is demonstrated in the following submissions and case studies.

Submission – Shire of Dardanup
Charitable Rate Exemptions

In these times of the WA State Government advocating Local Government sustainability, the State should be liable for lost Council revenue that is a consequence of Government policy / legislation.

Should the authority to determine rates exemption not rest entirely with Local Government, Council is advocating that a rebate scheme be introduced. This rebate scheme will allow Councils to claim lost rate revenue from the state government along the lines of the Pensioner & Seniors rebate scheme.

A retirement village in the Shire includes a hostel to accommodate and care for people that are unable to continue to care for themselves (the nursing home) in addition there are approximately 160 independent living units.

The village operator applied for a rating exemption as a charitable body operating a charitable service. The Shire of Dardanup refused the exemption however it was approved by the State Administrative Tribunal based on the decision of the Tribunal on a separate case brought by the Uniting Church versus the City of Stirling.

The Shire of Dardanup estimates that the loss of revenue for this land is approximately $200,000, or 4.2% of the shires rate revenue.

The case for rates to apply to the independent living units is that the residents are active and independent members of the community that use community services the same as they were when they lived in their homes elsewhere before they moved to the village.

Specific scenarios: Council has received requests from residents of the village for access gates to be widened (as constructed by the village operator) to allow mobile scooters (gofers) to access and egress from the village to the bus stop Council has provided, this is clearly a internal matter for the organization, however the organization has the view that the shire should pay for the widening. This widening has not occurred.

In addition, for the safety of the residents several requests have been made by the organization and residents for concrete dual use paths to be constructed on a major road to avoid the residents having to cross the busy road to access the shopping centre, library and recreation centre. The organization expects the shire to fully fund this path.

As grant funds become available a path will be constructed, however there is an expectation that the Shire will fund this regardless of financial support from others.

These two scenarios are listed only to make the point that the retirees in the village are using existing services and requesting additional services to meet their needs, yet the organization and the residents do not make a contribution to the services.

The Shire of Dardanup has absolutely no objection to the nursing home being exempt from paying rates, however the exemption on the ILU's is considered unfair and unjustified.

The exemption is only made possible by virtue of the Australian Taxation Office recognizing the village operator as a charity under the tax Act and the Local Government Act (as stated above) enabling charities to qualify for rating exemptions. This being the case, the Shire of Dardanup has the view that the Commonwealth government and State government should compensate local government for the loss of revenue.

The Pensioner & Seniors rebate scheme should apply as with any other pensioner qualified property. ILU's are no different and should not be treated differently.

The village operator is not the end payer of the revenue, it will be passed onto the resident and therefore the rebate scheme should apply.

Charitable Rate Exemption – Pastoral Enterprise

The State Administrative Tribunal has made a determination to uphold a claim for an exemption from rates levied by the Shire of Derby/West Kimberley on a pastoral lease in the far North West of the State. The exemption from rates was sought on the basis that the whole of the land was being used exclusively for charitable purposes.

The applicant is an organization representing the local indigenous population, including the Aboriginal elders of the area. While the taxation authorities had recognised the organization as a charity for some purposes, it had, until recently, paid rates.

The land is run as a pastoral station and the Council (basing it's rating on land use) deemed the property as ratable, as it believed a pastoral station was not a charitable purpose.

The Tribunal's decision is based on the view that the pastoral enterprise use is charitable because it serves the social, economic and "traditional" advancement of a clearly disadvantaged group. This view is at odds with case law on charitable purposes which focuses on the actual use of the land and it is difficult to see that the actual use of the land in this case is any different to any other pastoral enterprise.

The decision essentially means that any enterprise run by an Indigenous group is likely to be considered a charitable land use, unless the use can be established to operate to profit individuals, or a group of aboriginal people that are clearly not disadvantaged.

This decision has the potential to seriously erode the rate base of some local authorities. The Shire of Derby/West Kimberley has advised that they are appealing this decision to the Supreme Court. The cost of the appeal is likely to be between $40,000 to $60,000. If the Council loses the case it will also have to pay the legal costs of the other party.

Either the Local Government Act should be amended to eliminate exemptions of this type, or the State should establish a compensatory fund for Local Governments, similar to the pensioner discount provisions, if the State believes these type of Organisations should be exempted from the reasonable rating efforts of Local Governments.

Submission – Shire Of Broome
Innovative, Entrepreneurial Ventures Which Have Created Revenue Streams

I would like to draw to your attention the issue of licensing with respect to the constraints placed on local government to earn a revenue stream. I make reference to the issue of camel licenses on Cable Beach for which a licence has been market tested (through a tender process) and valued at $100,000 per annum. There are three licenses currently issued on Cable Beach and the current licence fee is $2,000. The Broome Shire Council is considering an increase in the licence fee, substantially greater than the $2,000 fee, however the Council is restricted to setting a licence fee to recoup the services it provides as a direct result of the issue of that licence.

The licence itself is transferable to a new operator and that would seem reasonable, however it provides an opportunity for the licence holder to realise the difference between the commercial value of the licence and the statutory value that he paid. The difference this year would be $98,000.

A change in legislation allowing local governments to charge a commercial fee for a licence, such as the Cable Beach licenses, this revenue stream could be returned to the local government and to the community.

Submission – Town of Cambridge

Rating of Endowment Lands

The Town of Cambridge operates under the Local Government Act and the Lands Endowment Act, which was a result of the splitting of the City of Perth. This Act states that properties in the Lands Endowment area shall be rated on an unimproved valuation. The effect of the Lands Endowment Act is that there is a shift in the rating burden from the, what would be the higher valued properties to the lower valued properties.

A case in point is the valuation provided to the Floreat Forum which sees them paying an amount of rates 'x' amount less than their assessment under the gross rental value system. Whilst this is not an impediment to the Town of Cambridge because it still yields the same rates, it is an impediment/burden on ratepayers at the lower end of the scale and the taxation principle of equity.

Summary and Conclusions

- More factors are at work in explaining the sustainability of a Councils long-term finance than just whether it is small in size or has stagnant growth characteristics.
- Councils in WA are making a reasonable rating effort ; i.e rates are being utilized to generate revenue at an appropriate level;
- WA rating levels per head of population are a reasonable cost by comparison with other States;
- Historical cost shifting has left Local Government burdened with as much as $1 billion nationally in increased program and operational costs;
- Infrastructure asset maintenenace and replacement has been underfunded in order to fund these shifted State and Commonwealth service costs. In Western Australia this has resulted in a backlog of $1.75 billion.
- Encroachment by State Government on the traditional Local Government rating base limits the capacity to draw more revenue from the rate base.
- Restrictive State regulation inhibits innovative approaches to revenue raising;
- Fines, fees and charges established and mandated by legislation and regulation should be either fully "deregulated" and left to council discretion to set, or should be reassessed (*for their adequacy to cover their administration*) and automatically indexed on an annual basis.
- Charitable rating determinations imposed on Local Governments compromise the integrity of the rating system.
- State mandated concessions for Local Government rates should be funded by the State.

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