

# **Towards a Financially Sustainable**

## **Local government Fiscal System**

Outcomes paper from 2009 National Congress.

### **Introduction**

Local Government Financial Sustainability has been in question for at least the last five years, with both LGMA and ALGA actively pursuing answers and mechanisms to ensure that such financial sustainability is achieved.

Some of the work undertaken to date includes a review commission by ALGA and undertaken by PricewaterhouseCoopers which clearly identified the growing financial challenges for many councils across Australia as they struggle to meet rising community expectations through an expanded range of services and infrastructure.

In 2006 PwC estimated an infrastructure backlog of some \$14.5billion. This backlog has resulted from the growing gap in many councils between their revenue base and the funding required to both deliver a broader range of services and renew the infrastructure which supports these services. The major recommendation from the PwC report included the establishment by the Commonwealth Government of a Local Community Infrastructure renewal fund, together with greater support from state and territory governments to help Councils better meet the needs of their community. Whilst the government's recent stimulus package will go some way to denting this backlog, there is still much that needs to be done to ensure long term financial sustainability of Local Government.

In 2007 LGMA, ALGA and the various state divisions took up the opportunity to submit to the Productivity Commission Study into Local Government Revenue Raising Capacity. These submissions again highlighted the need for a variety of measures to protect and enhance the financial sustainability of Local Government.

Whilst the productivity review made some 29 recommendations to improve efficiency and promote best practice through the existing arrangements between the levels of government, the Federal Government was not required to table the report and therefore not required to formally respond as the review was considered a research paper only.

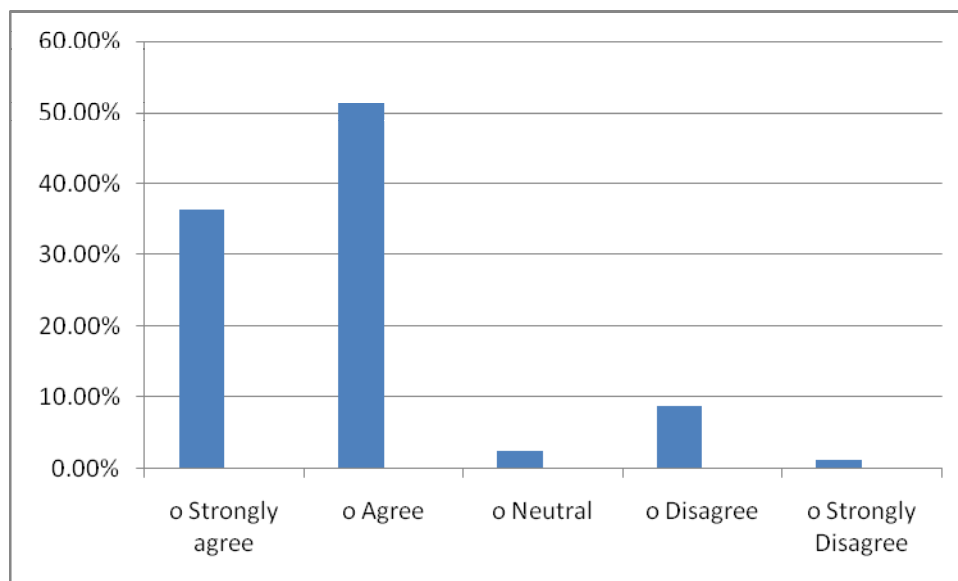
Since then however, we have seen some major political changes particularly at the federal level, we've experienced bushfires, flood and drought, we're in the midst of a global financial crisis, and our communities need effective service delivery more than ever.

Also significant to the ongoing pursuit of financial sustainability is the current review into Australia's Tax system. The 2009 LGMA National Congress and Business Expo included a panel session on Australia's Future Tax System and the implications for Local Government. At this time a survey of industry professionals and leaders was undertaken to gauge the sectors views on long term financial sustainability.

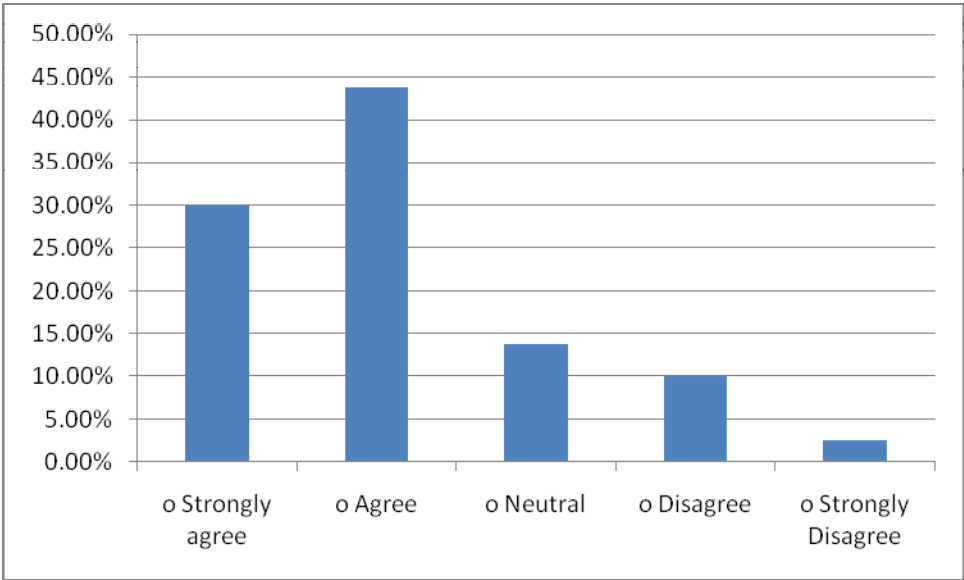
The survey reflected the five key themes that had come out of the 2008 financial sustainability forum on the Gold Coast being local government structure and role; the link between autonomy and self-levied taxation; local government taxes of the future; principles/models for distribution of centrally collected funds; and geographic, demographic sale and diversity. The survey posited a number of assumptions or statements in each area and asked respondents to indicate their level of agreement. 80 delegates returned surveys, the results of which are detailed below.

### Local Government Structure and Role

In relation to the statement "In 2050 local government will still exist but with possibly fewer, larger local governments and more regional overlay structures" over 87% of respondents agreed or agreed strongly with the statement.

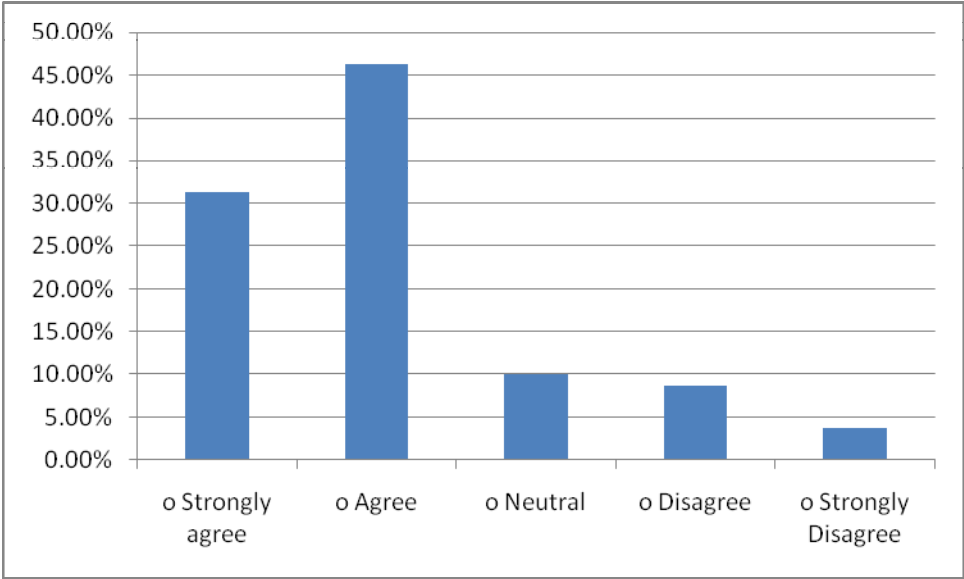


Over 73% of respondents agreed or strongly agreed that the roles and responsibilities of all levels of Government are unclear and need to be more clearly defined.

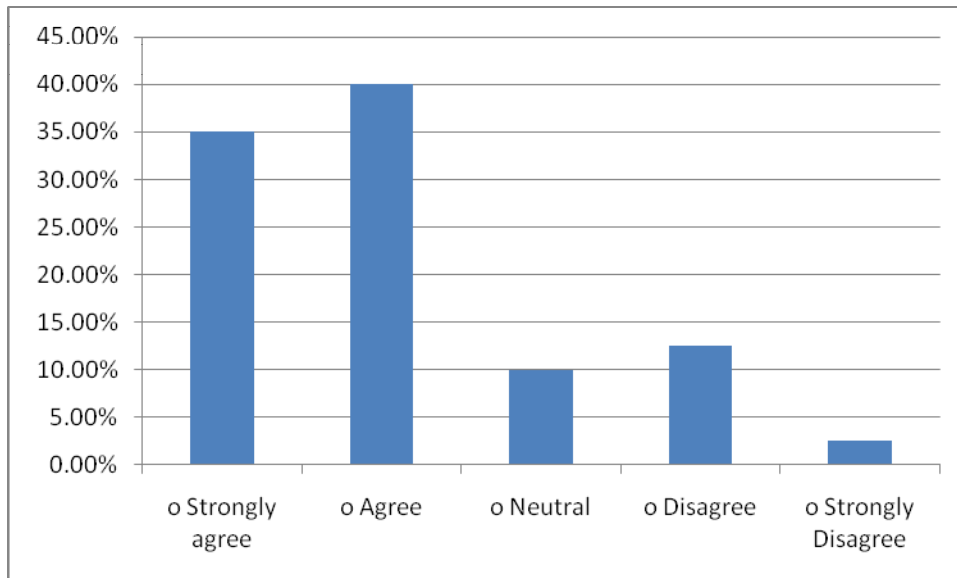


**The Link between Autonomy and Self-Levied Taxation**

The vast majority (77%) of respondents believe that a self-levied form of taxation is an imperative for local government’s future.

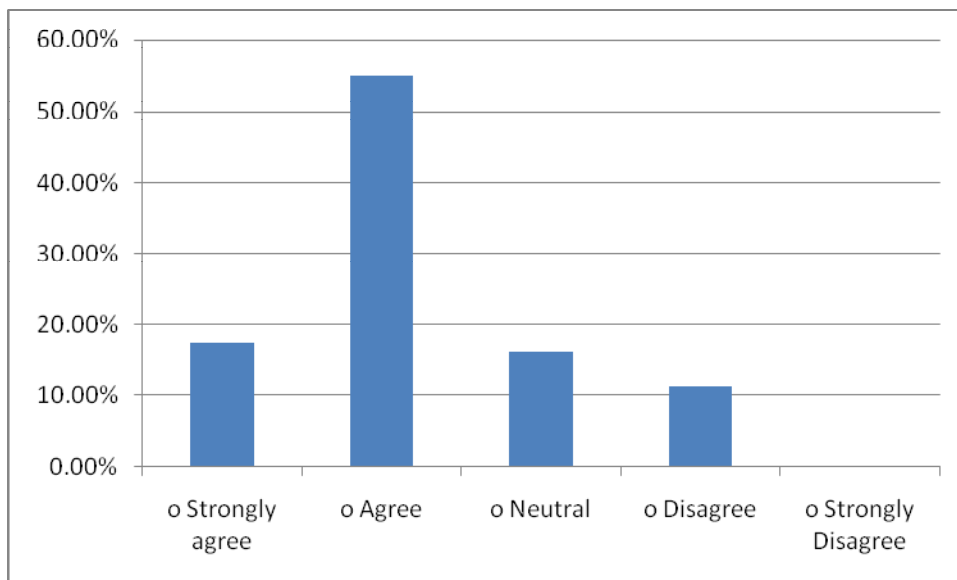


Similarly 75% of respondents agree that a self-levied form of taxation for Local Govt is a foundation stone for genuine autonomy from other levels of Government, irrespective of constitutional recognition.

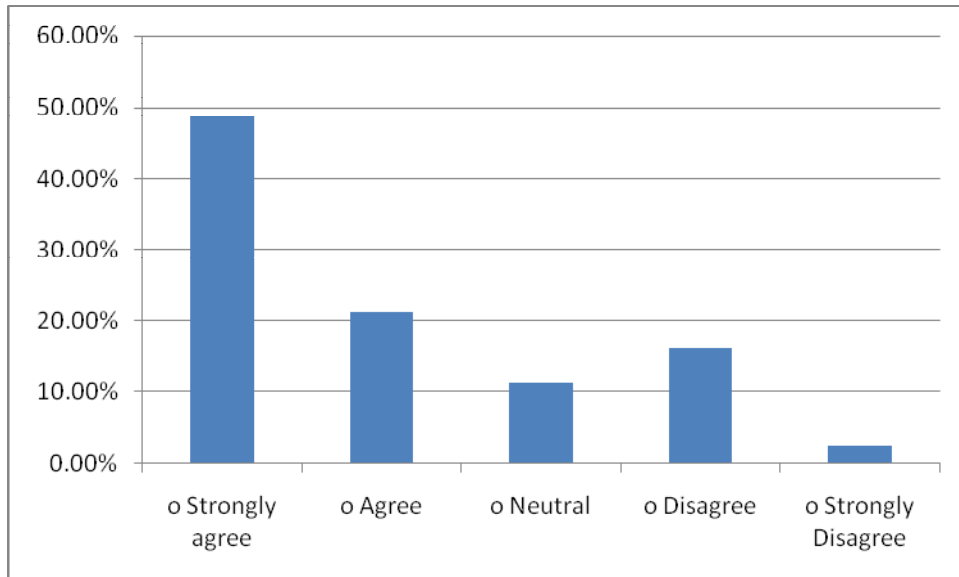


### Local Government Taxes of the Future

In relation to the statement that Property Rates will continue as the main source of local government revenue raising, over 72% of respondents agreed or strongly agreed.

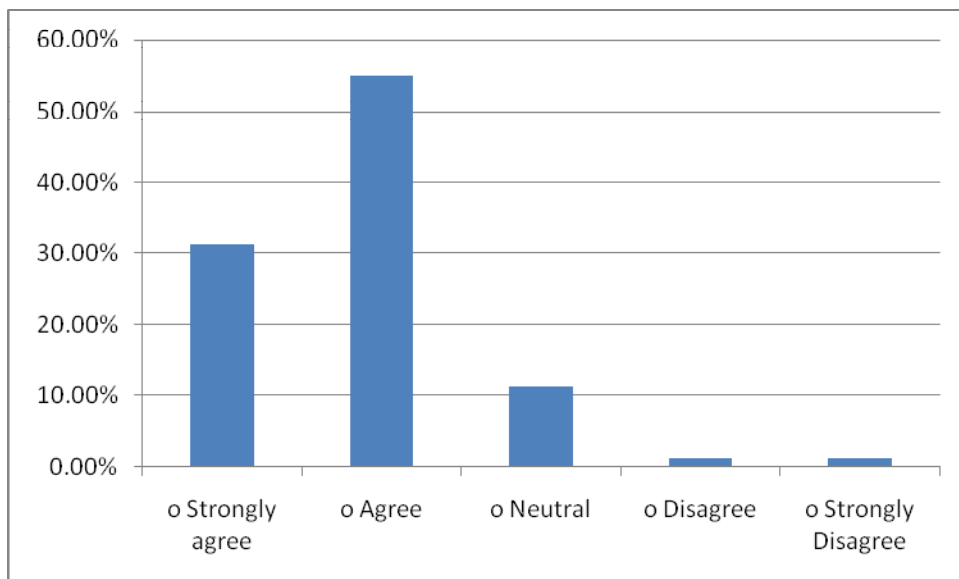


Over 67% of those surveyed felt that the primary equity drawback for rates is the impact on asset-rich / cash poor people such as pensioners, with over 48% agreeing strongly.

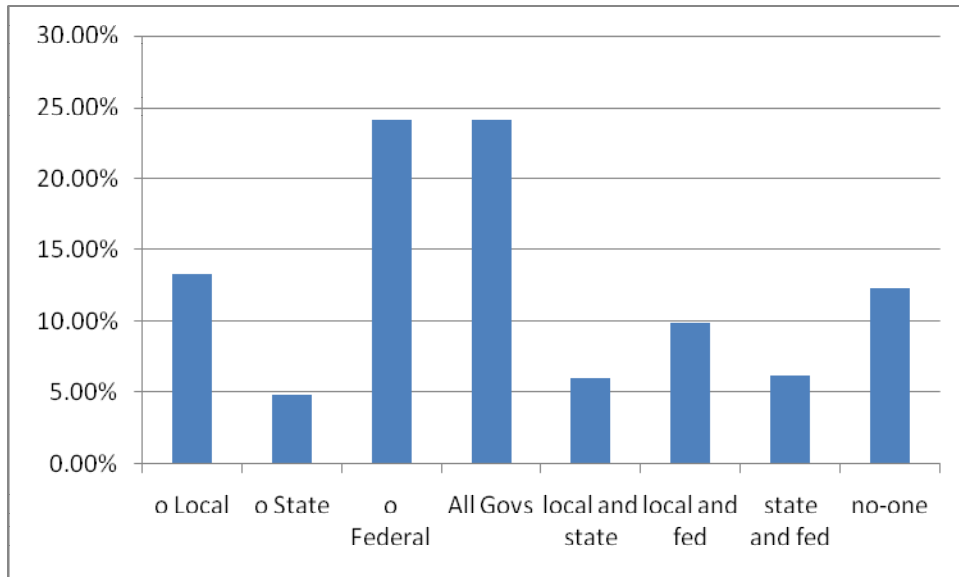


Two questions looked at the issue of other taxes such as an environmental levy, GST share or community carbon tax. The first question suggested that these other taxes should augment and not replace rates as revenue for Local Government, whilst the second question aimed to seek opinion on which level of government should be responsible for raising these taxes.

In relation to the statement that other potential forms of taxation such as an environment levy, GST share or community carbon bank, should augment rather than replace rates, over 86% of respondents agreed or strongly agreed.

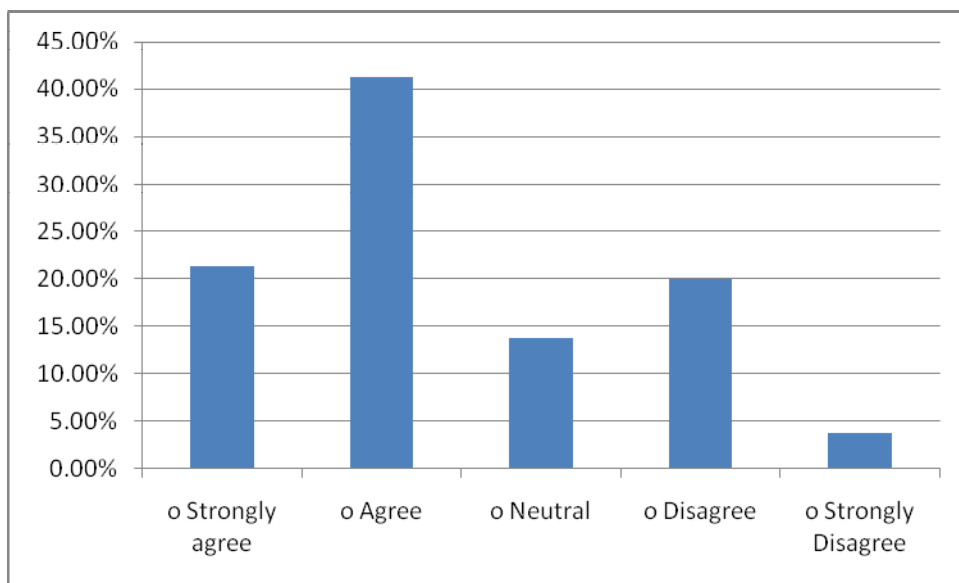


When it came to the issue of raising these taxes the majority of respondents felt that it should be all levels of government or only by the federal government.

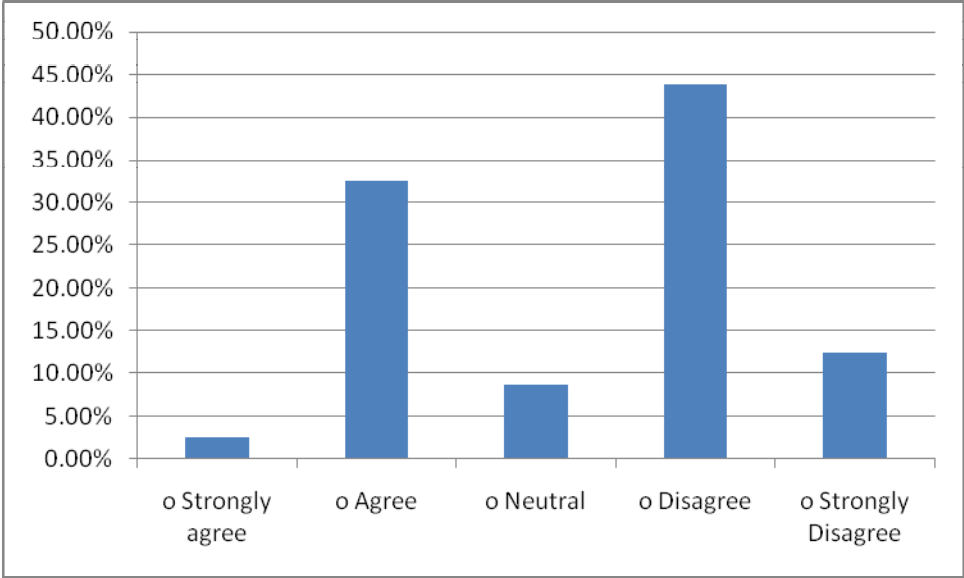


### Principle/Models for distribution of centrally collected funds

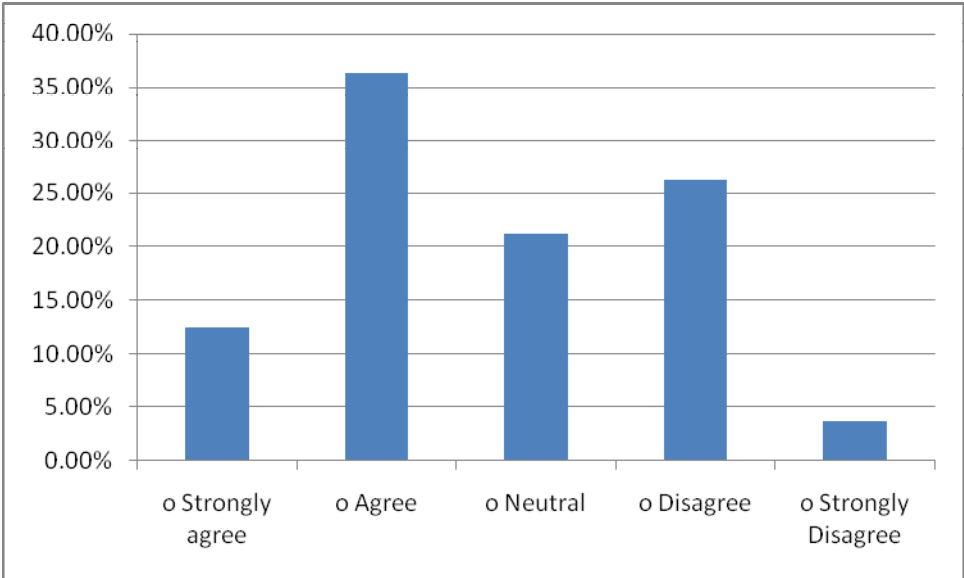
In this area the survey suggested that grants should be means tested and needs based. Whilst over 62% of respondents agreed or strongly agreed, a statistically significant number 20% disagreed with the suggestion.



The level of agreement was much lower in relation to the statement grants should be as-of-right and not characteristic or performance based, with over 56% disagreeing (12.5% strongly).

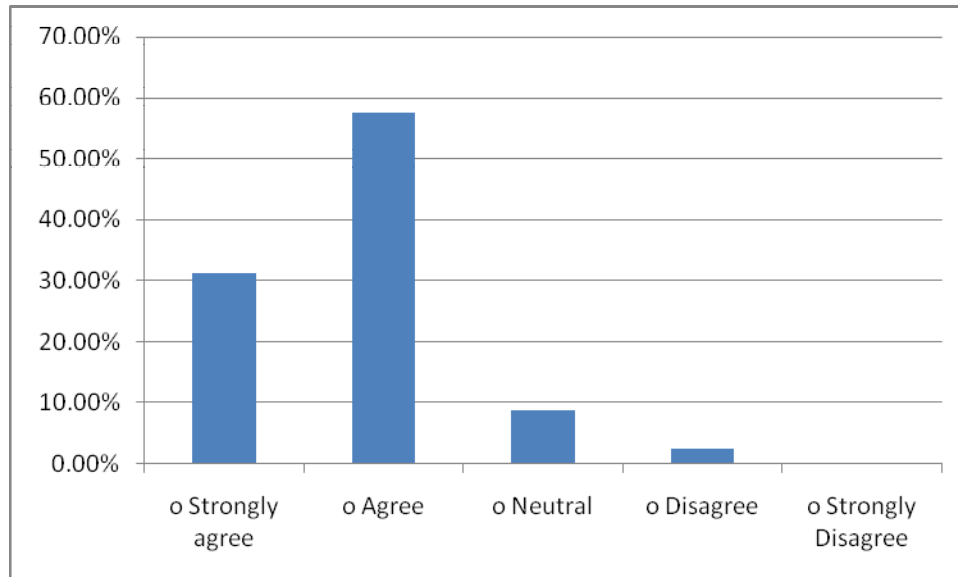


The notion of a universal allocation system across all states / territories that redistributes wealth from more affluent to lower socio-economic capacity local authorities, received quite mixed responses with over 30% disagreeing, less than half agreeing and well over 20% neutral.



## Geographic, demographic scale and diversity

This section of the survey suggested that we need to move away from a 'one size fits all' approach to defining demographic, governance and administrative local government structure in regions. Almost 89% of respondents agreed with this statement with 31.25% agreeing strongly.



However, over 40% of respondents disagreed that a move to larger regional structures will address issues faced by large/low population areas.

