

3 July 2007



Ms Carole Gardner
Local Government Study
Productivity Commission
LB2 Collins Street East
MELBOURNE VIC 8003

Dear Ms Gardner

**PRODUCTIVITY COMMISSION ISSUES PAPER - MAY 2007
ASSESSING LOCAL GOVERNMENT REVENUE RAISING CAPACITY**

Please find attached the City of Boroondara's submission in response to the above Issues Paper released by the Productivity Commission. We welcome this initiative by the Commission and believe it is occurring at a critical time for local governments.

The increased sophistication of asset management data modelling techniques employed by the sector has demonstrated that many local governments are facing difficulties in meeting their identified asset renewal needs. We believe that all levels of government must be involved in finding solutions to these funding pressures to ensure the long term sustainability of all Australian communities.

We would very much welcome an opportunity to meet with the Commission to elaborate upon the attached submission.

Yours sincerely

A handwritten signature in blue ink, appearing to read "P. Storer", is written over a light blue horizontal line.

Phillip Storer
Acting Chief Executive Officer

Attach.

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Productivity Commission Issues Paper

Assessing Local Government Revenue Raising Capacity - May 2007

SUBMISSION BY THE CITY OF BOROONDARA

General comments

Rate Revenue Issues

Local governments are heavily dependant upon rates levied on rateable properties as their primary revenue source. Having determined the annual operating and capital expenditure requirements of the municipality, a required rate in the dollar is calculated by reference to the total assessed rateable property values within the municipality. The individual property rate bill is then calculated by applying the rate in the dollar to the property's assessed value.

Notwithstanding this process, a perception exists that increasing property values, themselves, lead to increased rate revenue. This assumption is false. We believe it is vitally important for the Productivity Commission to acknowledge that property valuations serve merely **to distribute** the rating burden. The total required rate revenue is **determined** by the individual local government's assessment of the required operating and capital expenditure required to adequately deliver its stated objectives and to meet identified community need.

Local governments are statutorily required to set a rate in the dollar each year and therefore increases in property valuations do not automatically attract the existing rate and consequent increases in revenue. Indeed the rate in the dollar is generally reduced to reflect increases in property valuations unlike other levels of government that reap the growth benefits of maintaining tax rates while the tax base increase, e.g. land tax, a property tax like Council rates which, unlike Council rates, is not required to be reviewed as property valuations increase. Local governments are statutorily required to use their tax base as a mechanism for distribution of the tax burden not as the gross determinant of the level of tax, with the minor exception of supplementary rates.

Local government is unique in its approach in this element of its tax calculation. It is not the size of the tax base that matters but the willingness of the local government to increase its tax collected measured against the capacity of the community to pay.

For supplementary rates there is a growth element in local government rates where rates are based on capital improved valuation. With an increase in the base "volume" as opposed to the "valuations" there is a growth element. This growth allows funding to provide for the new "volume" of services.

Role of Local Government

Over the past 40 years, communities have articulated changing demands for the services they expect their local government to provide. Traditional 'services to property' involving physical infrastructure and assets, have been enhanced by 'services to people'. Local governments now provide a wide range of human services including infant and child health, child care, youth and teen programs, as well as home based and accommodation based aged care. Many of the services are partially funded by other levels of government and subject to ongoing cost shifting.

The primary functions and responsibilities of local governments often refer to services responsibilities without the primary context of the leadership, advocacy and representation roles of local governments. The government role, namely the statutory requirement for local governments to be responsible for "the peace, order and good government of their municipal districts" (Section 3A, *Local Government Act 1989* Victoria) or similar provisions in other jurisdictions.

Whilst the provision of services by local governments is critical to their communities, those services are provided as a consequence of a local governments' responsibilities for "peace, order and good government" and for generally ensuring the wellbeing of their communities.

Scattered Disadvantage

There is a great variety in local government communities. The fact of scattered and hidden disadvantage in otherwise seemingly 'wealthy' communities also needs careful consideration. Disadvantaged people in those communities may be further disadvantaged by lack of service provision as other levels of government apply socio-economic data to determine allocation of welfare grants and subsidies. Local governments through rate funding are carrying the burden of funding these services.

A Fair Share of Taxation Revenues

The expansion of human related service expenditure has not been able to be adequately funded from the constraints of local governments' recurrent revenue base. Consequentially, local governments have chosen to fill the funding shortfall for services by deferral of asset renewal. Sector studies have identified significant 'renewal gaps' in asset related expenditure. The City of Boroondara, for example, currently faces a funding backlog of some \$60M on required asset renewal works.

The challenge is to develop a revenue sharing model that adequately shares fiscal revenue among all levels of government to reflect the expenditure responsibilities of the different levels of government (vertical fiscal equity), while recognising that there is considerable variation amongst local governments in their capacity to raise own source revenue, as well as considerable variation in their expenditure responsibilities (horizontal equity). Both this constrained capacity to raise revenue and substantial expenditure demands apply particularly to rural local governments with limited revenue bases due to threatened economies, large geographic areas, and usually small populations relative to metro local governments, as well as 'poor' communities.

Specific Comments on Productivity Commission Issues Paper

Page 7 - Revenue

We believe care needs to be taken in the use of the phrase 'rate revenue'. Statistics need to be reviewed to ensure that there is consistent treatment of waste charges in the definition of rate revenue. Incorrect classification could see variation in rate revenue figures as some municipalities categorise their waste charges as 'rates and charges', whilst others categorise them separately.

Page 8 - Expenditure

We believe the Commission needs to specifically acknowledge the asset backlog issue. This historical shortfall in expenditure will require significant expenditure by local governments as well as the other two tiers of government, in future years to ensure that community assets are maintained in good working order.

Whilst we appreciate the intent of the table on page 8, we suggest that Melbourne City Council is not a typical local government example.

Page 10 - Declining Government Grants

Core financial assistance through Commonwealth tax distribution to local government has declined from 0.97 per cent in 1996/97 to 0.77 per cent in 2006/07, despite a growing number of services being delivered by councils. A new funding formula for financial assistance grants, which takes account of movements in local government costs is needed.

Responses to Specific Questions Raised in the Issues Paper

Revenue

Trends in Local Government Revenue

What are the principal factors explaining the trends in revenue from councils' various sources?

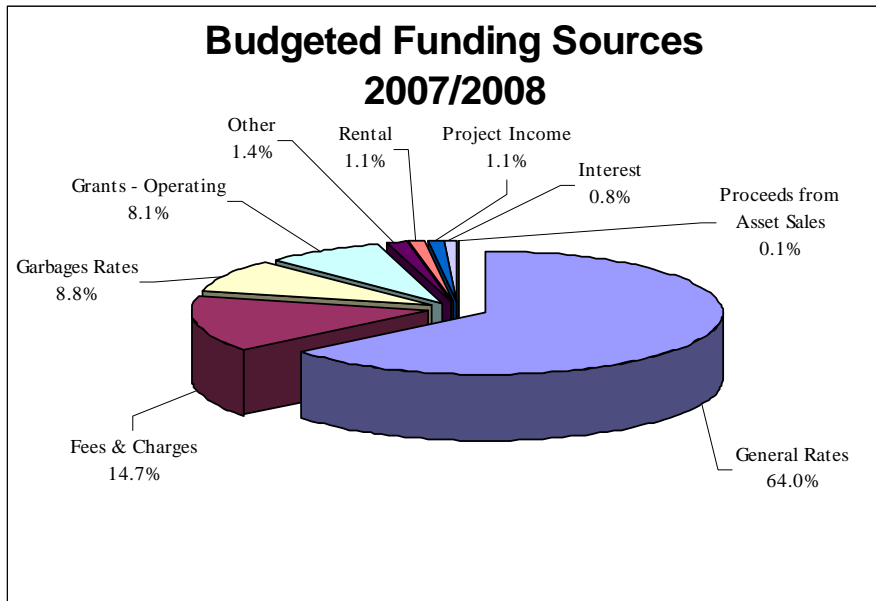
- In recent years, local governments have had no alternative other than to increase rate revenue to fund additional expenditure to meet historical infrastructure backlog issues.
- Rate revenue has also risen to counteract the impact of historical and ongoing cost shifting from State/Commonwealth governments.
- Fees & Charges have also risen as local governments have sought to maximise revenue to meet the funding shortfalls on infrastructure and service expenditure.

Why has 'other income' been growing at a faster rate than council rate revenues and sales of goods and services?

A combination of factors has seen 'other income' grow at a faster rate than Council rate revenue and sales of goods and services. Economic prosperity and the continued 'building boom' have seen increases in Development Contributions from property developers. Local governments have also applied 'user pays' philosophies to service and facility charging.

Do these trends differ between States and Territories, and between urban, rural, remote, and indigenous local governments? If so, what are the primary factors explaining such differences?

We are unable to provide a comprehensive response to this question and suggest sector peak bodies e.g. ALGA, VLGA be consulted. By way of our specific example, the City of Boroondara revenue breakdown is as follows:



Source: City of Boroondara Adopted Budget 2007/2008

Does the composition of council revenue (shares of each own-source revenue — rates, fees and charges, and ‘other’) differ between States and Territories, and between urban, rural and remote local governments? If so, what are the primary factors explaining such differences? Do these factors have implications for the potential revenue raising capacity across different types of councils?

In general, revenue raising by rates is always constrained by the local political impact. All local governments face issues of capacity to pay by their local community. We believe the Productivity Commission must acknowledge that a high sum total property valuation within a municipality does not equate to a high capacity to pay rates being enjoyed by each property owner within that municipality.

There are also inherent distortions in income - generated potentially due to historical and geographic factors. For example, some municipalities have the capacity to generate significant income from parking management and enforcement.

Capacity to raise own-source revenues

What are the principal factors that determine the magnitude of the various revenue raising bases available to local governments?

- Capacity to pay
- Political will
- Market forces
- Geographic factors - particularly parking management

How and why might they differ between local governments within and between States and Territories (for example, by council type or location and functions required of them), and over time?

The characteristics and levels of service provision vary with each local government. Local governments react to the individual circumstances of their local community and accordingly the service delivery and subsequent revenue raising capacity will be different. We believe the Productivity Commission needs to explicitly acknowledge this fundamental tenet and accordingly discount solutions of a 'one size fits all' nature.

What are the key determinants of the capacity and willingness of resident households, organisations and businesses to pay for services provided by their local governments? Capacity to pay varies across municipalities and within municipalities. An increasing strain is being observed on retirees on fixed income payments. These fixed income payments are often indexed to the CPI. The impact of this varies across municipalities due to demographic variations.

What scope is there for local governments to augment their revenues with fees and charges collected from non-residents?

We believe that all potential fees and charges have been maximised. Generally fees for static services are applied to residents with some non-residents accessing services such as parking, recreation centres and libraries. Some local governments, because of geographic location, have access to large parking management revenues whilst others have capacity to seek non resident fees because of their status as district/regional centres or beach/tourist locations.

How and why might the scope to do so differ between local governments?

The characteristics and levels of service provision vary with each local government. Local governments react to the individual circumstances of their local community and accordingly the service delivery and subsequent revenue raising capacity will be different. We believe the Productivity Commission needs to explicitly acknowledge this fundamental tenet and accordingly discount solutions of a 'one size fits all' nature.

Do local governments have policies, which in effect, limit their own-source revenue raising? If so, what are these policies and what might be factors holding back councils from increasing their own-source revenue? What might stand in the way of changing the policies to expand the ways, and extent to which local governments raise revenues?

The City of Boroondara has no policy limiting revenue raising capacity. Service levels and needs are determined and revenue raised over long term and short term timeframes. Assessments of ratepayer capacity to pay and the interaction of the political dimension seek to provide balance.

What strategies might be available to local governments to increase the capacity and willingness of local residents to pay for goods and services provided, and where applicable, non residents? Would any new strategies provide stable sources of revenue over time or would they be subject to variability over time?

We believe there are no known unidentified revenue sources.

Are there any untapped revenue sources that local governments could use to augment or change the mix of their revenue raising? Would any potential new revenue sources be stable or variable over time?

We believe there is potentially a possible carbon emission trading positive impact for rural shires with large road side land holdings. At this stage, this comment is purely speculative and would need to be assessed at the time a detailed trading scheme proposal is released.

State and Territory government regulatory constraints

Land rating and valuation methods

To what extent do limits on land categories that local governments can adopt for rating purposes restrict their capacity to raise rate revenues?

The existence of rate exempt properties reduces the opportunity to raise revenue as the rating burden is transferred to the owners of remaining rateable properties. Beneficiaries of rating exemptions include charitable institutions, education institutions and Commonwealth and State governments.

Local governments use valuations as the method of distributing the rate not the determinant of the volume of the rate. In calculating the revenue required, the size of the valuation is not a critical factor. Paramount is the community's capacity to pay and the political will to determine a rate revenue level sufficient to meet identical funding needs.

Unlike the other tiers of governments, local governments use their tax base as a mechanism for distribution of the tax burden not as the gross determinant of the level of tax. Minor exception exists in the case of supplementary rates.

Local government is thus unique in its approach in this element of its tax calculation. As valuations increase, local governments have the capacity to reduce the rate in the dollar levied. Therefore it is not the size of the tax base that matters but the willingness of the local government to increase its tax collected measured against the capacity of the community to pay.

For supplementary rates there is a growth element in local government rates where rates are based on capital improved valuation. With an increase in the base "volume" as opposed to the "valuations" there is a growth element. This growth allows funding to provide for the new "volume" of services.

What are the principal reasons why some local governments do not pursue differential rate setting even where they are free to categorise their own land?

Differential rate setting provides a means to spread equity across the rate base. Some municipalities (such as Boroondara) may be generally uniform in character and differential rates would have no significant impact on the spread of rates collected.

Do restrictions on land valuation methods affect the capacity of local governments to raise revenue? If so, how and to what extent?

No - valuation is a distribution method only. The level of required rate revenue is not determined by the volume of the rateable property base. The tax rate (or rate in the dollar) is usually adjusted down as valuations rise.

Rate pegging

What are, or might be, the reasons for rate pegging?

We are unable to articulate a coherent argument in favour of rate pegging, however, historically it appears the following justifications have been used:

- Simplistic restrictions e.g. 20% amalgamation cuts.
- Control by one level of government over another level of government.
- Failure to understand the impact on infrastructure maintenance and service delivery.

To what extent does rate pegging limit the ability of local governments to raise council rate revenues?

Rate pegging results in local government revenue raising capacity being limited by restrictions imposed and thus the local government is unable to set revenue requirements sufficient to meet identified community needs.

Are local governments able to raise revenues from other sources to compensate for the potential revenue raising limits imposed by rate pegging? How, and with what consequences?

The historical experience in Victoria is that cuts are made to asset renewal/infrastructure funding in the short term and sustainable long term financial planning is inhibited.

Concessions and exemptions

To what extent do mandated exemptions and concessions limit the ability of local governments to raise council rate revenue?

Any exemptions and concessions automatically transfer the burden of the tax to be raised amongst the remaining ratepayers. This creates distortions in the equitable distribution of the tax burden and resultant pressures on capacity to pay.

What are the existing arrangements in each State and Territory regarding the payment of council rates and rate-equivalents by Australian, State and Territory landholders?

Victorian local governments receive no rate payment for properties owned or occupied by Australian, Territory or State Governments.

What are the existing arrangements in each State and Territory regarding the provision of concessions, and the compensation by State and Territory governments for the loss of revenue by local governments from these concessions?

Local Government is exempt from payment of State payroll tax, land tax and stamp duties and makes no Commonwealth income tax contribution. Local government contributes GST and FBT revenues.

Local governments receive no direct financial contribution from other tiers of government for the rate revenue foregone on eligible rate exempt properties.

To what extent do exemptions and concessions limit the ability of local governments to raise revenues?

See above.

Are local governments exempt from taxes and charges by other tiers of government? If so, what are they? Does any lack of reciprocity favour or disadvantage local governments?

See above.

Local governments do not generally make a profit and therefore would be unlikely to pay income tax. The Federal Assistance Grants provide a share of national taxation revenue – although this is declining from 0.97% in 1996/97 to 0.77% in 2006/07.

Setting fees and charges

What are the regulatory requirements and guidelines applied to local governments for setting fees and charges?

A mix of arrangements including:

- Fees set by State government
The lack of timeliness in setting and/or reviewing these fees and charges has created difficulties for local governments. For example, failure by the State government to regularly adjust statutory planning fees has caused a loss of fee revenue from 2001 until 2007 estimated at \$320,000. The Land Information Certificate fee was established at \$20 in 1992 and has remained unchanged. The real value of fees and charges is accordingly diminished over time.
- Indexed by State
Indexation by State government remains inadequate as the indexation factors do not take account of individual cost structures. Recent research by the MAV has identified that cost structures in local government are moving by an average of 5% per annum over recent years. Indexation using the CPI measure is creating an increased burden on rate revenue. Many fees and charges set by State government relating to services provided by local government are not indexed at all e.g. planning fees.
- Set as part of a Service Agreement
Fees and charges can be established as part of the service agreement associated with grants or subsidies. Recent research by the MAV has identified that cost structures in local government are moving by an average of 5% per annum over recent years. Indexation using the CPI measure is creating an increased burden on rate revenue.

- Set by Local government
Local governments review fees and charges annually and generally review these in light of cost structures. Imposition of these fees and charges is also influenced by assessments of the users' capacity to pay.

To what extent are local governments constrained in setting fees and charges?

Analysis of our fees and charges reveals the following:

Total Number of Fees	551
Number of Externally Controlled Fees	47
Percentage of Total Fees externally controlled	9%

A number of the controlled fees do generate significant income e.g. planning fees. Control in this area impacts Council's capacity to raise revenue and recover costs.

To what extent are the requirements and guidelines followed by local governments?

Statutory and service agreement requirements are complied with by local government.

To what extent do local governments under or over-recover the costs of supplying goods and services?

Minority of services provided by local government are full cost recovery or profit making.

What scope would there be to raise additional revenue if the limits were removed?

There would be scope to raise some fees but capacity to pay may remain an issue. In addition, the fee base is not large and the level of revenue generated is relatively small beyond existing levels. The majority of services provided by local government are generally not profit making at a specific transaction level.

To what extent does local government legislation or other relevant legislation explicitly provide the power to set fees and charges in excess of the cost of supply?

No restriction on local government fee setting except through State legislation and service agreements. Council operations also comply with the National Competition Policy.

If powers are not explicitly provided, to what extent, if any, does this limit the ability of councils to raise revenue from introducing new fees and charges?

Fees can be introduced if there is a logical fee to be applied to a service and the cost of the collection and administration does not outweigh the revenue raised. However, many of the services provided by local governments are general community services or facilities e.g. parks, footpaths, roads, libraries. The application of fees is not practical and we believe it is appropriate that these items should be funded from general rate revenue or grants.

Impacts on individuals, organisations and businesses

Council rates

What would be the effects on individuals, organisations and businesses of local governments increasing council rates?

Some individuals, organisations and businesses would have difficulty in meeting the payments because of capacity to pay issues. E.g. fixed income pensioners and superannuants.

What effects might rate pegging and the choice of land valuation methods have upon individuals, organisations and businesses?

The Victorian experience with rate pegging is that it caused long term problems that have generated current infrastructure renewal backlog and chronic under-funding of asset maintenance programs. As previously highlighted, land valuation is a method of distribution of the tax burden and therefore the method chosen is not a significant issue.

To what extent are council rate revenues used to subsidise the delivery of goods and services for which fees and charges are collected? What are the consequences?

Almost all Council services require rate revenue subsidy.

To what extent do efficiency and equity considerations contribute to the attractiveness of council rates as a source of local government income?

Rates provide an efficient mechanism for collecting revenue to fund services for which it is not practical to collect a fee or charge. The annual rates and valuation notice is a highly transparent method of communicating and collecting a tax. Funding the majority of Council facilities (e.g. roads, drains, parks) and services such as maternal & child health cannot be practically or appropriately achieved by a full-fee paying regime.

Sales of goods and services

To what extent do councils cross subsidise the prices of goods and services?

Only a minority of Council services operate at a full profit level beyond cost recovery and provide a cross subsidy. The two common examples are:

1. Gymnasiums in recreation complexes which subsidise the general swimming pool.
2. Parking fine income which supports local law patrols for street and open space safety.

If services are subsidised, are the subsidies funded by higher rates or other fees and charges? Could full cost-recovery fees and charges be collected? What would be the consequences? Are any other revenue sources used to subsidise services?

The majority of local government services are subsidised. Full cost recovery is not a realistic option because of impracticality of the collection of revenue. No known other sources of revenue have been identified by this local government.

Do councils use the return on their long-lived assets (profit and depreciation) to cross subsidise services? If so, what are the consequences for the sustainable provision of infrastructure services?

Council assets generally are applied for community facilities and functions. These are generally not profit making and the depreciation allowance provides the cash basis for renewal of aging assets over time.

Many local governments do not generate an Operating Statement surplus and therefore have insufficient resources to adequately fund infrastructure renewal. Boroondara has an existing asset backlog of around \$65 million.

What would be the principal implication for individuals, organisations and businesses of applying or removing cross subsidies?

Currently, this local government generates minimal cross subsidy from fees and charges. Rates are a general tax designed to achieve a redistribution of wealth and provision of services for the public good.

Developer charges and contributions

To what extent do local governments employ developer contributions and charges to finance investments in new and upgraded assets?

Capacity to collect developer contributions in Victoria is restricted by the nature of State legislation. Developers may be required to construct assets which are passed to local government free of charge. The assets create ongoing liabilities for maintenance and renewal. The City of Boroondara receives a relatively minor sum each year in the form of contributions made for the enhancement and maintenance of open space.

Are there legislated limits to contributions that can be required or charges that can be collected?

Yes.

Are there legislated constraints on the use of revenue raised from developer charges?

Yes.

What are the effects on individuals, organisations and businesses of the use of developer charges and contributions?

Developer contributions received by this local government are minimal. Costs are not passed on to individual purchasers but costs are incurred by general community through the rate.

What is the most appropriate way to recover the costs of new and upgraded assets?

Where there are developer related costs these should be fully reimbursed to local government.

Fines and other pecuniary penalties

What are the effects on individuals, businesses and organisations of fines and other pecuniary penalties and increases in them?

Fines generally relate to parking control and animal management. For parking related revenues local governments vary greatly in terms of volume of revenue received. The fines are designed to curb behaviour that is unacceptable e.g. parking in a clearway. The level of the fine needs to act as a deterrent and be sufficient to cover the cost of enforcement. Excessive penalties are not appropriate and need to be realistically managed.

What measures are there in place to protect against the possibility that local governments might view fines as a revenue raising instrument more than as an appropriate deterrent?

Local governments represent their communities who would be subject to fines or penalties. Revenue raising objectives would usually be overridden by community well being objective.

If conflicts of interest arise between deterrence and revenue raising, is there any evidence of the effects on individuals, organisations and businesses?

None known.

Interest income

To what extent are local government cash reserves the result of State government imposed borrowing limits?

Cash reserves are generally held to provide cashflow management capabilities.

What are some of the implications of these limits and how do they affect capacity of local governments to raise revenues?

Limitations have not restricted capacity to borrow in known experience. Any borrowing needs to be carefully considered and to be affordable to the borrower.

What are some of the implications of cash reserves on both efficiency and intertemporal equity in the community?

Cash reserves should be managed relatively tightly to ensure that the community is receiving value for money for their rates and all practically available resources are allocated for community good. Prudent levels of cash should be maintained to manage cashflow requirements and provision of an appropriate contingency sum.

Factors influencing expenditure and revenue raising

Operational efficiency of local governments

To what extent is there scope for local governments to reduce the unit costs of their operations? If so, how might they most effectively reduce their costs?

Victorian local governments operate on very tight expenditure controls. This is a result of the efficiencies created through municipal amalgamation and Compulsory Competitive Tendering. There is now minimal capacity to reduce the unit cost of service provision.

What effect would such cost reductions have upon their revenue raising requirements?

Boroondara does not believe these two measures are connected.

How and to what extent have structural reforms, such as boundary changes of local governments and service sharing arrangements, affected operational efficiency?

There have been significant efficiencies created through municipal amalgamation and Compulsory Competitive Tendering. These have been further enhanced through Best Value reviews and the ongoing search for continuous improvement built into the operation of Victorian local governments.

Service levels and pricing

What guidelines and requirements are available to assist local governments to determine the appropriate range and standard of services, to measure and allocate their costs, to determine their revenue requirements, and to set rates, and fees and charges, accordingly?

The Victorian *Local Government Act* 1989 Section 136 requires that:

- "(1) A Council must implement the principles of sound financial management.
- (2) The principles of sound financial management are that a Council must -
 - (a) manage financial risks faced by the Council prudently, having regard to economic circumstances;
 - (b) pursue spending and rating policies that are consistent with a reasonable degree of stability in the level of the rates burden;
 - (c) ensure that decisions are made and actions are taken having regard to their financial effects on future generations.
 - (d) ensure full, accurate and timely disclosure of financial information relating to the Council.
- (3) The risks referred to in sub-section (2) (a) include risks relating to -
 - (a) the level of Council debt;
 - (b) the commercial or entrepreneurial activities of the Council;
 - (c) the management and maintenance of assets;
 - (d) the management of current and future liabilities;
 - (e) changes in the structure of the rates and charges base."

Where a service is provided as part of a Service Grant there may be guidelines in place.

National Competition Principles apply for services that require this consideration.

Boroondara has a Pricing Policy to assist staff in this matter.

Victorian local governments share information to assist in benchmarking the efficiency of their operations etc. This task could be enhanced through the establishment of a clearing house.

Do guidelines properly take into account the allocation of infrastructure costs over the life of long-lived assets such as local roads, libraries and other facilities?

Boroondara's own Pricing Policy provides guidance.

Financial and asset management skills

What effect might the lack of financial and asset management skills of managers and lack of appreciation of the relevant issues by councillors have on the revenue raising capacity and effort of local governments?

Local government is a complex service provider and as a consequence the financial arrangements are also complex.

Many candidates for election stand on a nil or minimal rate increase platform and consequentially the elected Councillor may have a predisposition to a nil or minimal rate increase. The lack of knowledge in terms of the financial impact on long term viability of a local government could be considerable if officers are unable to convince the Council of the importance of revenue raising, particularly where infrastructure backlog issues exist.

To what extent do local governments find difficulty in attracting and retaining suitably qualified experts in financial, planners and asset management?

There is a national shortage of engineers and this has consequences for the capacity to obtain asset engineering and planning staff. Financial experts are also difficult to find and to retain. Difficulty in attracting and retaining staff in a declining workforce market will be a key issue facing local government into the future.

What types of local governments experience the greatest difficulties?

All local governments will face difficulties in the declining labour market environment. Remote rural municipalities will probably experience increased difficulty.

Incentive effects of grants and subsidies

What grants and subsidies are provided to local government by State and Territory governments? What is the value for each category of grant? Are there any terms and conditions attached to these grants? Do these terms and conditions distort the incentives of local governments to raise their own revenue? If so, how and why?

Refer attached (**Attachment 1**) listing of grants and subsidises received by Boroondara.

All grants except the FAGS and Local Roads Grants come with conditions.

Generally, grants do not distort the incentives for local government to raise own revenues. Local government finances are very tight and there is a constant search for every available revenue opportunity.

What grants and subsidies are provided by the Australian Government? What is the value of each category of grant? Are there any terms and conditions attached to these grants? Do these terms and conditions distort the incentives of local governments to raise their own revenue? If so, how and why?

Refer above.