

Rate Capping in South Australia

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Institute for
Public Policy
and Governance

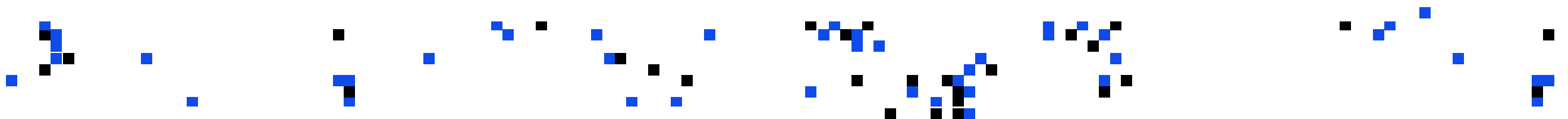
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ABOUT UTS:IPPG

The Institute for Public Policy and Governance at the University of Technology Sydney (UTS:IPPG) is a leading group of researchers and practitioners in the areas of applied policy, social research, stakeholder engagement, and leadership.

IPPG undertakes applied social and behavioural and academic research, policy advisory, graduate education and professional development training.

The UTS Centre for Local Government (UTS:CLG), a leader in local government research, teaching and advisory, is part of the UTS:IPPG.



WHY LOCAL GOVERNMENT MATTERS



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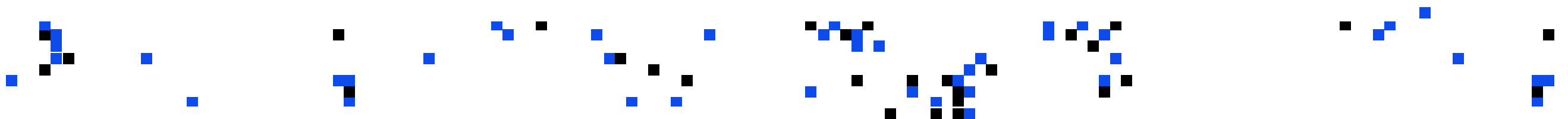
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Local government in South Australia

In 2016 the Centre for Local Government at the University of Technology Sydney (UTS:CLG) undertook research to investigate the value of local government to South Australians

The 2016 *Why Local Government Matters in South Australia* would benchmark perceptions and attitude towards local government against national findings from the 2014/15 *Why Local Government Matters* research project by the Australian Centre for Excellence in Local Government



Purpose of Study

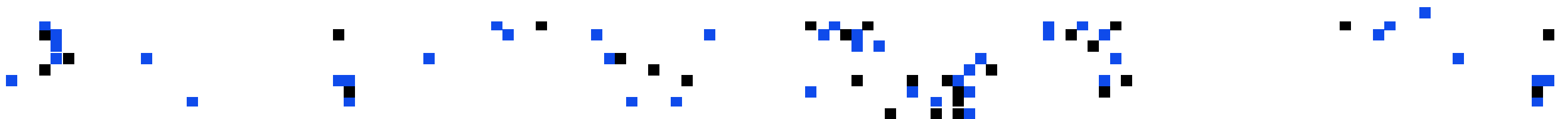
Determine if local government matters

Establish foundational understanding

Sector-influencing research

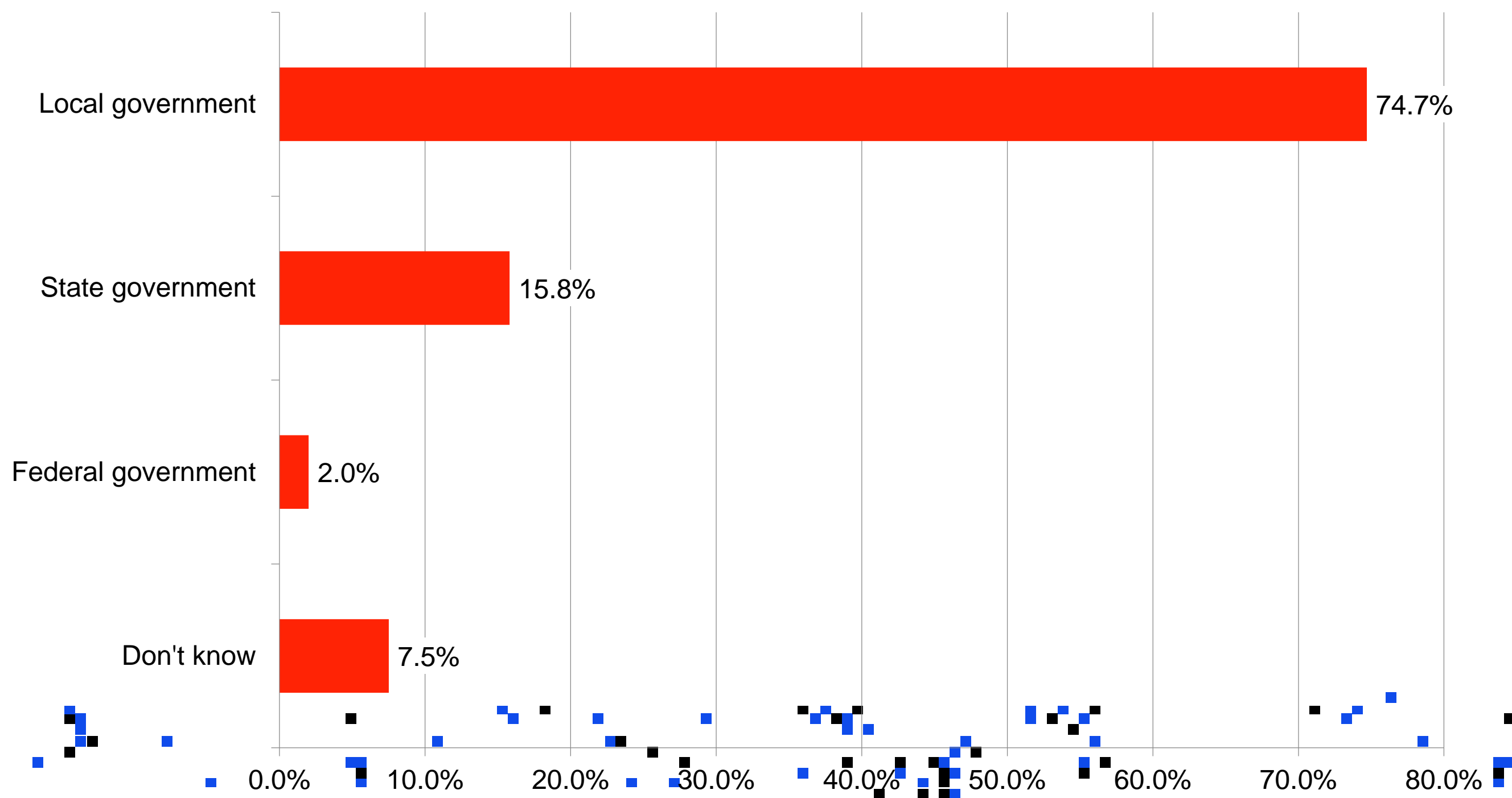
Establish baseline

This does not ask about individual councils and *is not* a community satisfaction survey or measure of performance



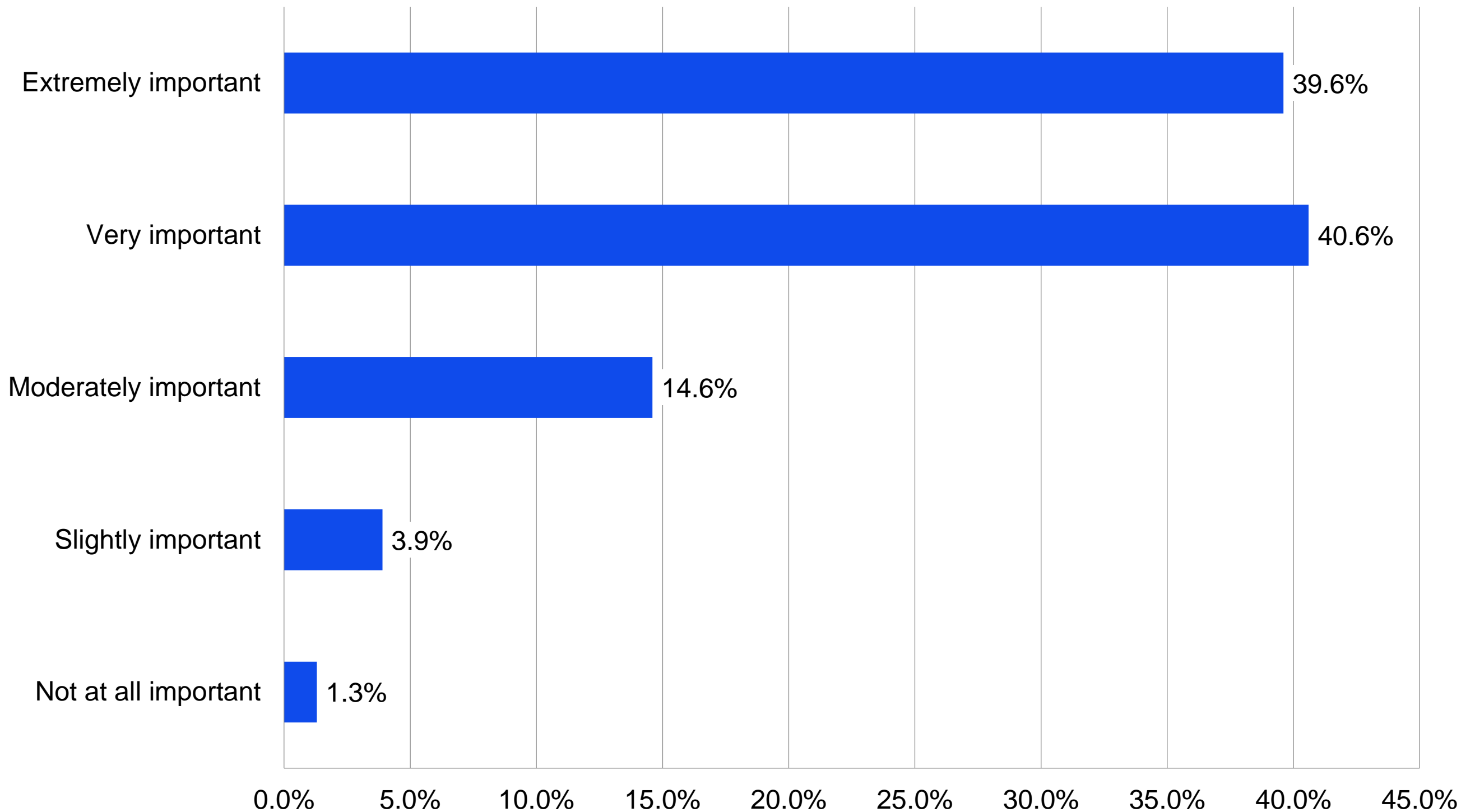
Level of government and decisions about the local area

Thinking about where you live, which level of government is best able to make decisions about your local area?



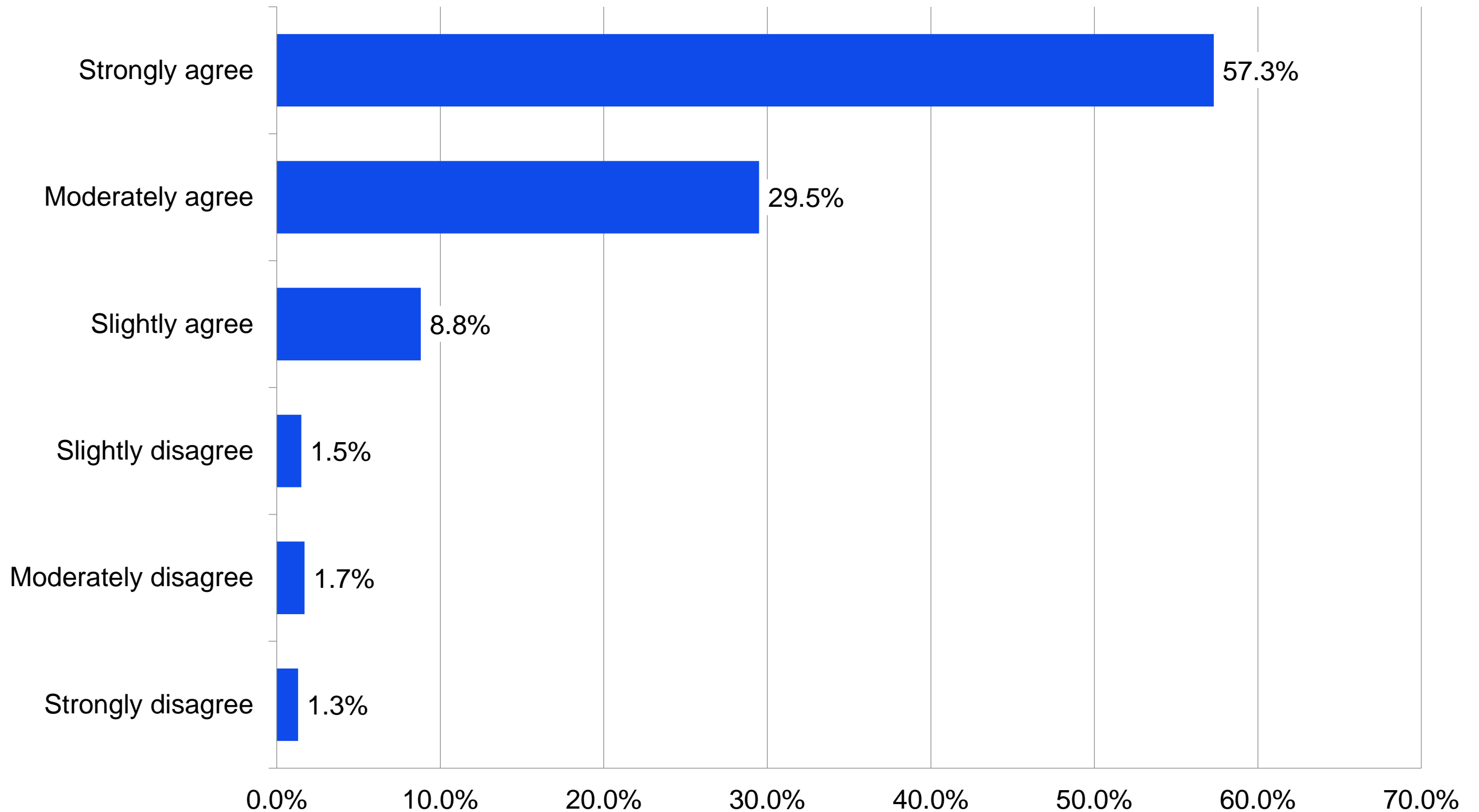
Most important thing LG does

Planning for the future



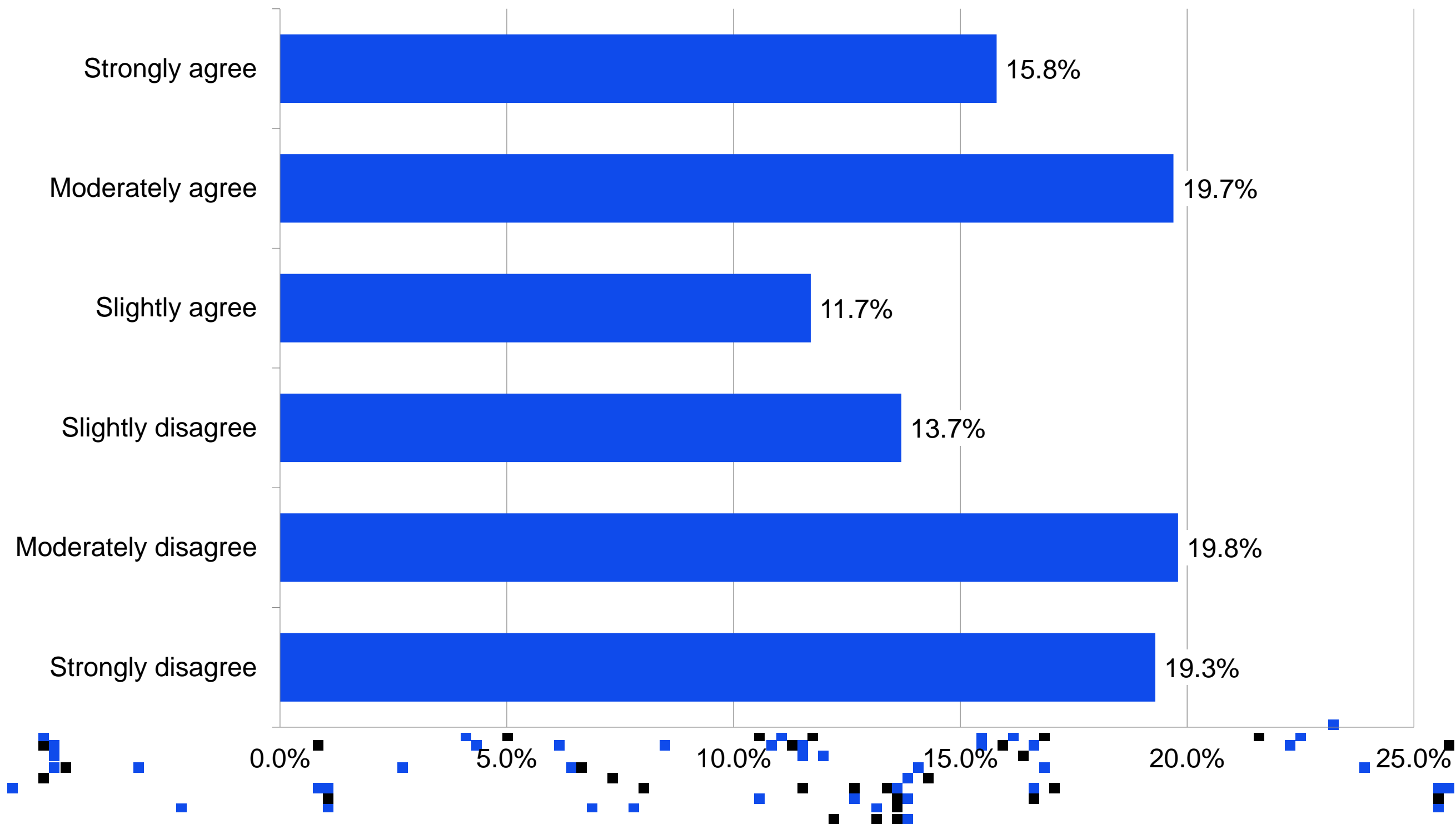
Role beyond service delivery

Government should be advocating for the needs of my local community



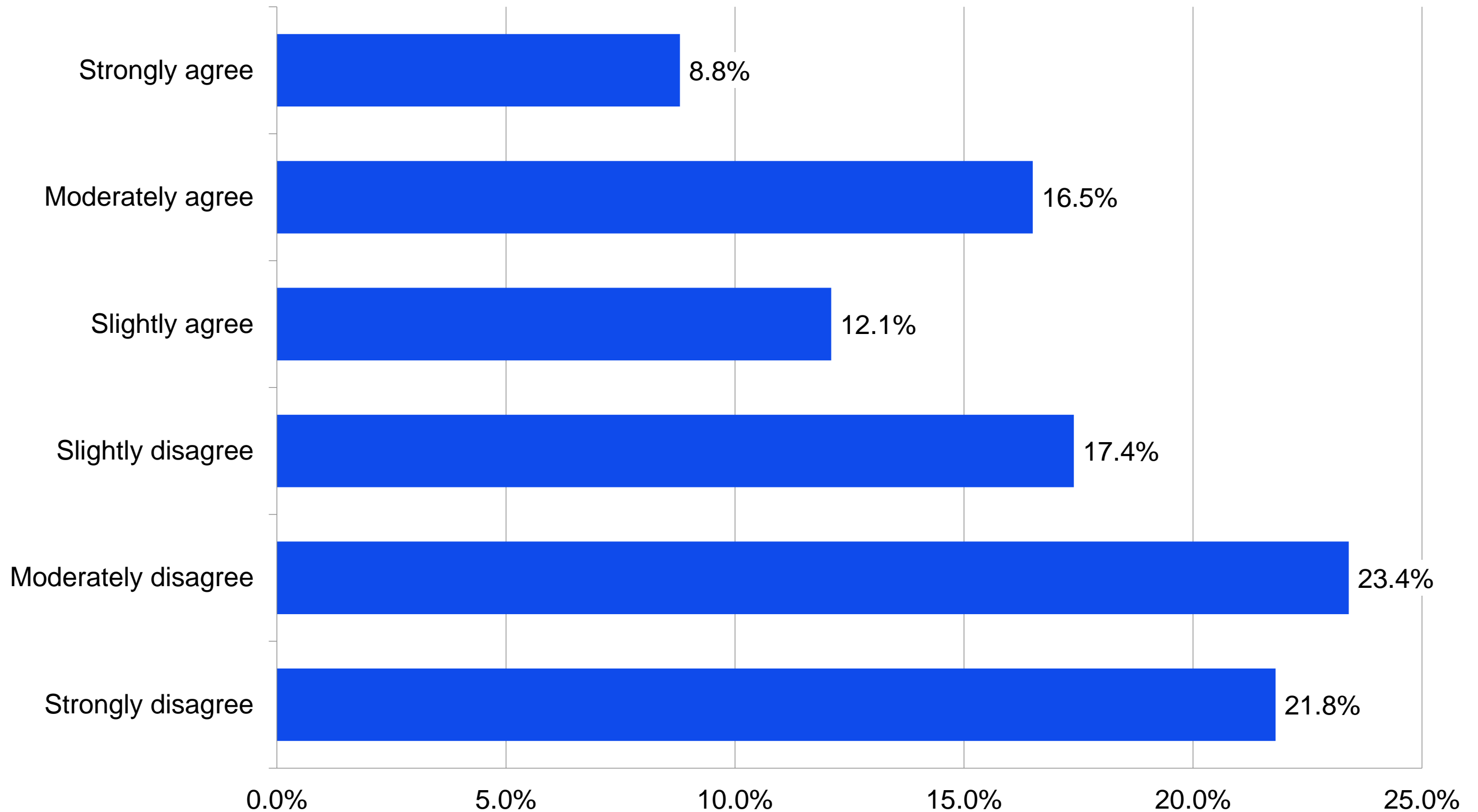
Public value

Decisions about how services are delivered in my area should be made primarily on value for money



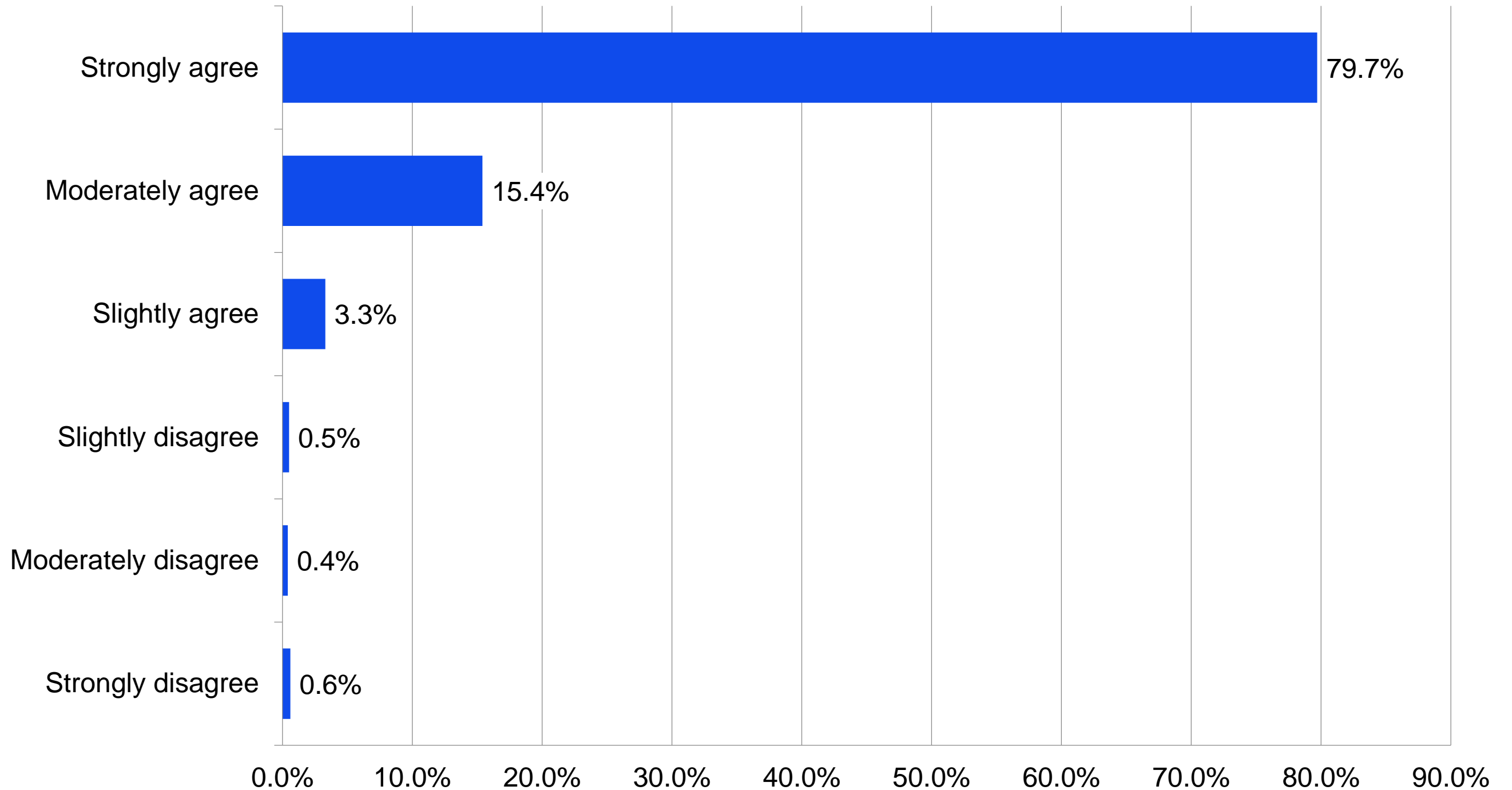
The role of the market in service delivery

The private sector delivers the best value services



Public value

I want governments to deliver services that contribute to a healthier and fairer society



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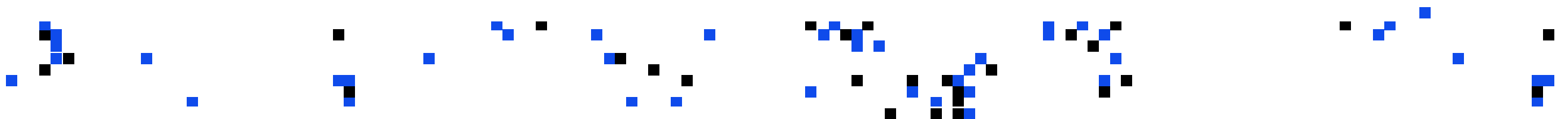
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Advantages of Rate Capping – HERE ARE THE ARGUMENTS

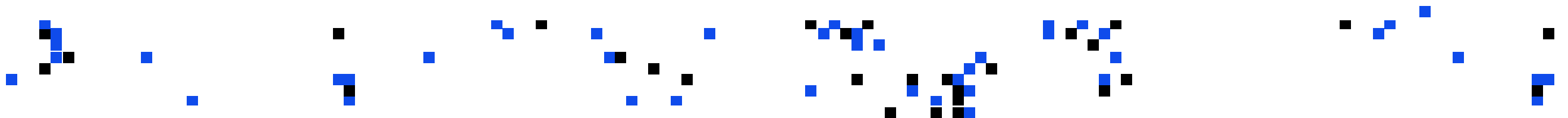
The scholarly literature nominates a number of reasons for contemplating rate capping:

1. Restricts coercive monopoly powers
2. Limits provision of non-core services, thus enhancing sustainability
3. Increased scrutiny (by rate capping authority), thereby reducing governance risk



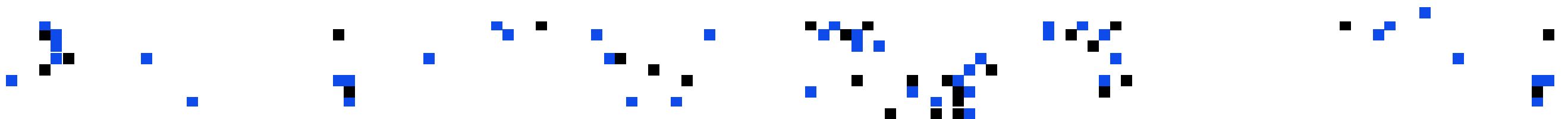
Advantages of Rate Capping

4. Reduces imposts on local government taxpayers
5. Increases efficiency by imposing discipline on local governments



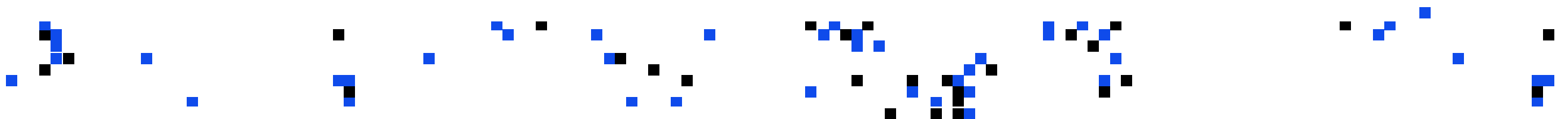
Disadvantages of Rate Capping – HERE ARE THE ARGUMENTS

1. Reduces financial sustainability
2. Limits capacity to fund new services
3. Limits capacity to address infrastructure backlogs
4. May encourage local governments to take on additional risk in pursuit of non-capped revenues



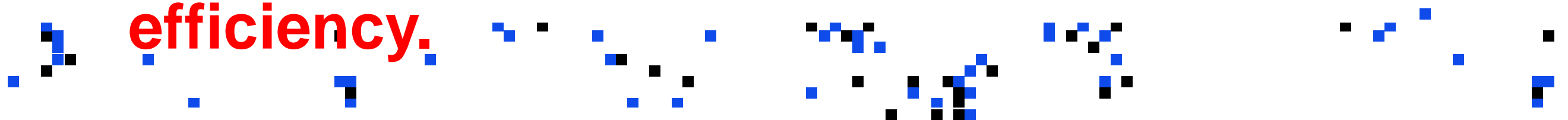
Disadvantages of Rate Capping

5. Creates room for 'blame shifting' and 'learned helplessness'
6. Gives rise to Fiscal Illusion
7. Removes autonomy from local communities



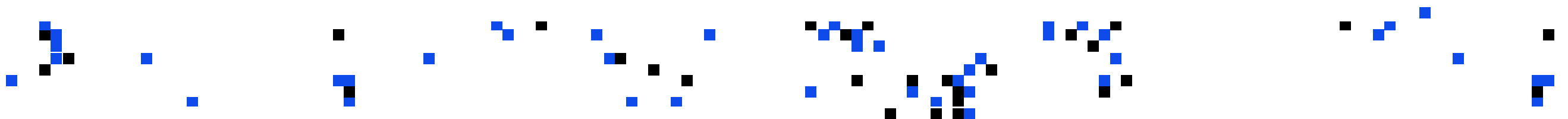
HERE IS THE EVIDENCE

- Very little Australian empirical evidence
- This research details empirical evidence that rate capping is associated with:
 - (i) higher levels of debt;
 - (ii) lower levels of infrastructure maintenance;
 - (iii) lower levels of inter-jurisdictional revenue effort equity.
- **There was no evidence of higher levels of efficiency.**



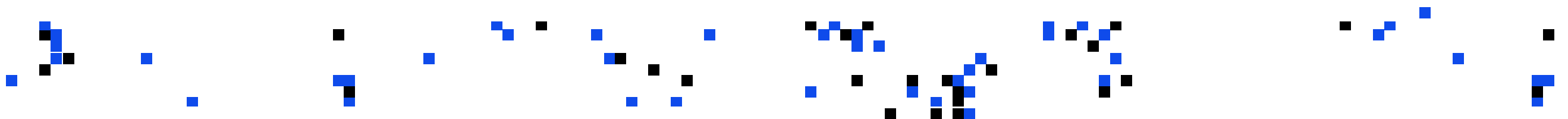
Proposed South Australian Legislation

- Pursuing variations to rate caps is an **expensive process** (in both a pecuniary and political sense), and experience attests that councils will largely shun the option
- The ESCOSA is given **almost unfettered autonomy**. This is problematic because it removes accountability from democratically elected Ministers and hands it to bureaucrats who have limited accountability
- Legislation acknowledges the implications of growth for expenditure, but **ignores growth during the period**. This could be easily addressed by using past growth rates to predict the number of rateable properties that are likely to exist at the end of the year.



Proposed South Australian Legislation

- Terms such as ‘appropriate use of debt’ and ‘efficiency improvements’ are potentially very problematic because they are not defined carefully.
- Debt capacity is currently not estimated in a rigorous empirical manner in S.A. or elsewhere in Australia.
- Efficiency improvements need to be much more than cost reductions, otherwise services may fall well below community need. **LG efficiency in S.A. is already very high (our recent work)**, although there is clearly a need for future monitoring and comparative analyses, to ensure that the legislation achieves this stated aim.



Alternatives to Rate Capping

Two theories for why *MIGHT* residents support rate capping:

1. **Agency Failure Theory**: local government taxpayers fear that local government representatives and executives will not be good stewards.
2. **Personal Finance Theory**: local government taxpayers do not *perceive* that they are getting good value for money relative to increases in imposts

Alternatives Addressing Agency Failure Theory

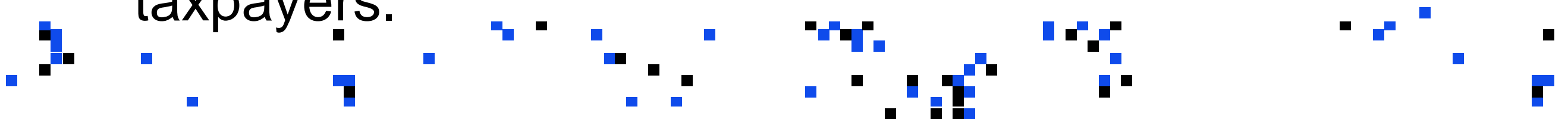
- **Reduce information costs, increase transparency** (more detailed performance monitoring data, more consistency in financial statement preparation, access to financial statements over a long horizon, information on revenue and expenditure included with rates notices)
- **More opportunities for sanctioning representatives and executives perceived to be poor stewards** (broader powers for Ombudsman and regulators, more frequent local government elections, independent audit committees where members are rotated frequently and have a remit to examine stewardship, newspapers and ratepayer associations in local government areas).

Alternatives Addressing Personal Finance Theory

- Greater emphasis on accurate **user pricing** for non-public goods
- Greater attention to **tailoring subsidies** for merit goods to user need
- Attention given to **removing** some current rating **exemptions**
- **Information on price subsidies**
- Allow for **quarterly adjustments** to rates, to reduce potential for rate shock.

Gaps in Research

1. No existing study of rate cap gaming – the extent of same and what this means for the likelihood of rate capping achieving its aims
2. No extant study on debt capacity
3. No extant robust study of local government financial sustainability – especially with reference to rate capping
4. No robust contemporaneous study on Fiscal Illusion – this should be done on an empirical basis and augmented with targeted surveys of local government taxpayers.



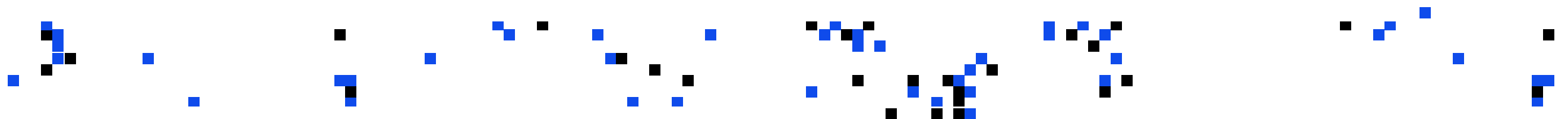
The Time to Act is Now

Important to address financial sustainability before implementation of rate capping.

Particularly important to get pricing right (employing either demand or supply side approaches) to avoid claims of gaming the rate cap (which may be made if pricing is introduced afterwards).

Important to review the level of subsidies currently offered

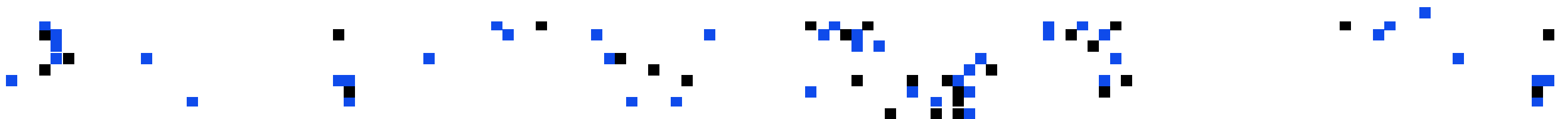
Critical to start educating ratepayers regarding the sources and application of revenue in S.A. local government



How UTS IPPG Can Help, Options:

Tailored workshop by internationally recognised scholarly experts in local government finance.

It may be prudent for SA councils to engage scholarly expertise for a critique of the proposal, and thus get as many of the problems in the legislation as possible flagged and addressed prior to implementation.



Thank-
you

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