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17, July 2015

Mr Keir Delaney  
The Secretary  
Environment and Planning Committee  
Legislative Council  
Parliament House  
MELBOURNE VIC 3002

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Dear Mr Delaney,

**Re: Inquiry into Rate Capping**

The Australian Services Union National Office welcomes the opportunity to support the submission by the Australian Services Union – Victorian and Tasmanian Authorities and Services Branch in expressing concerns about negative consequences which can result from the capping of local government rates.

Not only does local government provide essential services to communities, but it also plays a significant role in strengthening local community resilience and cohesion. In addition, it is an important employer in rural and regional areas and the economic strength of these regions is increased by the capacity of local government.

In order to meet the obligations to local communities, councils are heavily reliant on rates while also receiving some funding through fees and charges for services (such as drainage levies), inter-governmental grants, developer charges, income interest and other minor sources.

Municipal rates are a major source of funding and are the sole form of local government generated tax revenue. As noted in the Commonwealth Government's Tax Discussion Paper, it is an efficient way to raise revenue. The report stated:

*As with broad-based land taxes, municipal rates are an efficient way to raise revenue. In the theoretical scenario, land is a fixed factor of production and therefore the tax burden of broadly-applied municipal rates is paid by landowners, rather than passed onto final land users. Low rates and few concessions or exemptions also reduce the incentives and ability to avoid the tax.<sup>1</sup>*

<sup>1</sup> Australian Government, *Re:Think; Tax Discussion Paper*, Commonwealth of Australia, March 2015, p 149, available <<http://bettertax.gov.au/publications/discussion-paper/>>

Compared with taxation raised by other levels of government, municipal rates generate a very small proportion of total taxation revenue in Australia. It can be noted for instance, that the Commonwealth Government has acquired an increased proportion of the total share of tax revenue whilst local governments' share of total taxation revenue has remained modest. For example, the Commonwealth Government's share of taxation revenue increased from 77.2% in 1998-99 to 80.5% in 2010-2011 while the local government share in 1998-1999 was 3.6% and 3.5% in 2010-11.<sup>2</sup>

When revenue generated through the municipal rating system is too low, it puts pressure on councils to become increasingly reliant on other levels of government in order to adequately fund needed services and infrastructure. When adequate funds are not forthcoming, broader community resilience is compromised, particularly in regional and rural areas. Inadequate funding at the local level can consequently result in longer term social, economic and infrastructure problems which will inevitably have implications for other levels of government.

The ability of councils to raise sufficient revenue from rates can be suppressed by state government imposed forms of rate capping. Forms of rate capping (also referred to as 'rate pegging') have been instigated intermittently in NSW over many decades and the process adjusted periodically.<sup>3</sup> It is a process which places limits on the total amount that a council could charge its rate payers.

At the present time in NSW, the Independent Pricing and Regulatory Tribunal (IPART) is responsible for setting the rate peg for NSW councils each year. The rate peg applying in the 2015 – 2016 financial years is 2.4%. It is a level which does not adequately take into account the need to address any backlog in services, infrastructure, or the need to expand services in many local communities.

As a consequence of the rate capping in NSW, many councils have had increased difficulty in meeting community expectations for service provision. The government imposed revenue generating restrictions, such as rate capping, have caused significant frustration for local government and the lack of funds, compounded by cost-shifting measures, has contributed to significant under-investment in infrastructure and services.

In NSW, various inquiries found that a number of local governments were 'financially unsustainable' and unable to meet community demands for adequate infrastructure investment.<sup>4</sup>

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<sup>2</sup> See John Comrie, *Search Conference Strengthening Local Government Revenue, Background Paper*, Australian Centre of Excellence for Local Government (ACELG), Updated December 2013, <[http://www.acelg.org.au/system/files/publication-documents/1355279530\\_ACELG\\_Background\\_Paper\\_\\_Strengthening\\_Local\\_Govt\\_Revenue\\_update\\_d\\_12\\_Dec\\_2012.pdf](http://www.acelg.org.au/system/files/publication-documents/1355279530_ACELG_Background_Paper__Strengthening_Local_Govt_Revenue_update_d_12_Dec_2012.pdf)> accessed 18 November, 2014, p. 10.

<sup>3</sup> B. Dollery and A. Wijeweera, 'An assessment of rate-pegging in New South Wales local government', *Commonwealth Journal of Local Governance*, UTS ePress, issue 6 July, 2010, <<https://epress.lib.uts.edu.au/journals/index.php/cjlg/article/view/1619>> viewed 14 July 2015.

<sup>4</sup> For example, P. Allan, et al *Are Councils Sustainable? Final Report: Findings and Recommendations*, Independent Inquiry into Local Government (LGI), NSW Local Government and Shires Association, 2006. See also commentary by B. Dollery, *A Critical Evaluation of Revitalising Local Government*, prepared on behalf of New England Education and Research Proprietary Limited for the United Services Union, nd., p19.

Whilst the ASU is aware of the existence of infrastructure backlogs in local government in other states and territories, the Union is of the view that rate pegging constrains councils from being able to raise much needed funds.

It is worth noting that in 2013 the NSW Treasury Corporation released a report which confirmed that existing revenue restrictions on local governments, including rate pegging, hamper the ability of local councils to adequately fund present and future levels of service.<sup>5</sup>

Councils in NSW have continued to call for an end to the practice of rate pegging and other forms of revenue restrictions imposed by the State Government.<sup>6</sup>

Issues of concern regarding the experiences of rate pegging in NSW include:

- the detrimental impact the practice has on local government finance;
- the effect that it has on limiting the ability of councils to take responsibility for their own economic affairs;
- the impediments it creates for effective long-term planning, particularly in relation to infrastructure investment;
- the restriction encourages councils to increase user charges;<sup>7</sup>
- it places pressure on the ability of councils to provide targeted programs for disadvantaged members of the community and;
- the practice diminishes local autonomy – as a result of the restrictions imposed at the state level.<sup>8</sup>

Local government rate pegging in NSW has slowed rate revenue growth to the extent that it is now lagging behind local government in all other jurisdictions.

In September 2013, polling research conducted by Iris Research, of over 1,000 residents across 38 local government areas in NSW, found that constituents were open to potential rate rises if it meant they would get better local services.<sup>9</sup>

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<sup>5</sup> See commentary on this report from perspective of Local Government NSW as discussed in the Media Release, 'TCorp Report vindicates councils calls on financial sustainability', 19 April, 2013, <<http://www.lgnsw.org.au/news/lg-weekly/media-release-tcorp-report-vindicates-councils-calls-financial-sustainability>> accessed 15 July, 2015.

<sup>6</sup> Government News, 24-25 August, Sydney, <<http://www.governmentnews.com.au/2014/03/councils-slam-rate-pegging-slug-sa/>>

<sup>7</sup> Increased user charges was one of the findings on the impact of rate pegging, as identified in the final report of the Independent Pricing and Regulatory Tribunal of NSW (IPART), Revenue Framework for Local Government, Final Report 2009, p4.

<sup>8</sup> See Australian Local Government Association (ALGA), *Submission to the Taxation Issues Paper*, available online from [www.alga.asn.au](http://www.alga.asn.au).

<sup>9</sup> Government News, 24-25 August, Sydney, <http://www.governmentnews.com.au/2013/09/government-research-finds-rate-rises-more-popular-than-council-mergers/>

The issue also reminds us about the inadequate level of financial support provided to local government from the Commonwealth and state governments because funding has failed to keep pace with the expanded range of responsibilities required of local government and cost shifting from other levels of government. As the revenue raising opportunities of local government are much more restricted compared to other levels of government, it is crucial that adequate funding is provided by the Commonwealth and State/Territory governments.

Given the significant role which local government has in providing a broad range of services and infrastructure to communities, increased investment in this level of government, as well as increased opportunities for genuine financial autonomy, could significantly reduce future calls on Commonwealth and state budgets into the future. The Union therefore takes this opportunity to raise concerns about local government financial issues, particularly in relation to rate pegging.

Yours faithfully



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