



Rate Setting Policy Statement





ONE70
LV1, 170 Railway Parade
West Leederville WA 6007

(08) 9213 2000

www.walga.asn.au

Policy Statement

The Local Government sector opposes ‘rate capping’ or any externally imposed limit on Local Government’s capacity to raise revenue as appropriately determined by the Council with reference to strategic and financial planning processes and the community’s capacity to pay.

Rationale

The Local Government sector fundamentally opposes ‘rate capping’ based on the following rationale:

- I. Local Government is a legitimate and essential sphere of Government with the democratically enshrined mandate to raise revenue through rates to fund infrastructure and services for the benefit of their community.
- II. Councils’ deliberative rate setting processes reference their Integrated Planning Framework – a thorough strategic, financial and asset management planning process – and draw upon the community’s willingness and capacity to pay.
- III. Rate-capping prejudices Local Government’s long-term financial management and can, as experienced in other jurisdictions, have detrimental long-term effects on Local Government asset management, with chronic under-rating leading to significant infrastructure maintenance and renewal backlogs.
- IV. Rate capping places undue pressure on sound financial management at a time when Local Governments are subjected to increasing costs beyond their control, often imposed by other spheres of Government.
- V. Local Government rates have remained steady for many years at approximately 3.7 percent of GDP in Australia; meaningful tax reform would require thorough investigation of the total taxation burden, not an external cap on Local Government rates.

Local Government Legitimacy

Local Government is a legitimate and essential sphere of Government with the democratically enshrined mandate to raise revenue through rates to fund infrastructure and services for the benefit of their community.

An externally imposed cap on Local Government rates is contrary to the principles of democracy, accountability and independence of Local Government. Furthermore, a cap on rates limits the ability of the Council to respond to local community needs and expectations.

A rate capping framework can lead to Councils' deliberative rating decisions being outsourced to an external regulator that may take the blame for increases in rates. Further, the Minister for Local Government could be responsible for approving exemptions to the rate cap. Locally based decision making on revenue and expenditure is more transparent and accountable than an externally and uniformly imposed limit or cap.

Rate Setting Process

Councils' deliberative rate setting processes reference their Integrated Planning Framework – a thorough strategic, financial and asset management planning process – and draw upon the community's capacity to pay.

The Integrated Planning and Reporting Framework provides a legislatively enshrined mechanism to inform the community and provide transparency and accountability in budgeting and rating decisions.

Integrated Planning and Reporting, which includes a strategic community plan, corporate business plan, asset management plan, long term financial plan and workforce plan, provides local governments with a comprehensive framework for establishing local priorities and linking this information to revenue and expenditure decisions and operational functions.

Councils are acutely aware of the community's capacity to pay and Local Government elections ensure that Councils are held accountable for their rating and expenditure decisions by regular elections as the Productivity Commission recently stated:

“The political environment, rather more than legislative and regulatory constraints of State Governments, is likely to be the key factor driving revenue-raising decisions of local governments.”¹

Similarly, the Hawker report observed:

“The Committee is of the view that local government should be given responsibility for determining its own level of taxation particularly in the climate of increased expectations and less revenue in the form of grants. After all, local government is subject to the test of rate increases and of management of its fiscal position at the ballot box.”²

In the interests of equity, sound financial management and matching community expectation with capacity to pay, Local Governments should have more scope, rather than less, to rate appropriately. In determining rates, Councils reference their legislatively mandated long term plans, developed through the Integrated Planning and Reporting Framework, as well as the

¹ Productivity Commission. 2008. *Assessing Local Government Revenue Raising Capacity*: p117. Available from: <http://www.pc.gov.au/inquiries/completed/local-government/report/localgovernment.pdf>

² House of Representatives Standing Committee on Economics, Finance and Public Administration. 2003. *Rates and Taxes: A Fair Share for Responsible Local Government*: p45. Available from: http://www.aph.gov.au/Parliamentary_Business/Committees/House_of_representatives_Committees?url=efpa./localgovt/report/fullreport.pdf

community's capacity's to pay. Due to the high visibility of rate increases, through rate notices and the media, Councils are scrutinised and held accountable via the electoral process for their revenue and expenditure decisions.

Financial and Asset Management

Rate-capping prejudices Local Government's long-term financial management and can, as experienced in other jurisdictions, have detrimental long-term effects on Local Government asset management, with chronic under-rating leading to significant infrastructure maintenance and renewal backlogs.

External restrictions on Local Government revenue raising capacity can lead to chronic under expenditure on core services and particularly on asset management maintenance and renewal.

Evidence from New South Wales, where rate capping has been in place in some form since 1977, demonstrates that rate capping can adversely affect sound financial management, lead to a significant infrastructure backlog, and jeopardise the long term financial sustainability of Local Governments.

The NSW Treasury Corp's review of Local Government financial sustainability, in 2012, found that:

- Most Local Governments reported operating deficits in 2012, which Treasury Corp views as unsustainable;
- The financial sustainability of the NSW Local Government sector is at risk and is deteriorating; and,
- A significant infrastructure backlog and asset maintenance gap exists.³

The NSW Independent Local Government Review Panel found, in 2013, that rate capping had led to significant under-expenditure on infrastructure maintenance and renewal, leading to a mounting infrastructure backlog.⁴

Furthermore, the Panel concluded:

"The rate-pegging system in its present form impacts adversely on sound financial management. It creates unwarranted political difficulties for councils that really can and should raise rates above the peg to meet genuine expenditure needs and ensure their long-term sustainability. The Panel can find no evidence from experience in other states ... to suggest that councils would subject their ratepayers to grossly excessive or unreasonable imposts if rate-pegging were relaxed."⁵

³ TCorp. 2013. *Financial Sustainability of the New South Wales Local Government Sector*. Available from: <https://www.olg.nsw.gov.au/sites/default/files/TCorp-Report-Financial-Sustainability-of-the-New-South-Wales-Local-Government-Sector-April-2013.pdf>

⁴ NSW Independent Local Government Review Panel. 2013. *Revitalising Local Government*. Available from: <http://www.localgovernmentreview.nsw.gov.au/documents/LGR/Revitalising%20Local%20Government%20-%20ILGRP%20Final%20Report%20-%20October%202013.pdf>

⁵ Ibid, p42

Evidence from New South Wales demonstrates that rate capping can severely affect Local Governments' ability to soundly manage their finances and asset management and renewal responsibilities and that these unintended consequences are compounded over the long term.

External Cost Pressures

Rate capping places undue pressure on sound financial management at a time when Local Governments are subjected to increasing costs beyond their control, often imposed by other spheres of Government.

Local Government cost pressures are not necessarily within the control of a Local Government and cost increases are often a result of policy changes from other spheres of Government.

For example, the 2015-16 State Government Budget increased the cost to Local Governments of electricity for street-lighting and the cost of borrowing from the WA Treasury Corporation.⁶

Further, the 2014-15 Federal Government Budget resulted in a 'freeze' on Financial Assistance Grants paid to Local Governments. The net effect of the freeze was a loss of \$147 million to Western Australian Local Governments over five years from 2014-15 to 2018-2019.⁷

Increases in costs to Local Governments from other spheres of Government coupled with a reduction in grant funding puts upward pressure on rates. A cap on rates in a constrained fiscal environment would have unintended negative consequences, most likely a reduction in core services or the deferral of infrastructure maintenance or renewal.

Local Government Rating in Context

Local Government rates have remained steady for many years at approximately 3.7 percent of GDP in Australia; meaningful tax reform would require thorough investigation of the total taxation burden, not an external cap on Local Government rates.

Local Government rates are a relatively minor, yet highly visible component of Australia's tax regime. Meaningful tax reform would involve consideration of the entire tax system and not a cap on Local Government rates as a relatively small component of the overall tax burden.

Furthermore, Local Government rates are a comparably 'good' tax as rates adhere to the 'five principles of taxation': equity, benefit, ability to pay, efficiency and simplicity.

⁶ WALGA. 2015. *Economic Briefing: May 2015 – Budget Edition*. Available from: <http://walga.asn.au/Portals/0/Templates/Econs/EB%20May%202015%20-%20Budget%20edition.pdf>

⁷ Ibid.