
7 Impacts on individuals and businesses

Key points

- Councils have some scope to influence the impact of revenue raised across residents and users of services. The instruments available to local governments include different rating structures and valuation methods, and choices about which services to include and exclude from their rates-funded budgets.
 - Assessing the distributional impacts within council areas is difficult. There is a lack of information matching the incomes received and payments made on rates, and fees and charges, by residents. Also, non-residents contribute to both rates and fees and charges revenues to different degrees in different local government areas.
- There is a limited number of Australian studies that attempt to measure the distributional impact of rates, and of fees and charges, across councils. Notwithstanding the data and measurement difficulties, a number of indicators across councils are reported on the impacts on communities of local government revenue raising.
- The estimates have been derived using data from the ABS and State grants commissions, and from the Household Expenditure Survey. In general, the estimates indicate that the ratio of expenditure on rates to income across local governments is lower at higher levels of community income.
 - The analysis in this study suggests that rates incidence is between 1.5 per cent and 1.8 per cent of after-tax income for the majority of councils.
 - In terms of the Household Expenditure Survey data, the rates incidence is estimated to be about 1.7 per cent or less for 50 per cent of households.
- There is some variation in the incidence of rates at the national and state levels. The incidence of rates are generally higher for rural and remote councils than for urban councils.
- Even setting aside data limitations, providing meaningful measures of the net burden of fees and charges across local government areas is complex, as the provision of user-pay services might be discretionary or compulsory, fully paid for by users or cross-subsidised from rates.
 - Consequently, estimates of the burden of fees and charges need to be treated with particular caution.

The Commission has been asked to assess the impacts of local government revenue raising on individuals, organisations and businesses. The approach taken to assessing the impacts of rates, and of fees and charges, depends on the purpose of the assessment. The purpose here is to assess the burden that rates, and fees and charges, impose on those who pay them (that is, the distributional effects).

In section 7.1, issues related to assessing the impacts of rates, and of fees and charges, on communities are discussed. This is followed by a summary of previous international and Australian studies on the incidence of rates, which provides some information about the magnitude of the impacts on communities (section 7.2). In section 7.3, the indicators available to assess the impacts on communities are briefly discussed. In sections 7.4 to 7.6, estimates of the incidence of rates on communities are presented, drawing on available data. In section 7.7, issues with defining and measuring the burdens of revenue raising from fees and charges are discussed and estimates of (purely indicative) ‘burdens’ are presented.

7.1 Issues about assessing the impacts

In this section, the basic principles commonly used to assess distributional impacts are discussed first. This is followed by a brief discussion of how rates are perceived in the community and the scope for councils to influence the distribution of rates and fees and charges. The available indicators of incidence presented in this chapter and their interpretation are then considered, including a discussion of the shifting of the rates burden.

The benefit principle and the ability to pay principle

There are two principles commonly used to assess the distributional impacts of revenue raising. These are the *benefit principle* and the *ability to pay principle*. Under the benefit principle, distributional judgments are based on the extent to which those who benefit from (and value) services provided by councils contribute to the total costs of providing those services. Under the ability to pay principle, distributional judgments are based on the extent to which individuals contribute to the cost of services based on their ability to pay, normally measured by their incomes (Abelson 2003; Musgrave and Musgrave 1989).

Councils are likely to have multiple objectives in setting rates and fees and charges. In practice, they appear to apply a combination of the benefit and ability to pay principles. For example, according to the City of Marion (2003), the council considered both the benefit principle and the ability to pay principle in its decision to adjust the ‘rate in the dollar’.

The Local Government Association of Tasmania (sub. 42, p. 8) noted that councils:

... do not have access to income information [of ratepayers]. General rates are, therefore, based on a notion of fairness.

Hornsby Shire Council (sub. 40, p. 16) noted:

Councils' rating structures are based on principles of equity and approximate ability to pay. This is achieved by combining minimum rates, base rates and ad valorem rating.

Concessions, given to some ratepayers, reflect the ability to pay principle, whereby rates for concession holders are subsidised by other sources of revenue. The higher the value of concessions, the greater the amount of revenue needed to be raised from other sources, or ratepayers, in order to maintain expenditure levels.¹ The City of Boroondara (sub. 24, p. 7) stated:

Any exemptions and concessions automatically transfer the burden of the tax to be raised amongst the remaining ratepayers. This creates distortions in the equitable distribution of the tax burden ...

The common application of a combination of minimum and variable rates by councils suggests that both principles are being applied. The application of minimum rates indicates that councils give weight to the benefit principle, if the owners of properties receive similar benefits from at least some services to property, irrespective of property values. On the other hand, the use of the variable component suggests that weight is also given to the ability to pay principle. That is, if the benefits from services funded by rates or other compulsory charges are not substantially higher to owners of higher-valued properties than to owners of lower-valued properties.

Obtaining data to enable to assess the application of the benefit principle is difficult in practice. It requires knowledge of the total cost of each service and of the benefits accruing to individuals consuming each service. The valuation of the benefits individuals obtain from using local services is difficult to estimate at the council level, particularly when they are public goods and services. Using data to apply the ability to pay principle is less difficult, but challenging nevertheless. Incomes of households and businesses, which are usually used as the indicator of ability to pay, are generally not observable by councils. Local government rates apply to property values and not income, so councils can only indirectly seek to apply the ability to pay principle, to the extent that the incomes of taxpayers are correlated with property values.

¹ The exception to this is where, for example, State governments reimburse councils for concessions granted to pensioners (chapter 6).

It has not been possible for the Commission to apply either the benefit or ability to pay principle to assessing the distributional impacts of revenue raised by local governments because of:

- a lack of information on the relationship between the rates, and fees and charges, paid by residents and businesses and their incomes *within* council areas
- a lack of information for each service provided by councils about the benefits received by households and businesses and the total costs of providing these services.

The indicators used in this chapter to estimate the impacts of local government revenue raising cannot be used to make inferences about the extent of the use of the benefit principle and/or the ability to pay principle.

How rates are perceived in the community

Property rates are the only tax available to local governments. They are necessary to fund the level and quality of public goods and services (particularly local roads and bridges, drainage systems, street lighting and parks and gardens), for which direct fees and charges cannot be applied. Rates are also typically used to subsidise the use of some local government services for which fees and charges can be applied (such as for sport and recreation facilities), in order to provide some degree of equity and access to users. In addition, rates concessions are given to low income residents, especially aged pensioners.

A number of reasons have been advanced to explain why rates might be perceived as unpopular, among them: ²

- rates are a highly visible form of tax, especially for residential ratepayers
- ratepayers do not consider they are getting value for money (the rates paid do not necessarily align with perceived benefits of ratepayers)
- rates payments are not closely aligned with ratepayers' *cash flow*, unlike income tax which, for most, is paid as income is received. This is a particularly contentious issue for farmers and others with fluctuating incomes
- property rates are perceived by many, especially those on lower cash incomes including pensioners, as a regressive tax

² These issues were broadly canvassed during roundtable discussions organised by the Commission in late February 2008 with representatives from local governments, local government associations, relevant State departments and other interested parties.

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- it has been suggested that the unpopularity of rates has been compounded by requirements imposed on local governments by State governments to collect levies, some of which are also based on property values, for state-wide or regional purposes.

It is possible that property rates are little or no more unpopular than other taxes, but that people feel relatively powerless to affect them. They find it easier, less costly, and with a perceived greater probability of success to mobilise and coordinate a campaign against (especially increases in) rates than attempting to influence State, and more so, Commonwealth taxes.

However, property rates have considerable strengths as a local tax. For one thing, they are the only tax available to local communities to provide a substantial degree of autonomy over the nature, level and quality of local services. They also serve to test the underlying willingness of the community to pay for local services that cannot be funded from fees and charges.

Rates are also a relatively efficient tax, in the sense that they create no or few distortions in choices, as discussed in chapter 6. They are cost effective to collect and difficult to avoid because property is immobile and ownership is relatively easily identified. Moreover, compared with other taxes, there is a high degree of predictability to decision makers and ratepayers of the revenue that is likely to be collected over time.

Councils can impact on the distributional outcomes in many ways

As a general rule, the prior expectations in undertaking analysis of the distributional impact of rates are that:

- with only a flat ‘rate in the dollar’, rates payments cannot be progressive with respect to income, unless property values are progressive relative to income. That is, when property values of higher-income ratepayers are a higher ratio to their incomes than is the case for lower-income ratepayers. If property values are ‘regressive’ relative to incomes, then a flat ‘rate in the dollar’ leads to rates being regressive.
- other things equal, imposing a minimum (or fixed) charge makes rates more regressive (or less progressive) than otherwise.

The degree of regressivity depends on the level of the minimum (or fixed) charge (if any), the level of the ‘rate in the dollar’ and the degree of regressivity between property values and income.

In chapter 6, it was noted that councils have the scope to influence the distribution of rates and fees and charges across residents and users of services, including by altering:

- the percentage rate in the dollar applied to the value of rateable land
- the structure of rates (for example, imposing fixed (or minimum) and variable components, tiered or differential rates)
- the categorisation of land for the purpose of applying differential rates (for example, residential, commercial or rural)
- the valuation method applied to each category of land (where councils can choose between methods)
- the levels of fees and charges and the extent to which they fully recover costs or rely on cross-subsidies from rates revenue
- the concessions available for particular classes of property use or property owners or users of services.

Ideally, assessing the impacts on individuals, businesses and organisations of revenue raised by local councils should be undertaken *within* each local government area. This would provide information about how the burden of financing a given bundle of local government services affects people with different levels of income. Such analysis would require the matching of the incomes of residents with their corresponding rates payments on properties and the fees and charges they pay (and the benefits they receive in return) within each local government area.³

A set of hypothetical examples of rates incidence (rates paid by households relative to their income) within and between councils is provided below (box 7.1). The example illustrates how differences in the rating structures and methodologies applied by councils impact on the total rates paid by households when compared with their incomes. The example also illustrates how the average rates incidence at the council level can differ between councils, depending on the distribution of household incomes within councils, even when councils apply identical rate structures and have identical property values.

³ In appendix G, the incidence of residential rates is estimated within a council based on rates revenue and income of residents at the postcode level for the City of Charles Sturt (South Australia). While the analysis illustrates how the rates burdens vary at the postcode level, they are only average measures and do not illustrate the impact of rates relative to income within each postcode.

Box 7.1 Rates incidence within and between councils

Councils A and B have a rating strategy that partly embodies the application of the benefit principle by imposing an identical fixed charge for their rates. Councils C and D have a rating strategy that reflects a greater emphasis on the ability to pay principle, where the total rates are based on an identical 'rate in the dollar' on the value of property. The distribution of household income is identical in councils A and C and councils B and D, and the levels of household income are the same for councils A and B and councils C and D.

	<i>Fixed charge</i>	<i>Rate in the dollar</i>	<i>Property valuation</i>	<i>Total rates</i>	<i>Income</i>	<i>Household weight</i>	<i>Rates incidence^a</i>
	\$	\$	\$	\$	\$	%	%
Council A							
Household I	300	0.002744	200 000	849	37 000	0.25	2.3
Household II	300	0.002744	250 000	986	45 000	0.25	2.2
Household III	300	0.002744	325 000	1 192	57 000	0.25	2.1
Household IV	300	0.002744	400 000	1 398	72 000	0.25	1.9
Average (unweighted)	1 200	0.002744	1 175 000	4 424	211 000		2.1
Council B							
Household I	300	0.002744	200 000	849	37 000	0.40	2.3
Household II	300	0.002744	250 000	986	45 000	0.40	2.2
Household III	300	0.002744	325 000	1 192	57 000	0.15	2.1
Household IV	300	0.002744	400 000	1 398	72 000	0.05	1.9
Average (weighted)	1 200	0.002744	1 175 000	4 424	211 000		2.2
Council C							
Household I	0	0.002293	400 000	917	47 000	0.25	2.0
Household II	0	0.002293	450 000	1 032	55 000	0.25	1.9
Household III	0	0.002293	550 000	1 261	90 000	0.25	1.4
Household IV	0	0.002293	700 000	1 605	120 000	0.25	1.3
Average (unweighted)	0	0.002293	2 100 000	4 816	312 000		1.6
Council D							
Household I	0	0.002293	400 000	917	47 000	0.40	2.0
Household II	0	0.002293	450 000	1 032	55 000	0.40	1.9
Household III	0	0.002293	550 000	1 261	90 000	0.15	1.4
Household IV	0	0.002293	700 000	1 605	120 000	0.05	1.3
Average (weighted)	0	0.002293	2 100 000	4 816	312 000		1.8

^a The rates incidence for each household refers to the rates paid on property divided by household income. Average rates incidence for each council is derived using the household incidence rates and the corresponding household weight within each council. Given the equal weights for households in councils A and C, the weighted average rates incidence is equal to the unweighted average rates incidence for these councils. The unweighted average rates incidence for councils B and D are 2.1 per cent and 1.5 per cent, respectively.

Source: Productivity Commission calculations.

Based on these hypothetical examples in box 7.1, the average rates incidence is lower in the councils with higher incomes (councils C and D). In other words, as income increases, expenditure on rates increases at a diminishing rate. The average rates incidence at the council level is also lower for councils in which there is a greater share of higher income households (council C). However, within council C, the rates incidence is more regressive (where it is 2 per cent for lower-income households and 1.3 per cent for higher-income households) compared with council A, for example.

The above illustration demonstrates that comparisons of aggregate measures of incidence across councils can be misleading. They can disguise what is occurring within each council, for example:

- councils might have the same rate structure, property values and aggregate income. A difference in the average rates incidence at the council level could be due to the varying distribution of household income within councils
- rate structures between councils may vary and imply a different average incidence of rates, even though property values and the aggregate income of the community and its distribution might be the same
- levels of income between councils may differ and will lead to a different average incidence of rates for the same rate structure and property values and distribution of household income
- the relationship between income and property values is not uniform across councils
- an average rates incidence measure across councils could reflect the preferences of the community for services provided by their local government.

Available data and interpretation of incidence measures

As noted earlier, there are no data available on the rates paid by residents and businesses relative to their incomes within a council area. Two principal sources of data are used:

- aggregate data on revenue and income for each local government area (LGA) in Australia, sourced from the ATO, the ABS and State grants commissions.⁴ There are deficiencies in these data, as described in chapter 3 and appendix C
- household income and expenditure on rates, sourced from the Household Expenditure Survey of the ABS.

⁴ The ATO data were provided at the council level by the Bureau of Transport and Regional Economics (BTRE) (appendix C).

Based on the LGA data, the indicators of average incidence of each council area are defined as the aggregate rates paid by residents divided by the estimated aggregate disposable income of the local community. These indicators cannot be used to infer the distribution of incidence within councils, as illustrated in box 7.1. They do not reveal the nature of the incidence of rates across individuals within each council. It is possible that councils have rate structures that impose higher rate burdens on higher-income property owners, but that the average incidence might be higher in councils with lower average incomes because expenditure on local services as a share of income is relatively higher.

Nationally, each council sets its rates, and fees and charges, taking into account its budgeted expenditure and community preferences, as well as grants from other spheres of government. This process is guided by the democratic process in each local government area. The incidence from the community's perspective reported in this chapter is a measure of the rates revenue-raising effort from the local government's perspective. As such, it is likely to be an indirect indicator of the overall willingness to pay of the local community rather than a measure of the distribution of the revenue-raising burden within councils, based on residents' ability to pay.

When viewed collectively across local governments, the reported incidence indicators reflect the average propensities of local communities to consume local government services as disposable income varies across councils.⁵ The incidence indicator (or rates revenue-raising effort) in different local governments reflects different levels of expenditure and local community preferences (or benefits received). As such, a relatively high or low incidence should not be viewed as necessarily a good or bad outcome for the community.

In the case of the Household Expenditure Survey, incidence is defined as the expenditure on rates by households divided by household total disposable income. The Household Expenditure Survey has advantages over the data available by LGA in that disposable income includes income from social welfare payments (as reported by respondents) and is measured by household rather than as an average over an entire council. Nevertheless, it is a less than complete measure of income because some of the returns on assets owned by households are not included in the measure of disposable income. Like the LGA data, the HES observations are across (different and unidentified) councils rather than within observable councils. Thus,

⁵ Average propensity to consume refers to the percentage of income spent rather than saved. As income increases, the evidence suggests that individuals' demand for local government services increases but at a diminishing rate. For councils with high-income communities, the average propensity to consume local council services is relatively low compared with councils with low-income communities.

the distribution of the rates burden across residents within a council is not observable from the HES data.

Incidence of rates and their shifting

An assessment of the distributional impacts of rates is about who ultimately bears the burden of rates, that is, who in the community ends up paying the council rates.⁶ This can be a complex analysis that extends beyond the initial legal or statutory requirement to pay the rates (that is, the legal incidence). Rates paid by businesses, for example, may be ‘shifted forward’ (to consumers) through higher prices of goods and services and/or ‘shifted backward’ (to suppliers of services such as tradesmen, contractors and others) by offering lower input prices. That is, the ultimate (economic) incidence can differ (significantly) from the legal incidence (Boadway and Wildasin 1984; Stiglitz 1988).

The extent to which ratepayers are able to shift the rates burden forwards or backwards depends on the market and institutional circumstances they face. Importantly, however, the tax deductibility of rates enables the rates expense incurred by a business or by a rental investor to be shifted, in part, to taxpayers more generally.

The incidence of rates may be analysed in terms of the legal incidence, a partial equilibrium framework or a general equilibrium framework. In the context of legal incidence, no account is taken of the shifting of the rates burden to others in the community. Partial equilibrium analysis takes into account some shifting of the impact of rates in terms of a single market, but it ignores any flow-on effects to other markets.⁷ General equilibrium analysis extends the partial equilibrium framework to all market interactions, and measures changes in incomes after all adjustments have taken place across the economy (Entin 2004; Zodrow 1999).

Analysing the distributional impacts of rates at the local government level using partial and general equilibrium frameworks is difficult for two reasons. First, there are lack of detailed, consolidated data on the legal incidence of rates across type of

⁶ Although there is a clear distinction between the terminology of the incidence of rates and the burden of rates in the economics literature, in this chapter the two definitions are used interchangeably. Fullerton and Metcalf (2002) and Zodrow (1999) provide recent reviews of the literature on tax incidence.

⁷ The actual incidence will be the same as the legal incidence when no forward or backward shifting takes place. If shifting of the burden is possible, then the partial (and general) equilibrium incidence differs from the legal incidence.

households and type of businesses. Second, suitable general equilibrium economic models at the local government level are not available.

The difficulty in estimating the partial or general equilibrium incidence has been acknowledged in the economics literature. As noted by Zodrow (1999, p. 200):

... the incidence of many taxes — especially those on capital income, including corporate income taxes and local property taxes — is still a controversial topic. More generally, there is considerable disagreement about various theoretical issues, including the appropriate market structure for incidence analysis and the extent to which capital is mobile internationally; similarly, there is a lack of consensus on various empirical issues, including the parameter values that should be used in numerical simulations of the theoretical models.

It also has been noted that the results of studies beyond the legal incidence of rates and other taxes:

... depend not upon hard science but upon subjective assumptions — and that the only thing that can be said with certainty is that no one really knows how taxes (particularly those levied on property and business) are shifted (Office of the Comptroller of Texas 2007, p. 44).

Consequently, the empirical analysis presented in this chapter is largely based on the legal incidence of rates, adjusted, where possible, for the tax deductibility of rates payments.

FINDING 7.1

The available data and measurement limitations make it impossible to estimate the distributional impacts of revenue raising within councils.

7.2 Previous studies of the distributional impacts of rates

This section summarises a number of international and Australian studies of the incidence of rates at the local government level. International studies are considered first, in order to gain insight into the distributional impacts of rates from evidence in the United States and the United Kingdom. This is followed by a summary of Australian studies.

International studies of rates incidence

Caution should be exercised in interpreting evidence drawn from international studies. As noted in chapter 2, the roles and functions of local governments vary

significantly across countries. The tax systems are also different. For example, in the United States, property taxes (as well as mortgage interest payments) are a deductible expense for personal income tax purposes. Consequently, part of the burden of property taxes is shifted from households to the US Federal Government.

McIntyre et al. (2003) examined the incidence of state and local property taxes paid by income groups in the United States. The average results for all US States are summarised in table 7.1. The authors noted that ‘property taxes, including both taxes on individuals and business taxes, are usually somewhat regressive’ (McIntyre et al. 2003, p. 4).

Table 7.1 Incidence of state and local taxes in the United States
2002 tax system for 2000 income data, average of 50 US States, per cent^a

<i>Income quartiles</i>	<i>Lowest</i>	<i>2</i>	<i>3</i>	<i>Highest</i>
Property taxes on families	3.0	2.2	2.4	2.4
Other property taxes	0.1	0.1	0.1	0.2

^a Shares of family income for non-elderly taxpayers.

Source: McIntyre et al. (2003).

In another study, Minnesota Revenue (2007) assessed the (economic) incidence of local taxes in relation to taxpayer income in the US State of Minnesota. They found that local residential property taxes, largely consisting of a general property tax, represented a greater share of income for low-income earners than for high-income earners (table 7.2).

Table 7.2 Incidence of local property taxes in the US State of Minnesota
2004, taxes as share of gross income, per cent^{a, b}

<i>Income deciles</i>	<i>Lowest</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>	<i>8</i>	<i>9</i>	<i>Highest</i>
Residential	3.5	2.9	2.6	2.5	2.3	2.2	2.1	1.9	1.3	0.4
Homeowners	2.5	2.2	2.2	2.1	2.0	1.9	1.9	1.6	1.1	0.4
Renters	0.6	0.4	0.2	0.1	0.1	–	–	–	–	–
Rental property investors	0.3	0.2	0.2	0.2	0.2	0.2	0.1	0.2	0.2	0.1
Business	1.1	0.8	0.8	0.6	0.6	0.5	0.5	0.6	0.4	0.3

^a – rounded to zero. ^b Numbers may not add up due to rounding.

Source: Minnesota Revenue (2007).

The UK Office of National Statistics (2007) examines, on an annual basis, the incidence of taxes on households by income groups. The estimates for 2005-06 indicated that council taxes, as a percentage of gross income, decreased as income rose, ranging from 5.2 per cent for the lowest quintile to 1.7 per cent for the highest quintile (table 7.3).

Table 7.3 Incidence of council rates in the United Kingdom
2005-06, percentages of gross income by quintiles

<i>Income quintiles</i>	<i>Lowest</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>Highest</i>
Council tax ^a	5.2	3.9	3.2	2.7	1.7

^a Includes Northern Ireland rates and after subtracting discounts, council tax benefits and rates rebates.

Source: UK Office of National Statistics (2007).

Australian studies of rates incidence

Bentley (1973) estimated that rates as a percentage of household income decreased from 6.4 per cent in the lowest income decile to 0.5 per cent in the highest income decile. Bentley, Collins and Drane (1974) observed that the share of rates to total household income ranged from about 4.8 per cent for low-income households to about 1 per cent for households with incomes in the highest decile.

Wood (1999) measured the distributional characteristics of residential property taxes with respect to net personal wealth and gross household income. He found that the incidence of residential property taxes decreased with net personal wealth, falling from 0.9 per cent of net personal wealth in the lowest decile to 0.2 per cent in the highest decile. In terms of gross household income, the incidence followed a similar trend, falling from 4.2 per cent in the lowest income decile to 1.2 per cent in the highest income decile. Wood noted that residential property taxes were a relatively high burden on the net personal wealth of young home-owner households because they have relatively high housing-related debt.

Based on household expenditure and income data for 1996-97, Harding and Warren (1999) examined the incidence of local council rates in Australia. In absolute terms, weekly expenditure on council rates increased between the lowest and highest income quintiles. However, council rates paid as a ratio of gross income decreased from 3.6 per cent in the lowest income quintile to 1.2 per cent in the highest income quintile. One reason for this trend, as mentioned by the authors, was that the elderly were clustered in the lowest and second lowest quintiles of income. Although the elderly had low levels of income, they also tended to have high levels of wealth in the form of land and housing. This illustrates, in part, the '... deficiencies of gross income as a measure of economic resources' (Harding and Warren 1999, p. 11).

The ALGA (2006) reported on the incidence of rates in terms of household disposable income (excluding government benefits). Across Australia, the incidence was estimated at 1.8 per cent in 2005. Rural areas had the highest incidence of

2.4 per cent. The rates incidence in 2005 was broadly unchanged from estimates of the rates incidence for 1991.

The Australian studies cited above are not rates incidence studies *within* council areas. Rather, they are measures of the burden of rates on households *across* councils, either nationally or within a State or region.

FINDING 7.2

Few Australian studies have attempted to measure the distributional impact of rates across households, either nationally or within states or regions. The evidence from studies that have been undertaken, which only assess burdens across councils and not within councils, suggest that residential rates decrease as a share of income as income increases. This is consistent with similar international evidence.

7.3 Indicators of the impacts

Developing indicators that can be used to provide insights into the impacts of rates, and fees and charges on individuals, businesses and organisations has been difficult, given the lack of data sources available at the local government level. In this section, the indicators used are briefly discussed.

Available indicators

It has not been possible to develop indicators of the impacts of rates, and fees and charges on organisations. Some organisations, such as government agencies, charities, educational, sporting and religious bodies, generally are exempt from paying rates. However, there are no detailed and consolidated data about the extent of rates exemptions across councils. As noted by North Sydney Council (sub. 13, p. 5), if these organisations were rateable, the council could expect to receive a significant increase in rates revenue. However, the extent of the potential increase would vary between councils.

Although implicitly included in the analysis of total rates incidence, the incidence of rural rates has not been estimated separately. This is due to income data deficiencies and the difficulty of estimating the shares of personal income and business income sourced from farming activities at the council level.

Consequently, the analysis in the remainder of this chapter focuses on the incidence on individuals (and households) and businesses.

Incidence analysis using the LGA data

As noted earlier in this chapter, the approach to measuring the incidence using the LGA data relies on average indicators at the level of each local government. Personal income data are available only at an aggregate level for different local government areas, not by income or resident classes within areas. The incidence indicators reflect the expenditure decisions (exclusive of grants) by councils rather than their rating and pricing policies.

Indicators of the incidence of rates

The measures of the incidence of rates presented in this chapter are estimated using rates revenue and income data at the local government level. Three indicators are used to provide insights into the incidence of rates using the LGA data.

- Total rates incidence — defined as the ratio of total rates paid by a community in each council area to the estimated total net (after-tax) income in that local government area. This indicator is the same as the measure of the revenue-raising effort (relating to own-source revenue) discussed in chapter 5 and appendix C. It is used here to compare the aggregate, average, incidence of rates across councils. Total rates revenue refers to the rates revenue collected by councils from all types of properties — residential, business, rural and other. Both the personal income and business income data refer to (after-tax) disposable income.
- Residential rates incidence — defined as the ratio of total residential rates paid by a community in each local government area to the estimated personal net (after-tax) income of residents in that local government area. This indicator is used to compare the average incidence of residential rates across councils.
 - In the context of the rates paid on residential property, the tax deductibility of residential rates for property investors has been taken into account using the share of rented properties and an estimate of average marginal tax rates of individuals in each local government area.
 - In the context of net income of individuals, the personal net income data from the ATO take into account deductions made by individuals. By definition, residential rates have been deducted as an expense by eligible individual taxpayers (that is, those personal income taxpayers that derive income from residential property investments). Rental income of personal income taxpayers may be significant for some taxpayers in some councils. According to the ATO (2007), about 14 per cent of personal income taxpayers received

net rent income in 2004-05.⁸

- Business rates incidence — defined as the ratio of total business rates paid in each council area to the estimated net (after-tax) income of businesses in that local government area. This indicator is used to compare the average incidence of business rates across councils. The tax deductibility of business rates has been taken into account using a business (company) tax rate of 30 per cent. Business rates include commercial and industrial rates.

Indicator of the impact of fees and charges

The impact of fees and charges is defined as the ratio of total fees and charges revenue received by each council area to the estimated total net (after-tax) personal and business income of that local government area. This indicator is used to compare the overall ‘impact’ of total fees and charges across councils. It has not been possible to disaggregate the analysis by types of residents (for example, individuals or businesses) or to take into account the tax deductibility of relevant fees and charges.

Also, it has not been possible to identify separately the fees and charges revenue attributable to use of local government services by non-residents. Where these are substantial (for example, in central business districts and where tourist attractions are located), the measured average impact of fees and charges on residents will be significantly overstated.

Caution is required when interpreting the estimates of the impact of fees and charges revenue relative to the income of the community. For example, it has not been possible to distinguish from the available data the number of services for which fees and charges are applied in each local government area that are compulsory or discretionary, fully or partially cost recovered or cross-subsidised from other revenue sources (especially rates). The net distributional impact, taking into account all these considerations, is therefore difficult to measure.

Indicators of effective property rates

As there are some limitations in the measure of income used for the indicators on the incidence of rates using the LGA data, indicators of effective property rates provide an alternative insight into the impacts on the community. That is, the impacts are considered in terms of comparing rates revenue to the valuation of properties. In broad terms, property values are likely to be at least partially

⁸ Some of this net rent income may be sourced from non-residential property investments.

correlated with the (broadly defined) income of individuals. Effective property rates are analysed in appendix E.

Incidence analysis using the HES data

The measure of residential rates incidence is estimated using the 2003-04 ABS Household Expenditure Survey. Rates incidence is defined as the ratio of rates paid by the particular household to household disposable (after-tax) income.

Although it is not possible to distinguish the geographic location of households by local government area, the household incidence indicators are particularly useful as they *match* incomes received and rates paid by particular households. This matching is not possible using LGA data. Another advantage of using the HES data is that the reported income by households includes income from all sources, including pensions and other Centrelink payments. This is particularly useful for the analysis of rates incidence of low-income households. In the case of the LGA data, the income for low-income persons is likely to be under-reported.

However, there are obvious limitations in using survey data such as under or over-statement of particular income and expenditure items by respondents (Harding and Warren 1999). The division of survey data into smaller subsets for distributional analysis might also erode the reliability of estimates derived (Australian Treasury 1998). In addition, the fact that HES respondents come from different (unknown) local government areas means that rates paid by respondents reflect council expenditure decisions as well as rating policies. These limitations further complicate the interpretation of the estimated incidence measures.

7.4 Total rates incidence

In this section, total rates incidence is estimated for residents across councils in Australia. The estimates are then presented in terms of the Australian Classification of Local Government (ACLG) classes, followed by state comparisons of the incidence of rates.

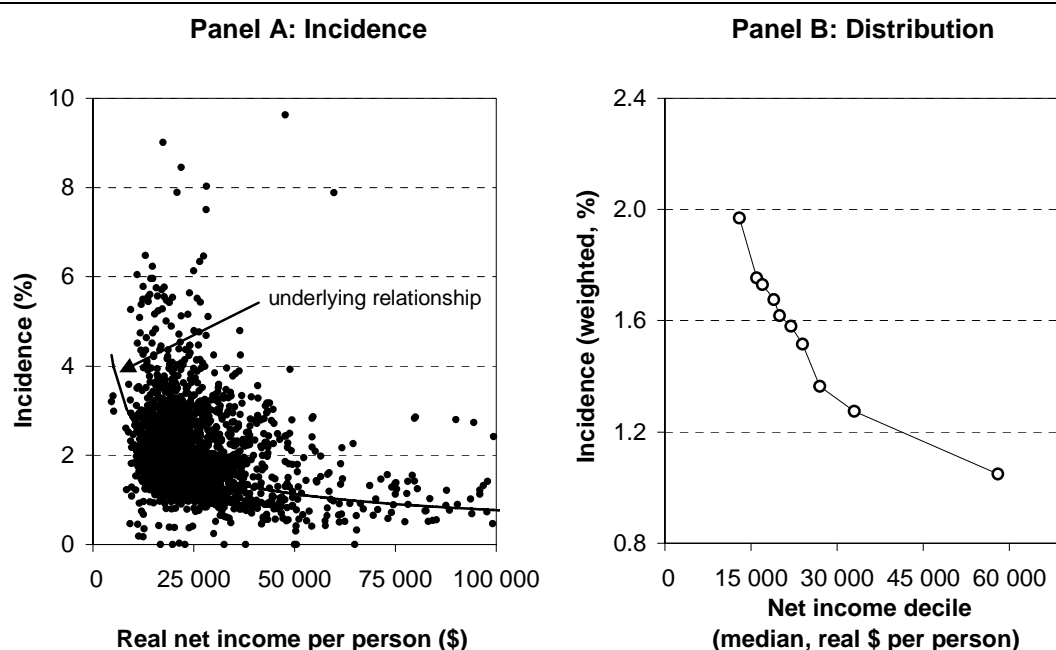
Total rates incidence at the national level

The incidence of total rates revenue, measured by total rates paid per person relative to net income per person across councils, is illustrated in panel A of figure 7.1. There appears to be a significant variation in the incidence of rates across councils whose communities have comparable average levels of income per person. As

discussed in chapter 3, this variation is due to differences in expenditure levels between councils. There is some clustering of councils in the rates incidence range of 1–3 per cent for median net income per person of about \$21 000. For 10 per cent of councils, the incidence of rates is comparatively low, about 1 per cent or less.

A multivariate regression analysis was undertaken to estimate the underlying relationship or incidence function, which is also plotted for comparative purposes in figure 7.1, panel A. The underlying incidence curve, for each local government area, controls for factors such as road length, number of properties and residential population in councils, by setting the values of these variables to their means. The underlying incidence could be interpreted as an indicator of the average propensity to consume local government services.

Figure 7.1 Total rates incidence and distribution in Australia
2000-01 to 2004-05 estimates^a



^a Deciles are grouped by real after-tax average income per person of each LGA. The base year is 2005-06, adjusted using the ABS non-farm GDP deflator. Data are based on 2860 observations. In panel B, the incidence for each decile is weighted by the population of councils in each decile.

Source: ABS unpublished; BTRE unpublished; State grants commissions unpublished; Productivity Commission calculations.

In panel B of figure 7.1, the distribution of the total incidence of rates, weighted by the population of councils in each decile, is presented relative to the median net income per capita in each decile. The deciles have been grouped in ascending order by the income per person in each local government area. For example, the median net income per person of the lowest decile was \$13 037 averaged over the period

2000-01 to 2004-05.⁹ Total rates represented about 2 per cent of the after-tax income per person in each council in the lowest income decile over this period, falling to about 1 per cent in the highest income decile.

There appears to be a tight clustering of the incidence of rates between the second and the seventh income deciles (between 1.5 per cent and 1.8 per cent). The incomes per person of the second and the seventh income deciles were about \$16 000 and \$24 000, respectively. That is, for these income deciles, representing about 72 per cent of the population, the rates incidence was broadly similar despite the differences in after-tax income per person.

The incidence of total rates decreases from 1.3 per cent in the ninth income decile to 1 per cent in the tenth income decile. However, the difference in income per person between the ninth and tenth income deciles is significant, at about \$24 000.

FINDING 7.3

In general, as the average income per person (measured at the local government level) increases across councils, the average incidence of rates decreases. For a large proportion of councils, the average rates incidence is between 1.5 and 1.8 per cent of after-tax income.

One factor influencing the relatively higher rates incidence in the lowest income decile is the income measure. Income is likely to be under-estimated in the lower income deciles due to the inability of the ATO income data to capture fully the incomes of recipients of government transfer payments such as the Age Pension, Disability Support Pension and Newstart Allowance. Therefore, considerable caution is required in interpreting the rates incidence estimates for low-income councils.

Total rates incidence by ACLG classes

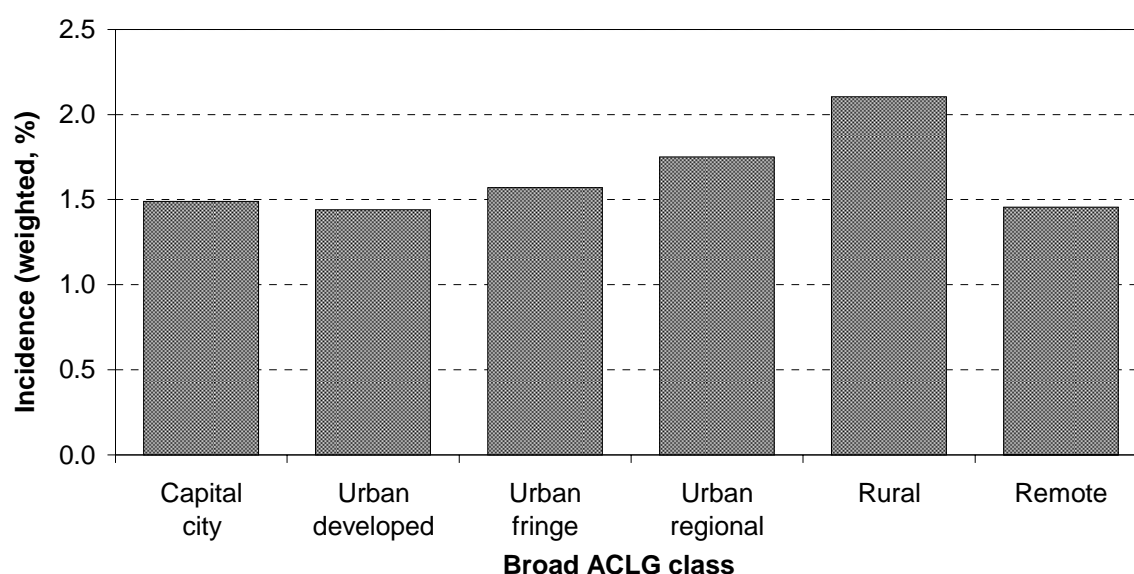
In order to assess the distributional impacts based on the characteristics of local governments, such as the geographic location and population size, the total incidence of rates is presented in terms of broad ACLG classes (figure 7.2).

Generally, rural councils had a slightly higher total incidence of rates relative to other councils, based on a weighted measure of incidence. This is due to the higher expenditure per person in rural councils, for example, on infrastructure services such as provision of local roads. Urban developed councils had the lowest total rates

⁹ The estimates of incidence and other statistics reported in the remainder of this chapter refer to the period 2000-01 to 2004-05, unless otherwise stated.

incidence, at 1.4 per cent. In relative terms, the total rates incidence of remote councils is about the same as urban fringe, urban developed and capital city councils. However, the estimate of rates incidence for remote councils should be treated with particular caution. On average, business income was estimated to be about 78 per cent of total income in remote councils. This reflects the nature of economic activity in remote councils, for example, large mining and energy businesses. Some of these businesses may be rates exempt, which would lower the reported estimate of rates incidence.

Figure 7.2 Total rates incidence by broad ACLG classes — Australia
2000-01 to 2004-05 estimates^a



^a ACLG broad classes as defined in appendix C. The base year is 2005-06, adjusted using the ABS non-farm GDP deflator. Data are based on 2860 observations. The incidence for each ACLG class is weighted by the population of councils in that class.

Source: ABS unpublished; BTRE unpublished; State grants commissions unpublished; Productivity Commission calculations.

FINDING 7.4

The evidence suggests that average rates incidence is higher for rural councils than for urban councils.

Total rates incidence at the state level

Total rates incidence and rates per person for each jurisdiction are presented in table 7.4. There is some variation in the incidence of total rates at the state level, especially in terms of the first and third quartiles.

South Australia had the highest median incidence of total rates (at 2 per cent). However, the median rates per person (at \$525) were the highest in Western Australia. The Northern Territory had the lowest median rates incidence (0.9 per cent) and lowest median rates per person (\$269) in Australia. In terms of the first quartile, the rates incidence was the highest for communities in Queensland, at 2.6 per cent.

Table 7.4 Total rates incidence and rates per person — State comparison
2000-01 to 2004-05 estimates^a

<i>Jurisdiction</i>	<i>First quartile (25%)</i>		<i>Median (50%)</i>		<i>Third quartile (75%)</i>	
	Rates incidence	Rates per person	Rates incidence	Rates per person	Rates incidence	Rates per person
	%	\$	%	\$	%	\$
New South Wales	2.2	266	1.7	328	1.3	417
Victoria	2.1	304	1.8	367	1.5	449
Queensland	2.6	299	1.9	387	1.6	617
South Australia	2.3	319	2.0	400	1.7	508
Western Australia	2.4	346	1.7	525	1.2	822
Tasmania	2.2	258	1.9	315	1.6	406
Northern Territory	1.0	191	0.9	269	0.5	333
Australia	2.3	292	1.8	379	1.4	538

^a Data are based on 2860 observations for Australia; 701 observations for New South Wales; 313 observations for Victoria; 621 observations for Queensland; 340 observations for South Australia; 703 observations for Western Australia; 145 observations for Tasmania; and 37 observations for the Northern Territory. The estimated median rates per person may vary from those reported elsewhere in this report. The base year is 2005-06, adjusted using the ABS non-farm GDP deflator.

Source: ABS unpublished; BTRE unpublished; State grants commissions unpublished; Productivity Commission calculations.

In terms of the third quartile, the highest rates incidence was in communities in South Australia (1.7 per cent). However, Western Australia and Queensland had the highest rates per person in the third quartile. In the case of Western Australia, rates per person were about \$284 higher than the national average.

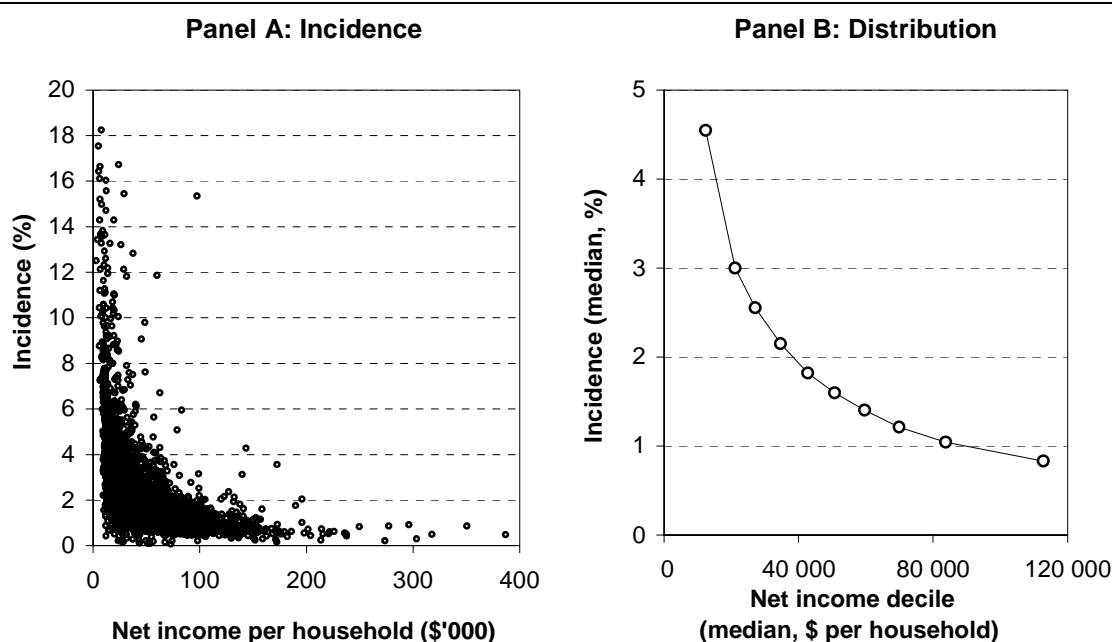
7.5 Residential rates incidence

The incidence of residential rates can be assessed using data for rates paid on residential properties at the local government level and the average personal net income of residents in that council. Household surveys can also be useful in estimating the incidence of council rates. In this section, the household survey data is analysed first, followed by estimates of incidence using the LGA data.

Household residential rates incidence using the HES data

As noted earlier, the HES data are used to compare the incidence of residential rates for households *across* councils. Using the ABS HES data for 2003-04, the relationship between net income per household and their corresponding rates incidence is illustrated in panel A of figure 7.3. For a majority of households, net income is less than \$100 000, with rates incidence varying significantly. The median household net income was about \$46 500 and median rates paid were about \$780 per household. This corresponds to a median rates incidence of about 1.7 per cent. In terms of the distribution of rates incidence by income deciles (panel B), the incidence decreases sharply from about 4.5 per cent in the first income decile. Between the fifth and the ninth income deciles, the median rates incidence falls from 1.8 per cent to 1 per cent. Part of the variability in the rates incidence is due to differences in the level of services provided across local councils.

Figure 7.3 **Household rates incidence**
2003-04 HES data^a



^a Households that have reported rental payments and negative income have been excluded from the data. Data are based on 4090 observations.

Source: ABS (2006b); Productivity Commission calculations.

FINDING 7.5

Using household expenditure survey data across councils, rates decrease relative to disposable income as income increases. For 50 per cent of households, the rates incidence is about 1.7 per cent or less of after-tax income.

Regression analysis using the HES data

To gain insights into the underlying relationship between incidence and income for households, a multivariate regression analysis was undertaken. The results of the analysis are provided in table 7.5.

Consistent with expectations, the regression results show that, on average, as household disposable income increases, so does the amount of rates paid by households. The income elasticity of rates is estimated to be 0.24. This implies that for a 10 per cent increase in the level of income, there is an increase in the level of rates paid by households of 2.4 per cent, holding all other factors constant.

Some of the variation in rates paid by households can be explained by jurisdictional differences (in this instance, the analysis is undertaken relative to Victoria). There is a statistically significant difference between Victoria and New South Wales, Queensland, Tasmania and the Northern Territory and ACT combined. For the same level of income, on average, households in New South Wales, Queensland and Tasmania, but not in the Northern Territory/ACT, pay higher rates per household than households in Victoria. South Australia and Western Australia are not significantly different from Victoria according to the statistical analysis.

Table 7.5 Income elasticity of rates
2003-04 HES data^a

<i>Independent variables</i>	<i>Parameter estimate (Log of rates paid per household)</i>	<i>Significance (p value)</i>
Log of net household income	0.24	0.0001
New South Wales	0.18	0.0001
Queensland	0.16	0.0001
South Australia	-0.03	0.175
Western Australia	-0.04	0.113
Tasmania	0.12	0.021
Northern Territory/ACT	-0.05	0.046
Intercept	4.02	0.0001
Adjusted R-squared	0.15	

^a State dummies are relative to Victoria. Households that have reported rental payments and negative income have been excluded from the data. Data are based on 4090 observations.

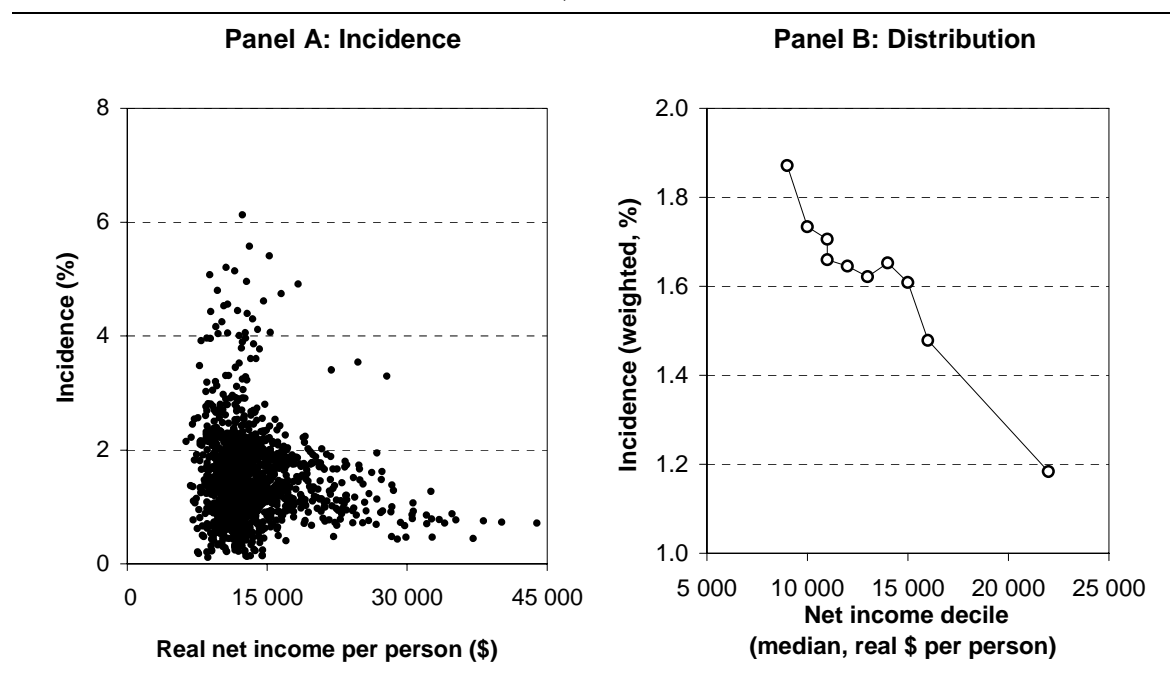
Source: ABS (2006b); Productivity Commission calculations.

Residential rates incidence using the LGA data

The relationship between the incidence of residential rates and the average after-tax personal income of residents in councils in Australia is depicted in figure 7.4, panel A. In a large number of councils with average incomes in the range of

\$10 000 to \$15 000 per person, the incidence of residential rates varies between 1 per cent and 2 per cent. For a relatively small number of councils with high average per person income, the incidence of residential rates is relatively low, at less than 1 per cent.

Figure 7.4 Residential rates incidence and distribution in Australia
2000-01 to 2004-05 estimates, selected States^a



^a Deciles are grouped by real after-tax average personal income per person of each LGA. Data are based on 1406 observations. In panel B, the incidence for each decile is weighted by the population of councils in each decile. Data for New South Wales, Victoria, South Australia and the Northern Territory only. The base year is 2005-06, adjusted using the ABS non-farm GDP deflator.

Source: ABS unpublished; BTRE unpublished; State grants commissions unpublished; Productivity Commission calculations.

The distribution of the residential rates incidence based on income deciles is illustrated in panel B of figure 7.4. Income per person is highly concentrated between the second and eighth income deciles, with the difference in income of about \$4500 per person. Within this decile range, the weighted residential rates incidence varies between 1.6 per cent and 1.7 per cent. There is a considerable decrease in the incidence of residential rates between the eighth and tenth deciles (the incidence decreases to about 1.2 per cent in the tenth income decile, with median income of about \$22 000 per person).

The variation of residential rates incidence is also due to the setting of residential rates on the value of properties, which may not always be directly correlated with

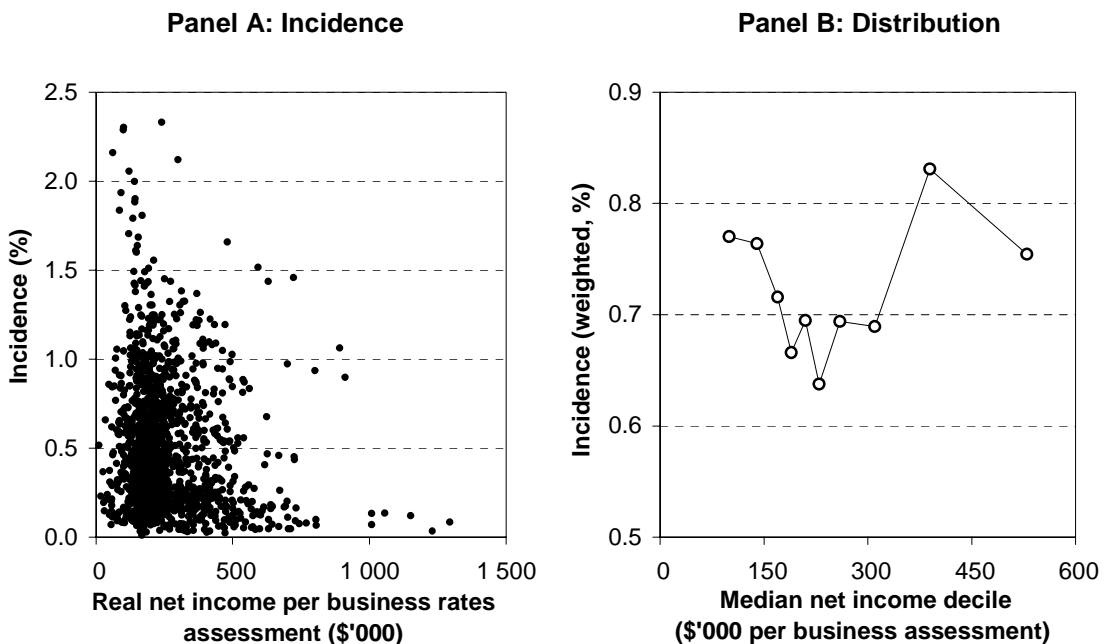
the incomes of property owners.¹⁰ The Australian Chief Executive Officers Group (sub. 18, p. 25) noted:

The tax relates to the value of the property which is not always a good indicator of the ratepayer's current ability to pay. Some ratepayers may be asset rich but have comparatively low incomes, for example, pensioners or super-annuitants living in highly demanded areas whose property values reflect the past income of residents, rather than the current capacity of landholders to pay the tax. To this extent, while the rating system is relatively neutral in its design, the incidence of the tax is particularly regressive.

7.6 Business rates incidence

The average incidence of business rates is measured using business (commercial and industrial) rates paid to councils and the estimated net incomes of businesses, taking into account the tax deductibility of business rates (figure 7.5, panel A).

Figure 7.5 **Business rates incidence and distribution in Australia**
2000-01 to 2004-05 estimates^a



^a Deciles are grouped by real after-tax average income per business assessment in each LGA. Data are based on 1383 observations. The base year is 2005-06, adjusted using the ABS non-farm GDP deflator. In panel B, the incidence for each decile is weighted by the number of business assessments in councils in each decile. Incidence estimates take into account tax deductibility of business council rates through the tax system.

Source: ABS unpublished; BTRE unpublished; State grants commissions unpublished; Productivity Commission calculations.

¹⁰ Analysis of rates relative to property values is presented in appendix E.

There is a substantial range in the incidence of business rates across councils. The median net business income is about \$220 000 per business rates assessment and the median business rates incidence is about 0.4 per cent.

The distribution by income deciles is illustrated in panel B of figure 7.5. The weighted incidence of business rates was almost 0.8 per cent in the lowest income decile. The business rates incidence was lowest in the sixth income decile, for which the median net income per business assessment was about \$230 000. The business rates incidence was broadly the same for the lowest and highest income deciles. However, the difference in the net business income was about \$430 000.

7.7 Impact of fees and charges

Appropriately measuring the burden of fees and charges is highly complex and the results of attempting to do so could be potentially misleading. Fees and charges for services might be discretionary or compulsory, fully paid for by users or cross-subsidised from rates when fees and charges are set below cost for equity purposes. There are, moreover, differences between States in the range of services that local governments deliver for which user fees can be applied (most notably with respect to New South Wales, Queensland and Tasmania, where some or all local governments provide water and sewerage services).¹¹ Further, there are differences in the extent to which local governments receive fees and charges revenue from commuting workers, shoppers and visitors as well as from residents. Central business districts and holiday and tourist destinations are likely to receive revenue from fees and charges disproportionately high relative to their residents' incomes. Some of these issues are briefly discussed below followed by estimates of the fees and charges revenue received by local government areas relative to their incomes.

For a large number of local government services, expenditure by individuals, organisations and businesses is discretionary. To the extent this is the case, the benefits of the local services received by users would be expected to be equal to or greater than their expenditure, consistent with the benefit principle (for example, fees paid for use of swimming pools, tennis courts and other recreational facilities). That being the case, it could be regarded as somewhat peculiar to measure the 'burden' of fees and charges when use of services is discretionary.

¹¹ In fact, in the case of Queensland and Tasmania, fees and charges revenue per person is the largest component of local governments' own-source revenue (44 per cent and 47 per cent, respectively, in 2005-06).

However, in circumstances where fees and charges are compulsory (such as with annual charges for garbage collection and disposal), the benefit principle might not necessarily be satisfied. Members of a community cannot signal whether the benefits they receive exceed the charges they are required to pay by opting in or out of the use of the standard level of the service delivered by their local government. Nonetheless, because they are a charge separate from general rates payments, and for a specific service, members of local government communities have a clear basis on which to compare benefits they receive against charges they pay for that service. Also, they have the ability to signal to their local government through the political process any dissatisfaction they may have about the level of the charges, and/or the level or quality of the service they receive. It seems unlikely that compulsory charges could sustainably be far removed from being, in effect, a ‘benefit tax’ for most ratepayers. Again, in that event, to measure the ‘burden’ of these charges might be thought to be somewhat misplaced.

The level of fees and charges actually set by local governments, however, reflects a wide range of influences, not all of which result in the recovery of the full economic costs of provision of the associated services. For example, local governments receive substantial grants from State governments for the supply of library services, which are generally conditional on local governments not imposing book borrowing charges. This appears to reflect an objective of ensuring ‘equity of access’, although the relatively well-off users of library services benefit at least as much as those less well-off. In fact, local governments choose, as a matter of council policy, to charge fees that do not fully cover costs for a wide range of services (for example, the use of swimming pools).

It is generally the case that the costs of subsidising access to local government services for which full cost fees and charges could be applied, are borne through cross-subsidies from rates revenue. The net distributional effect depends importantly on who bears the burden of rates being higher than otherwise as much as on who benefits from the subsidies involved in below-cost fees and charges. The untargeted nature of most subsidies when setting fees and charges (that is, they are typically set below cost for all users) makes it difficult to estimate the net impact of fees and charges relative to the incomes of individuals within the local government area. The use of cross-subsidised services by non-residents further complicates the analysis.

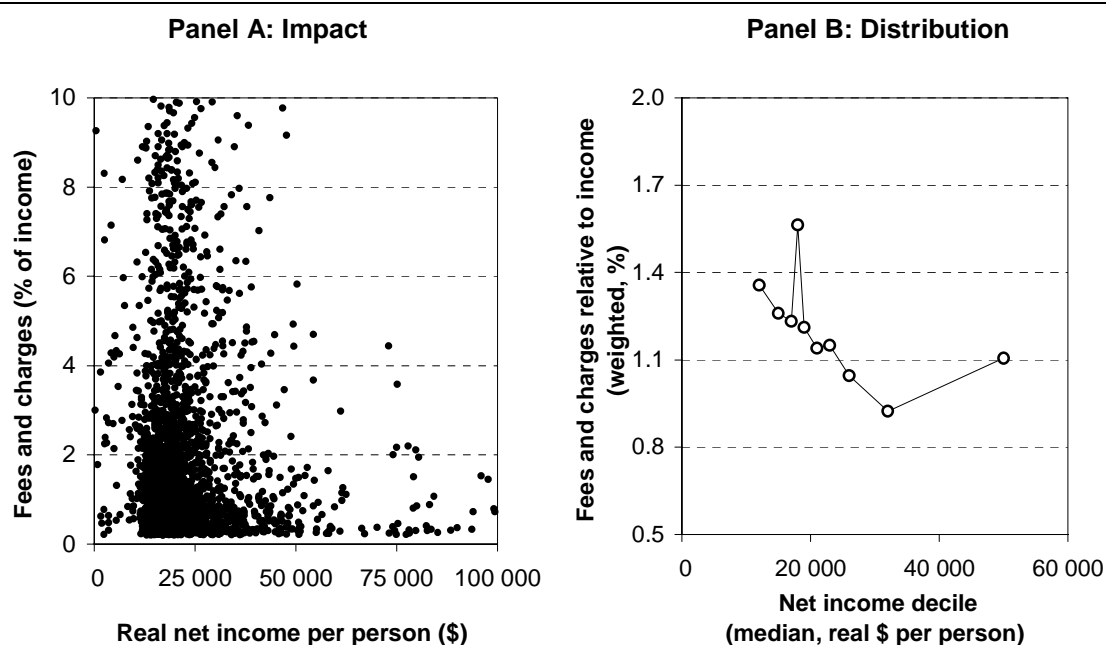
Estimates of fees and charges revenues relative to incomes

In this section, fees and charges revenue received by local governments are considered relative to the average income of each local government area. Given the data limitations, it has not been possible to distinguish between discretionary and

compulsory fees and charges, and the extent to which services for which fees and charges apply are fully or partially cost recovered. Moreover, it was not possible to account for the fees and charges revenues sourced from non-residents for each local government area; nor was it possible to reliably measure the revenues from the provision of water and sewerage services in relevant councils. Therefore, considerable caution is required in interpreting the estimates presented below.

Fees and charges revenues relative to community incomes varied considerably across councils (figure 7.6, panel A). Based on median values, fees and charges revenues relative to incomes were about 1.3 per cent and net income per resident person was about \$20 000. This corresponds to an average across Australia of about \$262 received annually by local governments per resident person from various local government fees and charges.

Figure 7.6 Impact of fees and charges in Australia
2000-01 to 2004-05 estimates^a



^a Deciles are grouped by real after-tax average income per resident person of each LGA. Data are based on 2458 observations. The base year is 2005-06, adjusted using the ABS non-farm GDP deflator. In panel B, the ratio of fees and charges relative to income for each decile is weighted by the population of councils in each decile.

Source: ABS unpublished; BTRE unpublished; State grants commissions unpublished; Productivity Commission calculations.

In terms of the income deciles, there was a decreasing trend, in general, in the share of fees and charges revenue to income (figure 7.6, panel B). The ratio of fees and charges revenue to income decreased from 1.4 per cent in the lowest income decile to 1.1 per cent in the highest income decile. However, the ratio of fees and charges

revenue to income was the highest in the fourth income decile (1.6 per cent) and the lowest in the ninth income decile (0.9 per cent). For the middle 50 per cent of councils (the inter-quartile range), the ratio of fees and charges revenue to income was between 0.6 per cent and 3 per cent.

Estimates of fees and charges relative to income for each State suggest that Victoria and Western Australia had lower median fees and charges revenues relative to income than the national median of 1.3 per cent (table 7.6).

Table 7.6 Impact of fees and charges — State comparison
2000-01 to 2004-05 estimates, per cent (fees and charges relative to income)^a

<i>Jurisdiction</i>	<i>First quartile (25%)</i>	<i>Median (50%)</i>	<i>Third quartile (75%)</i>
New South Wales	0.7	2.0	5.0
Victoria	0.5	0.8	1.1
Queensland	0.8	2.1	4.7
South Australia	0.6	1.5	3.9
Western Australia	0.5	0.9	1.8
Tasmania	1.7	2.1	2.6
Northern Territory	0.5	1.5	4.7
Australia	0.6	1.3	3.0

^a Quartiles are grouped by real after-tax average income per person in each LGA. Data are based on 2458 observations for Australia; 672 observations for New South Wales; 305 observations for Victoria; 457 observations for Queensland; 251 observations for South Australia; 554 observations for Western Australia; 145 observations for Tasmania; and 74 observations for the Northern Territory. The base year is 2005-06, adjusted using the ABS non-farm GDP deflator.

Source: ABS unpublished; BTRE unpublished; State grants commissions unpublished; Productivity Commission calculations.

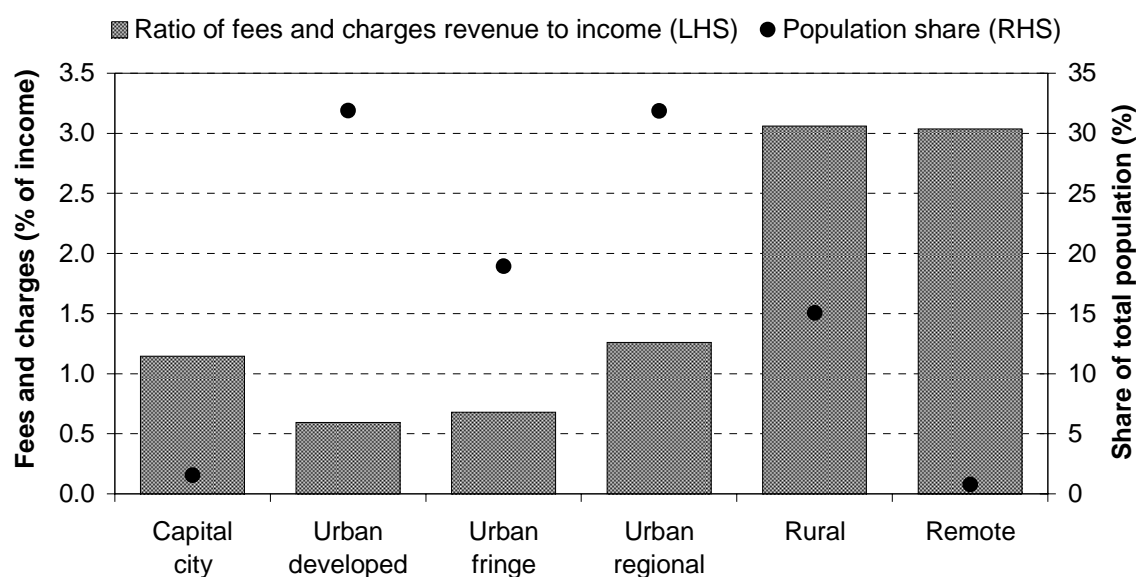
The principal reason for the relatively high fees and charges revenue relative to income in New South Wales, Queensland and Tasmania is likely to be the provision of water and sewerage services at the local government level in these States.

Fees and charges revenue relative to income by broad ACLG classes was the highest for rural and remote councils, at 3.1 per cent and 3 per cent, respectively (figure 7.7). This reflects the higher costs of providing services in rural and remote councils and the level and composition of services provided through fees and charges.

In terms of capital cities, fees and charges revenue relative to income was 1.1 per cent. This ratio partly reflects the share and mix of local government user fee services provided by these councils. For example, capital cities would be expected to derive relatively higher revenue from parking fees, in particular those

sourced from non-residents.¹² Urban developed and urban fringe councils had the lowest fees and charges revenue relative to income, at 0.6 per cent and 0.7 per cent, respectively. This is partly due to the availability of alternative service providers in these council classes, for example, for services such as recreation and health. It also likely reflects that some of the council areas in these ACLG classes are ‘dormitory’ suburbs; commuting workers and shoppers who live in them likely contribute significantly to fees and charges revenues in capital cities (or central business districts more generally).

Figure 7.7 **Impact of fees and charges by broad ACLG classes in Australia**
2000-01 to 2004-05^a



^a ACLG broad classes as defined in appendix C. Data are based on 2455 observations. The base year is 2005-06, adjusted using the ABS non-farm GDP deflator. The user fees share to income for capital cities is estimated in reference to their residential population only. The ratio of fees and charges revenue to income for each ACLG class is weighted by the population of councils in that class. Population shares by broad ACLG classes may differ to any published elsewhere as a result of the number of observations used for this figure.

Source: ABS unpublished; BTRE unpublished; State grants commissions unpublished; Productivity Commission calculations.

¹² Fees and charges relative to income for capital cities is estimated in reference to their residential population only. As such, the estimates are likely to be overstating the impact on capital city residents.