



Assessing Local Government Revenue Raising Capacity

**Productivity Commission
April 2008
Research Report**

Assessing Local Government Revenue Raising Capacity

Presentation Overview

- History
- Terms of reference
- Submitters, visits and round tables
- Major findings
- General officer comments

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History

- Resulted from the Hawker Inquiry Report (2003) “Rates and Taxes: A fair share for Responsible Local Government”
- Took the then Liberal Federal Government just over 2 years to agree to the Productivity Terms of Reference
- In the meantime, most State, Local Government Council and Officer Associations undertook Financial Sustainability Research
- Price Waterhouse Coopers also released the “National Financial Sustainability Study of Local Government” to the ALGA Congress in 2006

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Terms of Reference

- Examine the capacity of Local Government to raise revenue including:
 - capacity of different types of Councils to raise revenue, **factors contributing to capacity and variability over time**
 - **impacts on individuals, organisations and businesses of various taxes, user charges and other revenue sources**
 - impacts of any state regulatory limits on revenue raising capacity on Councils
 - **impacts of Council revenue raising on the community**
- Not to investigate scope for Local Government to borrow

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Submitters, visits and roundtables

- 83 submitters
- Visits to 37 interested parties in each State or Territory
- 84 Roundtable attendees at 6 locations

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Report Content Overview

- 8 Chapters
 - Local Government in Australia
 - Revenue and Expenditure across Local Governments
 - Defining Revenue - raising capacity
 - Comparisons of Revenue – raising capacity
 - The effects of Legislative and regulatory factors
 - Impacts on individuals and businesses
 - Principles for revenue raising
- 8 Appendices
 - 29 Key findings
 - 19 boxes
 - 34 figures
 - 75 tables

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Draft 10 Major Findings to Final 8 key points

1. 700 Local Governing bodies Australia-wide; 663 Councils and 37 declared bodies. Characteristics, services provided and sources of revenue vary significantly.
2. Levels and composition of revenue sources vary considerably between and within States/Territories and between and within classes of Councils reflecting differences in legislative frameworks, functions, patterns of demography and regional development and preferences of local communities.
3. **2. Majority of** Local Governments in urban areas are predominantly funded from own source revenue particularly rates and fees and charges. **This is the same.** For most remote and rural Councils **and they also have a higher dependency on** grants are also a substantial source of their revenue.

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Draft 10 Major Findings to Final 8 key points

4. 1. Local Government Revenue is a very small percentage of GDP at about 2%. The ratio of rates revenue to GDP decreased from 1.1 to 0.9% between 1990/91 – 2005/6. **Had the ratio been 1.1% in 2005/6, national revenue from rates would have been 20% higher representing \$1.76b or \$84 per person.**
5. Revenue raising capacity of LG's depends partly on fiscal capacity which differs by class of Local Government. Fiscal capacity is best measured as the after tax aggregate income of the community is the best indicator. Fiscal capacity differs by class of Local Government.
6. Urban Local Governments tend to draw on a small proportion of the aggregate incomes of their communities. Conversely, small rural and remote Councils tend to draw more heavily on their fiscal capacity.

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Draft 10 Major Findings to Final 8 key points

7. Analysis of the relative potential of local governments to increase own-source revenue suggests, on average, Councils are raising about **90%** 88% of their hypothetical benchmarks.
 - This doesn't imply Councils should increase own source revenue
 - Recognises that the major constraint on hypothetical benchmark depends on individual circumstance and their communities willingness to pay
8. Most Councils could do more to help themselves, a small number would remain highly dependent on grants, despite already having very high levels of revenue raising effort.

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Draft 10 Major Findings to Final 8 key points

9. State Government's impose legislative and regulatory constraints on raising own-source revenue by Local Government, that affects the ways in which Councils revenue in most jurisdictions with the exception of rate pegging and concession in NSW currently. Overall impact on revenue raising capacity is unclear.
10. Application of a set of principles to guide the revenue raising and expenditure decisions of Councils can assist them improve the well being of their communities.

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General Officer comments

- Detailed overview of Nation-wide Local Government revenue-raising capacity identifies current variances and approaches.
- Findings orientated doesn't provide conclusions or recommendations
- Doesn't go 'outside the square', beyond a literal interpretation, i.e doesn't address fundamental LG assumptions Nation-wide. Such as:-
 - Service standards and access current and future
 - Longer term community needs, expectations and aspirations given changing demography of local communities

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General Officer comments (continued)

- Relationships between Federal, State and Local Governments via recently signed Inter Government Agreement and other mechanisms currently and in the future
- Doesn't explore or consider other than rate revenue options for Local Governments e.g. increase general and specific grants as a % of the Federal Taxation system or discounting individual ATO after tax income as an option
- Silent on infrastructure backlog issue

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Didn't pull extra money out of the hat
but it did enhance Nation-wide
understanding of Local Government

