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# Findings

## FINDING 2.1

*At the national level, the ratio of local government rates revenue to GDP decreased over the period 1990-91 to 2005-06.*

## FINDING 2.2

*At the state level, the ratio of own-source revenue to gross state product varies across jurisdictions due to a large number of factors, including differences in the functions of local governments, such as provision of water and sewerage services in some States but not others.*

## 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.*

## 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.*

## 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.*

## 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.*

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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.*

FINDING 5.1

*Fiscal capacity, as measured by a community's total after-tax income per person, differs across classes of local governments. There is considerable variation both between classes of local governments and within classes of local governments. Capital city and some remote local governments have very high fiscal capacities because of the concentration of business income and their relatively small resident populations.*

FINDING 5.2

*Revenue-raising effort, a measure of how much own-source revenue a local government raises relative to its income base, varies significantly within and between classes of local governments. Capital city, urban regional, rural and remote local governments have the highest average revenue-raising efforts, when adjusted for population size.*

FINDING 5.3

*An empirical assessment indicates that local government own-source revenue raised per person:*

- *increases with personal and business incomes per person of the community*
- *increases with the length of roads, the number of properties rated and served, and whether water and sewerage services are provided*
- *increases in communities experiencing population growth*
- *decreases with population size.*

*There are also differences between jurisdictions and classes of local governments.*

FINDING 5.4

*A sophisticated benchmarking analysis of the relative potential of local governments to increase their own-source revenue suggests that, on average, councils are raising about 88 per cent of their hypothetical benchmarks. Whether a*

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*council can realise its assessed potential to raise additional revenue will depend on its individual circumstances. (The scope for raising additional revenue should not be taken to imply that local governments should increase the revenue they raise.)*

FINDING 5.5

*A number of councils, particularly in capital city and urban developed areas, have the means to recover additional revenue from their communities sufficient to cover their expenditures without relying on grants. However, a significant number of councils, particularly in rural (87 per cent) and remote (95 per cent) areas would remain dependent on grants from other spheres of government to meet their current expenditure. Some councils would remain highly dependent on grants.*

FINDING 5.6

*Given the differences in the scope to raise additional revenue across different classes of councils, there is a case to review the provision of Australian Government general purpose grants to local governments.*

FINDING 6.1

*In principle, rates revenue is not constrained by limits on the range of land valuation methods available to councils or the specific type of land valuation method applied because councils can adjust the rate in the dollar to achieve their revenue requirements.*

FINDING 6.2

*Differential rating provisions generally increase the capacity of councils to raise revenue from property rates. They do so by enabling councils to structure better rates payable to the different capacities to pay of, and services received by, different categories of ratepayers.*

FINDING 6.3

*Rates exemptions reduce local governments' rates bases and do so differentially across local governments with different proportions of exempt land. Whether exemptions constrain the overall capacity of local governments to raise revenue from rates depends on the extent to which it is (politically) feasible for them to set rates higher than otherwise would be required on non-exempt land.*

FINDING 6.4

*Rate pegging has dampened the revenue raised from rates in New South Wales relative to other States and there seems to have been little offset from non-rates revenue sources in recent years.*

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FINDING 6.5

*In most jurisdictions, only a small number of fees and charges are statutorily set by State Governments. Most are set by councils and the extent to which they recover costs will largely reflect the preferences of their communities.*

FINDING 6.6

*Where councils are required by another sphere of government to provide a service that has a statutorily set or capped fee or charge below full cost recovery, associated revenue-raising capacity from fees and charges is constrained.*

FINDING 6.7

*State government setting and/or capping of fees and charges applies to some services which councils are not legislatively required to provide. But where these services are provided (for example, because of community pressure), the impacts on councils are no different from the provision of mandated services at fees that do not cover costs.*

FINDING 6.8

*There is a case for periodic reviews of the restrictions and regulations imposed on local government by other spheres of government to assess both their rationales and their benefits and costs.*

FINDING 6.9

*Nationally, developer contributions per new dwelling commencement have increased substantially over the four years to 2005-06. However, the effect of developer contributions (either in cash or in-kind) on councils is generally likely to be revenue neutral over time.*

FINDING 7.1

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

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.*

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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.*

FINDING 7.4

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

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.*

FINDING 8.1

*The application of a set of principles to guide revenue-raising and expenditure decisions of councils can assist them in improving the well-being of their communities.*

FINDING 8.2

*There is scope to utilise further the existing institutional arrangements between Australian and State Governments, local government associations and local governments to promote best practice in all aspects of revenue and expenditure decisions by local governments.*