

## 3. FINANCE

### PRINCIPLE

*Revenue Sources and Financial Governance practices in Local Government should ensure autonomy, sustainability and continuity at levels commensurate with Council responsibilities.*

#### 3.1 RESOURCES AND RESPONSIBILITIES

3.1.1 Revenue sources available to Local Government should be such as to ensure autonomy, stability, sustainability and predictability. Councils should have available to them by law and as of right, revenue sources commensurate to their responsibilities.

#### 3.2 FINANCIAL GOVERNANCE

3.2.1 A key objective for Local Government is the achievement and maintenance of the financial sustainability of SA Councils, both collectively and individually.

3.2.2 A council's long-term financial performance and position is sustainable where planned long-term service and infrastructure levels and standards are met without unplanned increases in rates or disruptive cuts to services.

3.2.3 The LGA should work with Councils to promote consistent reporting of:

- key financial indicators;
- capital expenditure on renewal or replacement of existing assets and acquiring new assets or upgrading existing assets;
- infrastructure renewal/replacement backlogs;
- differentiating between “no policy change” and “policy changes”;
- annual spending and funding changes related to current policy and changes;
- revenue and financing policy statements;
- rating impacts of “no policy change” costs increases and policy changes;
- side constraints on individual rates bills;
- tax expenditures including those imposed by legislation; and
- community service obligations including those imposed by legislation.

3.2.4 Local Government supports the provision of Councillors receiving training on financial governance responsibilities and that the LGA provides and brokers training for members and staff focused on key advances in best practice in financial governance for Local government.

3.2.5 That in support of elected members Chief Executive Officers and senior managers accept as their duty:

- i. Providing frank and fearless advice to elected members on all matters pertaining to financial governance and accountability;
- ii. Putting in place appropriate systems to achieve and maintain financial sustainability and accountability; and,
- iii. Managing the organisation in ways that can achieve the goals set by elected members.

3.2.6 Each Council should seek to target as annual goals the achievement over its planning cycle of operating surpluses and capital expenditure on renewal or replacement of existing assets being equal to depreciation expenses.

3.2.7 Each Council should seek to ensure its internal financial reporting is fully consistent with external financial reporting standards and codes applying to the Council.

3.2.8 Each Council should establish an audit committee including external members, not chaired by the Principal Member and on which the Chief Executive Officer is not a member. Audit committee functions should include reviewing the effectiveness of the Council's financial governance arrangements and its planning and monitoring processes to ensure sustainability of its long-term finances.

3.2.8 Each Council should have long-term financial and asset management plans as a part of their strategic management plans.

### 3.3 REVENUE SOURCES

3.1 Revenue sources should consist partly of funds which Councils themselves may raise and control (self-raised revenue) and partly of funds from the other levels of government, and there should at all times be a rational and equitable balance between these two sources.

### 3.4 SELF-RAISED REVENUE

3.4.1 Self-raised revenue should include rating in its various forms; other forms of local taxation appropriate to Local Government; and locally imposed fees and charges for works and services.

3.4.2 Councils should have autonomy and flexibility in determining locally raised revenue whilst observing principles of equity and accountability.

3.4.3 Other levels of government should not enter normal revenue fields of Local Government in competition with and to the detriment of Local Government.

3.4.4 State Governments should not interfere with the autonomy of Local Government by imposing artificial limits on rating.

3.4.5 All land should be rateable including State authorities or religious organisations with identifiably profit based activities.

3.4.6 Commonwealth and State Governments should pay Council charges for services provided to properties owned by the Crown.

3.4.7 Rates concessions or rebates should be at Council discretion in response to local circumstances and issues

3.4.8 Councils should have maximum local flexibility in rating, including the ability to rate differentially by land use and locality.

3.4.9 Payment of rates by instalments should be at local Council discretion.

3.4.10 Council rates should be fully tax deductible to all ratepayers.

3.4.11 Councils should be able to set a minimum amount payable by way of rates or fixed charge to ensure every ratepayer contributes effectively to certain fundamental costs of administration and service provision. The minimum amount should not be confined to a percentage of total ratepayers.

3.4.12 The imposition of penalties for late payment or incentives for early payment or rates should be a matter for decision by individual Councils.

3.4.13 Councils should be permitted to adjust rates on properties between valuations to reflect movements in prices and costs.

3.4.14 Councils should be able (either through the LGA or individually) to set their own fees and charges for the provision of services and facilities or to expiate offences. The State should progressively de-regulate such fees and charges.

3.4.15 Councils should be able to engage in entrepreneurial activities subject to the recognition that such activities complement broader community goals and that they do not compromise the financial security of the Council.

3.4.16 To provide increased accountability to the local community, Councils Should consult ratepayers on rating and service options and relevant policy positions and the reasons for these. This should include information on all rating matters on which Council has made a decision or has a policy position and is to be undertaken on an annual basis.

3.4.17 Developers should be responsible for making reasonable contributions to the added impact of all developments on local communities.

### 3.5 REVENUE SHARING

3.5.1 Commonwealth and State Governments should accept the principle of equitable revenue sharing with Local Government. Accordingly, Local Government should receive a guaranteed share of Commonwealth taxation.

3.5.2 The vertical fiscal imbalance between the Commonwealth and State and Local Governments must be addressed. Local Government supports the Australian Local Government Association's positive involvement in the negotiation of a tripartite Intergovernment Agreement and ongoing Council of

Australian Government (CoAG) processes to expose and minimise cost shifting and encourage good practice behaviour between governments.

3.5.3 The Commonwealth Government should not attempt to reduce tax sharing percentage levels or tie revenue sharing funds to specific purposes.

3.5.4 Local Government's revenue sharing entitlement should not be amalgamated with the State Government's revenue sharing entitlement.

3.5.5 Local Government's revenue sharing entitlement should be calculated as a fixed percentage of total Commonwealth taxation. The distribution of revenue sharing entitlements between States and Territories should be based on needs. Every Council should be guaranteed a per capita share of the funds allocated to South Australia at the level set by negotiation with the LGA.

3.5.6 The Commonwealth Government should determine revenue sharing with Local Government after consultation with the State Government and the LGA.

3.5.7 The annual review sharing allocation to Local Government should be made as a lump sum payment at the commencement of the Commonwealth Government's financial year.

3.5.8 The annual revenue sharing allocation should be guaranteed to be not less than if it were increased in accordance with the Consumer Price Index.

### 3.6 SOUTH AUSTRALIAN LOCAL GOVERNMENT GRANTS COMMISSION

3.6.1 Distribution of grants should be a function of the SA Local Government Grants Commission with accepted LGA representation.

3.6.2 The Grants Commission should remain an independent Statutory Authority. The State or Commonwealth Governments should not have the power to override allocation decisions by the Commission.

3.6.3 The LGA should be represented at relevant Grants Commission hearings.

3.6.4 Composition of the Grants Commission should be comprised of 50% State members and 50% Local Government members appointed by the LGA.

3.6.5 The Chairperson of the Grants Commission should be a joint appointment by the State Government and the LGA.

3.6.6 Grants should be allocated between Councils with the aim of fiscal equalisation.

### 3.7 UNTIED AND SPECIFIC PURPOSE GRANTS

3.7.1 The State and Commonwealth Governments should recognise that a general system of untied revenue sharing grants is the most appropriate and effective means of financial assistance to Local Government.

3.7.2 Specific purpose grants may be appropriate:

- (a) for local roads based on a proper assessment of needs;
- (b) to achieve national or State objectives and priorities through Local Government participation, provided the conditions are implemented in consultation with the LGA and participating Councils. Where changes adverse to participating Councils are proposed, ample notice is to be given and, where appropriate, compensation/phasing agreed;
- (c) provided that Commonwealth or State tied funding is not at the expense of the untied revenue sharing entitlement.

3.7.3 When establishing programs to be provided by Local Government with funds from narrowly defined specific purpose or more broadly defined block grants:

- (a) a consultative committee, comprising representatives of the initiating, funding government and Local Government should negotiate the goals to be achieved by the project and the conditions to be attached to the grants;
- (b) where appropriate, the funds should be provided in diminished "stepped grants" where it is a long-term aim that Local Government should become fully responsible for funding the Program with forward commitments disclosed;
- (c) such projects should be subject to annual review and evaluation but be funded on a three or four year rolling program; and
- (d) where appropriate, indexation of grants should be based on the most relevant deflator having regard to the costs affecting the program.

3.7.4 The State and Commonwealth Governments should not reduce funding programs for functions in which roles and responsibilities are not clear except by agreement with the LGA and or the Australian Local Government Association.

3.7.5 Specific funding should be provided to Councils for recreational facilities and buildings of national, State and regional significance.

3.7.6 Specific purpose grants should be negotiated with the ALGA and the LGA and should be:

- (a) program based;
- (b) based on local/regional strategic plans;
- (c) program wide funded; and
- (d) based on negotiated agreements.

3.7.7 Negotiated agreements on funding transfers should be embodied in a contractual document and include negotiated:

- (a) objectives;
- (b) roles and responsibilities for each sphere of government;
- (c) broad policy and organisational arrangements;
- (d) outcomes;
- (e) accountability arrangements and evaluation; and
- (f) renegotiation provisions.

3.7.8 Where such negotiated agreements extend beyond the life of a Parliament and where required by the LGA, appropriate legal instruments should be put in place to guarantee the agreement for its life.

### 3.8 BORROWINGS AND INVESTMENTS

3.8.1 Councils should make prudent use of borrowing to finance the acquisition of new infrastructure assets and the upgrading of existing infrastructure assets and, where considered appropriate, to fund the elimination of any major backlog in the renewal or replacement of existing assets to ensure intergenerational equity.

3.8.2 Any proposed global borrowing limits for Local Government should be negotiated between the LGA and the State Government.

3.8.3 Legislative controls on the borrowing and investment powers of Councils should ensure maximum flexibility.

3.8.4 Councils should retain the right to make independent decisions on borrowings and investments.

3.8.5 The LGA supports the Local Government Finance Authority.

### 3.9 INTERGOVERNMENT CONCESSIONS

3.9.1 There should at all times be a reasonable and fair relationship between concessions given to and received by the three spheres of government which accords proper weight to the relative financial strengths of each sphere of government involved and does not worsen the vertical fiscal imbalance.

3.9.3 Endowments to Councils to assist in the construction and/or maintenance of projects conferring charitable, welfare or historical benefit on the community, should be fully tax deductible to the benefactor.

### 3.10 REVENUE COLLECTION FOR OTHER GOVERNMENTS

3.10.1 Local Government should not be required to levy or collect revenues on behalf of other spheres of government unless such an arrangement is acceptable to the Local Government Association.

3.10.2 Where Local Government provides services for or on behalf of State or Commonwealth Governments, those governments should meet all costs incurred in providing those services (or on a mutually agreeable commission basis), including those associated with administrative overheads.

3.10.3 Where Local Government seeks to undertake revenue collection the levy is not to be included on the Council rate notice but is to appear on a separate notice which may include more than one such levy. This is to provide transparency and accountability to ensure people know that the revenue being collected is not being retained by Councils.

### 3.11 APPLICATION BY GOVERNMENTS OF SPECIAL PURPOSE REVENUE

3.11.1 All Governments should ensure that 100% of any special purpose revenue, such as funds generated through the imposition of a levy, is applied only for the specific purpose for which the revenue has been generated.

3.11.2 All funds received through special purposes revenue should be hypothecated and placed in a dedicated fund that can only be applied for the specific purpose for which the revenue has been generated.