

Joint Committee on the Establishment of Adelaide University

LGA Submission

August 2023

Introduction

The Local Government Association of South Australia (LGA) welcomes the opportunity to make input into the Inquiry into the establishment of Adelaide University (the Inquiry).

As the closest sphere of government to communities, the LGA finds itself in a particularly unique position to make contributions to the Inquiry that reflect the broader concerns of local communities.

The LGA's submission is focused on achieving the best outcome for South Australian communities and addresses the last item on the terms of reference, namely "any other related matter".

The LGA is the voice of local government and represents South Australia's 68 member councils. Councils deliver services, infrastructure and facilities that are critical to South Australian communities. To fund such services and facilities, councils raise rates and charges against properties within their communities. The collection of such rates and charges is governed by the *Local Government Act 1999* (the LG Act) with council rates generally determined by the elected representatives of local communities.

Despite other sources of revenue, rates constitute most of the income of councils. Payment of rates by land and property owners is thus crucial to the effective operation of councils and their ability to deliver the services that are vital to South Australian communities whilst remaining financially sustainable.

However, the LG Act exempts some institutions/cohorts including universities, electricity generators, sports and recreational facilities, emergency services organisations and crown land from paying council rates. The LG Act provides rebates/discounts of 75% to 100% on council rates to other eligible beneficiaries, including community housing providers, religious organisations, Royal Zoological Society of SA, schools, hospitals and public cemeteries.

These exemptions and mandatory rate rebates are, in some instances poorly targeted, placing the burden of council rates on ratepayers including residential households and small businesses.

Specifically, the policy objectives for exempting universities, from council rates no longer exists.

Consequently, the LGA is calling for an amendment of the LG Act to permit councils to levy rates on universities.

Policy Objectives

Generally, the State Government mandates discounts on council rates and exempts some institutions on the assumption that such beneficiaries provide public goods and/or services and therefore should be given incentives to invest more in the public goods/services they provide.

A key criterion for assessing a potential beneficiary of these exemptions/rebates is that the organisation in question is providing goods or services at below market prices and are therefore not profit-oriented entities.

When the LG Act was conceived, public universities in Australia and across the world had the core mandate of providing education and research services at below market cost.

This is no longer the case; most public universities have transformed from purely non-profit entities to large corporate entities who have, as part of their goals, the objective of earning a commercial return.

Generating revenues of \$977 million in 2020, the University of Adelaide for instance reported statutory net operating result of \$40.8 million compared to \$42.9 million in 2019. The University's underlying 2020 net operating result was \$9.3 million compared to \$12 million in 2019.¹

Likewise, the University of South Australia (UniSA) generated revenues of \$677 million in 2021 compared to \$696 million in 2020. In 2021, UniSA reported an operating result of \$52 million relative to \$21 million in 2020.²

As can be seen from the above, both institutions proposed for the merger to form Adelaide University generate large incomes. In fact, these two universities are amongst the largest revenue-earners in the state. Yet, they are exempted from paying their fair share of council rates. Ironically, the Universities' staff and customers utilise the very infrastructure and services councils provide whilst making no rates contribution.

As profit-making entities, these institutions no longer satisfy the provider of public goods/services test. The case or policy objectives for exempting these institutions from council rates no longer exists.

Council Services

Whilst councils cannot levy equitable rates on universities, they must nevertheless still provide services in respect on the land and local neighbourhood.

For example, councils must still build, maintain, and clean local roads, they provide streetscapes and street lighting, they must collect rubbish, maintain public health and regulate nuisances.

It is reasonable for universities to pay for the costs of council services provided to the universities and the university community as there may be other opportunities for councils to put their assets to uses in ways that allow for recovery of costs of maintenance and services.

Revenue Impacts: Inequitable Distribution of the Rate Burden

Across South Australia's 68 councils, the value of mandatory rate rebates has increased from less than \$15 million in 2009/10 to over \$32 million in 2019/20. The figures are much higher when it pertains to exemptions.

Figures from the City of Adelaide indicate that exemptions that accrue to universities amounted to \$7.8 million in the 2022/23 financial year.

These figures represent revenue shortfalls that councils must raise from other ratepayers. Consequently, exempting institutions such as the Universities of Adelaide and South Australia from paying council rates have the effect of disproportionately increasing the rate burden for all other ratepayers.

Council rates are a modest component of the total operating costs of any landholder. However, as the universities have occupied an increasing share of the City of Adelaide, the total revenue foregone by councils (and the City of Adelaide in particular) each year is substantial.

¹ University of Adelaide 2020 Annual Report Published (2021). See <https://www.adelaide.edu.au/newsroom/news/list/2021/08/24/university-of-adelaide-2020-annual-report-published>

² University of South Australia 2021 Annual Financial Statements. See <https://i.unisa.edu.au/siteassets/staff/finance/afs/2021afs.pdf>

This is an inequitable outcome and unfairly distorts the local economy in favour of educational institutions, at the expense of other legitimate businesses and institutions.

The LGA also notes that, through this exemption, the State Government has used legislation to pursue a policy objective by reducing revenue to another tier of government. The LGA argues that if the State Government wishes to support any particular sector of the economy, it should use its own funds to do so.

The LGA therefore recommends that the legislation to amalgamate the two universities contain an incidental clause removing the mandatory rates and exemptions in clauses 147 and 160 to 165 in the LG Act; and

Such an amendment, enabling councils to fairly levy rates on universities, would enhance equitability in distribution of the rate burden.

Summary

Based on the arguments set out in this submission, the LGA maintains and recommends that:

1. Exempting universities from paying council rates no longer serves any public policy objective.
2. Instead, they have the effect of increasing the rate burden for other ratepayers.
3. Councils provide services to universities and their communities that must be paid for.
4. Consequently, amending the LG Act to make universities liable for paying fair rates would enhance fairness and equity in the distribution of the rate burden.

If you have any questions relating to this submission, please do not hesitate to contact Policy Officer, Dr Kwaku Dankwah at kwaku.dankwah@lga.sa.gov.au or 08 8224 2078.