

# 13 LOCAL GOVERNMENT

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## *Features*

- Bilateral Partnership Agreements are currently being developed with Meander Valley, Latrobe, Dorset, Devonport City, Northern Midlands and West Tamar Councils.
- Bilateral Partnership Agreements have been signed with Circular Head, Launceston City, Hobart City, Glenorchy City, Kingborough, Break O'Day, Burnie City, Derwent Valley, George Town, Glamorgan-Spring Bay, King Island, Central Highlands, West Coast and Flinders Councils.
- Two regional Partnership Agreements have been signed and a third is currently in negotiation. Together, the three Agreements will involve every council in the State.
- Three statewide Partnership Agreements on waste management, simplifying planning schemes and communications and consultation between the two spheres of government have been developed under the Premier's Local Government Council. Work on these Partnership Agreements has now entered the implementation phase.
- Sales of goods and services, including water, sewerage and garbage components of rates, were the major Local Government revenue sources during 2000-01, accounting for 41.1 per cent of total revenue. Taxes (the general rate component) was 35.3 per cent of total revenue, with current grants and subsidies making up 14.6 per cent.
- In 2000-01, the largest expense area was housing and community amenities at 35.5 per cent of total expenses.
- The Local Government sector returned a surplus of \$8.0 million in 2000-01, the fourth successive surplus since 1996-97.
- Key Performance Indicators are presented for all Tasmanian councils with a range of indicators to measure their organisational performance, enabling councils to benchmark their operations and monitor their performance over time.

# INTRODUCTION

This chapter provides information on:

- the development and role of the Local Government sector in the Tasmanian economy;
- the financial relationship Local Government has with both the State Government and the Commonwealth Government;
- the implications of current economic reform initiatives for Local Government;
- the financial position of Local Government in general; and
- key performance indicators of the Local Government sector.

## DEVELOPMENT OF THE LOCAL GOVERNMENT SECTOR AND ITS ROLE IN THE ECONOMY

### Development of the Local Government Sector

Local Government originated in the early years of European settlement in Tasmania and existed in a variety of forms including municipal districts, cities, rural municipalities, town boards and road trusts, until the *Local Government Act 1906* provided for their replacement with municipalities which administered all Local Government functions. A total of 52 municipalities (including the cities of Hobart and Launceston) were formed.

Under the *Local Government Act 1962* (1962 Act) another four cities were proclaimed: Glenorchy, Devonport, Clarence and Burnie. By this time there were 46 Local Government authorities (LGAs) in total. The 1962 Act was very prescriptive about how Local Government could function. In 1992, the then State Government and Local Government agreed to a reform and modernisation program which has since seen the number of LGAs in Tasmania reduced from 46 to 29 and the Local Government Act updated.

More recently, the Government has decided to undertake a review of the *Local Government Act 1993*.

Since the Act's introduction, Local Government has changed considerably. The Government's policy in relation to Local Government is also very different, with its Partnership Agreements program having led to the development of a much closer working relationship between the two spheres of Government.

Following requests from the Local Government Association of Tasmania (LGAT) and the Local Government Managers Association (LGMA), the Government decided to undertake a review of the Act and expressed the preference that this review be completed by the end of 2003.

The Review will cover all matters in the *Local Government Act 1993*. The Local Government Division has now compiled all proposed amendments it has received to date from the public, Local Government and State Government agencies. These proposals have been placed in the following five broad subject areas:

- governance of Councils;
- accountability issues;

- inter-governmental relations (State–Local Government);
- revenue and financial management; and
- council administration and operations.

Further details of recent developments in Local Government are provided later in this chapter.

## Role in the Economy

Local Government provides public services that are generally suited to delivery at the community or local/regional level. Functions of councils are prescribed under section 20 of the *Local Government Act 1993*. Broadly, these aim to:

- provide for the health, safety and welfare of the community;
- facilitate and encourage proper planning and development;
- represent and promote the interests of the community;
- provide for peace, order and good government; and
- formulate, implement and monitor policies, plans and programs for the provision of appropriate services and facilities to meet the present and future needs of the community.

Local Government functions include the provision of: water reticulation and sewerage services; local roads; garbage collection and disposal; and community recreational amenities. Expenditure is funded from:

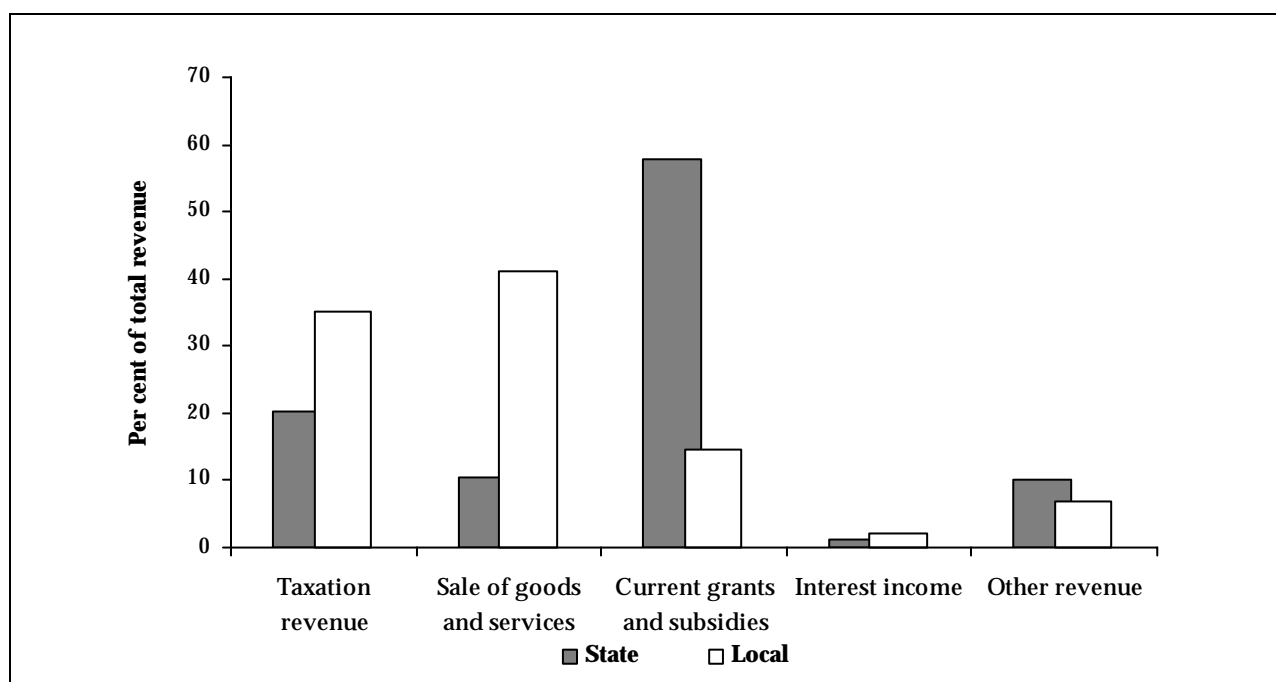
- rates, fees, fines and charges;
- Commonwealth Government and State Government grants; and
- borrowing.

Local Government activities have a significant impact on, and role within, the State economy. For example, water and sewerage represent significant inputs for many key industry sectors. The development, planning approval and control functions of Local Government also have a fundamental economic impact.

In 2000-01, the most recent year for which information is available, sales of goods and services, including water, sewerage and garbage components of rates, were the major Local Government revenue sources, accounting for 41.1 per cent of total revenue on a Government Finance Statistics (GFS) basis. Tax revenues (the general rate component) constituted 35.3 per cent of total revenue on the same GFS basis. Current grants and subsidies made up 14.6 per cent of total revenue. By comparison, the majority of State Government revenue stems from Commonwealth transfers.

Chart 13.1 shows the sources of revenue of the State and local levels of government in Tasmania during 2000-01.

**Chart 13.1: State and Local Government Revenue Sources, 2000-01**



Source: *Government Finance Statistics, Australia 2000-01, ABS Cat No 5512.0.*

It is important for the promotion of economic growth that both the State and local levels of government participate, through genuine improvements in efficiency, in reducing the costs that they impose on business and the community. Local Government can assist economic reform by keeping the burden of rates and charges to the minimum level necessary. This can be achieved by Local Government continuing to improve the efficiency of its service delivery and by focusing expenditure on core activities.

Local Government financial management is also important with regard to external monitoring of the State Government's financial position. Rating agencies and the Australian Loan Council include Local Government in their assessments of State Government finances. The opinions of rating agencies have a direct impact on the cost of servicing the State's debt. The State Government must also manage the annual financial performance of the State public sector (including Local Government borrowing) within the constraints set by the Australian Loan Council. These constraints seek to ensure that the demands placed on financial markets by the public sector, including Local Government, are at a level that will not significantly impact on the availability of capital to the private sector. The constraints also ensure that the various jurisdictions within the public sector are adopting appropriate long-term fiscal strategies.

## RELATIONSHIP WITH OTHER LEVELS OF GOVERNMENT

There is a relatively complex financial relationship between Local Government, the State Government and the Commonwealth Government. The complexity in this relationship arises both from the nature of the institutional arrangements in Australia referred to in Chapter 10 of this Budget Paper, and because of the blurred division of the respective roles and responsibilities of the three levels of government, despite the constitutional division of powers. Whilst respective taxing powers are relatively well differentiated, the exact role of Local Government as distinct from other levels of government is not always clear. As with the

situation between the Commonwealth and State, this leads to some duplication and overlap and an array of financial transfers between governments.

The financial transfers involving Local Government can be categorised as follows:

- grants from the Commonwealth Government;
- grants from the State Government;
- State Government subsidies of Local Government costs;
- Local Government exemptions from State taxes and charges and State exemptions from council general rates;
- levies and charges paid by councils to the State Government; and
- charges paid by councils for the use of State Government services.

## Commonwealth Grants

The Commonwealth Government provides both general purpose and specific purpose funding for Local Government. General purpose assistance has been paid to LGAs since 1974-75. General purpose funding comprises base grants and identified local road funds (ILRFs), both of which are distributed in accordance with the Commonwealth's *Local Government (Financial Assistance) Act 1995*. Although local road funds are still identified as a separate component, the ILRFs are untied and may be applied at the discretion of councils.

Prior to 2000-01, escalation of the national pool of Local Government financial assistance was determined by underlying movements in Financial Assistance Grants (FAGs) from the Commonwealth to the states and territories. With the reform of Commonwealth-State financial arrangements stemming from the introduction of the Commonwealth's *A New Tax System*, FAGs were abolished from 1 July 2000, and replaced by revenues collected from the Goods and Services Tax. This brought to an end the nexus between State and Local Government grants and, accordingly, it became necessary for the Commonwealth to amend the Local Government (Financial Assistance) Act to recognise this fact.

Since 2000-01, the national quantum of Local Government general purpose financial assistance has been linked to annual changes in both the Australian population and the consumer price index, so that the pool is maintained in 'real per capita' terms. The final year for which the previous arrangements existed, which was 1999-00, is the base for determining the size of the Local Government grant pool in each subsequent year. These arrangements will, in effect, leave Local Government no worse off financially in terms of general purpose Commonwealth funding than had the previous arrangements continued. In fact, real per capita maintenance of Commonwealth general purpose grants to Local Government is now guaranteed under legislation, whereas this was not previously the case.

The Commonwealth's Local Government (Financial Assistance) Act specifies that the distribution of the base grant (ie not including road funds) between states and territories is to be on a per capita basis. ILRFs are not distributed between states and territories on a per capita basis, but rather on the basis of historical shares between states and territories as defined in the Commonwealth's *Australian Land Transport Development Act 1988*. In total, Tasmania receives 3.3 per cent of the total general purpose payments made available nationally to Local Government by the Commonwealth. Total Commonwealth general purpose

payments to Tasmania's LGAs are estimated to be \$47.8 million for 2002-03, a real term increase of 2.0 per cent over the total payments for 2001-02 of \$45.9 million.

Estimated total Commonwealth general purpose payments in 2002-03 to Local Government in each state and territory for base grants and ILRFs are shown in the following table.

**Table 13.1: Commonwealth General Purpose Grants to Local Government, 2002-03**

State/Territory	Base Grants	Identified	Total Grants	% of Total
		Local Road Funds		
	\$m	\$m	\$m	%
New South Wales	340.2	129.2	469.4	32.4
Victoria	248.6	91.8	340.4	23.5
Queensland	188.0	83.4	271.4	18.7
Western Australia	98.3	68.1	166.4	11.5
South Australia	77.8	24.5	102.3	7.1
Tasmania	24.2	23.6	47.8	3.3
Northern Territory	10.2	10.4	20.7	1.4
Australian Capital Territory	16.5	14.3	30.8	2.1
<b>TOTAL<sup>1</sup></b>	<b>1 003.7</b>	<b>445.4</b>	<b>1 449.1</b>	<b>100.0</b>

Source: *Statement of Estimated Payments*, Commonwealth Treasury, March 2003.

Note:

1. These figures represent estimates of the cash payments to be made in 2002-03 which consist of the estimated entitlement for 2002-03 adjusted for underpayments made in 2001-02, which are added to the quarterly instalments paid by the Commonwealth over the 2002-03 financial year.

The Commonwealth has determined that there will be a positive adjustment to payments in respect of 2001-02 as the estimated inflation figure of 3.53 per cent used to determine last year's pool was lower than the actual level of inflation of five per cent. The adjustment is being added to the 2002-03 quarterly payments, based on the distribution of the 2001-02 grants. This means that the cash actually paid to Tasmanian councils in 2002-03 will be the estimated 2002-03 entitlement of \$47.8 million plus a positive adjustment to the 2001-02 grants of \$652 541, which is a total of \$48.5 million.

Each LGA's share of funds is determined on the recommendation of the Tasmanian State Grants Commission. The base grant distribution is determined according to the fiscal equalisation principle. This principle aims to provide each LGA with the capacity to be able to fund a level and standard of service not appreciably different from the State average, provided that an average revenue raising effort is made. The allocation of ILRFs between LGAs is based on the relative expenditure need of each municipality in order to preserve its road assets.

Table 13.2 details the Commonwealth general purpose grants made to individual Tasmanian councils in 2001-02 and the recommended grants for 2002-03 that have been approved by the Commonwealth. The totals in Table 13.1 for 2002-03 may vary from the Tasmanian figures presented in Table 13.2 because those in Table 13.1 represent the cash payments to be made in 2002-03.

**Table 13.2: Commonwealth General Purpose Grants to LGAs, 2001-02 and 2002-03 (Recommended Entitlement)**

	2001-02			2002-03		
	Base Grant	Total Grant		Base Grant	Total Grant	
		ILRF	per capita		ILRF	per capita
	\$'000	\$'000	\$	\$'000	\$'000	\$
Break O'Day	716.0	961.6	291.6	747.7	1 018.2	303.4
Brighton	725.2	318.4	80.0	797.7	332.6	86.8
Burnie	915.2	689.3	83.3	890.0	721.0	85.5
Central Coast	1 338.1	1 074.8	115.1	1 471.9	1 120.9	123.9
Central Highlands	565.2	834.8	562.7	552.1	873.2	617.8
Circular Head	840.8	965.9	213.1	852.5	965.9	235.0
Clarence	1 214.8	796.6	41.1	1 309.3	796.6	43.2
Derwent Valley	610.7	489.6	112.9	657.0	489.6	125.3
Devonport	757.5	616.6	56.5	757.2	616.6	57.9
Dorset	822.0	1 155.1	266.9	846.6	1 155.1	280.6
Flinders	414.3	384.3	849.6	446.8	402.7	978.6
George Town	577.5	407.6	146.4	619.1	426.6	161.3
Glamorgan/Spring Bay	433.8	470.8	212.9	477.2	503.3	245.9
Glenorchy	650.1	787.3	32.9	676.3	824.0	34.1
Hobart	680.4	1 023.9	37.1	710.4	1 189.4	40.0
Huon Valley	947.1	1 048.2	145.9	980.4	1 093.9	148.4
Kentish	690.3	718.3	255.9	727.2	749.8	268.5
King Island	368.4	422.6	450.7	394.1	443.1	495.7
Kingborough	968.8	766.7	60.7	1 013.5	782.0	60.0
Latrobe	481.5	362.7	103.4	520.0	398.0	110.0
Launceston	1 658.1	1 618.0	52.3	1 575.5	1 693.7	52.4
Meander Valley	1 221.2	1 245.3	139.2	1 250.3	1 299.5	140.0
Northern Midlands	1 201.9	1 376.8	217.8	1 240.1	1 446.4	224.1
Sorell	654.4	537.8	109.0	681.0	571.0	113.0
Southern Midlands	767.6	1 258.8	359.3	781.3	1 312.6	365.0
Tasman	275.3	229.8	227.3	277.7	244.0	231.9
Waratah/Wynyard	964.8	832.7	130.1	1 035.4	871.3	140.5
West Coast	694.3	395.5	193.9	763.8	419.9	221.1
West Tamar	1 074.4	603.9	83.7	1 181.9	637.2	88.8
<b>TOTAL<sup>1</sup></b>	<b>23 229.6</b>	<b>22 393.3</b>	<b>97.0</b>	<b>24 233.8</b>	<b>23 601.6</b>	<b>101.2</b>

Sources: *Tasmanian State Grants Commission Annual Report For 2002-03*; Commonwealth approved State Grants Commission recommendations for 2002-03.

Note:

1. To obtain the total grants per capita, the 2001-02 population estimate was used, as this is the most recent available.

The Tasmanian State Grants Commission is currently considering a distribution of grants to Local Government for 2003-04.

In addition to general purpose grants, the Commonwealth provides some specific purpose grants to Local Government. These grants are largely provided for aged and disabled persons' homes, children's services and aboriginal advancement.

### *Commonwealth Grants Commission Review of Local Government Financial Assistance*

The *Local Government (Financial Assistance) Act 1995 (Cth)* sets out the principles, goals and purposes that govern the State Grants Commission's (SGC) recommendations concerning the distribution of the Commonwealth's Financial Assistance Grants to Tasmanian councils. The Act has been the subject of a Review conducted by the Commonwealth Grants Commission (CGC). The CGC effectively confined its proposals for reform to the principles governing the distribution of the base grant.

The Final Report arising from the Review was released on 4 July 2001.

### *Commonwealth Government Response*

The Commonwealth announced in May 2002 that it has deferred its response to the CGC Review. Specifically, the Commonwealth will not finalise its response until it has considered the Final Report from the House of Representatives Standing Committee on Economics, Finance and Public Administration arising from the Committee's *Inquiry into Local Government and Cost Shifting*, which is expected to be released in the latter part of 2003.

### *In-Principle Decisions*

Since November 2001, the SGC has undertaken a process of research and consultation to determine its response to the recommendations of the CGC Review. Following the conclusion of the extensive process of consultation with Local Government, the SGC has recently made a number of in-principle decisions in response to the findings of the Review. Those decisions are that:

- the SGC's assessment of councils' expenditure needs should be expanded to include depreciation expenses, through the method proposed in its discussion paper that was released in November 2001;
- the SGC's assessment of councils' revenue capacity should be expanded to include non-rate revenue, through the method proposed in its discussion paper that was released in November 2001;
- the SGC should continue to apply its current approach to the Other Grant Support Principle, whereby only those *recurrent* grants that relate to functions within the ordinary scope of local government activity and are received by a majority of councils are treated by inclusion;
- the SGC should modify the method through which it calculates Disability Factors so that they will centre upon 1.00, as opposed to commencing at 1.00;
- the term 'Disability Factors' should be renamed 'Cost Adjustors';
- a Budget Result Term should be included in the SGC's standard equalisation budget;

- the SGC should continue to use the proportional method of factoring back and not pursue any further work on the equalisation ratio method at this time; and
- the SGC should not adopt the CGC's proposal to split the base grant pool into separate Relative Needs and Per Capita pools in the absence of a legislative imperative to do so, and should therefore continue to apply the Minimum Grant Principle as the final step in the process of base grant calculation.

### *Deferred Implementation of State Grants Commission Response to the Review*

The SGC has recently resolved to defer the implementation of its response to the CGC Review until the 2004-05 grant year. The decision to defer the introduction of a new equalisation method means that the SGC's recommendations concerning the allocation of grants for 2003-04 will be made on the basis of the existing equalisation method. Factors influencing the deferred implementation include:

- the SGC has yet to conclude its consideration of several key aspects of its equalisation method. These matters have the potential to exert a significant influence upon the pattern of base grant distribution. The SGC considered that the adoption of a new equalisation method, prior to the finalisation of these outstanding matters, would be inconsistent with the SGC's commitment to the simultaneous introduction of *all* reforms arising from the CGC Review;
- there is significant uncertainty surrounding the Commonwealth Government's position in relation to the future of the Local Government (Financial Assistance) Act. The findings of the CGC Review have been referred to the House of Representatives Standing Committee on Economics, Finance and Administration's *Inquiry into Local Government and Cost Shifting*. The Committee is not scheduled to table its Final Report until the latter part of 2003. It is possible that the Inquiry may recommend significant amendments to local government funding arrangements; and
- the possible implementation of State Local Financial Reform (SLFR) has the potential to cause significant shifts in the revenue capacities of Tasmanian councils and, consequently, to the pattern of base grant distribution. To proceed with the SGC's response to the CGC Review prior to the resolution of this matter could unnecessarily exacerbate any period of financial disruption arising from one or both of these processes for longer than need be the case.

## Partnership Agreements

The State Government is committed to the development of Partnership Agreements as a key mechanism for strengthening working relations with Local Government. The State Government recognises that committed progressive local communities and sound local economies are fundamental to the social and economic development of the State. Hence the process for developing Partnership Agreements takes into account consultative mechanisms at the local level, encourages local input to community and economic development decisions and promotes shared responsibilities for improved targeting of service delivery.

A Partnership Agreement is a document that outlines the ways in which the State Government and a council or group of councils can find innovative ways of working together to improve the social, economic and environmental situation within a community by reaching mutually agreed goals. A Partnership Agreement can be formed around a particular issue, or may cover a range of different issues.

Partnership Agreements provide an opportunity to examine government service delivery arrangements and for the State and Local Government to jointly identify measures to improve their design and/or delivery. A key aspect is to ensure that there are effective service delivery arrangements to meet the reasonable needs of

all residents including, where appropriate, options to improve coordination of joint State-Local service delivery arrangements or to address gaps and overlaps in service delivery. Where State Government services can be more effectively and efficiently delivered at the Local Government level, agreement will be reached on appropriate funding arrangements and any amendment of existing service delivery arrangements will be the subject of contractual arrangements between the parties to ensure appropriate accountability and transparency of implementation.

Results from the Partnership Agreements are measurable through agreed timeframes and outcomes. Each Partnership Agreement concluded with Local Government is accompanied by an action plan identifying council and State Government agency responsibilities. An inter-agency coordination group has been established to monitor progress in implementing Partnership Agreement commitments of the State Government. The program is administered through the Local Government Division in the Department of Premier and Cabinet.

### *Objectives*

The aim is that Partnership Agreements be developed in a cooperative manner based on the identification of shared objectives and ways in which both levels of government can work towards effectively meeting these objectives. The Government's objectives for the Partnership Agreements were outlined in its *Framework for Developing State-Local Government Partnership Agreements*, revised in October 2001. The Framework is updated periodically to reflect the dynamic nature of the Partnerships Program.

In summary these objectives are to:

- identify opportunities to work in partnership with Local Government to progress agreed social, economic and environmental outcomes for Local Government areas; and
- ensure effective service delivery arrangements to meet the reasonable needs of all residents including, where appropriate, options to improve coordination and joint service delivery arrangements or address gaps and overlaps in service delivery.

More broadly, the State Government recognises that Partnership Agreements have a key role to play in facilitating the achievement of agreed social, economic and community development goals. In particular, they provide a vehicle to achieve the following whole-of-government strategic policy objectives:

- economic growth;
- social development; and
- environmental sustainability.

The Partnership Agreements will also have a role in facilitating the achievement of agreed social, environmental, economic and community development benchmarks identified in Tasmania *Together*, the 20 year plan to drive the strategic direction of the State. As far as possible, all schedules in Partnership Agreements are now linked to a specific Tasmania *Together* benchmark.

### *Background*

The pilot phase of the program was launched in December 1998, commencing with the negotiation of a bilateral Partnership Agreement with the Circular Head Council, which was signed on 1 June 1999. The pilot phase concluded with the signing of a bilateral Partnership Agreement with the Launceston City Council on 10 December 1999. Partnership Agreements have since been commenced with councils in every region of the State.

Bilateral Partnership Agreements have been signed with Circular Head, Launceston City, Glenorchy City, Flinders, Hobart City, Burnie City, Kingborough, King Island, George Town, Glamorgan-Spring Bay, West Coast, Central Highlands, Derwent Valley and Break O'Day Councils. Negotiations have either commenced or are well advanced with Meander Valley, Latrobe, Dorset, Devonport City, Northern Midlands and West Tamar Councils.

Regional Partnership Agreements give the parties the opportunity to look broadly at issues that extend beyond the boundaries of a single council.

Every council in the State is currently involved in one of three regional Partnership Agreements. Eight northern councils are engaged in the Northern Tasmanian Regional Development Board Agreement (NTRDBA), which was signed in July 2001. Nine north western councils are involved in the Cradle Coast Authority Partnership Agreement (CCAPA), signed in October 2001. The twelve southern councils are involved in the development of the Southern Tasmanian Councils Partnership Agreement, to be completed in the near future.

The three regional Partnership Agreements each have a term of three years, with a review undertaken at the end of the term. The Agreements are also evaluated at the end of the first year. An evaluation has already been undertaken on the NTRDBA while the CCAPA is currently undergoing its evaluation.

### *Premier's Local Government Council*

The Premier's Local Government Council (PLGC) was established in 2000 as a forum for high-level discussions with councils on issues of statewide significance. The Council meets three or four times a year.

The Council is chaired by the Premier and comprises the eight elected council representatives who make up the General Management Committee of the Local Government Association of Tasmania (LGAT). An Officials Committee with a membership of State and Local Government officers supports the Council.

Statewide Partnership Agreements are negotiated through the PLGC. These involve all councils and the State Government and are signed by the President of the LGAT on behalf of the councils.

Three statewide Partnership Agreements on waste management, simplifying planning schemes and communications and consultation between the two spheres of government have been developed under the PLGC. Work on these Partnership Agreements has now entered the implementation phase.

In addition to Partnership Agreements, the PLGC maintains discussion on a range of issues that affect all councils and the State Government, including constitutional recognition of Local Government, State and Local Government financial relations, the implementation of *Tasmania Together*, the limited review of the *Local Government Act 1993*, public liability costs, forestry issues and other matters of topical interest.

# FINANCIAL REFORM OF THE LOCAL GOVERNMENT SECTOR

There is currently a complex set of financial arrangements that underpin State and Local Government financial relations. Many of these arrangements could be considered a product of history, rather than the result of deliberate public policy decisions. These include:

- levies and charges on Local Government to fund services provided by the State, in which Local Government has little, if any, input;
- various fees and charging arrangements which are not commercially based and are therefore considered to distort decision making; and
- various taxation exemptions, concessions, specific purpose grants and subsidies which reduce accountability and distort decision making.

A project aimed at reforming State and Local Government financial relations is being undertaken to simplify and make more transparent the financial relations between the two spheres of government. In doing so, policy decision making will be enhanced by making it easier to assess the implications of policies under consideration.

This project is being overseen by the Premier's Local Government Council (PLGC). As State and Local Government financial matters are technical in nature and require significant and detailed input, the PLGC is being assisted by a Working Group. The Working Group is comprised of representatives from the Department of Premier and Cabinet, Treasury, the Local Government Association of Tasmania (LGAT) and four councils.

The PLGC has endorsed three principles to be followed in the formulation and implementation of the reforms from this project. These are: financial transparency; revenue neutrality; and non-discrimination. The general goal of the project is that financial transparency will be maximised, subject to the revenue neutrality and non-discrimination principles, which act as constraints on the extent and nature of reforms that can be formulated. The revenue neutrality principle is of particular importance as it requires that reforms do not place either sphere of government at a significant financial disadvantage.

Considerable progress has been made to date, with the PLGC having endorsed a number of important documents produced by the Working Group. These include:

- a paper describing the financial flows between the two levels of government (based on information from a survey of all State and Local Government entities); and
- an *Issues Paper*, a *Valuation Paper*, and a *Rating of Crown Land Paper*, which have established the scope and range of financial transactions for which reforms should be appropriately pursued between the two levels of government.

The PLGC has endorsed the Working Group recommendation that financial reform will encompass reciprocal taxation (the application of full State Government taxes on Local Government activities and the full application of rates on State Government land through the removal of current exemptions) and the removal of the Library and Local Government Planning levies.

The PLGC has agreed that the approach to the valuation and rating of Crown land is that only Crown land required for rating purposes is to be valued. Crown land, other than national parks, forest reserves, conservation areas, public parks and recreation areas, and roads, bridges and associated infrastructure (including railway lines), is to be rated. On a reciprocal basis, parks, reserves and conservation areas owned by Local Government would similarly be exempt from State taxes.

The reform project has now reached a critical stage, where revenue neutrality between the two levels of government and among councils is being assessed. A draft *Revenue Neutrality Paper* has been prepared by the Working Group and was used as the basis of consultation with councils.

This consultation process identified one area that requires further work, being the need to provide greater clarity and consistency in the land tax treatment of various categories of council land. The Working Group has sought further details from councils to gain a consistent estimate of local government land tax liability. The Working Group will then be in a position to provide a final assessment of revenue neutrality between the two levels of government.

The application of general and service rates to electricity generation assets will give rise to a range of technical valuation difficulties and would detract from rather than contribute to the revenue neutrality constraint. This has therefore been determined to be outside the scope of the reform project.

The Working Group will provide the PLGC with final recommendations in time for any legislative changes to be introduced during the Spring Session 2003 of Parliament. This will allow sufficient time for the reforms to commence from 1 July 2004.

The following is a brief description of the nature of the existing State-local financial arrangements.

## State Subsidies on Local Government Costs

The State Government subsidises council costs by providing recurrent subsidies on the annual cost of water and sewerage schemes and by reimbursing pensioner concessions up to a maximum of \$318 in 2003-04 on individual property rates. In 2001-02, State water subsidies amounted to \$20 037, sewerage subsidies amounted to \$300 517 and the cost of pensioner rates remissions amounted to \$12.8 million.

## State Taxation Exemptions

Local Government is exempt from the payment of State Government taxes.

## Local Government Rates Exemptions

State Government agencies, statutory authorities and a number of Government Business Enterprises (GBEs) are currently exempt from Local Government rates on Crown land, although service rates for water and sewerage are generally paid.

## State Levies and Charges on Local Government

The State Government receives contributions from local councils towards the cost of providing library, fire protection and planning services.

The Tasmanian Government provides public library services and seeks a contribution from Local Government towards this cost. In all other states, Local Government provides the service and receives a contribution from the State Government towards the cost. A contribution to library services is made annually by each municipality. It is equivalent to 0.35 cents per dollar of the adjusted assessed annual value of all leviable land, less a prescribed amount (collection fee) which is a maximum of 1.5 per cent of the gross assessed contribution. In 2001-02, the library contribution was \$6.2 million, which represented about 36 per cent of total expenditure on library services by the State. The funds collected from the library levy are paid to the Consolidated Fund. The State is precluded by statute from imposing direct charges on library users. The levy partially recovers the cost of library services from the wider community.

The State is responsible for the provision of fire services through the Tasmanian State Fire Commission and in accordance with the *Fire Service Act 1979*. However, before 1979, the responsibility for fire protection was shared between two statutory bodies and 22 individual fire brigade boards. In 2001-02, the State Fire Commission received \$18.7 million from a levy imposed on Local Government, which was equivalent to approximately 49 per cent of the Commission's expenditure. This levy is based on the assessed annual value of rateable property. Councils may retain an administration (collection) charge not exceeding four per cent of the gross value of the levy and are permitted to recover the levy from individual property owners provided that the component of rates attributable to the contribution is separately identified. The funds collected from the fire service levy are paid direct to the State Fire Commission.

The State Government has involvement in the operation of Local Government through the Local Government Division of the Department of Premier and Cabinet and through the Department of Primary Industries, Water and Environment, which both have policy, regulatory and advisory roles. Local Government contributes to the cost of providing these services through a planning and Local Government levy equal to 0.15 cents per dollar of the total adjusted assessed annual value of all rateable (non-exempt) land in their municipality. In 2001-02, the Local Government contribution was \$2.7 million.

## State Grants

The State Government provides recurrent assistance to Local Government for specific purposes under the following arrangements:

- Direct principal and interest subsidies under the *Public Bodies Assistance Act 1971* on borrowings for approved purposes, such as for new infrastructure or the redevelopment of existing facilities. However, no new loans have been made under this Act since July 1989;
- In 2001-02, the Department of Infrastructure, Energy and Resources distributed grants to councils totalling \$1.5 million sourced from State Government heavy vehicle motor taxes (the 'National Road Transport Commission (NRTC) funds');
- In 2001-02, the Launceston City Council received \$936 320 from the then Department of State Development for the Queen Victoria Museum and Art Gallery;
- In 2001-02, the Department of Premier and Cabinet disbursed \$111 200 to Local Government bodies under the Premier's Sundry Grants program. A further \$404 000 from the Social Infrastructure Fund was disbursed to the Glenorchy City Council towards the Wilkinson's Point Parkland Redevelopment; and
- In 2001-02, the Burnie City Council and the Devonport City Council received \$40 000 each for the operation of their respective travel centres. The Launceston City Council, the Meander Valley Council

and the Glamorgan-Spring Bay Council received \$5 000 each from the Tourism Development Grants program while the Circular Head Council received \$14 500 for its visitor information centre.

## Economic Reform and Local Government

At the April 1995 Council of Australian Governments (COAG) meeting, a National Competition Policy (NCP) for Australia was agreed. This policy, which is embodied in three inter-governmental agreements, has implications for all levels of government, including Local Government.

One of the three inter-governmental agreements, the Competition Principles Agreement (CPA), outlined five key principles relating to:

- the prices oversight of public sector trading activities with monopoly, or near monopoly, characteristics;
- competitive neutrality between the public and private sectors;
- the structural reform of public monopolies;
- the processes for reviewing legislation which restricts competition; and
- a legislated right for the provision of third party access to significant infrastructure facilities.

The CPA provides for these principles to apply to Local Government, notwithstanding that Local Government is not a signatory to the Agreement. Furthermore, each state and territory government is responsible for ensuring that these principles are applied to Local Government.

In addition, the *Conduct Code Agreement (CCA)* required the State Government to introduce legislation to ensure the wider application of the restrictive trade practices provisions of Part IV of the Commonwealth's *Trade Practices Act 1974*, to encompass all private and public sector business activities, including Local Government business activities. This was effected through the *Competition Policy Reform (Tasmania) Act 1996*.

In June 1996, as required under the CPA, the then Government submitted to the National Competition Council (NCC) a policy statement entitled *Application of National Competition Policy to Local Government* (Application Statement). This Statement, prepared in consultation with Local Government, provided a broad policy statement on how it was intended that the five competition principles, where appropriate, would be applied to Local Government. The Government, in conjunction with Local Government, is currently undertaking a review of the Application Statement.

In addition to the reforms required under the CPA, NCP requires jurisdictions to consider reform in the areas of water, electricity, transport and gas. These requirements are detailed in the *Agreement to Implement the National Competition Policy and Related Reforms*.

Progress to date in relation to the application of competitive neutrality, legislation review, monopoly prices oversight and water reform to Local Government is outlined below.

## Competitive Neutrality

In accordance with the Application Statement, all councils have assessed their significant business activities to which full cost attribution (FCA) would apply. This was done during 1996. These lists were reviewed by a peer group (established by the LGAT).

Realising the advantages that competitive neutrality could deliver in increasing the efficiency of council operations, 18 of the 29 councils decided to apply FCA to all of their business activities. The majority of the

remaining councils chose to apply FCA to their public trading enterprises (largely water and sewerage services) and road maintenance.

Further discussions, which commenced in mid-1998, led to an updated agreement on the application of NCP to Local Government in Tasmania. The revised Agreement incorporated a new implementation timetable and was approved by the LGAT General Management Committee in July 1998.

In accordance with the Application Statement, councils were required to:

- identify relevant business activities which were considered significant business activities;
- undertake public benefit assessments of the corporatisation of those business activities which are classified as Public Trading Enterprises (PTEs) under the ABS Government Finance Statistics Classification (generally water and sewerage); and
- corporatise those PTEs where a public benefit assessment indicates that the benefits outweigh the costs of doing so or apply full cost attribution to all other significant business activities.

Accordingly, councils undertook public benefit assessments of the corporatisation of their Public Trading Enterprises during 1999.

All councils found that corporatisation of their PTEs would not be in the public benefit, mainly due to the small size of Tasmanian councils and therefore of their business activities. These results were submitted to a peer review group consisting of LGAT and council representatives. The peer review group endorsed the results of the public benefit assessments and provided a recommendation to the Treasurer to this effect in November 1999. The Treasurer endorsed the public benefit assessment and the outcome of the peer review assessment on 3 December 1999.

It should be noted, however, that the joint bulk water authorities, the Hobart Regional Water Authority (HRWA), the Esk Water Authority (EWA) and the North West Water Authority (NWWA), were corporatised under the Local Government Act, independently of this process.

Councils are continuing to apply FCA to their business activities in a form appropriate to their size. Importantly, the Local Government Act was amended in 1999 to require councils to disclose the full cost of operating their significant business activities in their annual reports. In this regard, councils are required to disclose the operating, competitive neutrality and capital costs attributable to their significant business activities.

To comply with the competitive neutrality principles, the Local Government Division of the Department of Premier and Cabinet has developed a Community Service Obligation (CSO) Policy and Guidelines framework for councils. This policy is consistent with the policy applying to the State Government's Government Business Enterprises.

The main objectives of the CSO Policy are:

- to ensure that a council's social and other objectives are achieved without impacting on the commercial performance of its significant business activities;
- to improve the transparency, equity and efficiency of CSO service delivery; and
- to be consistent with NCP requirements.

The Policy was implemented in early 2001, in accordance with Tasmania's NCP obligations.

# Competitive Neutrality Complaints Mechanism

The Application Statement required the establishment of a competitive neutrality complaints mechanism. Accordingly, a competitive neutrality complaints mechanism was established under the *Government Prices Oversight Act 1995*. Under regulations made under that Act, a person who believes that he or she has been adversely affected by a contravention of the competitive neutrality principles may lodge a complaint with the Government Prices Oversight Commission (GPOC), which has responsibility for investigating all alleged breaches of the competitive neutrality principles in the State.

During 2002, no competitive neutrality investigations were undertaken by GPOC. One complaint was made but the matter was referred to the Department of Treasury and Finance, as the activity was not a significant business activity of the council concerned.

The Government is currently considering how the identification of local government significant business activities can be clarified to ensure that Tasmania continues to meet its competitive neutrality obligations. This issue is being addressed through a review that is currently underway of the former Government's policy statement of June 1996, titled *Application of National Competition Policy to Local Government*.

## Prices Oversight

The Application Statement indicated that Local Government monopoly or near monopoly providers were to be brought under the prices oversight jurisdiction of GPOC. The *Government Prices Oversight Amendment Act 1997* extended the coverage of the *Government Prices Oversight Act 1995* to include Local Government monopoly or near monopoly services.

In accordance with the *Agreement to Implement the National Competition Policy and Related Reforms*, Tasmania is required to implement the COAG *Strategic Framework for the Efficient and Sustainable Reform of the Australian Water Industry* (Strategic Framework). The Strategic Framework requires metropolitan bulk water suppliers to charge on a volumetric basis to recover all costs. Metropolitan bulk water suppliers are to also earn a positive real rate of return on the written-down replacement cost of their assets.

Against this background, GPOC was required to undertake an investigation into the pricing policies associated with the provision of bulk water by the HRWA, the EWA and the NWWA in 1998. As a result, GPOC recommended maximum prices (in the form of maximum revenues and pricing principles) to be charged by each of the State's three bulk water authorities for a three year period commencing from 1 July 1999. The Government endorsed GPOC's pricing principles for bulk water.

On 31 July 2001 GPOC completed its second investigation of the bulk water supply authorities. In September 2001, the Government released a Determination setting the maximum allowable revenues and maximum volumetric prices for the three bulk water authorities for a three year period commencing 29 September 2001 following consideration of GPOC's report.

## Legislation Review

The Local Government Division has implemented procedures for the review of all proposed or existing by-laws to ensure that any restrictions on competition are fully justified in the public benefit. The *By-Law Making Procedures Manual* was released in August 1997 and represents the by-law section of the Government's Legislation Review Program (LRP). All by-laws proposed since that date have been required to comply with the new procedures.

All by-laws made under the 1962 Act remained in force under the current Local Government Act (to the extent that they were consistent with the new Local Government Act) for a period of five years, and were due to expire on 17 January 1999.

Councils have been progressively reviewing their by-laws, a number of which have been repealed. As a result, there has been a continued decline in the overall number of by-laws. However, a significant number of councils were not prepared for the statutory expiry of all these by-laws on 17 January 1999. In December 1998, the Government therefore introduced the *Local Government (Savings and Transitional) Amendment Act 1998* to extend the expiry date to 31 March 1999. Approximately 500 by-laws made under the 1962 Act automatically expired.

All of the 141 new by-laws gazetted under the current Local Government Act have been subjected to the legislation review processes. Councils are now carefully considering the subject matter that they wish to deal with through by-laws, such that new by-laws are generally made to deal solely with matters of broad governance, rather than relating to commercial operations. Tasmanian councils have repealed their obsolete by-laws and replaced them, where appropriate, with by-laws that focus on governance arrangements and comply with NCP principles.

Amendments to the Local Government Act in 1999 resulted in the further application of NCP principles to Local Government by-laws, with the requirement that any new by-laws with a significant impact on the community be subject to a Regulatory Impact Statement. This amendment formalised the procedure already required in the *By-Law Making Procedures Manual*.

## Water Reform

As part of the Tasmanian water reform process, in 1997 the Hobart Regional Water Board was transferred from State Government to Local Government ownership and established under the Local Government Act as a joint authority, the Hobart Regional Water Authority. In addition, the State Government's North Esk Regional and West Tamar Water Supply Schemes were also transferred to Local Government and, together with Launceston City Council's water supply scheme, re-established in 1997 under the Local Government Act as a joint authority entitled the Esk Water Authority.

On 10 August 1999, the NWWA was the last bulk water authority to be transferred to Local Government and now operates as Cradle Coast Water.

These joint authorities were established in accordance with the NCP corporatisation model and are subject to full taxation equivalent, dividend and loan guarantee fee regimes.

Among other things, the Strategic Framework requires the implementation of two-part (volumetric) pricing for urban water schemes where it is shown to be cost effective. In Tasmania, all urban retail water services are provided by Local Government. Accordingly, in 1999 councils undertook a significant amount of work in assessing whether two-part tariffs are cost effective for their urban water supply schemes.

To commence this assessment, in June 1999 GPOC set out a methodology for local councils to assess the cost effectiveness of introducing two-part tariffs for their urban water services in its report entitled *The Cost Effectiveness of Local Councils Implementing Two Part Pricing for Urban Water Services*.

Local Governments were required to show that they had correctly applied the guidelines to assess whether two-part pricing was cost effective for their urban water service schemes. The submissions provided by

councils were subsequently reviewed by an independent review panel comprising State and Local Government representatives and a representative of the LGAT.

A report on the assessments was provided to the State Government in December 1999. The report showed that two-part tariffs had already been, or would be, implemented in 24 of the 90 water schemes studied. In these cases, the implementation of two-part pricing for urban water delivers many benefits to councils and the broader community. Correct pricing sends the appropriate price signals to customers to promote water use that is economically efficient and environmentally responsible.

Two-part tariffs have now been implemented by all councils for those schemes for which it has been found to be cost effective.

The *Local Government Regulations 2000* were amended in late 2000 to require councils to incorporate in their annual reports a statement of plans for the supply of domestic water and sufficient financial information to demonstrate that the *Urban Water Pricing Guidelines for Local Government in Tasmania* (Urban Water Pricing Guidelines) are being applied in relation to the supply of domestic water. The previous requirement was for a statement to appear in councils' operating plans for the forthcoming year.

Tasmania has been assessed by the NCC as having met all its NCP water reform commitments to date. The NCC has acknowledged Tasmania's progress in this area and recognised Tasmania's genuine commitment to implementing two-part pricing where cost effective.

In April 2002, GPOC undertook an audit of Tasmanian councils to assess whether they complied with the NCP water reform obligations as they applied to urban water and wastewater services for the previous financial year. GPOC found a generally high level of compliance by Tasmanian councils in both water and wastewater pricing. However, in the case of water pricing, four councils were assessed as recovering insufficient revenue to meet the minimum requirement for full cost recovery, while the revenue of one council was found to exceed the Urban Water Pricing Guidelines for the maximum allowable return. In the case of wastewater pricing, three councils were assessed as recovering insufficient revenue under the Urban Water Pricing Guidelines, and two were found to have exceeded the maximum allowable return.

To ensure that councils apply full cost recovery principles, the Government, in January 2003, issued revised Urban Water Pricing Guidelines (originally issued by GPOC in 1999). The revised Urban Water Pricing Guidelines provide councils with guidance on the valuation of assets, and the appropriate treatment of Community Service Obligations, where applicable.

Strategies have been implemented to ensure that councils transition to an appropriate level of recovery for their water and wastewater businesses.

In February 2003, GPOC commenced an audit to assess council compliance with the NCP water reform obligations for the year ended 30 June 2002. The audit will be completed at the end of April 2003, with the results provided in a report to the Premier, as Minister for Local Government, and the Treasurer, as the Minister responsible for NCP.

For a full discussion of progress with NCP implementation in Tasmania, refer to the paper *National Competition Policy Progress Report: May 2003* issued by the Tasmanian Government.

# FINANCIAL PERFORMANCE

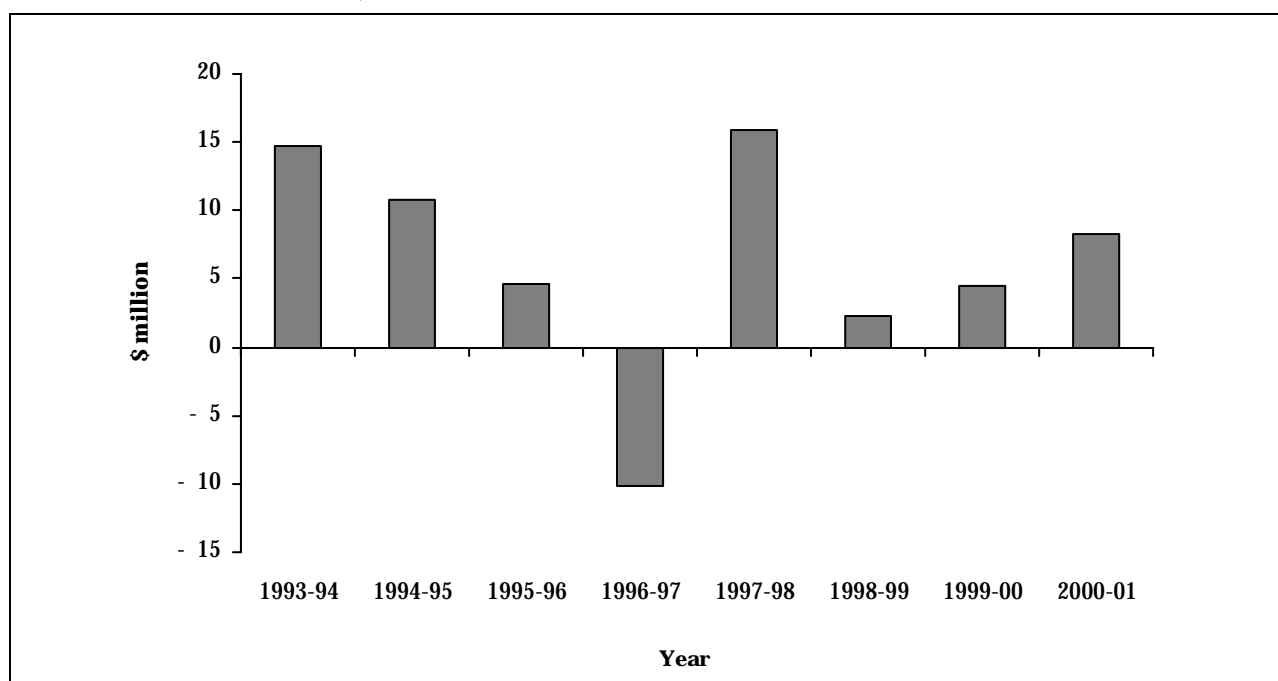
## Local Government Sector Financial Aggregates

This section relies heavily upon data compiled by the Australian Bureau of Statistics (ABS). Specifically, information is taken from *Government Finance Statistics, Australia*, ABS Cat No 5512.0 and *Government Finance Statistics, Tasmania* ABS Cat No 5501.6 released annually. Both these publications had not been released at the time of writing and, as such, a large portion of data referred to in this section relates to the 2000-01 financial year as reported in last year's *Budget Paper No 1 Budget Overview 2002-03*.

The Tasmanian Local Government sector returned a net operating balance of \$9.0 million in 2000-01. Local Government own-source revenue in 2000-01 totalled \$397.0 million (85.4 per cent of total revenue), of which \$164.0 million or 41.3 per cent was from taxation revenue (the general rate component), \$191.0 million was from the sale of goods and services, which includes the water, sewerage and garbage components of rates, accounting for 48.1 per cent of own-source revenue. Other income of \$42.0 million was equivalent to 10.6 per cent of own-source revenue.

Total grants and subsidies made up 15.9 per cent of total GFS revenue comprising current grants of 14.6 per cent and capital grants of 1.3 per cent. The largest expense area was housing and community amenities at 35.5 per cent of total GFS expenses, while interest comprises only 3.3 per cent of the total, reflecting the low debt level of the Local Government sector.

**Chart 13.2: Local Government Surplus(+)/Deficit(-) (in 2002-03 dollars) - Tasmania, 1993-94 to 2000-01**

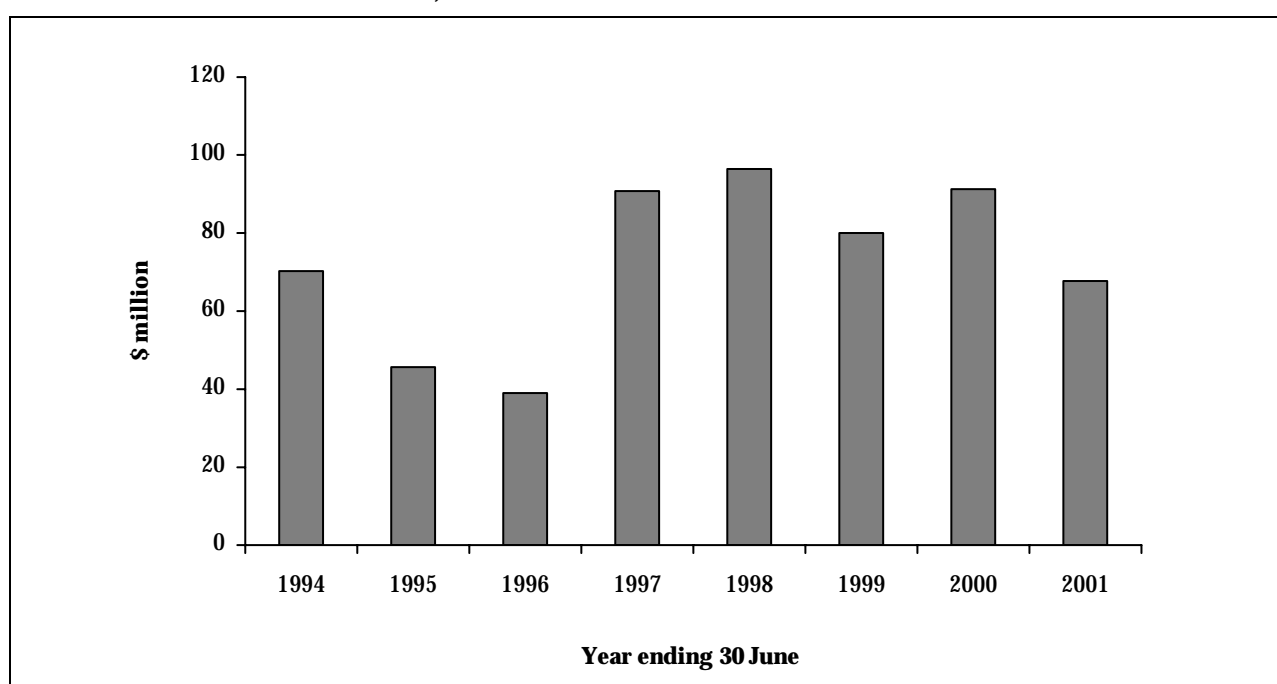


Sources: *Government Finance Statistics, Australia 2000-01*, ABS Cat No 5512.0 and *Consumer Price Index, Tasmania, Treasury and Finance Statistics*.

After a surplus of \$4.0 million in 1999-00, the Local Government sector returned a surplus of \$8.0 million in 2000-01 (in 2002-03 dollars). As shown in Chart 13.2, the Local Government sector surplus for 2000-01 has continued to increase towards levels similar to those experienced in, and prior to, 1994-95 (in 2002-03 dollars). This was before the transfer of the HRWB to the southern councils on 1 January 1997 and before an abnormal increase in capital outlays in 1996-97 due to major construction projects by the Hobart City Council, namely the Hobart Aquatic Centre and the Sandy Bay sewerage treatment project.

Furthermore, Tasmanian Local Government sector net debt was also significantly affected by the transfer of the Hobart Regional Water Board and the increase in capital expenditure between 30 June 1996 and 30 June 1997. More recently, there has been a reduction of \$24.0 million in net debt in the period between the financial years of 1999-00 and 2000-01. This is shown in Chart 13.3.

**Chart 13.3: Local Government Net Debt (in 2002-03 dollars)  
- Tasmania, 1994 to 2001**



Sources: *Government Finance Statistics, Australia 2000-01*, ABS Cat No 5512.0 and *Consumer Price Index, Tasmania*, Treasury and Finance Statistics.

Table 13.3 details the net worth of each Tasmanian council as at 1999-00. The net worth is a measure of the full balance sheet financial position of each council. The Local Government sector balance sheet shows a net worth of \$3 716.0 million as at 30 June 2000. Total Local Government net worth was made up of assets totalling \$3 935.0 million, of which 89.0 per cent was land and fixed assets, less \$219.0 million in liabilities.

The ABS cautions users to take care when interpreting the measure of net worth per head of resident population, as it can be influenced by the extent to which councils have recognised and valued their fixed assets, particularly roads. For example, councils with a heavy investment in roads relative to their population are likely to show a high net worth per head of resident population.

**Table 13.3: Local Government Net Worth by Council, 1999-00**

	Net Worth 1999-00	Net Worth per head of est. resident population 1999-00
	\$'000	\$
<b>Break O'Day</b>	<b>49 734</b>	<b>8 658</b>
<b>Brighton</b>	<b>58 904</b>	<b>4 538</b>
<b>Burnie</b>	<b>229 522</b>	<b>11 845</b>
<b>Central Coast</b>	<b>163 230</b>	<b>7 757</b>
<b>Central Highlands</b>	<b>37 029</b>	<b>14 835</b>
<b>Circular Head</b>	<b>60 622</b>	<b>7 136</b>
<b>Clarence</b>	<b>270 182</b>	<b>5 523</b>
<b>Derwent Valley</b>	<b>23 284</b>	<b>2 373</b>
<b>Devonport</b>	<b>251 731</b>	<b>10 302</b>
<b>Dorset</b>	<b>73 365</b>	<b>9 848</b>
<b>Flinders</b>	<b>41 682</b>	<b>44 155</b>
<b>George Town</b>	<b>36 568</b>	<b>5 427</b>
<b>Glamorgan/Spring Bay</b>	<b>43 163</b>	<b>10 228</b>
<b>Glenorchy</b>	<b>239 563</b>	<b>5 460</b>
<b>Hobart</b>	<b>586 969</b>	<b>12 782</b>
<b>Huon Valley</b>	<b>102 520</b>	<b>7 524</b>
<b>Kentish</b>	<b>24 238</b>	<b>4 383</b>
<b>King Island</b>	<b>23 859</b>	<b>13 441</b>
<b>Kingborough</b>	<b>170 641</b>	<b>6 000</b>
<b>Latrobe</b>	<b>40 924</b>	<b>5 059</b>
<b>Launceston</b>	<b>640 436</b>	<b>10 193</b>
<b>Meander Valley</b>	<b>120 795</b>	<b>6 879</b>
<b>Northern Midlands</b>	<b>107 130</b>	<b>9 069</b>
<b>Sorell</b>	<b>41 970</b>	<b>3 847</b>
<b>Southern Midlands</b>	<b>39 580</b>	<b>7 041</b>
<b>Tasman</b>	<b>16 977</b>	<b>7 596</b>
<b>Waratah/Wynyard</b>	<b>73 686</b>	<b>5 305</b>
<b>West Coast</b>	<b>44 183</b>	<b>7 890</b>
<b>West Tamar</b>	<b>104 263</b>	<b>5 213</b>
<b>TOTAL</b>	<b>3 716 749</b>	<b>7 902</b>

Sources: *Government Finance Statistics, Tasmania 1999-00*, ABS Cat No 5501.6 and *Regional Population Growth, 2000-01*, ABS Cat No 3218.0.

## Comparison with Other States and the Northern Territory

Table 13.4 compares various indicators for the Local Government sector in all states and the Northern Territory for 2000-01.

LGAs within Tasmania have different expenditure priorities. These priorities are the result of the physical characteristics of the Local Government area and/or differing characteristics and needs of residents. Differences also stem from the policy approaches of individual councils. This is also the case when the Tasmanian Local Government sector, in aggregate, is compared to the aggregates of other states and the Northern Territory. In addition, the allocation of responsibilities and functions undertaken by the State and Local Government sectors varies considerably between jurisdictions.

**Table 13.4: Key Indicators by State and the Northern Territory, 2000-01**

State/Territory	Revenue per capita	Expenses per capita	Grants and Subsidies as a proportion of revenue	Local	Expenses as a proportion of GSP
				Government employment per thousand of population	
	\$	\$	%		%
New South Wales	879	791	9.6	7	2.2
Victoria	712	706	17.5	7	2.0
Queensland	1 280	1 110	10.2	10	3.7
Western Australia	628	642	13.7	5	2.2
South Australia	796	756	18.8	7	1.9
Tasmania	986	964	14.6	8	3.9
Northern Territory	814	1 218	25.5	13	2.8
<b>AVERAGE</b>	<b>872</b>	<b>810</b>	<b>12.7</b>	<b>7</b>	<b>2.3</b>

Sources: *Government Finance Statistics, Australia 2000-01*, ABS Cat No 5512.0; *Australian Demographic Statistics, September Quarter 2001*, ABS Cat No 3101.0; *Wage and Salary Earners, November Quarter 2001*, ABS Cat No 6248.0 and *Australian National Accounts: State Accounts 1999-00*, ABS Cat No 5220.0.

Table 13.5 compares the relative proportion of each expenditure category to the total expenditure within each state and the Northern Territory. Again, care should be taken in comparing the relative importance of categories of expenditure between jurisdictions, as spending priorities will differ between jurisdictions as well as the allocation of funding responsibility between state and Local Governments.

**Table 13.5: Relative Importance of Categories of Expenditure, 2000-01  
(Expenses by Purpose as a Share of Total Expenses (%))**

	NSW	Vic	Qld	WA	SA	Tas	NT	Ave <sup>1</sup>
<b>General Public Services</b>	<b>16.0</b>	<b>11.1</b>	<b>23.5</b>	<b>15.8</b>	<b>8.6</b>	<b>13.4</b>	<b>28.2</b>	<b>16.3</b>
<b>Public Order and Safety</b>	<b>2.6</b>	<b>1.7</b>	<b>1.1</b>	<b>2.2</b>	<b>3.8</b>	<b>0.4</b>	<b>0.8</b>	<b>2.0</b>
<b>Education</b>	<b>0.1</b>	<b>0.9</b>	<b>....</b>	<b>....</b>	<b>0.3</b>	<b>....</b>	<b>0.4</b>	<b>0.3</b>
<b>Health</b>	<b>1.0</b>	<b>2.8</b>	<b>1.1</b>	<b>2.2</b>	<b>2.1</b>	<b>2.9</b>	<b>2.9</b>	<b>1.7</b>
<b>Social Security and Welfare</b>	<b>3.9</b>	<b>13.6</b>	<b>0.8</b>	<b>3.6</b>	<b>5.1</b>	<b>2.6</b>	<b>1.7</b>	<b>5.2</b>
<b>Housing and Community Amenities</b>	<b>24.5</b>	<b>18.3</b>	<b>27.7</b>	<b>18.5</b>	<b>15.7</b>	<b>35.4</b>	<b>19.9</b>	<b>23.1</b>
<b>Recreation and Culture</b>	<b>11.4</b>	<b>16.9</b>	<b>8.9</b>	<b>17.2</b>	<b>23.0</b>	<b>11.6</b>	<b>7.1</b>	<b>13.3</b>
<b>Fuel and Energy</b>	<b>....</b>	<b>....</b>	<b>....</b>	<b>0.5</b>	<b>....</b>	<b>....</b>	<b>0.8</b>	<b>0.1</b>
<b>Industry Services</b>	<b>1.3</b>	<b>0.9</b>	<b>1.7</b>	<b>1.8</b>	<b>....</b>	<b>....</b>	<b>....</b>	<b>1.2</b>
<b>Transport and Communications</b>	<b>33.7</b>	<b>25.0</b>	<b>26.9</b>	<b>25.6</b>	<b>31.7</b>	<b>23.3</b>	<b>14.5</b>	<b>28.8</b>
<b>Other</b>	<b>5.5</b>	<b>8.7</b>	<b>8.3</b>	<b>12.8</b>	<b>9.7</b>	<b>9.9</b>	<b>24.1</b>	<b>8.1</b>
<b>TOTAL<sup>2</sup></b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: *Government Finance Statistics, Australia 2000-01*, ABS Cat No 5512.0.

Notes:

1. Weighted average.
2. Figures may not add to 100 due to rounding.

Table 13.6 shows the relative net debt per capita as at 30 June 2001 and debt servicing levels per capita for 2000-01 of Local Government sectors in all states and the Northern Territory.

**Table 13.6: Local Government Debt Statistics**

	Net Debt per capita as at 30 June 2001 <sup>1</sup>	Net Interest Payments per capita 2000-01
	\$	\$
<b>New South Wales</b>	( 301)	( 17)
<b>Victoria</b>	( 63)	( 2)
<b>Queensland</b>	449	36
<b>Western Australia</b>	91	8
<b>South Australia</b>	( 203)	( 16)
<b>Tasmania</b>	138	23
<b>Northern Territory</b>	( 359)	( 10)
<b>AVERAGE</b>	( 46)	....

Sources: *Government Finance Statistics, Australia 2000-01*, ABS Cat No 5512.0 and *Regional Population Growth, 2000-01*, ABS Cat No 3218.0.

Note:

1. Equals deposits held, advances received and borrowing less cash and deposits, advances paid and investments, loans and placements.

Table 13.6 shows that in 2000-01 the Tasmanian Local Government sector's debt servicing burden per capita was the second highest among the states and the Northern Territory.

## Key Performance Indicators

The Key Performance Indicator (KPI) project aims to provide all Tasmanian councils with a range of indicators to measure their organisational performance. It will enable councils to benchmark their operations and monitor their performance over time. Until now there has not been an industry-wide framework for measuring and comparing council performance.

The KPI project was initially funded by the Commonwealth Government and has been developed jointly by the State Government, the LGAT and Local Government Managers Australia. A committee has been established to manage the implementation of the KPIs. The committee consists of State and Local Government representatives with assistance where required from the Australian Bureau of Statistics. The indicators have now been established and data has been collected and analysed for the 1999-00, 2000-01 and 2001-02 financial years. Although participation in the project has been on a voluntary basis, all 29 councils have been involved and have provided information to the KPI committee. The performance indicators are contained in the report of the KPI Committee, *Measuring Council Performance in Tasmania 2001-2002*, Department of Premier and Cabinet, Hobart, April 2003.

In the following table, a selection from the 51 council performance indicators contained in the report is shown for the 2001-02 financial year. Local councils are grouped into three categories according to the Australian Local Government Classification (ALGC); that is cities; other urban and large rural (medium councils); and other smaller rural (small councils). The ALGC groupings have been made so that councils can benchmark against other councils of similar size and degree of urbanisation. However, caution should

still be exercised when comparing one council with another, even within abridged ALGC classifications, as differences in demography, geography and land use will influence council comparisons.

It should be noted that as the table only contains information about the 2001-02 financial year, it may not be representative of the long-term situation for every council. For example, a council's high or low level of extraordinary expenditure on a particular purpose in 2001-02 may cause the ratios in the table for that council to be unrepresentative of its usual performance. Furthermore, the effects of rationalisation may have a significant impact on later year performance figures. The full value of information presented in this way will therefore not be realised until several years of data are available.

The meaning of each of the indicators is described in the section 'Description of Indicators', which follows Table 13.7.

**Table 13.7: Key Performance Indicators, 2001-02**

	<b>Rates</b>							<b>Unit</b>
	<b>revenue/ Total revenue</b>	<b>Grants/ Total revenue</b>	<b>Total Revenue per capita</b>	<b>General rate per capita</b>	<b>Debt service Ratio<sup>1</sup></b>	<b>Capital exp./dep. Ratio<sup>2</sup></b>	<b>State of Asset<sup>3</sup></b>	<b>cost of water</b>
	<b>%</b>	<b>%</b>	<b>\$</b>	<b>\$</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>\$ per Kl</b>
<b><u>Cities</u></b>								
<b>Clarence</b>	<b>69</b>	<b>23</b>	<b>904</b>	<b>360</b>	<b>5.8</b>	<b>39</b>	<b>61</b>	<b>0.83</b>
<b>Glenorchy</b>	<b>66</b>	<b>13</b>	<b>1 035</b>	<b>276</b>	<b>8.0</b>	<b>61</b>	<b>54</b>	<b>0.67</b>
<b>Hobart</b>	<b>69</b>	<b>6</b>	<b>1 494</b>	<b>629</b>	<b>3.8</b>	<b>75</b>	<b>69</b>	<b>0.70</b>
<b>Launceston</b>	<b>66</b>	<b>13</b>	<b>1 125</b>	<b>407</b>	<b>4.2</b>	<b>151</b>	<b>46</b>	<b>1.15</b>
<b>GROUP AVERAGE</b>	<b>68</b>	<b>14</b>	<b>1 139</b>	<b>418</b>	<b>5.4</b>	<b>81</b>	<b>58</b>	<b>0.84</b>
<b><u>Medium Councils</u></b>								
<b>Brighton</b>	<b>55</b>	<b>27</b>	<b>790</b>	<b>249</b>	<b>8.7</b>	<b>86</b>	<b>61</b>	<b>0.90</b>
<b>Burnie</b>	<b>63</b>	<b>17</b>	<b>1 385</b>	<b>548</b>	<b>4.2</b>	<b>140</b>	<b>50</b>	<b>0.61</b>
<b>Central Coast</b>	<b>56</b>	<b>20</b>	<b>914</b>	<b>339</b>	<b>5.5</b>	<b>92</b>	<b>71</b>	<b>0.90</b>
<b>Derwent Valley</b>	<b>62</b>	<b>26</b>	<b>908</b>	<b>324</b>	<b>7.3</b>	<b>117</b>	<b>42</b>	<b>1.23</b>
<b>Devonport</b>	<b>68</b>	<b>11</b>	<b>1 178</b>	<b>471</b>	<b>13.1</b>	<b>90</b>	<b>55</b>	<b>1.07</b>
<b>Huon Valley</b>	<b>49</b>	<b>31</b>	<b>1 021</b>	<b>310</b>	<b>7.4</b>	<b>110</b>	<b>43</b>	<b>0.41</b>
<b>Kingborough</b>	<b>67</b>	<b>21</b>	<b>828</b>	<b>301</b>	<b>1.9</b>	<b>121</b>	<b>61</b>	<b>0.75</b>
<b>Meander Valley</b>	<b>55</b>	<b>35</b>	<b>775</b>	<b>289</b>	<b>0.0</b>	<b>188</b>	<b>58</b>	<b>0.53</b>
<b>Northern Midlands</b>	<b>49</b>	<b>40</b>	<b>934</b>	<b>323</b>	<b>0.0</b>	<b>128</b>	<b>78</b>	<b>n.a.</b>
<b>Sorell</b>	<b>60</b>	<b>26</b>	<b>892</b>	<b>418</b>	<b>11.5</b>	<b>109</b>	<b>38</b>	<b>0.77</b>
<b>Waratah/Wynyard</b>	<b>64</b>	<b>25</b>	<b>863</b>	<b>343</b>	<b>8.7</b>	<b>139</b>	<b>55</b>	<b>1.19</b>
<b>West Tamar</b>	<b>66</b>	<b>18</b>	<b>685</b>	<b>264</b>	<b>7.0</b>	<b>131</b>	<b>42</b>	<b>1.07</b>
<b>GROUP AVERAGE</b>	<b>60</b>	<b>25</b>	<b>931</b>	<b>348</b>	<b>6.3</b>	<b>121</b>	<b>55</b>	<b>0.86</b>
<b><u>Small Councils</u></b>								
<b>Break O'Day</b>	<b>53</b>	<b>36</b>	<b>1 139</b>	<b>352</b>	<b>6.1</b>	<b>75</b>	<b>59</b>	<b>0.48</b>
<b>Central Highlands</b>	<b>33</b>	<b>39</b>	<b>1 989</b>	<b>490</b>	<b>0.0</b>	<b>58</b>	<b>45</b>	<b>0.22</b>
<b>Circular Head</b>	<b>40</b>	<b>40</b>	<b>1 733</b>	<b>490</b>	<b>4.4</b>	<b>192</b>	<b>62</b>	<b>0.68</b>
<b>Dorset</b>	<b>42</b>	<b>40</b>	<b>1 095</b>	<b>310</b>	<b>1.0</b>	<b>114</b>	<b>40</b>	<b>0.57</b>
<b>Flinders</b>	<b>23</b>	<b>47</b>	<b>2 800</b>	<b>517</b>	<b>0.0</b>	<b>5</b>	<b>54</b>	<b>1.28</b>
<b>George Town</b>	<b>57</b>	<b>22</b>	<b>1 147</b>	<b>468</b>	<b>19.8</b>	<b>124</b>	<b>37</b>	<b>0.36</b>
<b>Glamorgan/Spring Bay</b>	<b>43</b>	<b>37</b>	<b>1 992</b>	<b>475</b>	<b>4.8</b>	<b>152</b>	<b>71</b>	<b>1.52</b>
<b>Kentish</b>	<b>49</b>	<b>44</b>	<b>814</b>	<b>278</b>	<b>3.1</b>	<b>75</b>	<b>56</b>	<b>1.08</b>
<b>King Island</b>	<b>32</b>	<b>42</b>	<b>2 667</b>	<b>601</b>	<b>0.7</b>	<b>114</b>	<b>24</b>	<b>0.82</b>
<b>Latrobe</b>	<b>71</b>	<b>15</b>	<b>862</b>	<b>332</b>	<b>3.5</b>	<b>134</b>	<b>56</b>	<b>0.96</b>
<b>Southern Midlands</b>	<b>37</b>	<b>57</b>	<b>1 160</b>	<b>290</b>	<b>4.4</b>	<b>122</b>	<b>59</b>	<b>1.06</b>
<b>Tasman</b>	<b>24</b>	<b>56</b>	<b>2 106</b>	<b>470</b>	<b>1.9</b>	<b>354</b>	<b>36</b>	<b>n.a.</b>
<b>West Coast</b>	<b>61</b>	<b>29</b>	<b>1 323</b>	<b>480</b>	<b>8.2</b>	<b>131</b>	<b>66</b>	<b>0.53</b>
<b>GROUP AVERAGE</b>	<b>43</b>	<b>39</b>	<b>1 602</b>	<b>427</b>	<b>4.5</b>	<b>132</b>	<b>51</b>	<b>0.80</b>

Source: KPI Committee, *Measuring Council Performance in Tasmania 2001-2002*, Department of Premier and Cabinet, Hobart, April 2003

Notes:

1. Interest payments plus loan repayments as a proportion of operating revenue.
2. Total capital expenditure as a proportion of total depreciation expenditure.
3. Written down value of roads and footpaths as a proportion of their replacement value.

Table 13.7 indicates that the reliance on Government grants is least for the city municipalities and greater among the smaller councils with Southern Midlands, Tasman, Flinders and Kentish being the most reliant.

Debt servicing ratios tend to be higher among the cities and medium councils compared to the smaller councils, with the notable exception of George Town. This probably reflects greater capital investment occurring in the larger councils rather than poorer financial management.

Capital expenditure to depreciation expenditure ratios vary widely among councils in all three council classifications. As mentioned earlier, the results presented are for the year 2001-02. Capital expenditure will vary from year to year and will depend on a number of factors such as timing of projects, growth in the area, and stage of life of assets. It will be more useful to monitor this ratio over time to determine whether consistent trends are evident.

## Description of Indicators

The indicators in Table 13.7 describe the following.

### *Rate Revenue as a percentage of Total Revenue*

A measure of the level of financial independence. The higher the level of rate revenue in proportion to total revenue, the greater the level of financial independence the council has.

### *Government Grants as a percentage of Total Revenue*

This indicator measures the reliance that a council has on external funding.

### *Total Revenue per capita*

An absolute measure of a council's total revenue in relation to the population of the municipality.

### *General Rate per capita*

A measure of the revenue collected from ratepayers to fund the cost of running a council and excludes user pays charges for services such as water and sewerage.

### *Debt Servicing Ratio*

An indicator that measures the proportion of debt servicing charges (interest and loan repayments) as a proportion of total operating revenue. The greater the value of this indicator, the lower the council's budget flexibility and ability to undertake discretionary spending.

### *Capital Expenditure to Depreciation Expenditure Ratio*

Measures the percentage of a council's capital expenditure as a proportion of depreciation expenditure. This measure is an indication of the potential rate of improvement or decline in asset conditions and standards.

### *State of Asset*

This indicator measures the current condition of roads and footpaths by comparing the written down value with the current replacement value. Low levels of maintenance on roads and footpaths will be reflected in lower values for this ratio.

### *Unit cost of Water*

This indicator measures the cost of providing this service to the community.