

Finance and Rates

A quick overview of council finance, rates and cost pressures

Local governments in Australia receive funding and revenue from several sources including:

- rates on property,
- fees and charges,
- borrowings,
- asset sales,
- donations,
- contributions,
- reimbursements,
- interest earned,
- specific purpose grants, and
- General purpose grants from State and Commonwealth Governments.

some facts:

- The total funding for local government in Victoria in 2004-05 from all sources was \$4.35 billion. This can be broken down as follows:
- \$3.17 billion or 72.9 per cent in rates, fees, fines and charges
- \$579 million or 13.3 per cent in specific purpose grants
- \$365 million or 8.4 per cent in untied revenue from general purpose grants
- \$235 million or 5.4 per cent in other sources, such as interest earned

State and Commonwealth Government grants are typically derived from a sharing of taxation revenue.

In 2005-06, local government in Australia collected only three cents of every dollar raised through taxes. It is the only level of government that issues a bill seeking payment for the revenue it collects.

Council rates are a form of property tax. Local governments use property values as the basis for calculating how much each property owner pays in rates. Seventy-five per cent of the infrastructure and services provided by local governments are funded through the collection of rates, user fees, fines and charges.

In Victoria, council rates can comprise up to three components:

- municipal charges;
- waste management (garbage) charges;
- the rate in the dollar.

Local governments begin its rate process each year by determining any municipal and garbage service charges that may be needed to recover part of its administrative cost along with providing waste collection and disposal services.

Once these discretionary charges have been accounted for, a council determines the rate in the dollar by dividing the balance of the required budget revenue by the total value of all rateable properties in the municipality.

The rate in the dollar is then multiplied by the value of a property to establish the amount to be paid by each property owner. This amount is known as the general rates.

General rates are added to any municipal and garbage charges set by a council to determine the total rates payable on a property.

Contrary to popular belief, rising property values have no impact on council revenue collection. Council budgets are pre-determined to meet expenditure requirements.

Rising property values usually result in the adjustment, by council, of a lower rate in the dollar to offset the overall increase in property values. Local governments re set the rate in the dollar each year.

Each Victorian council chooses one of three valuation bases for their municipality - Capital Improved Value (CIV), Site Value (SV), or Net Annual Value (NAV).

- Capital Improved Value refers to the total market value of the land plus the improved value of the property including the house, other buildings and landscaping.
- Site Value refers to the unimproved market value of the land
- Net Annual Value is the annual rental a property would render, less the landlord's outgoings (such as insurance, land tax and maintenance costs) or 5% of the CIV for residential properties and farms. The value is higher for commercial/industrial and investment properties.

The Valuer General is responsible for reviewing the total valuation of each municipality for accuracy before he certifies that the valuations are true and correct.

Local government is subject to range of cost pressures which include:

- Cost shifting as other levels of government transfer responsibility for delivering programs and services to local government without sufficient funding.
- The universal Maternal and Child Health service is delivered by Local Governments, with shared responsibility between State and local government for its funding and policy development. The indexation model applied by the State to an agreed hourly cost for the service has led to a disparity in the proportional contribution of the Government over the years, resulting in a funding shortfall.
- Kindergarten develops children's social, emotional, intellectual, physical and language abilities in the year before primary school. This State Government program often operates from purpose built kindergartens, long day care centres and community halls. Many buildings are between 35 and 50 years old and require constant maintenance. A limited pool of funding is currently provided by the State but minor capital grants fall considerably short of the real costs'

- Victorian local governments have been instrumental in achieving the highest rate of infant immunisation in the nation, at the lowest cost. Established financial arrangements exist between the Commonwealth and states to fund the delivery of immunisation services. Despite this, a 2004 study showed Victorian local governments contribute between 61 – 83 per cent of the total cost to deliver immunisation services.
- Local governments are the largest single providers of home and community care (HACC) services in Victoria. Funding for HACC is the joint responsibility of the Commonwealth and state governments. Local governments have been subsidising the costs of providing this service as funding has failed to keep pace with demand and the ageing population's demand for home care increases.
- Local government contributed \$282 million in funding for public libraries from 2000 to 2003, with contributions growing each year. The State Government's contribution during this same period was \$77.8 million. Over several decades, State funding for public libraries has slipped from approximately 50 per cent of the actual cost of the service to around 20 per cent in 2005-06.
- Funding for maintenance of ageing infrastructure is a major cost pressure for local governments. The Auditor General identified a backlog of \$1.5 to \$2.7 billion in 2002 and the MAV has calculated an annual infrastructure spending shortfall of \$280 million for Victorian local governments over the next five years (equivalent to an annual average 12 per cent rate increase).
- Capping of many user fees and charges by the State Government means local governments are not able to recover the true cost of delivering services such as planning and building, heritage protection, home care and public libraries. Instead rate revenue is used to cross-subsidise the delivery of these services.

The local government cost index, developed by the MAV, is a CPI comparison that calculates any change in costs to deliver goods and services provided by Victorian local governments. To deliver the same level and range of services as in 2006, it cost local government 5 per cent more in 2007 due to growth in construction, material and wage costs.

Local government costs are significantly affected by the growth in wages and the cost of building and maintaining roads, rather than just the Consumer Price Index. This is due to the majority of council expenditure being used to employ staff to deliver human-based services such as community care, child care, public libraries and maternal and child health programs; as well as employ people and purchase materials to construct, maintain and upgrade assets such as roads, footpaths, drains and community facilities.