Local Government
Rising to the Challenge

National General Assembly
Canberra June 2009

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Presentation Structure

1. Recap Progress on 2006 PwC National Local Government Financial Sustainability Report Recommendations & importance of a Twin Track Approach:
    - Internal reforms eg improving efficiency/scale/AMP
    - Reforms to inter-government transfers
2. Importance of Intergovernmental Financial Transfers
3. Approaches to Project Funding & Revenue Generation

1. PwC 2006 Local Government Sustainability Report Recommendations – Progress Check

Track I: Internal reforms needed by some councils	Progress since 2006
i. Improving efficiency, effectiveness and scale	**MODERATE** More use of regional delivery models State Assocs. identifying cost saving options & > shared services Amalgamations can boost scale but often state imposed But more savings available; eg a 4% saving in opex = $1Bn nationally > asset rationalisation / service reviews
ii. Expanding own-source revenue & remove barriers	**MODERATE** NSW rate pegging remains but more use of variation process But new rate pegging in Nth Territory Improvements in some Metro councils PC Inquiry: most LGAs near their max. own-source revenue raising capacity Far less opportunities in rural areas
iii. Set clear priorities in Services Plan to define scope & quality of services, specify capital & opex funding sources (& avoid cost shifting)	**MODERATE** Plans more robust with > funding focus Universal awareness of cost shifting

1. PwC 2006 Local Government Sustainability Report Recommendations – Progress Check

Track I: Internal reforms needed by some councils	Progress since 2006
iv. Deepen asset management and financial skills	**MODERATE** Imperative of strong asset mmt & financial skills is recognised/accepted More focus now on training New Enhanced National Asset Management Framework via ACLG Recruiting talent easier with GFC Upcoming local government workforce strategy & Centre of Excellence
v. Use asset management plans & systems with regular condition reporting to manage renewals/replacement	**MODERATE** **>** use of systems eg WAAMI-ROMAN Plan coverage & sophistication better Better collaboration & use of forums
vi. Develop nationally consistent financial & asset mmt data.	**MINOR** ALGA continues to pursue Benchmarking is a key to performance improvement but consistency problems deter use of results 2009 Asset mmt survey

1. PwC 2006 Local Government Sustainability Report Recommendations – Progress Check

Track II: Reforms to inter-government transfers	Progress since 2006
i. New Local Govt Community Infrastructure Fund	**EXCELLENT** $800m comprising $250m across all councils + $550m Strategic Projects (competitive tender)
ii. Review the escalation methodology for FAGS (from CPI + Population Growth to mix of Wage Price Index & Construction Cost Index)	**MINIMAL** Escalation unchanged > discipline in containing cost growth But recent rises arguably adequate: FY09= 4.5% FY10 = 3.92%
iii. Make funding for the Roads to Recovery permanent	**MODERATE** FY09 Budget to extended R2R to 2014 & ↑ funding to $350m pa for FY10 plus $150m over FY09 &10 for Rail Boom Gates
iv. State Govts to provide funding for local govt efficiency & asset management reforms	**MIXED** State grant $s for reform patchy State Govt Inquiries SSS in QLD & WA Promoting Better Practice in NSW

2. Importance of Intergovernmental Financial Transfers

- Broad service spectrum means many councils now depend on grants
- FAGs has fallen from 1.01% of FY07 Cwth tax revenue to just 0.62% but other new grant programs offset much of decline.
  - Unfortunately ALGA request to set FAGs at 1% not gaining traction
  - Perhaps better to focus on developing new reform options for Cwth grants
- Submissions from ALGA to Henry Review reinforce importance of boosting grants
- Grants critical esp in rural/remote where rate rises often not affordable
- Tax concessions remain important & under periodic pressure (eg payroll)
- Some $194B in infrastructure assets (excl land) requiring future renewals
- Need to resolve renewals backlog ($14B in 2006) now understood. Govt grants can accelerate resolution but councils need to lead clearance by:
  - Divesting assets which are run down / lightly utilised
  - Smarter AMP & use of regional scale to reduce unit rates
  - Transfer renewals accountability if prime user quasi commercial
  - Generating user charges & applying to renewals
  - ‘take control of our own destiny’ – Cr Bruce Millar

3. Approaches to Project Funding & Revenue Generation

No single 'silver bullet' ideal method for funding infrastructure.

- Govt interest free loans to boost developer contributions (eg $200m in NSW)
- Long term lease of revenue generating assets (eg car parks)
- PPPs for larger deals (eg >$50m) & where the council has financial skills to be savvy counterparty (also need to better the Public Sector Comparator)
- Property / land or airspace 'swap' deals
- Regional sharing of investments (eg waste)
- Developer charges (new $20k/dwelling cap in NSW)
- Long terms outsourcing contracts (with /or without take-or-pay)
- Blended mix: potentially comprising:
  - council equity/cash reserves
  - debt (suggest get advice from state T-Corp equivalent)
  - other state &/or C'wealth grants eg WA Royalties for Regions
- Tax increment Finance (TIFs): funding infrastructure by obtaining a % of uplift in transfer duty/land tax over a fixed term period

3. Funding cont…
What is TIF? Millennium Park Chicago

Photos: courtesy Joe Langley SKM

3. Funding cont…

Examples of TIF Projects: Restoration of Chicago River frontage

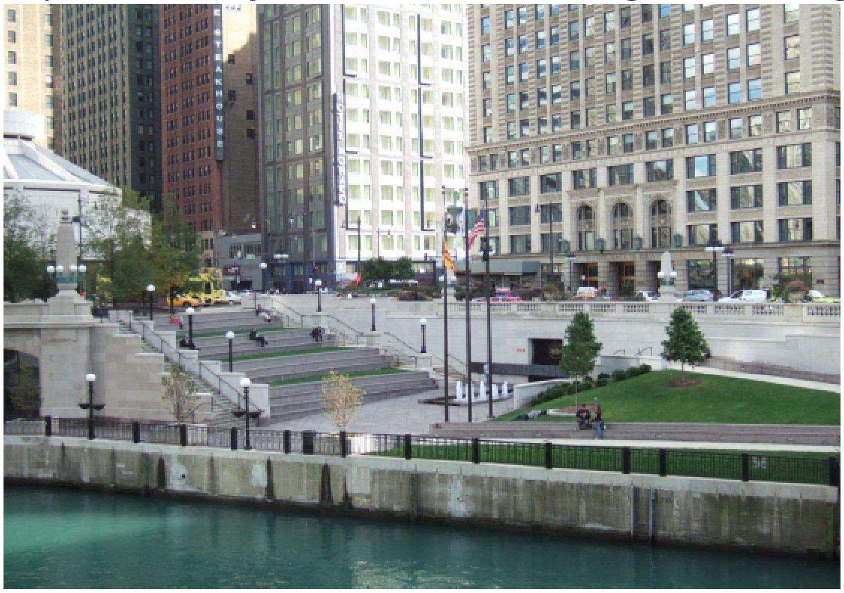
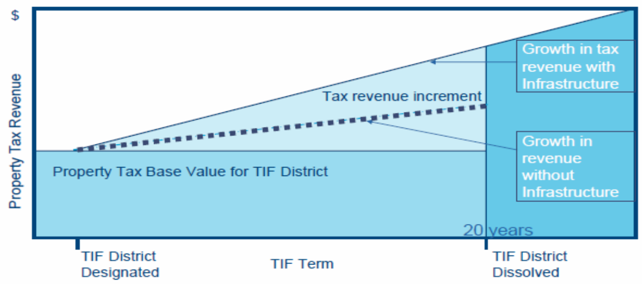


Photo: courtesy Joe Langley SKM

November 2008

3. Funding cont… What is TIF?



- A tool to use future gains in taxes to fund improvements (state & local)
- The lift in tax revenues is the "tax increment." (**TIFs are not a new tax!**)
- The rights to the increment within defined area are allocated to TIF entity
- TIF entity issues bonds or borrows against increments to fund upfront capex
- Targeted infra creates greater value property + stimulates extra investment
- TIF entity has single accountability to plan, finance & deliver tailored infra to ↑ value
- In the USA (49 states) TIFs often used in blighted areas but can work elsewhere
- TIFs fund projects that may otherwise be unaffordable & not occur.
- Pay normal stamp duty/land tax to OSR who reallocate increment to TIF

QUESTIONS??

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