



Local Government in Australia

Responses to Urban-Rural Challenges

edited by

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The H2020-MSCA-RISE-2018 project aims to provide solutions for local governments that address the fundamental challenges resulting from urbanisation. To address these complex issues, 18 partners from 17 countries and six continents share their expertise and knowledge in the realms of public law, political science, and public administration. LoGov identifies, evaluates, compares, and shares innovative practices that cope with the impact of changing urban-rural relations in major local government areas (WP 1-5).

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Local Financial Arrangements



3.1. Local Financial Arrangements in Australia: An Introduction

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In Australia, the national government collects the majority of tax revenue (over 70 per cent) through mechanisms such as Income and Goods and Service Taxes (GST), despite being responsible for less than half (about 40 per cent) of all public sector expenditure on service delivery. This is a relatively new proportion of tax collection, as prior to the introduction of GST in July 2000, states also collected a number of taxes and duties. These were largely replaced by the GST and a redistributive process was established to allocate national revenue to the other layers of government and across jurisdictions. There are many critics of this model at the state and local government levels. Nationally, local government collects about 3 per cent of all tax revenues and is responsible for about 6 per cent of total public sector expenditure on service delivery.

The single main source of revenue for local government is property rates. In 2018, they accounted for about 40 per cent of the total AUD 17 billion revenue collected by councils nationally. Other local government revenue sources include fees and charges (such as for water, waste and recycling service, parking, lodging development applications, or use of facilities like swimming pools), and rental income from owned assets.

Local government revenues vary substantially across Australia. This is due to property rates being the main revenue source, and state governments using different methods to value the land on which property rates are based. For example, South Australian local governments collect 60 per cent of their revenue from rates, compared with around 15 per cent for the Northern Territory. Total own-source revenue (such as rates and services charges) can comprise up to 85 per cent of a local government's revenue. This is lower in rural areas where land values tend to be lower and there are more sparsely populated areas. Rural and regional local governments can collect as little as 20 per cent of their expenditure and also face significant diseconomies of scale in terms of the costs of providing services. As a result, many rural councils, are reliant on grants from other levels of government such as through the annual Financial Assistance Grants system.

A range of criteria is used to determine the Financial Assistance Grant amounts and the formula is often the subject of intergovernmental conflict. It is strongly argued that the needs of regional and remote local governments are inadequately reflected in these formulas, and there is limited capacity to lobby for change due to the structure of the local government associations representation arrangements.

The main expenditure items of local governments are housing and community amenities (24 per cent), transport and communication (22.5 per cent) and general public services (17.2 per



cent). These figures vary depending on the different responsibilities of local governments in each state and territory and particularly whether they are metropolitan or rural councils.

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