Funding Urban Australia
The Role And Rate Revenue Of Local Government In New South Wales

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ABSTRACT: Local government in New South Wales is charged with the co-responsibility of maintaining core community services and infrastructure including, health, housing and roads among other assets. The services provided by local government are funded from a variety of financial and revenue sources of which the primary source is the rating of land.

This paper reviews the evolving role of local government and considers the present practice and framework for raising revenue through the rating of land. Intergovernmental cost shifting has increased the financial burden on local government which has led to an unaccounted cost of present and future capital depreciation of local government infrastructure in NSW. A case study of local government revenue and expense has been used to quantify this unaccounted cost. A juxtaposition of pre and post 1993 methods prescribed under the Local Government Act is made to demonstrate the limitations of rate revenue which is impacted on by rate pegging imposed by State Government.

In conclusion, alternate revenue strategies including the rent of community land, a betterment tax and restructuring through amalgamation of local governments have been identified as ways in which local governments may obtain a return on their infrastructure and assets.

Key words: Categorisation, cost shifting, council rates, land tax, rate pegging**.**

Introduction

Local government is a notional third tier of government in Australia and plays an ongoing and increasingly important role in the provision and maintenance of infrastructure and core community services in urban cities. As this evolving role continues, and the communities level of expectation in the provision and maintenance of infrastructure and services continues a corresponding level of revenue is needed in the fulfilment of these expectations.

The expectation's of residents and businesses which pay local government rates are often mismatched against a respective understanding of the cost of running and maintaining local government and its evolving urbanism. This misconception is further compounded by the findings of the Local Government and Shires Association (2006), which has identified a $6 billion backlog in infrastructure renewal in NSW, which is expected to increase by around $21 billion within 15 years.

Evolution, profile and structure of Local Government in NSW

The local system of governance in NSW was established in the 1840s and was administered through district councils at the time of its inception. NSW Department of Local Government (2006) highlights the process of the proclamation of local government under the Municipalities Act 1858 which were formed by petition of fifty or more householders of any city, town or rural district. Reluctance to form municipalities resulted in one percent of NSW being covered by local government by 1905. The Local Government Act was introduced in 1906 and by 1910 there were 324 councils in NSW. In 2006 there were 152 general purpose councils in NSW (NSW Department of Local Government 2006).

Despite the importance of local government, the Local Government and Shires Association of NSW (2006) highlights that local government accounts for five percent of the total size of government in Australia and its own revenue source accounts for an even smaller share. This is in contrast to the perception of a majority of citizens, which this inquiry had found thought that local government controlled 10 to 30 percent of the total public purse. Despite the evolving service focus of Local Government in NSW, both Department of Local Government and the Local Government Association have failed to fully recognise the impact of population growth and demographic change across the State since the inception of this layer of Government. This is notable by the absence of reference to changes in population across urban cities and towns in NSW in which the literature primarily refers to wholesale increases in grants and subsidies as a percentage increase rather than per capita.

Referred to as the third tier of government in Australia and despite legislation creating local government in NSW, local government is not a constitutionally recognised level of government in Australia. Pearson (1994) articulates that local government is in fact an instrument of State Government in Australia. "In 1974 and again in 1988 referenda were held to alter the Constitution of Australia to provide constitutional recognition of local government in Australia. Neither of these referenda was successful" (Standing Committee on Economics, Finance and Public Administration 2003:23). A key issue associated with non constitutional recognition of local government, is the limitations in the determination and the raising of revenue.

Local Government services and price setting

Local government in NSW like its provincial neighbour States has taken on increasing responsibility in its functionality over the past twenty years. In addition to its traditional roles, expansion into public health and environmental management matters have increased. The Commonwealth Grants Commission (2001) Review of The Operation of the Local Government (Financial Assistance) Act 1995 has identified local government moving away from property based services to human services. During the 1960s road expenditure accounted for half of total expenditure of local government, this is little more than a quarter of total expenditure in the 1990s.

Since the review of the Local Government Act in 1993, the role of Local Government has once again continued to expand to also include aged and affordable housing for some residents who are unable to remain living in the location they lived their lives in. (Eastern Suburbs Rental Housing Association 2006)

As a solution to informing the communities they serves, local governments in unison with other spheres of government must define their roles and make decisions as to the services they are best positioned to provide. This solution is not without issue;

> "local government is confronted with the choice of continuing to fund an activity in total or wearing the political costs of ceasing the activity" (Standing Committee on Economics, Finance and Public Administration 2003:15).

Not withstanding the financial responsibility of local government, Baxter and Carnegie (2006) adds an important perspective identifying local government as a 'social enterprise', which aims to achieve a variety of objectives. Many of these objectives are community and social expectations embedded in the provision of local government services. An added layer of complexity is driven by the fact that financial prudence and business acumen is required in the financing of social and community services. In essence, does a user pay system fit within the context of the services provided by a local government and are measurable financial outcomes an appropriate basis in quantifying the social returns of a community.

In consideration of this, a tiered categorisation of local government services with a corresponding tiered categorisation of cost might better articulate justification for the provision of community, social and the operational services provided by local government.

Table 1: User / service fee

User Fee	Service
Cost recovery plus	Lease of public land (footpath leases)
Cost recovery	Garbage collection (recovered in rates)
Partial subsidy	Aged housing programs
Full subsidy	Maintenance of public open space

(Source: Author)

Table 1 is an example of the categorisation of services that might be provided by local government and the application of a fee structure of variant recovery and subsidy. The difficulty of any such gradient structure is the articulation of what is considered community and commercial. This may be addressed by identifying what constitutes a social benefit against a commercial benefit. The formula in quantifying the benefit is defined by Baxter *et al* (2006) as follows:

Price = Cost + Margin – Subsidy

The primary variable that would apply to the services in Table 1 in using this formula is the level of subsidy that would be provided.

Void in the literature on increases in local government services is the requisite funding to support the subsidy shortfall in the proposed model. Despite identification of increases in services by name, the ability to quantify these costs specifically, has left Local Government open to criticism. To date the literature published by NSW Department of Local Government has failed to address recognition of the increase in services expected of Local Government. Whilst this issue is mentioned in passing by the Commonwealth through the Standing Committee, it too has failed local government with unsupported reference to these actual costs. The full extent of the absence of this information is further highlighted next.

Inter-government cost shifting and fiscal relations

Identified in earlier discussion are the responsibilities of local government in the provision of social and community services. As highlighted, the varying degree of cost recovery and subsidies in the provision of these services is dependent on the social nature of the service provided. The shift back to local government provided community services through the divestment of responsibility of state and to a lesser degree commonwealth government is of concern for local government. The evolution of this practise has been clearly identified and has resulted in an inquiry by the Commonwealth Parliament of Australia in response to claims made by the Local Government Association of Australia (2003).

The Local Government Association (2003), estimates that between $500 million to $1.1 billion per annum is shifted to local government in Australia. This amount includes the requirement for maintenance and sinking fund for upgrading of assets. Examples of the significance of inter-government cost shifting across Australia in 2003 are highlighted in Table 2.

Table 2: Examples of cost shifting

Council	State	Estimated annual cost shifting
Nambucca Shire Council	NSW	$1,591,000
Newcastle City Council	NSW	$4,481,000
City of Albury	NSW	$8,109,000
City of Greater Geelong	Vic	$20,770,500
Moonee Valley City	Vic	$10,184,500
City of Casey	Vic	$14,800,258
Ipswich City Council	Qld	$5,307,504
Maroochy Shire Council	Qld	$3,260,000

Source: Standing Committee on Economics, Finance and Public Administration 2003

As shown in Table 2, the estimated cost shifting includes a component of annual running expense as well as the provision of capital for maintenance of the assets involved in the service provided. It may be argued that State and Commonwealth grants are provided to subsidise local government, however the Standing Committee on Economics, Finance and Public Administration (2003) highlight significant shortfalls in grant revenue from state governments who are primarily responsible for the majority of cost shifting to local government in Australia. The nature of cost shifting impacting on local government was established through 290 submissions from local and regional councils around Australia. The primary areas of cost shifting identified by the Standing Committee (2003) are:

- the withdrawal or reduction of financial support;
- transfer of assets without funding support;
- requirements to provide concessions and rebates without compensation;
- increased regulatory and compliance requirements; and
- failure to provide for indexation of fees and charges.

Embedded within these areas are five specific services that have increased compliance and administration costs for local government are:

1) Community security: Some council’s have developed community security and crime prevention services due to inadequate state policing.
2) Fire services: Pittwater council provides over $1 million per annum to the NSW Fire Brigade due to the councils proximity to the nearby national park.
3) Health and medical subsidies: Attracting doctors, nurse and dentists to rural areas requires local government subsidy for housing, travel and salaries.
4) Libraries: in 1980 local government contributed 73.4% of funding for libraries with state government providing 23.6%. By 2000 this cost has increased to 91.1% for local government.
5) Local airports: In the 1990s, Federal government transferred local airports to local government. This was undertaken with initial but no ongoing funding. This has resulted in significant financial burdens on some local governments.

The reliance on State and Commonwealth based funding leaves many local governments vulnerable in meeting their financial obligations over the next few decades. As highlighted by the Local Government and Shires Association of NSW (2006), in addition to the existing $6 billion backlog in infrastructure renewal in NSW, an additional $21 billion will accrue within the next 15 years. Whilst some of this accrual will be generated through cost shifting of services and assets which have passed to local governments towards the end of the assets economic life, some local governments in NSW have identified the impact of accelerated depreciation of their assets.

In the case of the City of Sydney Council, whilst it has the highest revenue income in NSW, its costs are disproportionately high due to the utility of its infrastructure which it highlights as follows:

> Whilst is serves 30,000 residents, the city community also includes 250,000 workers, 15,000 businesses, 20-25,000 nightly hotel visitors and 300,000 visitors who use the city for a variety of other purposes (City of Sydney Submission 2003:179)

In response to these statistics, several other local government areas also highlight the issue of disproportionate utility of services provided to non-residents. These include beaches, parks and local government infrastructure servicing large regional shopping centres. Despite the calls from local government in addressing this issue, the Local Government and Shires Association of NSW (2006:13) state, "only one in five councils are managing financial infrastructure risk via asset or risk management plans".

In the broader scheme of financial management by Local Government, it is clear that the literature demonstrates inconsistent revenue raising measures with increasing financial responsibilities on Local Government. In NSW financial shortfalls of Local Government are being passed onto developers through infrastructure charges in the provision of social and public amenities. Even with cost shifting measures from Local Government to developers in place, the accrual of sufficient funds for the replacement of existing infrastructure remains unfunded. The present grant system and financial relations from Commonwealth to State and Local Government is sufficiently complex to blur the responsibilities and accountability between the spheres of Government. The formula for the distribution of grant revenue is complex, unclear and non-definable against the specific financial requirements or expenditure of individual Local Governments. This issue has left Local Government little choice but to apply for increases in the rate-cap imposed by State Government, an matter to be covered later in the following sections.

Local Government viability: A NSW case study and methodology

In demonstrating the macro financial position of local government in NSW, a case study has been used to specifically isolate the compounding financial shortfall of local government. The case study provides income and expenditure and amortises the existing and estimated capital shortfall to show the actual income required by local government in maintaining the level of services it presently provides resident and business communities. The case study best demonstrates a pragmatic approach to quantifying the present revenue shortfall of Local Government in NSW and is an important starting point for Local Government in arguing for alternate revenue or the provision of alternate revenue sources.

A gap of $900 million in annual revenue is required by Local Government in NSW in the ongoing provision of services. This sum however, does not account for additional infrastructure needed in the future to accommodate larger populations in some local government areas (Standing Committee on Economics, Finance and Public Administration 2003). It is clear to see that in taking into account the potential cost cutting measures of Local Government, a significant short fall exists in Local Government revenue.

A pre-emptive analysis of the future impact of Local Government was undertaken in 2005 to assess the financial viability of Local Government in NSW. The Strengthening Local Government Task Force (2005) concluded that 25 percent of Local Governments in NSW were unsustainable over the next decade. In contrast to this, 25 percent of councils were found to be in a relatively strong position. Table 3 provides an overview of the number of unsustainable councils by general location:

Table 3: Unsustainable councils in NSW

General Location	No of Councils
Metropolitan	7
Regional	12
Rural	20

Source: Strengthening Local Government Task Force (2005)

In qualifying sustainability of the councils identified in Table 3, the Taskforce (2005) highlighted that council must be able to meet its long term financial obligations without introducing substantial and disruptive revenue adjustments. This includes expenditure adjustments. Among the six key recommendations of the Taskforce were the boosting of revenue from rates, charges and grants in addressing the present and growing infrastructure backlog. Issues identified among some of the councils listed in Table 3, are the inability to raise sufficient rate revenue due to relative low numbers of rateable properties in the respective local government area and the impact of rate pegging. In these cases councils are far more reliant on grant revenue.

In reviewing the financial information relating to rate revenue and income of Local Government in NSW, the 2004/05 revenue has been used, as this is the most current available information from NSW Department of Local Government. Rate revenue to local government in NSW as well as other states of Australia, is the largest source of income to local government. This is followed by User fees and Grants from State and Commonwealth Government. Table 4 shows the break up of local government income in NSW.

Table 4: Sources of revenue 2004/05

Source	Amount $m	% of total
Rates and annual charges	3,313	48.3
User Charges and fees	1,148	16.7
Interest	288	4.2
Grants	1,053	15.3
Contributions & Donations	743	10.8
Other revenue	315	4.6
Total	**6,860**	**100.0**

Source: NSW Department of Local Government

As shown in Table 4, rate revenue annual charges accounts for close to half of Local Government revenue in NSW. Annual charges mainly comprise domestic waste management and once these are removed rate revenue is closer to $2.6bn. In contrast to the revenue highlighted in Table 4, the expenses of Local Government in NSW are shown in Table 5:

Table 5: Dissection of expense 2004/05

Expense	Amount $m	% of total
Employee costs	2,378	39.7
Materials and contracts	1,522	25.4
Borrowing costs	84	1.4
Depreciation	1,142	19.0
Other expenses	870	14.5
Total	**5,996**	**100.0**

Source: NSW Department of Local Government

A simple differential between income and expense of Local Government figures provided by Department of Local Government NSW shows Local Government in NSW running $864m surplus in 2004/05. This surplus does not account for the existing $6 billion backlog and projected $21 billion infrastructure renewal required over the next 15 years. When the $27 billion is amortised over the next 15 years it is clear to see how the $900 m annual deficit is derived. This is summarised in Table 6 below, in which the sum of the infrastructure commitment is divided by 15 years to arrive at an annual amount of $1.8bn. This annual infrastructure amount is deducted from the annual surplus derived from the Tables 4 and 5 above.

Table 6: Local Government finances accounting for infrastructure

2004/05 annual surplus	$864 million
Existing backlog and projected annual infrastructure costs	$1.8 billion
Annual deficit	**$936 million**

Source (Author)

Of specific note in Table 6 is that the annual deficit is not spread equally across all Local Governments in NSW and further does not account for any additional infrastructure commitment derived from cost shifting anticipated over the next 15 years. It may be argued that the annual amortised sum of $1.8 billion would be lower using a sinking fund factor to discount this amount, however due to the existing backlog of $6 billion a significant proportion of depreciation has already accrued. As clearly shown in Table 6, the financial issue facing some councils in NSW is a present and unaccounted reality which cannot be addressed through traditional revenue raising measures. The the Standing Committee on Economics, Finance and Public Administration (2003) recommends Commonwealth and State Governments provide an additional $200 million a year in general purpose grants to Local Government NSW and further identifies that Local Government will need to raise an additional $700 million.

The rise and demise of Local Government revenue

Local Government rate revenue in NSW and Australia has not been a steady and reliable source of revenue for Local Government or impost for ratepayers during its history. The Australian Council of Australian Local Government Associations ACALGA (1963) highlights public concern in the post WWII era of 1947-1960 in which Local Government rate revenue across Australia rose by 406 percent, whilst the population increased by 35 percent. During this period the ACALGA rallied the Commonwealth for a fixed share of Commonwealth income tax revenue. This commitment from the Commonwealth did not eventuate until the late 1970s and in 1967 with the support of the ACALGA the NSW Government launched a Royal Commission into Rating Valuation and Local Government Finance. The primary finding of the Commission was that rate revenue should not be the sole source of revenue of Local Government. Despite this conclusion, no tier of government or inquiry has offered any alternate strategies or ideas for local government to fund itself. The inquiries and commissions to date provide little more than a judicial remedy for bring local government under closer State scrutiny and challenge land value taxation as a source of revenue.

Following the election of the Whitlam Government in 1972, the Grants Commission Act 1973 (Cth) was introduced which was designed to overhaul the Commonwealth Grants Commission (CGC) and among other objectives provide a more fluent conduit of Commonwealth grant funding to Local Government. The peak in Commonwealth Government financial support for Local Government followed during the Fraser Government which introduced the Local Government (Personal Income Tax Sharing) Act 1976 (Cth). The Oakes Inquiry (1990) highlights that between 1980/81 and 1985/86 the guaranteed share of income tax moneys to Local Government by the Commonwealth reached a high of 2 percent. “The Hawke Government abandoned this system and by 1988/89 Commonwealth income tax receipts represented 1.32 percent of grant revenue provided to Local Government in Australia and grant revenue having declined in real terms” (p 58). During the transition of the Whitlam to Fraser Government, the Wran Government in NSW introduced rate pegging in 1977. “Its introduction was seen as a response to the economic conditions of the time including spiralling cost-push inflation. However its use in NSW has no parallel in any other State.” (Local Government Association of NSW 2003:3).

When rate pegging was introduced in 1977, there was little resistance from Local Government as Commonwealth Government grants were increasing during the Whitlam and Fraser period. As Commonwealth grant revenue declined whilst rate pegging remains in its present format, these two traditional sources of Local Government revenue have resulted in Local Government returning to its dire financial position of the late 1960s. Of primary concern in the review of State and Commonwealth arrangements for the funding and more importantly the regulation of income sources of local government, is the uncoordinated approach and lack of consideration of the financial requirements of local government when changes are made to State and Commonwealth Government funding. Despite the inclusion of Local Government in COAG, their inclusion amounts too little more than a token gesture on a committee which is primarily dictated by the Commonwealth Government. In 2004/05 the total tax take in Australia was AUD 278 billion of which the Commonwealth collected 69 percent excluding the GST which accounted for 13 percent. The States collected 15 percent and Local Government Collected 3 percent of the total revenue collected.

Local Government rate revenue pre & post 1993 and land tax revenue

One of the outcomes of the review of the Local Government Act in the transition from the 1919 to 1993 Act was reforms to the way Local Government was permitted to raise general rate revenue. What previously existed with a minimum rate per property and an ad valorem rate on land value, was replaced by a base amount per property plus an ad valorem component as demonstrated in Table 7:

Table 7: Pre and Post 1993 Ordinary Rate Structure Example

	$250,000	$250,000	$800,000	$800,000
1919 Local Govt Act	**Pre**	**Post**	**Pre**	**Post**
Minimum Amt	$250	N/a	$300	N/a
Ad Valorem rate in dollar is 0.0009	$225	N/a	$720	N/a
1993 Local Govt Act				
Base Amt	N/a	$325	N/a	$325
Ad Valorem rate in dollar is 0.0006	N/a	$150	N/a	$480
Rate Payable	**$250**	**$475**	**$720**	**$805**

Source: Mangioni 2006:70

The purpose of reforming the structure of council rates was to break the nexus between services and return provided by council directly relating to the land value of individual property. As highlighted in Table 7, Mangioni (2006) defines the purpose of this reform to bridge the gap in rates between high and low end land value property within a Local Government Area. Under the provisions of the Local Government Act 1993, section 500 limits Local Government from raising any more than 50 percent of its total general rate revenue from the base amount of property. Under the Act, section 528 allows Local Government to raise its rate revenue from four categories of land in the proportion determined by Council and vary that proportion annually as Council requires, this is demonstrated in Table 8:

Table 8: Category distribution of rate in the dollar

Category	Ad valorem rates 2001	Ad valorem rates 2002
Farmland	0.0003	0.0003
Residential	0.0004	0.0005
Mining	0.0003	0.0002
Business • Community • Regional	 0.00065 0.0007	 0.0006 0.00075

Source: Mangioni 2006:71

Table 8 demonstrates the variation of rates and change in the amount of rate revenue that may be raised from the four categories of land under section 528 of the Act from one year to the next. Despite these variations and changes from the 1919 to the 1993 Local Government Act, the increase in total rate revenue by Local Government is determined annually by the Minister for Local Government. Over the past five years, the permitted increase of rate revenue has ranged between 3.2 and 3.7 percent, which is based on the change in CPI and Average Weekly Earnings. What appears to be an autonomous revenue regime is no more than local government being able to determine the distribution of its rate revenue income between the four categories of property highlighted in Table 8. The total rate revenue and its annual increase is statutorily pegged by the NSW Government.

The advancement of the argument supporting the nexus between Local Government rates and State Government land tax is limited by the understanding of the similarities, differences and overlap of these two competing sources of government revenue. In the United States Youngman (1994) and United Kingdom Connellan (2000) highlight the recognition of land value taxation as primarily the domain of Local Government. A similarity could be argued to exist in Australia given that in the 2004/05 financial year total rate revenue raised by Local Government in NSW was $2.5bn as opposed to land tax revenue raised by State Government in NSW of $1.65 billion. Despite this comparison, the efficiency and equity between council rates and land tax in NSW in best highlighted in Table 9.

Table 9: NSW Land tax and rate revenue comparison 2004/05

	Total Revenue	Taxable & rateable assessments	Average land tax & council rate assessment
Land Tax	$1.65	170,000	$9705
Council Rates	$2.5	2,629,754	$951

Sources: Mangioni 2006, NSW Department of Local Govt 2006 and OSR NSW 2006

A comparison of total revenue from council rates on an average assessment basis is approximately 9.8 percent of land tax revenue on an average assessment basis as shown in Table 9. The key element in this comparison is the number of rate and tax payers. In the case of land tax, the threshold in 2004/05 resulted in approximately 170,000 land tax payers being assessed in NSW. In this comparison rural land has been excluded on the basis of its land tax exemption which applies in most cases. This is due to rural property either qualifying for a primary production exemption or principle place of residence exemption.

It is clear that State Government revenue raised from land value taxation competes with similar revenue raised by Local Government. The primary difference is that State Government regulates Local Government rate revenue through the use of rate pegging. In contrast, State Government receives unfettered increases in land tax revenue which is primarily tied to increases in land value as defined under section 6A of the Valuation of Land Act 1916. The argument that State Government will mount in its defence, is that land tax revenue accounts for approximately 10 percent of its tax receipts in NSW. This is in contrast to Local Government rate revenue which accounts for 38 percent in 2004/05. Despite this difference, the ability for local Government to raise revenue from additional sources as discussed throughout this paper is limited by the fact that it is an instrumentality of State Government and not a constitutionally recognised level of government for the purposes of determining its own revenue.

Alternate sources of revenue and conclusion

The initiatives of former Commonwealth Governments in their support of Local Government through the defined allocation of Commonwealth income tax receipts was an initiative which assisted in addressing sole reliance on rate revenue and the ‘ratepayer ideology’. In addressing the need for alternate sources of revenue, some local governments have turned to more innovative income streams.

i) Rent on Community Land

Of particular note is the return on roads, which are classified as a community asset. Returns on these asset’s may be achieved through the use of parking metres in locations of high demand and adjoining residential areas. These locations include main street retail stripes, beaches, hospitals and learning institutions. Another similar return is achieved through leases over footpath space to cafes, restaurants and automatic teller machines fronting footpaths. In addition to these options, surplus operational land adjoining retail strips and shopping centres could be leased rather than sold, generating ground rent income. Leases over footpaths and other desirable community land is a potential area that Local Government may need to further explored.

ii) Return on new Local Government infrastructure and rezoning of land resulting in increases in land values

Capturing a return on the provision of new Local Government infrastructure is an option that warrants consideration. This may be achieved through a betterment tax, or Development Gain Tax (DGT) on the increase in value of land surrounding new infrastructure which directly and positively impacts on the value of property it serves. This approach has been trialled in the United Kingdom when it was introduced in 1974. The primary issue confronting the betterment tax was the determination of values before and after the infrastructure works were carried out and the relativity of the added value to surrounding land values. This tax was abolished in the 1980s.

It is arguable that Local Government as the primary consent authority in the development and redevelopment of land adds value to property through its planning decisions. A more diligent and measurable tax may be achieved on the rezoning of land. At present, the Commonwealth captures some of this benefit through capital gains tax on the disposal of the property. Local Government as the consent authority would be able to claw back some of this tax from the Commonwealth if it were to impose a Planning Development Tax, whereby the gain in value resulting from rezoning would be retained by Local Government. The issues associated with valuations before and after rezoning are dealt with by the Valuer-General who undertakes annual valuation of land in NSW based on highest and best use. In order to promote development and minimise impact on the development of land, a partial concession would be given developers, with the full impact of the tax levied on speculators who landbank and reap the benefits of changes in zoning by selling land undeveloped.

iii) Amalgamation, efficiency and scales of economy
Whilst financial options exist for some Local Government's to meet the needs of their communities, a number of Local Government's will not remain viable entities over the next decade. There is little choice for some council's but to amalgamate with adjoining councils or at minimum, share services and resources in their co-existence. In the case of existing urban Local Government Areas, services including roads, rubbish and community infrastructure maintenance may be better managed through cyclical maintenance planning and common service level agreements with contract service providers.

iv) Conclusion
There is no incentive in Local Government promoting development in their respective areas without recognition and appropriate monetary returns for the provision of services and infrastructure required to support their evolving communities. State Government expects Local Government to embrace urban consolidation and support population growth as well as meeting the needs and expectations of their communities, but imposes restrictions on the revenue sources of Local Government.

Cost shifting by Commonwealth and to a greater degree State Government without ongoing resources has financially stretched many Local Governments and has added to their financial burden. As an instrumentality of State Government, it is important that the Department of Local Government provides more than broad governance directives and statements of objectives to Local Government in NSW and any potential cost shifting initiatives should be assessed by an independent auditor.

It is necessary for local government to clearly define their role and the services they provide to their community. It is of further importance for communities within local government to be involved in deciding the role function and services of local government. This will assist local government better manage the expectations of its residents and business community and allow the community to better grasp the role and limitations of their local government.

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