

7.0 ISSUES AND CONSTRAINTS FOR LOCAL GOVERNMENT REVENUE

7.1 Current Revenues

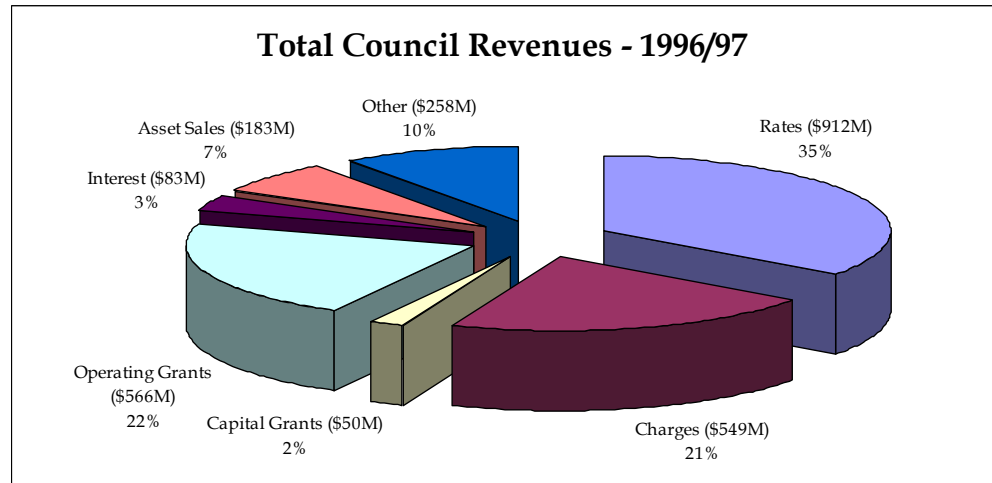


Figure 7.1

7.1.1 Restricted Tax Base

Local government has a single tax base, a property tax based on the capital value, the site value or the net annual value of a piece of land. Councils may raise:

- general rates (which may include a municipal charge which may not raise more than 20% of the total rate revenue), which may be differentiated between different classes of land if the capital value system of valuing property is adopted;
- service rates and charges (for specific purposes, e.g. refuse disposal, sewage services);
- special rates and charges, in relation to specific areas of the council (for specific projects, e.g. drain construction, CBD levies);

7.1.2 Other Revenues

Councils raise or receive revenues from other sources. These include:

- grants and subsidies from other levels of government;
- user charges for goods and services provided, including profits on service delivery contracts for other councils;
- regulatory fines and fees;
- reimbursements for work done on behalf of other agencies;
- interest on investments; and
- contributions and donations.

7.1.3 Rating Effort and Capacity

There are a number of papers available that discuss rating effort. They are generally highly mathematical in nature and difficult for the ordinary citizen to understand. A table will be provided, in a collection of comparative tables and averages, of rating information for all Victorian councils, based on the 1996/97

Victorian Infrastructure Study – Facing The Renewal Challenge

financial year and 1996 census information. The information provided will include for each council:

- total capital value (Note: Capital Value is used as a standard, not as a comment on the most appropriate valuation methodology);
- total rates (Note: In 1996/97 rates were raised for only 9 months of the year to bring the rating year into line with the financial year);
- total assessments;
- median income;
- average capital value per assessment;
- average rates per assessment;
- capital value required to raise \$1 of rates; and
- rate as a percentage of median income.

A selection of this information is presented in Table 7.1 below, with some comments on its usefulness.

<i>Council</i>	<i>Average Rates per Assessment</i> \$	<i>CIV to raise \$1 of rates</i> \$	<i>Average Rates as % Median Income</i>
<i>Inner Melbourne</i>			
Monash (C)	560	297	1.41%
Bayside (C)	622	356	1.47%
Banyule (C)	505	314	1.29%
Boroondara	673	354	1.49%
Darebin (C)	623	217	2.19%
Glen Eira (C)	439	391	1.27%
Hobson's Bay (C)	596	232	1.76%
Kingston (C)	397	407	1.18%
Manningham (C)	736	277	1.57%
Maribyrnong (C)	847	143	3.30%
Maroondah (C)	473	306	1.23%
Melbourne (C)	3,560	138	9.68%
Moonee Valley (C)	568	273	1.62%
Moreland (C)	549	244	1.87%
Port Phillip (C)	766	260	2.28%
Stonnington (C)	500	462	1.22%
Whitehorse (C)	505	330	1.33%
Yarra (C)	840	203	2.40%
<i>Group Average</i>	670	271	1.84%
<i>Outer Melbourne</i>			
Mornington Peninsula (S)	450	341	1.59%
Brimbank (C)	488	254	1.40%
Cardinia	544	302	1.53%
Casey (C)	521	251	1.31%
Frankston (C)	396	654	1.19%
Hume (C)	587	245	1.55%
Knox (C)	523	289	1.24%
Greater Dandenong (C)	480	309	1.57%
Melton (S)	658	179	1.72%
Nillumbik (S)	772	237	1.52%
Whittlesea (C)	678	208	1.78%
Wyndham (C)	819	168	1.99%
Yarra Ranges (S)	586	241	1.59%
<i>Group Average</i>	545	281	1.45%

Victorian Infrastructure Study – Facing The Renewal Challenge

<i>Council</i>	<i>Average Rates per Assessment \$</i>	<i>CIV to raise \$1 of rates \$</i>	<i>Average Rates as % Median Income</i>
<i>Regional Councils</i>			
Swan Hill (RC)	636	141	2.50%
Ballarat (C)	534	185	1.96%
Greater Bendigo (C)	584	166	2.17%
Greater Geelong (C)	474	244	1.63%
Horsham (RC)	526	196	1.96%
Mildura (RC)	555	192	2.15%
Greater Shepparton (C)	616	206	2.13%
Wangaratta (RC)	404	307	1.43%
Warrnambool (C)	563	207	2.11%
Wodonga (RC)	579	210	1.79%
La Trobe (S)	588	140	2.17%
<i>Group Average</i>	538	199	1.94%
<i>Large Shires</i>			
Moyne (S)	508	332	1.87%
Murrindindi (S)	468	284	1.76%
Colac-Otway (S)	513	195	2.02%
Baw Baw (S)	593	221	2.08%
Campaspe (C)	472	267	1.75%
Corangamite (S)	620	256	2.40%
Delatite (S)	407	266	1.60%
East Gippsland (S)	459	229	2.03%
Glenelg (S)	630	236	2.28%
Macedon Ranges (S)	592	222	1.62%
Mitchell (S)	564	209	1.71%
Moirra (S)	481	251	1.90%
Moorabool (S)	572	201	1.73%
Southern Grampians (S)	673	199	2.70%
South Gippsland (S)	487	260	1.88%
Wellington (S)	478	180	1.80%
Surf Coast (S)	491	259	1.64%
<i>Group Average</i>	520	233	1.88%
<i>Small Shires</i>			
Pyrenees (S)	439	203	2.06%
Ararat (RC)	551	175	2.16%
Bass Coast (S)	334	249	1.58%
Central Goldfields (S)	394	176	1.86%
Hepburn (S)	334	219	1.46%
Queenscliffe (B)	556	273	2.16%
Alpine (S)	603	169	2.39%
Buloke (S)	636	111	2.68%
Gannawarra (S)	436	239	1.79%
Golden Plains (S)	352	303	1.14%
Hindmarsh (S)	477	151	2.03%
Indigo (S)	411	264	1.37%
Loddon (S)	530	168	2.48%
Mount Alexander (S)	451	200	1.98%
Northern Grampians (S)	406	192	1.60%
Strathbogie (S)	458	267	2.09%
Towong (S)	436	283	1.68%
West Wimmera (S)	516	208	2.26%
Yarriambiack (S)	416	-	1.69%
<i>Group Average</i>	438	199	1.81%

Average - All Councils	584	256	1.91%
------------------------	-----	-----	-------

Table 7.1

The simple averages provide the following indications:

Capacity to Pay. The median household income provides an indication of the capacity of the community to pay rates, an important consideration in taxation. In a relative sense, if an individual council's rates as a percentage of median household income is lower than the average then there is the potential for further rate revenue to be paid by that community. Note that the number of commercial or rural properties in a particular council area will be a factor that distorts the index comparison.

Capacity to Raise Revenue. The higher the total valuation the greater the potential for rate revenue. In a relative sense, if an individual council's average rate is lower than the average rate for the council grouping then there is the potential for more rate revenue to be raised to support the expenditures.

Cautionary Note: These are simple averages and measures and really do no more than indicate an avenue for further research.

7.2 Potential Revenue Sources

7.2.1. Rates versus User Charges

It will be noted from Figure 7.1 that user charges are a significant component of total council revenues. User charges include the application of regulatory fees and fines. There is a sound economic argument to suggest that where the provision of a good or service can be attributed to an individual that the individual should pay a fee for the good or service. The corollary is that rate revenue should only be raised for:

- those goods and services that are unable to be specifically charged to individuals (the *allocative* role of government); and
- equity and social justice programs (the *distributive* role of government).

Some commentators argue that user charges are a back door method to increase rates. User charges are a more equitable arrangement for distributing the cost of service provision to those who benefit from the service (an important principle of taxation). The introduction of user charges could be accompanied by a consequential reduction in rates.

Clearly, the more revenue that can be raised through user charges the less call on rate revenue. Rate revenue can then be reduced (through lower rates) or re-directed to provide services to benefit the community (such as effective maintenance and renewal of infrastructure assets). Care needs to be taken to ensure that user charges recover only the cost of providing the benefits to the individual. For instance, it would be inappropriate to recover the total cost of providing town planning services from developers. Some of the cost of town planning is directed to providing benefits to the community as a whole, which should be a charge against the general rate revenue. Similarly, where user

charges are applied for a particular service and concessional arrangements are made for disadvantaged users, the cost of the concessional arrangements should be a charge against the general rate revenue, not the other users of the service.

A question to ponder is the extent, if any, to which local government will be embroiled in the current tax reform process.

7.2.2 Grant Revenues

Another significant component of local government revenues is grants from other levels of government. These grants are predominantly from the Commonwealth government, through the financial assistance arrangements made to provide some redistribution of the Commonwealth's surplus from vertical fiscal imbalance to local government, by tied and untied grants. Because local government has a single tax base, there is an argument that could be mounted that local government should receive a larger share of Commonwealth (and State) taxes. The devolution, either deliberately or by other levels of government no longer providing them, of a number of services by other levels of government has placed a strain on local government resources. It is a sad fact of life that large ticket items such as road maintenance and asset renewal programs provide a soft target for cuts in budgets when resources are stretched.

The potential to achieve a greater share of grant revenue should be explored, and the maintenance or renewal of assets provided directly or indirectly by other levels of government should be a point of leverage in the explorations.

7.3 Cash Management Issues

Appendix 10 contains some useful information about financial management issues, with specific reference to borrowings, debt redemption and cash reserves and investment.

Councils have significant cash reserves, which vary according to the cyclical cash inflows and outflows for each council. The more effectively cash is managed the greater the potential to earn good investment income and minimise interest charges on borrowings. This will provide further funds for the provision of council services, including the maintenance, renewal and upgrade of infrastructure.

Strategies for sound financial management should include:

- short, medium and long term financial management plans as part of the strategic focus of the council;
- maximising the return from cash surpluses;
- the use of cash advance facilities which can be readily repaid to minimise interest costs on borrowings;
- timing of the acquisition of and payment for major purchases to minimise the use of overdraft and similar facilities.

Cash Flow Management

Finance staff at the Rural City of Ararat monitor cash receipts and disbursements on a weekly basis. Major capital expenditure items are then scheduled to be paid for when sufficient surplus cash is available, where this is appropriate.

Plant purchases, etc, are programmed to suit the Council's available cash. Council does not expect to have to use its overdraft this year, thus saving the budget allocation for interest on overdraft, which then becomes available for additional service provision in other areas.

By synchronising major capital expenditure with cash inflows, Council can maximise its interest on investment and minimise overdraft usage.

It may be a trite statement that every dollar saved in interest costs can be used to fund services and infrastructure, but it is true.

7.4 Private Sector Investment

A few councils indicated in discussions that they were considering involving the private sector in the provision of infrastructure. The Victorian Government has provided a lead to councils on how this can be done to overcome funding gaps. Other governments around the world are also pursuing private sector investment in public infrastructure.

However, Councils need to consider whether they want to end up owning the asset, and therefore have a future liability to replace the asset, or simply arrange for the asset to be built, owned and operated by the private sector.

It is considered that this is an appropriate mechanism for councils to pursue within the context of current low revenue growth, high community expectations for infrastructure and the strategic framework for council operations.