

# IN OUR HANDS: Strengthening Local Government Revenue for the 21<sup>st</sup> Century

## Background

The local government sector has made sound progress in improving financial performance in recent years but more needs to be done both by the sector itself and with other spheres of government to further strengthen the revenue raising and overall financial capabilities of local governments.

It is unlikely that the local government sector collectively will realise significant additional financial support from other spheres of government in the foreseeable future. Some councils need additional financial support but in the main local governments have a large degree of control over the level of services they provide (and therefore the costs they incur) and the revenue they generate.

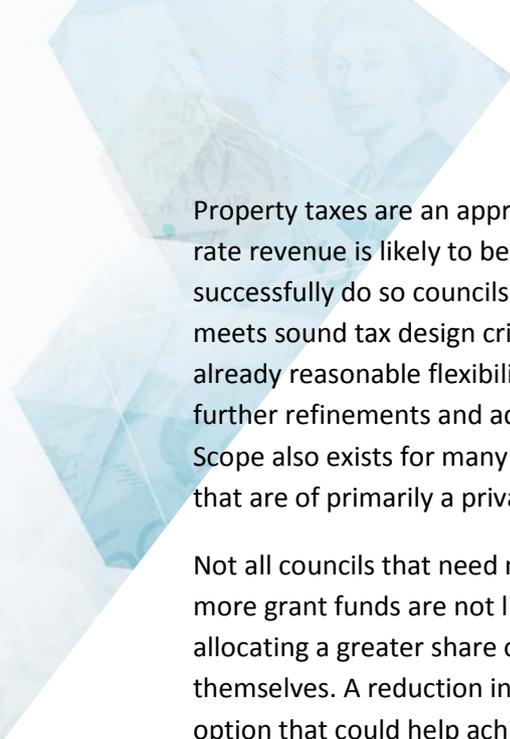
This paper has been written with the intent of stimulating thought and action by practitioners at an individual council and local government sector level and also in agencies in other spheres of government with local government related responsibilities.

## Summary

There is wide variation in the financial performance and capacity of Australian local governments. Most are in at least a satisfactory financial position or have the capacity to be so over the medium-term through reasonable and responsible financial decision-making. Some others, often with large geographic areas and small population bases need additional financial support.

A case exists for greater levels of financial support for the sector collectively from other spheres of government. Such an outcome is unlikely to be materially realised in the near to medium term given the other priorities and projected financial outlooks of the Commonwealth and at least most states and the Northern Territory. As a result improved future financial performance will for most councils depend to a large degree on their own decision-making. This will involve a variety of factors, but improving financial understanding and expertise at both officer and elected levels and better long-term planning are key ones. For example councils often have more capacity than they appreciate to address perceived asset renewal needs and increased service level preferences.

In many cases financial improvement would necessitate consciously and gradually reviewing service levels relative to community affordability and preferences and/or increasing own-source revenues, and seeking to improve efficiency. In many instances there is a need to improve financial strategy settings and in particular for councils to make greater use of borrowings and adopt better treasury management practices. There is scope for other spheres of government to assist in these regards by ensuring their own policy settings and local government legislative frameworks support better local government financial performance.



Property taxes are an appropriate prime revenue source for local governments and generating more rate revenue is likely to be both warranted and feasible for many councils. In order to be able to successfully do so councils need to ensure that the structure of their rating strategy reasonably meets sound tax design criteria principles and the circumstances of their communities. There is already reasonable flexibility in rating related legislation in most jurisdictions but in some cases further refinements and additional guidance would assist councils to make better rating decisions. Scope also exists for many councils to generate additional revenue from user charges for services that are of primarily a private good character.

Not all councils that need more revenue have the capacity to generate it from their own sources. If more grant funds are not likely to become available then consideration needs to be given to allocating a greater share of the existing grant fund pools to councils that have less capacity to assist themselves. A reduction in the minimum per capita general purpose financial assistance grant is an option that could help achieve this outcome.

## Next steps

Collaborative, collective activity is required if further meaningful national and jurisdictional progress is to be made. It is suggested that jurisdictional peak local government associations and agencies with local government responsibilities together explore opportunities for strengthening local government revenue and financial capacity in the current context and take account of the significant but varying legislative, guidance and practice improvements that have occurred in different environments in recent years. For example this could involve establishing:

Two national working parties to consider:

- a. Existing rating and charging legislative frameworks in all jurisdictions
- b. Existing available rating guidance material and whether revisions or additional material are warranted
- c. Existing legislative provisions directing financial strategy setting by councils
- d. Existing guidance material supporting inter-generationally equitable financial and service level planning and decision-making by councils
- e. Training and support programs that exist in all jurisdictions to support local government council members and officers concerning revenue-raising and finance

Good progress has been made by the sector in improving financial performance in recent years but more needs to be done and not just by individual councils. Further collaborative, collective activity is required within the local government sector and with other spheres of government to strengthen the financial capabilities of local governments. Strengthening revenues is one of the key components for many councils.

## Further information

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