
3 Revenue and expenditure across local governments

Key points

- There is considerable variation across local governments in the amount of revenue raised, both in absolute and per person terms.
- The majority of local governments are primarily dependent on their own sources of revenue.
 - For 20 per cent of councils, own-source revenue accounts for more than 86 per cent of their total revenue. For 50 per cent of councils, own-source revenue accounts for at least 72 per cent of their total revenue.
- However, grants are a particularly important source of revenue for a number of councils.
 - Twenty per cent of councils (accounting for about 1 per cent of all residents) are significantly dependent on grants, which account for at least 48 per cent of their total revenue.
- Capital city councils raise the highest level of rates revenue, with a median value of \$1089 per person. This reflects, in part, the capacity of capital city councils to raise revenue from their relatively large number of business ratepayers. It also reflects small resident populations in some capital city councils.
 - Urban fringe councils raise the lowest rates revenue per person, with a median value of \$389.
- Rural and remote councils raise more own-source revenue per person than urban councils. This might be due to the higher costs of service provision in rural and remote areas, diseconomies of scale and differences in the range of services offered.
- Rural and remote area councils also receive substantial grants on a per person basis.
 - Over 50 per cent of remote councils receive grants in excess of \$3816 per person, with 10 per cent receiving more than \$10 841 per person.
- Expenditure per person varies considerably across councils. Generally, rural and remote councils have higher expenditure per person compared with urban councils.
 - For all functional categories, expenditure per person is very much higher for remote councils than for urban and rural councils.

In the previous chapter, it was discussed that there are significant differences in the average level of revenue raised by local governments across the States. Even so, these State averages mask the full extent of variation in the revenue raised by councils, both within and across jurisdictions. It is important to appreciate the differences between councils, to understand their revenue-raising capacities and the factors that might explain the differences in their revenue-raising effort.

In general terms, revenue is raised to cover the expenditures required to deliver the desired level and mix of local government services, after taking into account grants from other spheres of government. An examination of expenditure and factors that might contribute to the observed differences in expenditure might provide insights into the variation of revenue raised by councils.¹

The sources of local government data and their limitations are briefly discussed in section 3.1. In section 3.2, the distribution of total revenue, own-source revenue and grants received across local governments are considered. The categories of own-source revenue are discussed in section 3.3. This analysis provides insights into the variation in the different sources of revenue raised by local government. Also explored in this section is the distribution of each revenue source across broadly-defined classes of councils. The level and variation of local government expenditure across different classes of local governments and functional categories are considered in section 3.4.

3.1 Sources of local government data and their limitations

The analysis presented in this chapter, and in the following chapters, is dependent upon the availability of suitable data.² It is important to understand the sources of the data used and their limitations.

Two principal sources of revenue and expenditure data were used for each local government:

- data collected by the State grants commission (SGC) in each jurisdiction, and
- data collected by the ABS (via local governments and the SGCs) as part of its Government Finance Statistics collection.

¹ A detailed analysis of the factors affecting the revenue-raising capacity of councils is reported in chapter 5.

² In appendix C, there is a comprehensive discussion of the sources of data used in this study and their limitations.

At a jurisdictional level, the various SGCs, local government departments and the ABS have developed annual information returns. The SGCs use the data as part of their processes to apportion financial assistance grants to each local government. The ABS uses the data in a range of collections, including the Government Finance Statistics.

The information collected includes:

- financial data that are derived from the council's audited financial statements
- functional data, reflecting the attribution of council revenue and expenditure to various functional areas by councils
- asset values and other data that the SGCs use to develop relativity factors (for example, operational characteristics such as full-time equivalent staff or the number of water and sewerage connections).

The Commission was given access to these data sources and combined them for the purposes of this study. Although these sources of data were the best available, they do have some limitations. Some observations were not used due to detected errors. The number of observations used varied depending on the analysis undertaken in the study. There were a number of difficulties encountered when pooling the data across all councils in Australia.

- A lack of uniformity in the definitions of the revenue and expenditure categories collected across jurisdictions. These arise because of the different functions undertaken by local governments and differences in the legislative frameworks applied across jurisdictions. The provisions in State legislation for rating methods, for example, lead to differences in the reported rating categories and methods of land valuation.
- Inconsistencies in the reporting of similar indicators by local governments, the SGCs and the ABS.
- Inconsistencies between councils in the way they complete their information returns. This might occur due to different interpretations of the definitions of categories or functions.

FINDING 3.1

There are numerous inconsistencies and inaccuracies in the government finance statistics and other statistical series relating to local governments. There is a need for the ABS and various grants commissions to improve the consistency and accuracy of the local government data collections.

Although the data limitations are unlikely to invalidate the broad findings of this study, care needs to be taken in terms of focussing on any individual local government. Consequently, the Commission has reported revenue raising at a more aggregated level. The distributions of revenue categories are presented at the decile level and councils are grouped into broadly-defined classes. Any attempts to define groups at a more disaggregated level would result in small numbers of observations, making inferences about differences across groups less robust, particularly given the inherent measurement errors and other limitations of the data.

3.2 Revenue raised across local governments

A key focus of this study is the revenue-raising capacity of local governments. In this section, the level of revenue currently being collected by local governments across Australia is explored. This provides a basis against which the framework and empirical analysis of revenue-raising capacity (which are presented in chapters 4 and 5) may be assessed.

The level of own-source revenue raised and grants received varies considerably across local governments, as indicated in table 3.1. The lowest level of total revenue collected by a local government was \$0.4 million (Cox Peninsula) and the highest was \$1.6 billion (Brisbane City Council).

Even between the bottom and top 30 per cent of local governments, there is a wide spread in the amount of revenue being raised, the bottom third raised less than \$8.5 million and the top third raised more than \$32.7 million. It should be noted that the deciles presented in each column in table 3.1 (and later tables) are derived independently of those in other columns. The figures should not be summed or compared across columns. For example, the local government whose minimum is reported in column 'Total revenue per person' might not be the same local government whose minimum appears for the other column variables.

The most obvious explanation for the variation in revenue raised is that local governments are of different sizes with different numbers of people living within their boundaries. Populations within local government areas ranged from 127 people in Murchison Shire to 992 176 people in Brisbane City Council in 2005-06. Statistically, there is a strong relationship between the number of people in a local government area and the revenue its council raises. Hence, a large part of the variation in total revenue observed is attributable to different population sizes. In order to explore differences between local governments that are due to factors other than population size, revenue is also presented in per person terms.

Table 3.1 Revenue by councils
2005-06^{a, b}

<i>Deciles and mean</i>	<i>Total revenue</i>	<i>Total revenue per person</i>	<i>Own-source revenue per person</i>	<i>Grants revenue per person</i>	<i>Own-source revenue as a share of total revenue</i>
	\$m	\$	\$	\$	%
Lowest	0.4	479	238	30	8
10 per cent	3.6	751	621	89	42
20 per cent	5.9	992	754	137	52
30 per cent	8.5	1 239	900	211	60
40 per cent	11.8	1 451	1 023	299	65
50 per cent (median)	16.5	1 645	1 168	441	72
60 per cent	22.1	1 946	1 336	653	78
70 per cent	32.7	2 460	1 526	947	82
80 per cent	53.3	3 595	1 812	1 597	86
90 per cent	97.1	5 788	2 579	3 059	91
Highest	1 593.2	37 925	22 492	18 146	98
Mean	38.0	2 822	1 606	1 215	69

^a The deciles presented in each column in this table are derived independently of those in other columns. The figures should not be summed or compared across columns. For example, the local government whose minimum is reported in 'total revenue' might not be the same local government whose minimum appears for the other column variables. ^b Data are based on 627 observations.

Source: ABS unpublished; Productivity Commission calculations.

Although the spread in total revenue is less pronounced in per person terms, there is still a wide variation in the revenue collected across local governments. The local government with the smallest revenue per person is Campbelltown (South Australia), at \$479, and the largest is Diamantina, at \$37 925. Thirty per cent of councils raise less than \$1239 per person and another 30 per cent of councils are raising more than \$2460 per person. The median level of revenue raised is \$1645 per person.

The variation across local governments is further evident when total revenue is divided into own-source revenue and grants revenue. As noted in chapter 2, own-source revenue is that revenue which is within a local government's direct control and includes items such as rates, user fees and charges, fines, reimbursements, developer contributions and interest and dividend income. Once again, there is large variability in the per person own-source revenue raised across local governments. The lowest 30 per cent of local governments raised less than \$900 per person and the highest 30 per cent collected more than \$1526 per person.

This variability is also apparent across the grants revenue that local governments receive from other spheres of government. The lowest 30 per cent of local

governments receive less than \$211 per person in grants funding compared with the upper 30 per cent which receive in excess of \$947 per person.

FINDING 3.2

There is considerable variation, in per person terms, in both own-source revenue raised and grants received by local governments in Australia.

Insights into the significance of own-source revenue can be obtained by examining the ratio of own-source revenue to total revenue from all sources (including grants). For 20 per cent of councils, own-source revenue accounts for more than 86 per cent of their total revenue. For 50 per cent of councils, own-source revenue accounts for at least 72 per cent of their total revenue (table 3.1).

On the other hand, 20 per cent of councils are significantly dependent on grants, which account for at least 48 per cent of their total revenue. A small number of councils (10 per cent) are highly dependent on grants, with grants accounting for more than 58 per cent of their total revenue (table 3.1). However, these councils, represent only about 0.4 per cent of the total resident population of all councils.

FINDING 3.3

For the majority of local governments, own-source revenue is the principal revenue source. However, for 20 per cent of councils, which represent only one per cent of the population, grants account for 48 per cent or more of total revenue.

3.3 Composition of own-source revenue

To gain further insights into why own-source revenue differs across councils, it is useful to examine the variation in the composition of own-source revenue across councils and the variation in the own-source revenue raised by class of council.

The levels of rates, sales of goods and services, interest and other revenue can have important implications for the revenue-raising capacity of councils. The distributions of these revenue-raising sources are shown in table 3.2. The variability between the different components of own-source revenue is evident. In general, rates are the largest source of revenue, followed by sales of goods and services and other revenue. There are also significant differences within the categories.

Some of the factors that might explain these variations, both within and between the categories of revenue, are:

- the size and composition of the rate base (agricultural, commercial, industrial, mining, and residential)

- the composition of services provided and whether the cost of these services are recovered through rates, user fees, fines and developer charges
- the financial position of the council in terms of its accumulated surplus.

Table 3.2 Own-source revenue by councils

2005-06, dollars per person^{a, b}

<i>Deciles and mean</i>	<i>Rates revenue</i>	<i>Sales of goods and services revenue</i>	<i>Interest revenue</i>	<i>Other revenue</i>
Lowest	–	–	–	–
10 per cent	305	105	12	16
20 per cent	360	157	18	40
30 per cent	398	218	23	64
40 per cent	444	292	31	84
50 per cent (median)	490	375	39	117
60 per cent	538	483	50	150
70 per cent	635	601	64	196
80 per cent	746	790	87	294
90 per cent	1 067	1 213	124	507
Highest	6 453	19 557	846	4 706
Mean	598	717	63	228

^a The deciles presented in each column in this table are derived independently of those in other columns. The figures should not be summed or compared across columns. For example, the local government whose minimum is reported in 'rates revenue' might not be the same local government whose minimum appears for the other column variables. Data are based on 627 observations. ^b Estimates might differ from ABS or other published sources.

Source: ABS unpublished; Productivity Commission calculations.

A way of appreciating how these factors might interplay is to classify local governments in a way that might explain these differences. Not surprisingly, there is no simple way to classify local governments which fully accounts for the variation in the amount of revenue they raise. However, one of the major drivers of differences between local governments appears to be the number of people and the density of people within a local government area. This classification of local governments with respect to the components of own-source revenue is explored below.

A classification system which assists in analysing the differences across local governments with different population sizes and densities is the Australian Classification of Local Government (ACLG) (appendix D). This classification system was used by the Commission to form six groups — capital city, urban developed, urban fringe, urban regional, rural and remote — to analyse the differences in the revenue collected within and across these classes of councils.

Variation in own-source revenue by council class

From table 3.3, it is evident that of all the classes, capital city and remote local governments are raising the most own-source revenue per person, with a median of \$2329 and \$2135, respectively. Urban developed councils raise the least own-source revenue per person, with a median of \$655.

Table 3.3 Own-source revenue of councils by ACLG class
2005-06, dollars per person^{a, b}

<i>Deciles and mean</i>	<i>Capital city</i>	<i>Urban developed</i>	<i>Urban fringe</i>	<i>Urban regional</i>	<i>Rural</i>	<i>Remote</i>
Lowest	651	423	393	238	400	298
10 per cent	651	533	526	680	827	822
20 per cent	1 504	568	558	790	978	1 119
30 per cent	1 629	606	640	878	1 055	1 388
40 per cent	1 629	634	731	963	1 207	1 750
50 per cent (median)	2 329	655	821	1 044	1 353	2 135
60 per cent	4 123	703	884	1 162	1 501	2 949
70 per cent	4 123	857	1 058	1 287	1 719	3 549
80 per cent	6 065	909	1 193	1 376	1 939	5 369
90 per cent	8 526	1 073	1 476	1 569	2 437	8 256
Highest	8 526	1 720	7 830	3 109	7 332	22 492
Mean	3 547	746	1 088	1 110	1 533	3 764

^a Data based on 7 observations for capital city, 86 observations for urban developed, 50 observations for urban fringe, 108 observations for urban regional, 301 observations for rural and 75 observations for remote councils. ^b Estimates might differ from ABS or other published sources.

Source: ABS unpublished; Productivity Commission calculations.

For 30 per cent of urban fringe councils, own-source revenue per person is \$1058 or more. For 30 per cent of urban regional councils, own-source revenue per person is \$878 or less.

As discussed below, remote councils derive more of their own-source revenue from the sales of goods and services than from rates revenue. Remote councils differ in this respect from the other council classes, for which on average, rates revenue comprises the largest share of own-source revenue. Some of the factors driving these differences are discussed below.

Variation in rates revenue by council class

Capital city local governments are collecting the highest median rates revenue per person (\$1089) (table 3.4). In part, this is because of the larger number of business ratepayers relative to resident ratepayers. This leads to a relatively high

rates revenue per resident in capital cities compared with other local governments. Rural local governments are also collecting notably more than the other classes, with a median rates revenue per person of \$586. This might be attributable to the higher per person expenditure required in these areas, resulting from higher kilometres of road per resident person.

The lowest level of rates per person are being raised by urban fringe and urban developed councils, with median amounts of \$389 and \$429, respectively. There is, however, a significant variation within each class.

Table 3.4 Rates revenue of councils by ACLG class
2005-06, dollars per person^{a, b}

<i>Deciles and mean</i>	<i>Capital city</i>	<i>Urban developed</i>	<i>Urban fringe</i>	<i>Urban regional</i>	<i>Rural</i>	<i>Remote</i>
Lowest	470	281	262	110	–	–
10 per cent	470	310	290	311	372	–
20 per cent	473	349	311	359	414	–
30 per cent	654	367	332	378	472	20
40 per cent	654	398	358	412	523	206
50 per cent (median)	1 089	429	389	434	586	451
60 per cent	1 666	456	404	473	656	587
70 per cent	1 666	499	442	506	748	944
80 per cent	3 025	515	454	534	927	1 191
90 per cent	3 579	623	473	628	1 133	1 628
Highest	3 579	767	671	1 134	2 212	6 453
Mean	1 565	445	390	454	678	704

^a Data based on 7 observations for capital city, 86 observations for urban developed, 50 observations for urban fringe, 108 observations for urban regional, 301 observations for rural and 75 observations for remote councils. Of the 75 remote observations, 23 are Indigenous councils that collect no rates revenue. ^b Estimates might differ from ABS or other published sources.

Source: ABS unpublished; Productivity Commission calculations.

Variation in sales of goods and services revenue by council class

Remote local governments collect the highest amount of sales of goods and services revenue per person, with a median of \$1073 (table 3.5). One explanation for this is that remote councils are often the major supplier, sometimes the sole provider, of services in these communities, including services that elsewhere are provided by the private sector or other spheres of government. The remote councils might run the shop, provide employment services and undertake private works. By comparison, urban councils are not required to provide these services due to the greater availability of private suppliers. It might also be partly attributable to the relatively higher cost of services in remote locations; for example, the provision of water and

sewerage in some areas. It might also reflect the differences in the ability to recover the costs of services from fees. For example, the costs of some local government services (such as aerodromes and saleyards) may be fully recoverable from user fees.

Capital city local governments raise the second highest amount per person of sales of goods and services revenue, with a median of \$838. A possible reason for this is that there are a relatively large number of non-residents paying for capital city local government services, such as car parking. It might also reflect the revenue derived from servicing a greater concentration of businesses. For example, more business-based statutory charges might be collected for services such as inspection fees for restaurants and food outlets.

By contrast, urban developed and urban fringe local governments raise the lowest amount of sales of goods and services revenue per person. This might be due to the lower per person costs of service provision and differences in the range of services offered. As there are greater numbers of private providers for recreation, cultural, health and other services, urban councils do not have to provide such services, thereby earning less revenue.

Table 3.5 Sales of goods and services revenue of councils by ACLG class
2005-06, dollars per person^{a, b}

<i>Deciles and mean</i>	<i>Capital city</i>	<i>Urban developed</i>	<i>Urban fringe</i>	<i>Urban regional</i>	<i>Rural</i>	<i>Remote</i>
Lowest	99	21	36	48	–	21
10 per cent	99	56	72	109	166	237
20 per cent	684	76	87	161	229	348
30 per cent	705	102	116	218	296	501
40 per cent	705	124	144	295	352	762
50 per cent (median)	838	148	165	414	437	1 073
60 per cent	1 557	157	229	504	521	1 461
70 per cent	1 557	201	265	590	655	2 365
80 per cent	2 527	268	487	658	842	3 674
90 per cent	3 400	346	556	745	1 118	6 651
Highest	3 400	643	7 193	2 370	4 576	19 557
Mean	1 401	178	384	432	578	2 463

^a Data based on 7 observations for capital city, 86 observations for urban developed, 50 observations for urban fringe, 108 observations for urban regional, 301 observations for rural and 75 observations for remote councils. ^b Estimates might differ from ABS or other published sources.

Source: ABS unpublished; Productivity Commission calculations.

Variation in 'other revenue' by council class

Capital city councils collect the highest 'other revenue' per person, with a median of \$395, followed by remote councils at \$174 (table 3.6). This revenue category includes various contributions, including developer charges, donations and fines. Urban developed councils raise the least, with a median of \$71 per person. Again, there is considerable variation across councils within each class. In this revenue category, fines are likely to contribute a relatively larger share in capital city and urban developed councils. In terms of rural and remote councils, contributions and donations are likely to account for a relatively large share of 'other revenue'. This includes items such as contributions for private work carried out by councils or work carried out on behalf of the roads and traffic authorities in each State.

Table 3.6 **Other revenue of councils by ACLG class**
2005-06, dollars per person^{a, b}

<i>Deciles and mean</i>	<i>Capital city</i>	<i>Urban developed</i>	<i>Urban fringe</i>	<i>Urban regional</i>	<i>Rural</i>	<i>Remote</i>
Lowest	51	8	–	2	–	–
10 per cent	51	17	26	34	13	7
20 per cent	102	39	47	62	32	50
30 per cent	330	47	66	84	59	80
40 per cent	330	63	110	109	76	121
50 per cent (median)	395	71	153	131	117	174
60 per cent	501	88	190	171	149	258
70 per cent	501	117	250	198	189	437
80 per cent	794	146	324	270	293	683
90 per cent	923	189	616	393	500	1 134
Highest	923	596	3 515	1 539	3 845	4 706
Mean	442	101	277	182	212	451

^a Data based on 7 observations for capital city, 86 observations for urban developed, 50 observations for urban fringe, 108 observations for urban regional, 301 observations for rural and 75 observations for remote councils. ^b Estimates might differ from ABS or other published sources.

Source: ABS unpublished; Productivity Commission calculations.

Variation in grants revenue by council class

All councils receive some financial assistance from other spheres of government. This includes the minimum grant as part of the Australian Government's general purpose grants and a share of identified road grants. Grants received (current and capital) by classes of local government are reported in table 3.7.

Table 3.7 Grants revenue of councils by ACLG class

2005-06, dollars per person^{a, b}

<i>Deciles and mean</i>	<i>Capital city</i>	<i>Urban developed</i>	<i>Urban fringe^c</i>	<i>Urban regional</i>	<i>Rural</i>	<i>Remote</i>
Lowest	58	30	49	61	95	468
10 per cent	58	44	85	103	240	1 030
20 per cent	86	54	98	130	362	1 525
30 per cent	101	63	110	179	482	2 724
40 per cent	101	71	123	220	607	3 404
50 per cent (median)	116	79	140	267	746	3 816
60 per cent	176	99	154	295	926	4 709
70 per cent	176	119	167	335	1 187	5 463
80 per cent	227	128	191	416	1 623	6 968
90 per cent	289	169	286	573	2 199	10 841
Highest	289	262	11 519	2 996	6 431	18 146
Mean	151	97	591	315	1 059	4 939

^a Data based on 7 observations for capital city, 86 observations for urban developed, 50 observations for urban fringe, 108 observations for urban regional, 301 observations for rural and 75 observations for remote councils. ^b Estimates might differ from ABS or other published sources. ^c The highest grants revenue per person in the urban fringe councils is Aurukun Shire, located in Cape York (Queensland). It is classed as urban because 90 per cent of the population live in the 'urban' area, defined as a concentration of more than 1000 people.

Source: ABS unpublished; Productivity Commission calculations.

Remote councils receive the highest grants, with a median of \$3816 per person, significantly more than all other council classes. Urban developed councils receive the lowest grants per person, with a median of \$79. In fact, the highest grants per person in urban developed councils (\$262 in Fremantle, Western Australia) are less than the lowest grants per person in remote councils (\$468 in Broome, Western Australia). The significant differences in grants received, in per person terms, between remote and rural councils on one end, and urban councils on the other, are due, in part, to the financial assistance grants being allocated to councils based on assessed need and disadvantage.

FINDING 3.4

Rural and remote councils receive substantial grants on a per person basis. Fifty per cent of remote councils receive grants in excess of \$3816 per person, compared with \$441 per person for 50 per cent of all councils. Ten per cent of remote councils receive in excess of \$10 841 per person, compared with \$3059 per person for 10 per cent of all councils.

3.4 Expenditure of local governments

In this section, data on the expenditure by local governments are presented, along with a discussion of some of the factors that might explain variability in expenditure across councils.

Levels of total expenditure by local government vary substantially (table 3.8). The lowest level of total expenditure by a local government in 2005-06 was \$0.4 million (Cox Peninsula) and the highest was \$1.4 billion (Brisbane City Council).

Table 3.8 **Expenditure by councils**
2005-06^{a, b}

<i>Deciles and mean</i>	<i>Total expenditure</i>	<i>Total expenditure per person</i>	<i>Employee expenses per person</i>	<i>Depreciation expenses per person</i>
	\$m	\$	\$	\$
Lowest	0.4	392	46	nr
10 per cent	3.3	673	246	117
20 per cent	5.3	871	305	165
30 per cent	7.9	1 092	368	229
40 per cent	10.8	1 257	432	286
50 per cent (median)	14.5	1 443	498	343
60 per cent	19.6	1 684	586	414
70 per cent	28.6	2 159	719	551
80 per cent	48.4	3 072	1 067	783
90 per cent	82.1	5 261	1 659	1 357
Highest	1 438.2	33 511	8 970	18 154
Mean	32.8	2 570	860	644

^a The deciles presented in each column in this table are derived independently of those in other columns. The figures should not be summed or compared across columns. For example, the local government whose minimum is reported in 'total expenditure' might not be the same local government whose minimum appears for the other column variables. ^b Data are based on 624 observations. **nr** Not reported due to data deficiencies.

Source: ABS unpublished; Productivity Commission calculations.

There is a wide spread in the expenditure undertaken by councils between the top 30 per cent (at least \$28.6 million per council) and the bottom 30 per cent (\$7.9 million per council or less). The median value of council expenditure was \$14.5 million in 2005-06.

In per person terms, the local government with the lowest expenditure was Kalamunda, at \$392, and the highest was Diamantina, at \$33 511.³ Thirty per cent of councils' expenditure was less than \$1092 per person and another 30 per cent of councils spent more than \$2159 per person.

On average, almost two thirds of expenditure by councils is accounted for by employee expenses and depreciation. As illustrated in table 3.8, for the median council, employee expenses per person (\$498), represented about one third of the total expenditure (\$1443 per person) in 2005-06. Employee expenses, on a per person basis, were greater than depreciation expenses across councils, as grouped by deciles. Depreciation expenses per person varied across deciles and were less than \$783 per person for 80 per cent of councils.

Variation in expenditure by council class

Remote local governments undertake the highest expenditure relative to other classes of councils, with a median of \$6064 per person in 2005-06. Urban developed and urban fringe councils have the lowest median expenditure per person (table 3.9).

There are a variety of factors that contribute to these differences. The costs of delivering services in rural and remote areas are likely to be higher than in urban areas. Smaller local economies are less likely to achieve economies of scale and scope. For example, the NSW Local Government Grants Commission applies a disability factor that recognises the higher per person costs of providing halls, pools and playing fields in smaller communities (NSW LGGC 2006, pp. 45–52). This reflects the minimum overhead costs in service delivery. The fewer people over which to spread these fixed costs, the more expensive per person the service is to deliver.

Some local governments attempt to overcome their small population size and density by forming partnerships to deliver shared services,⁴ or by entering into shared service agreements (for example, in terms of waste management, library

³ Diamantina's population was about 300 in 2005-06. Its own-source revenue was about \$22 500 per person and grants revenue was about \$15 400 per person. Roads (about 1800 kilometres) are one of the major expenditures of the shire.

⁴ For example, the New England Strategic Alliance which consists of Armidale Dumaresq, Guyra, Uralla and Walcha councils, is a cooperative operational group.

services and health).⁵ However, where there are large distances between communities in neighbouring councils, the feasibility of forming a partnership or entering into a shared service arrangement is lower (Dollery and Byrnes, 2005). The ability of such communities to reap scale economies is diminished.

Table 3.9 Total expenditure of councils by ACLG class
2005-06, dollars per person^{a, b}

<i>Deciles and mean</i>	<i>Capital city</i>	<i>Urban developed</i>	<i>Urban fringe^c</i>	<i>Urban regional</i>	<i>Rural</i>	<i>Remote</i>
Lowest	594	474	392	589	599	1 087
10 per cent	594	555	553	785	1 101	2 061
20 per cent	1 450	598	600	919	1 278	2 869
30 per cent	1 742	636	644	994	1 434	4 012
40 per cent	1 742	693	701	1 126	1 612	5 123
50 per cent (median)	1 751	714	736	1 210	1 775	6 064
60 per cent	4 027	744	805	1 261	2 100	8 187
70 per cent	4 027	826	968	1 371	2 551	9 695
80 per cent	6 046	931	1 086	1 448	3 072	11 499
90 per cent	6 288	1 029	1 309	1 641	4 146	17 144
Highest	6 288	1 924	19 301	5 522	10 009	33 511
Mean	3 128	774	1 457	1 254	2 285	8 334

^a Data based on 7 observations for capital city, 86 observations for urban developed, 50 observations for urban fringe, 107 observations for urban regional, 299 observations for rural and 75 observations for remote councils. ^b Estimates might differ from ABS or other published sources. ^c The highest expenditure per person in the urban fringe councils is Aurukun Shire, located in Cape York (Queensland). It is classed as urban because 90 per cent of the population live in the 'urban' area, defined as a concentration of more than 1000 people.

Source: ABS unpublished; Productivity Commission calculations.

Additionally, as a result of their location, more remote local governments are likely to have higher unit costs of purchasing materials and services. The further they are from large urban centres, the higher the transport costs of materials. There might also be a greater need to pay a premium on wages and salaries in order to attract staff to the area (Australian Chief Executive Officers Group, sub. 18; Municipal Association of Victoria, sub. 22).

⁵ An example of a local government undertaking such agreements is the Town of Walkerville in South Australia (Dollery and Byrnes, 2005). For instance, the Town of Walkerville entered into agreements for waste management with a number of councils, including Burnside and Adelaide Hills. Home care services are provided in cooperation with the City of Prospect.

Variation in expenditure by function

Local government expenditure by function is illustrated in table 3.10 (in per person terms). There is variation in expenditure within functions and services across ACLG classes, as well as across functions and services within each council class.

Transport and communication expenditure (primarily expenditure on roads) is the largest in remote councils, at \$1584 per person, followed by \$664 per person in rural councils. Transport and communication is also the largest per person expenditure function in remote councils. On the other hand, expenditure per person on transport and communication is relatively low in urban developed councils (\$120) and urban fringe councils (\$160).

Table 3.10 Local government expenditure by function and ACLG class
2005-06, dollars per person, median values^{a, b}

<i>Function</i>	<i>Capital city</i>	<i>Urban developed</i>	<i>Urban fringe</i>	<i>Urban regional</i>	<i>Rural</i>	<i>Remote</i>
Transport and communications	419	120	160	263	664	1 584
Housing and community amenities	590	150	183	259	295	761
General public services	298	126	105	175	287	1 115
Recreation and culture	409	148	132	157	172	289
Health	20	8	9	11	26	258
Social security and welfare	50	38	24	30	21	195
Education	10	3	9	3	5	65
Public order and safety	14	14	16	17	17	32
Other ^c	405	31	40	83	105	341

^a Data based on 7 observations for capital city, 86 observations for Urban developed, 50 observations for urban fringe, 107 observations for urban regional, 299 observations for rural and 75 observations for remote councils. ^b Estimates might differ from ABS or other published sources. ^c 'Other' includes expenditures not classified elsewhere, including fuel and energy, agriculture, forestry and mining.

Source: ABS unpublished; Productivity Commission calculations.

Expenditure on recreation and culture includes public halls and civic centres, swimming pools, libraries, museums and other. In urban developed councils, at \$148 per person, it is the second largest expenditure function. Although broadly similar expenditure per person is observable in urban regional councils, per person expenditure for this council class on recreation and culture is considerably lower than expenditure on other functions such as housing and community services.

The housing and community amenities function includes the provision of water and sewerage services. As noted in chapter 2, these services are provided by local governments in some jurisdictions. As such, the values for this function across ACLG classes should be interpreted carefully.

The figures for capital cities should be also considered cautiously due to the unique nature of capital city councils, as well as the variability within this class. For example, there are only seven capital cities and their rate base has a large business component. Services are provided (and revenue raised) from non-residents and there is a relatively smaller resident population. Per person expenditure (and revenue) figures may be misleading.⁶

There is evidence from submissions to suggest that different service mixes are undertaken by rural and remote local governments compared with their urban counterparts, which then leads to different revenue requirements. This is also partly observable from table 3.10. For example, rural and remote local governments have more kilometres of road per person to be maintained (as noted earlier). In Victoria, road expenditure per person for rural councils is \$406, on average, compared with \$102 in urban councils. Furthermore, this road expenditure accounts for 43 per cent of rural councils' total expenditure compared with 20 per cent for urban councils (Victorian Farmers Federation, sub. 31). In 2005-06, there were 67 councils across Australia for which more than half of their total expenditure was allocated to transport and communication services. The majority were remote councils.

As noted, rural and remote local governments appear to provide a broader range of services than urban local governments as they fill service gaps that would be undertaken by other spheres of government or the private sector in urban areas (Australian Chief Executive Officers Group, sub. 18). For example, in response to community needs, some rural and remote local governments operate aerodromes so that their community can access fly-in medical care. A small number of councils, for example, in rural and remote Western Australia, provide funding for local general practitioner services. The undertaking of a broader range of services, in combination with the increased road spending, partly explains the higher total expenditure per person and hence the higher revenue requirement per person in rural and remote councils.

FINDING 3.5

Expenditure per person varies considerably across councils. Rural and remote councils have higher expenditure per person, on average, compared with urban councils. This is largely explained by the inability of rural and remote councils to capture scale economies, having to pay higher input costs, maintaining more kilometres of roads per person and undertaking a relatively more extensive service mix.

⁶ This is less applicable for Brisbane City Council.