Comparative analysis of local government revenue and expenditure in Australia

Review of the Revenue Framework for Local Government

Other Industries — Information Paper
July 2009
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1 Introduction and executive summary

The Independent Pricing and Regulatory Tribunal of NSW (IPART) is currently reviewing the revenue framework for local government in NSW.\(^1\) One of the aims of this review is to recommend an appropriate inter-governmental and regulatory framework for setting council rates and charges to facilitate the effective and efficient provision of local government services. In forming its recommendations, IPART must consider (among other things) the revenue sources available to local government and its role in delivering infrastructure and services to the community.\(^2\)

As part of the review, IPART has investigated the impact that rate-pegging in NSW has had on councils’ revenues and their ability to provide infrastructure. Rate-pegging has been in place in this state since 1977. Under this approach, the NSW Government determines the maximum amount by which councils can increase their annual general income each year,\(^3\) based on recommendations from the Department of Local Government (DLG) and NSW Treasury. Individual councils then adjust their rates so their general income increases by up to this maximum amount, or they may seek a special variation to the amount. Councils in other Australian states are not subject to rate-pegging\(^4\) and so have more autonomy in setting their rates.

The NSW Government has a long-standing commitment to its policy of rate-pegging, largely because it imposes fiscal discipline on councils. However, local government believes rate-pegging places councils under financial pressure and prevents them from charging rates that reflect local needs, including infrastructure needs.\(^5\) The purpose of this paper is to present IPART’s analysis of NSW councils’ revenues and expenditure, in particular its expenditure on infrastructure, relative to other councils in Australia, and inform the current review process.

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1. In May 2008, the Premier of NSW asked IPART under section 9 of the Independent Pricing and Regulatory Tribunal Act 1992 to assist the Department of Local Government by conducting a review of the regulation of council rates and charges in NSW.
2. The full terms of reference for the review are provided in Appendix A.
3. Annual general income is largely revenue from property rates. It does not include water or sewerage rates or domestic waste management service charges.
4. However, Victorian councils were subject to temporary rate-pegging from 1995/96 to 1997/98 and in South Australia, rate-pegging was also introduced temporarily in the late 1990s.
1.1 IPART’s analysis

To investigate the impact of rate-pegging, IPART compared NSW councils’ revenues and infrastructure expenditure with those of councils in Victoria, Queensland, Tasmania, South Australia, Western Australia and the Northern Territory over the period 1976/77 to 2006/07. (Note that for ease, these states and territory are referred to as ‘the other states’ throughout this paper. These states also make up the average for ‘the other states’ unless otherwise specified).!

IPART’s analysis primarily used local government sector operating statement and infrastructure expenditure data by state and territory, sourced from the Australian Bureau of Statistics (ABS). It also incorporated rate income and property assessment numbers for Australian councils provided by the Commonwealth Department of Infrastructure, Transport, Regional Development and Local Government (DITRDLG), and additional council financial information sourced from State Grants Commissions and other government agencies (including the NSW Department of Local Government).

IPART inflated the nominal base data to 2007/08 dollars. All of the dollar figures and growth rates quoted in this paper are in real, 2007/08 dollar terms unless otherwise stated.

While IPART based its analysis on the best data available, it did face a number of challenges related to data gaps and inconsistencies among the states in terms of council responsibilities, regulatory frameworks and reporting methodologies. These issues are outlined in Box 1.1. In particular, councils in Queensland, Tasmania and most regions of NSW have been the only Australian councils with water and sewerage service responsibilities. The terms of reference for the review state that IPART is not to consider matters associated with the operation of councils’ water and wastewater businesses. Where possible, the impact of these operations on state-level aggregates has been excluded from the analysis. More detail on IPART’s methodology and assumptions, as well as the acknowledged risks to the results, are provided in Appendix B.

Finally, the findings focus on comparing local government sector trends at the state level, and do not refer to individual council performance. IPART notes that this performance will vary considerably from one council to another.

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6 The Australian Capital Territory Government combines state and local government functions so is not part of this analysis.
7 This is not a weighted average unless specified as for average rate estimates in Section 2.4.
8 The data was extracted from the ABS' Government Finance Statistics (GFS).
9 This data was supplemented by rates income and property assessment numbers for Western Australia (WA) provided by the WA Grants Commission.
10 There are 106 Local Water Utilities (LWUs) responsible for providing water supply and sewerage services, mostly in non-metropolitan areas.
Box 1.1 Data challenges in IPART’s analysis

Differences among states:

1. Queensland, Tasmanian and most regional NSW councils only provide water and sewerage services. The associated revenue and expenditure figures are captured in the ABS GFS data in the categories, ‘water supply’ and ‘sanitation and protection of the environment’. To ensure consistency, IPART subtracted these categories from all states’ goods and services sales revenue and expenditure figures. Therefore, all state-level revenue and expenditure results will be understated because councils generally operate waste management services (including rubbish collection) and some collect environmental levies. A full definition of this category is provided in Appendix B.

2. ABS ‘water supply’ and ‘sanitation and protection of the environment’ data was only reported on in goods and services sales revenue, not other revenue categories. Thus, water utility revenues could not be excluded from revenues including ‘other revenue’ where developer contributions are captured, nor grants or interest income. As a result, these revenue items and total revenues in Queensland, NSW and Tasmania are likely to be marginally overstated (more so for Queensland and Tasmania than NSW).

3. Brisbane City Council is the largest council nationally and is the only one which provides public transport services. IPART adjusted Queensland councils’ goods and services sales income figures across the time-series based on revenue figures provided by the Brisbane City Council. Separate expenditure figures were not available.

4. Variations in the regulatory frameworks regarding council activities can differ considerably between jurisdictions. For example, developer contribution systems and rate methodologies all vary among states. IPART discusses these differences and how these may have impacted the results in relevant sections on revenue in Chapter 2.

5. A number of council amalgamations in various states occurred over the examined period, including significant amalgamations in NSW, Victoria and South Australia. These changes are likely to have impacted operating expenditure levels in certain years but these effects cannot be isolated in the data.

6. Councils in different states, and often within the same state, have not followed uniform reporting methodologies over the examination period. For example, some councils have reported their water and sewerage rates separately while others include them in their rates and annual charges. In addition, reporting on depreciation expenses seems to have varied considerably among states in the 1990s.

General statistical issues

7. Changes in accounting standards with the introduction of accrual accounting are reflected in statistics from 1998/99. This includes spikes in operating expenditure growth over this period.

8. Apart from the ABS historical, time-series data on state-level council revenue and expenditure items, most historical data was largely unavailable regarding rates and other financial information. IPART relied on what was available and utilised data from a variety of sources in some cases to inform findings.
1.2 Overview of IPART’s findings

In general, IPART’s findings suggest that rate-pegging has constrained NSW councils’ taxation revenues over the past 30 years. However, the substitution of other sources of revenue, particularly user charges and fees, has enabled their overall revenue to grow by an average rate that is relatively consistent with that of councils in the other states. NSW councils’ real overall revenue has also grown by more than the average growth in Gross State Product (GSP) in this state.

In the last few years, growth in NSW council revenue per capita slowed considerably. By 2006/07, the average council revenue per capita in NSW was 13 per cent below that for the other states. This divergence from the other states may be largely attributable to slow growth in the state’s GSP.

NSW councils’ average operating expenses per capita were also below the average for other Australian councils in 2006/07, and this may be partly due to their lower council revenue per capita. Further, growth in NSW local governments’ capital and infrastructure expenditures from 1976/77 has been slower than the average growth of other Australian councils. As a result, NSW councils have tended to spend less per person on infrastructure and other capital assets than other councils in recent years.

Evidence suggests that some NSW councils have been funding operating deficits with revenues for capital purposes (for example, grants, subsidies and developer contributions). However, the funding of operating deficits with capital revenues by councils is a national phenomenon, and NSW councils have tended to generate lower operating deficits than other councils, on average.

Instead, the majority have been utilising much less debt than local governments elsewhere, resulting in persistent under-funding of asset replacement or renewal needs. Low borrowing appears to be associated with the philosophical view held strongly by NSW councils that debt is undesirable and inconsistent with responsible fiscal management. It may also be due to the rate-pegging constraint on their perceived ability to generate future revenues. Nonetheless, if NSW councils had utilised more debt in the past, there could have been additional investments in infrastructure irrespective of lower tax revenues being generated.

Most recently, councils’ level of expenditure to meet asset replacement and renewal needs in NSW has been improving, and the situation in NSW in terms of an ‘infrastructure backlog’ does not appear particularly worse than in other states. That said, the extent of any backlog would likely require further increases in infrastructure expenditure. With NSW councils’ operating expenses per person currently below the average for other Australian councils, this would need to be funded by increased revenues or borrowing.
1.3 List of key findings

IPART’s key findings on council revenues, operating positions, debt levels and infrastructure provision are listed below.

1.3.1 Revenues

1. After 30 years of rate-pegging, the composition of the local government revenue base in NSW has changed considerably. Between 1976/77 and 2006/07, taxation revenue has fallen as a share of total revenue from 68 per cent to 42 per cent, while revenue from the sale of goods and services has increased from 8 per cent to 24 per cent.

2. The share of NSW councils’ total revenue that is from taxation (42 per cent) is now relatively consistent with the average for councils in the other states (44 per cent). However, on average, NSW councils collect a higher proportion of their revenue from user charges and fees and interest income, and a lower proportion from ‘other revenue’ sources compared with other councils in other states.

3. NSW councils’ revenue growth of around 4.7 per annum (in real terms) was below the average growth of 5.5 per cent experienced in the other states from 1976/77 to 2006/07. But it was higher than the council revenue growth in all other states individually except WA and Queensland. It was also higher than the estimated growth in NSW GSP over this period.

4. Growth in NSW council revenue slowed considerably from around 1997/98, lagging even GSP growth.

5. Under rate-pegging, NSW council revenue per capita has declined in comparison to other states. In 2006/07 it was $977, which is $144 or 13 per cent below the average council revenue per capita for the other states, and less than the council revenue per capita in all states individually except South Australia.

6. Since rate-pegging was introduced, the average growth in council taxation revenue in NSW was 3.0 per cent per annum in real terms, which is much lower than in the other states (4.9 per cent per annum). The growth in council tax revenue in NSW slowed significantly from 1996/97.

7. In 2006/07, the average council taxation revenue per capita in NSW was 17 per cent lower than the average in the other states.

8. The experience in NSW from 1976/77, and in Victoria and South Australia in the 1990s, demonstrates that rate-pegging can constrain growth in council taxation revenue (but the decline in this revenue is offset by increases in other revenues and/or ‘catch ups’ when rate-pegging is removed).
Available data suggest that from 1995/96 to 2006/07, average rates in NSW grew by 1.2 per cent per annum. This is much slower than the growth in average rates in other states over the same period.

In 2006/07, the estimated average council taxation revenue per property assessed (or average rates) in NSW was $997, which is around 12 per cent lower than the weighted average for the other states, and the second lowest among the states individually.

Since rate-pegging commenced, the sale of goods and services has been the largest source of revenue growth in NSW. Revenue from this source increased by a real average annual rate of 8.7 per cent from 1976/77 to 2006/07, compared with 6.4 per cent in the other states.

NSW councils’ revenue from the sale of goods and services also grew faster than the others states on a per capita basis. From 1976/77 to 2006/07, it grew by an average annual of 7.5 per cent compared with 4.9 per cent in the other states.

From 1976/77 to 2006/07, council revenue from grants and subsidies grew at a slower average annual rate in NSW than in the other states (4.1 per cent compared with 4.7 per cent). On a per capita basis, this revenue has tended to be lower in NSW than in the other states, and the gap between NSW and the other states has widened in recent years.

In the 30 years to 2006/07, councils in both NSW and the other states experienced significant growth in ‘other revenues’ of 6.8 per and 6.5 per cent in real average annual terms respectively. However, NSW councils have one of the lowest levels of ‘other revenue’ per capita among the states individually, a situation that has not changed since 1976/77.

1.3.2 Operating positions and debt

Real average annual growth in NSW councils’ operating expenditure exceeded that of other states from 1976/77 to 2006/07 (8.3 per cent compared with 6.4 per cent). On a per capita basis, NSW councils’ operating expenditure was $154 or 17 per cent below the average in the other states in 2006/07.

Local government ‘operating surpluses’ (amounts by which total revenue exceeds operating expenditure) have fallen significantly in NSW, and to a lesser degree, in other states since 1976/77. However, NSW still generates the highest surpluses of all states, averaging 23 per cent of own-source revenues per annum from 1998/99 to 2006/07, compared with an average of 9 per cent per annum for other states.

Excluding capital revenues (grants, subsidies and ‘other revenues’), NSW councils, in aggregate, have been generating operating deficits since 1998/99. However, the sizes of the deficits on a per capita basis have been the lowest of all states.
1.3.3 Infrastructure provision

Since rate-pegging, NSW councils, in aggregate, have tended to generate bottom-line surpluses (including capital flows) which significantly increased in size from 1991/92 to 1996/97. The trend has been similar to the rest of Australia overall. In 2006/07, NSW councils generated a bottom line surplus of $682 million.

NSW councils have tended to accumulate much less debt than other Australian councils. In fact, the NSW local government sector was in a net credit position from 1989/90 to 2006/07, which increased over these years. In 2006/07, net credits in NSW averaged around $23 million per council.

From 1974/75 to 2006/07, the real average annual growth in infrastructure spending in NSW was 1.2 per cent, one of the lowest growth rates of all states and the NT and lower than real average annual growth of 2.8 per cent for the rest of Australia.

Since rate-pegging, council infrastructure spending per person has increased by just 0.1 per cent per annum (in real terms), compared with growth of 1.4 per cent for other Australian councils. However from 1996/97 to 2006/07, growth in NSW outpaced that of other states (5.2 per cent compared with 3.3 per cent).

NSW councils’ infrastructure expenditure as a share of revenues has declined relative to the average share of other Australian councils since 1974/75. From 1996/97 to 2006/07, the NSW share averaged 14 per cent, which was lower than the 16 per cent average for the rest of Australia, and below all other states’ shares except Northern Territory and Victoria.

From 1974/75 to 2006/07, NSW councils’ gross fixed capital formation increased by a real average rate of 3.0 per cent per annum, lower than average annual growth of 5.0 per cent for the rest of Australia. However, from 1996/97, capital expenditure growth in NSW has outpaced average growth in the other states.

NSW councils’ capital expenditure per person was $273 in 2006/07, which is $83 or 23 per cent lower than the average spent by other Australian councils per person.

After rate-pegging was introduced in NSW, councils experienced a sharp fall in capital expenditure as a share of their total expenditure. However, since 1982/83, it has remained stable at around 26 per cent. This is similar to councils in other states’ shares over this time.

While capital expenditure levels remain relatively low in NSW, in 2006/07, net spending on assets per person by NSW councils ($101) was higher than most other states’ levels except Queensland ($227) and Western Australia ($109).
NSW councils’ capex/depreciation ratios from 1999/2000 to 2006/07 suggest that local governments, on average, have been under-funding infrastructure by at least $231 million per annum (overall). In 2006/07, 36 per cent of NSW councils under-funded their asset renewal/replacement requirements, down from 60 per cent in 1999/00.

While infrastructure provision by NSW councils appears to be improving in recent years many councils are still under-funding annual asset renewal/replacement requirements, and the extent of any accumulated backlog will require further increases in infrastructure expenditure.

**Structure of this paper**

The following chapters discuss IPART’s findings in detail:

- Chapter 2 compares NSW councils’ revenues with that of councils in the other states. It looks at total revenues and sources of revenue including taxation revenues (and average rates), goods and services sales revenue, grants and subsidies, and ‘other revenue’.

- Chapter 3 focuses on councils’ operation positions and debt. It compares the states’ local government sectors’ operating expenditure with revenue, and discusses the sectors’ net operating and bottom line balances, and net debt positions.

- Chapter 4 presents councils’ infrastructure assets and examines the level of infrastructure provision in light of the impact rate-pegging may have had on NSW councils’ infrastructure expenditure, capital expenditure, and estimated infrastructure provision shortfalls, relative to other Australian councils.
Revenues

This chapter discusses local government revenue trends in NSW under rate-pegging, compared with other states. IPART examined the various revenue sources available to local government and compared the growth rates of NSW councils’ revenues with those of other Australian councils. It also identified where states’ different approaches to regulating council rates and charges help to explain variations in their revenue levels and growth.

Overall, IPART found that rate-pegging has resulted in a shift in the composition of NSW councils’ revenues. Since it was introduced, NSW councils have substituted taxation revenue (i.e., rates revenue) with revenue from other sources, particularly the sale of goods and services (commonly termed ‘user charges and fees’).

IPART also found that the real average annual growth in councils’ revenue in NSW has exceeded the average growth in the state’s GSP under rate-pegging. It has also been relatively consistent with other states’ growth, albeit a little lower than the average. This is consistent with the relatively slower economic growth in NSW compared to some states (Queensland and Western Australia), particularly over the last decade or so.

2.1 Sources of revenue

As IPART’s Issues Paper indicated, the sources of revenue available to local councils in Australia are:

- taxation revenue
- income from goods and services sales (e.g., user fees and charges, water and sewerage fees, fees for regulatory services and rental income)
- grants and subsidies from the NSW and Commonwealth Governments
- interest (i.e., revenue from financial assets)
- other sources including fines, developer contributions and donations.

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12 This analysis is based on the operating statement which does not include items such as borrowings and asset disposals.
The ABS reports on each of these revenue items for the local government sector by state and territory. These reports provided the basis for much of the following analysis. As Chapter 1 noted, councils in Queensland, Tasmania and most of regional NSW provide water and wastewater services. The income generated through user charges and fees for these services has been excluded from the ABS reported revenue levels. However, any income recorded as ‘other revenues’ and interest income could not be extracted, so these are likely to be overstated relative to other revenue components for these states. In addition, Brisbane City Council is responsible for providing urban public transport services. Its income from these services has also been excluded from Queensland councils’ goods and services sales revenues.

The bulk of revenue for councils in NSW and most other states comes from taxation revenue. However, in NSW the proportion of total revenue from this source has declined considerably since rate-pegging was introduced. In 1977, taxation revenue accounted for over two-thirds (68 per cent) of NSW councils’ total revenue (Figure 2.1). This was much higher than in the other Australian states where, on average, taxation revenue accounted for 52 per cent of councils’ total revenue. By 2006/07, taxation revenue had fallen to 42 per cent as a share of NSW councils’ total revenue – slightly lower than the average of 44 per cent for the other states (Figure 2.2).

At the same time, revenue from the sale of goods and services has become a much more significant source of revenue for NSW councils, growing from 8 per cent in 1976/77 to 24 per cent in 2006/07 as a share of their total revenue. Revenue from ‘other’ sources (including developer contributions, fines and rental income etc.) has also grown as a share of total revenue over this period, from 10 per cent to 18 per cent.

In the other states, taxation revenue also declined as a share of councils’ total revenue, but by a much smaller degree (from 52 per cent in 1976/77 to 44 per cent in 2006/07). In contrast, revenue from other sources grew strongly over this period, from 20 to 27 per cent of councils’ total revenue.

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13 Although, DLG data on 2006/07 NSW total council operating revenues (excluding water and sewerage businesses) suggests that the additional revenues from these utilities still included in the 2006/07 figures would constitute around 2 per cent of total revenues.

14 Estimates of these revenues are based on Brisbane City Council public transport revenue figures provided by Brisbane City Council from 1993/94, and in earlier years, on an estimated share of Queensland’s total goods and services sales revenue based on the transport revenue share in 1993/94 (7.9 per cent).
**Figure 2.1 Local government revenue sources – All states and Australia (excluding NSW), 1976/77**

- Goods and Services Sales (G&S Sales) revenue exclude ‘Water Supply’ and ‘Sanitation and Protection of the Environment’ fees and charges. Water utility charges were not yet part of council revenues for Queensland and regional NSW in 1976/77.

*Note:* NT Local Government Act was established in 1978 so no revenues were collected by this sector in 1976/77.

*Data source:* ABS.

**Figure 2.2 Local government revenue sources – All states and Australia (excluding NSW), 2006/07**

- G&S Sales revenue excludes ‘Water Supply’ and ‘Sanitation and Protection of the Environment’ fees and charges

*Note:* Revenues to water utilities via grants and subsidies, interest income or ‘other revenues’ (namely developer contributions) are included in these figures, thus these shares are overstated.

*Data source:* ABS.
IPART notes that there appears to be an inverse relationship between taxation revenue and goods and services revenue as a share of councils’ total revenue in all states except Queensland and the Northern Territory. That is, where one source of revenue is high, the other is relatively low. This suggests that councils can increase revenue from the sale of goods and services to replace taxation revenue when the latter is constrained.\textsuperscript{15}

NSW councils are the most dependent on revenue from the sale of goods and services. This revenue represented 24 per cent of their total revenue in 2006/07. In contrast, it accounted for only 15 per cent of total council revenue in South Australia, and 14 per cent in Victoria (whereas taxation revenue accounted for 60 per cent and 50 per cent respectively in these states).

In Queensland, councils depend much more on ‘other revenue’ sources, which make up 38 per cent of total revenues.\textsuperscript{16} In the Northern Territory, grants and subsidies account for the largest share of revenues (42 per cent) while tax revenues and goods and services sales make up 17 and 15 per cent of total revenues respectively.

IPART findings

1. After 30 years of rate-pegging, the composition of the local government revenue base in NSW has changed considerably. Between 1976/77 and 2006/07, taxation revenue has fallen as a share of total revenue from 68 per cent to 42 per cent, while revenue from the sale of goods and services has increased from 8 per cent to 24 per cent.

2. The share of NSW councils’ total revenue that is from taxation (42 per cent) is now relatively consistent with the average for councils in the other states (44 per cent). However, on average, NSW councils collect a higher proportion of their revenue from user charges and fees and interest income, and a lower proportion from ‘other revenue’ sources compared with other councils in other states.

### 2.2 Total revenues

#### 2.2.1 Growth in total revenue

Despite councils in NSW substituting taxation revenue for other sources of revenue under rate-pegging, their total revenues have not grown as fast as that collected by other Australian councils. NSW council revenue increased from $1.7 billion (in real terms\textsuperscript{17}) in 1976/77 to $6.7 billion in 2006/07, which translates into average annual growth of 4.7 per cent over this period. In comparison, the average annual growth in councils’ total revenues in the other states was 5.5 per cent.

\textsuperscript{15} IPART Issues Paper (2008), p 25.

\textsuperscript{16} However, Queensland councils’ ‘other revenues’ include water utility developer charges and so are likely to overstate the actual share of ‘other revenue’ in council revenues from the tax-supported sector (ie, excluding these businesses).

\textsuperscript{17} As noted in section 1.1, ‘real terms’ refers to 2007/08 dollar terms throughout the paper.
It should be noted that councils’ total revenues in the other states include ‘other revenue’ generated by council water businesses, and this revenue is likely to be particularly high in Queensland. When Queensland councils’ ‘other revenue’ is excluded from the other states’ total council revenues, the real average annual growth rate was 5.1 per cent, which is less than half a per cent higher than that in NSW.

Of course, councils in Queensland and Western Australia experienced strong revenue growth (of 7.3 per cent and 5.8 per cent respectively), largely due to higher economic growth in these states. This is what has driven the higher average growth in revenues for councils outside NSW. NSW councils’ total revenue grew by a higher average annual rate than it did in Victoria, South Australia and Tasmania individually.

On a per capita basis, councils’ total revenue has increased by a real average annual rate of 3.5 per cent in NSW, also lower than growth of 4.0 per cent for councils in the rest of Australia.

Most of the growth in NSW council revenue occurred in the first 10 years after rate-pegging began (Figure 2.3). From 1976/77 to 1985/86, real average annual growth in this revenue was 10 per cent, compared to 9.4 per cent in the other states. Growth was particularly strong in the early 1980s, when NSW council revenue per capita grew by a real average annual rate of 12.4 per cent from 1980/81 to 1984/85. During the 1990s, the growth in NSW council revenue per capita was much more volatile than the growth in the state’s GSP. But for the most part, it was higher than in the other states.

In more recent years, growth in council revenue per capita has slowed significantly in NSW. From 1996/97 to 2006/07, this growth was 2.4 per cent per annum, which is less than half that in other states (5.2 per cent per annum). As Figure 2.3 illustrates, council revenue per capita in NSW diverged markedly from that in other states from 2003/04. This can be largely attributed to the slowdown in economic growth that occurred in NSW at around the same time. Growth in the state’s GSP fell below the average growth in GSP for the rest of Australia in around 2001/02. The fall in revenues at this time can also be partly attributed to a decline in revenue growth from grants and subsidies in real terms.
Figure 2.3 Growth in local government revenue per capita and GSP – NSW and Australia (excluding NSW), 1976/76 - 2006/07

Note: The 1995/96 NSW revenue figure in this chart incorporates a proxy ‘other revenue’ value based on the 1994/95 nominal ‘other revenue’ level (plus the CPI) because of a significant road network asset transfer of $12.6 billion captured in that year’s figures.


Compared to the growth in the State’s GSP, NSW council revenue has grown more strongly in the 30 years since rate-pegging was introduced. Between 1976/77 and 2006/07, recorded average growth in council revenue was 4.7 per cent per annum, while estimated real GSP growth was around 2.7 per cent per annum. In comparison, over the same period, average council revenue growth in the other states was 5.5 per cent, while real estimated GSP growth was 3.3 per cent per annum. However, over more recent years, the growth in NSW council revenue has slowed, and fallen behind growth in GSP. From 1996/97 to 2006/07, NSW council revenue grew by 2.4 per cent per annum (in real terms), while NSW GSP grew by around 3.0 per cent per annum.

2.2.2 Total revenue as share of GSP

As a share of GSP, NSW council revenue has remained fairly stable at around 2 per cent over the period 1989/90 to 2006/07, though from 1994/95 it has trended slightly downwards (Figure 2.4). The NSW average was roughly the same as for the rest of Australia over this period (from 1989/90) - 2.1 compared with 2.0 per cent.

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18 ABS GSP data was available from 1989/90 so the GSP growth estimates are based on ABS GSP chain volume data from 1989/90 to 2006/07 and GSP at factor cost data from 1976/77 to 1988/89 published in Harris and Harris EAP Paper (1992), pp 129–148.
2.2.3 Total revenue per capita

NSW’s ranking among the other states in terms of council revenue per person has changed quite considerably since rate-pegging was introduced. In 1976/77, NSW council revenue per capita was $343, which was just 2 per cent less than the average for the other states ($349), and the third highest among the states individually (Table 2.1). Only Victoria and Tasmania collected higher revenues per capita ($391 and $349 respectively). South Australian council revenue per capita was the lowest ($290), followed by Queensland ($328) and Western Australia ($342). Northern Territory councils did not yet collect revenues.19

However, in 2006/07, NSW council revenue per capita was $977, which was $144 or 13 per cent less than the average council revenue per capita for the other states and the second lowest of all states individually. Only South Australian council revenue per capita was lower ($895). Northern Territory and Queensland had the highest council revenue per capita of all the states, ($1,850 and $1,377 respectively).

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19 Local Government Act (NT) 1978.
Table 2.1 Local government revenue per capita – All states, 1976/77, 1986/87, 1996/97 and 2006/07 ($2007/08)

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<td>6</td>
<td>14</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Other revenue</td>
<td>33</td>
<td>78</td>
<td>78</td>
<td>53</td>
<td>70</td>
<td>19</td>
<td>0</td>
</tr>
<tr>
<td><strong>1986/87</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total revenue</td>
<td>723</td>
<td>738</td>
<td>745</td>
<td>630</td>
<td>631</td>
<td>605</td>
<td>377  699</td>
</tr>
<tr>
<td>Tax revenue</td>
<td>325</td>
<td>361</td>
<td>294</td>
<td>291</td>
<td>273</td>
<td>258</td>
<td>172  314</td>
</tr>
<tr>
<td>G&amp;S sales a</td>
<td>150</td>
<td>164</td>
<td>200</td>
<td>114</td>
<td>117</td>
<td>117</td>
<td>54   155</td>
</tr>
<tr>
<td>Grants/subsidies</td>
<td>100</td>
<td>125</td>
<td>95</td>
<td>87</td>
<td>99</td>
<td>113</td>
<td>75   107</td>
</tr>
<tr>
<td>Interest income</td>
<td>58</td>
<td>40</td>
<td>47</td>
<td>78</td>
<td>48</td>
<td>51</td>
<td>22   48</td>
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<tr>
<td>Other revenue</td>
<td>90</td>
<td>49</td>
<td>110</td>
<td>60</td>
<td>100</td>
<td>66</td>
<td>54   74</td>
</tr>
<tr>
<td><strong>1996/97</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total revenue</td>
<td>843</td>
<td>705</td>
<td>901</td>
<td>680</td>
<td>774</td>
<td>715</td>
<td>1,446 780</td>
</tr>
<tr>
<td>Tax revenue</td>
<td>412</td>
<td>334</td>
<td>383</td>
<td>402</td>
<td>377</td>
<td>375</td>
<td>221  363</td>
</tr>
<tr>
<td>G&amp;S sales a</td>
<td>195</td>
<td>135</td>
<td>181</td>
<td>110</td>
<td>138</td>
<td>107</td>
<td>141  144</td>
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<tr>
<td>Grants/subsidies</td>
<td>114</td>
<td>155</td>
<td>113</td>
<td>96</td>
<td>167</td>
<td>163</td>
<td>683  146</td>
</tr>
<tr>
<td>Interest income</td>
<td>35</td>
<td>19</td>
<td>29</td>
<td>33</td>
<td>28</td>
<td>27</td>
<td>20   25</td>
</tr>
<tr>
<td>Other revenue</td>
<td>86</td>
<td>62</td>
<td>196</td>
<td>41</td>
<td>64</td>
<td>43</td>
<td>382  102</td>
</tr>
<tr>
<td><strong>2006/07</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total revenue</td>
<td>977</td>
<td>983</td>
<td>1,377</td>
<td>895</td>
<td>1,065</td>
<td>1,060</td>
<td>1,850 1,121</td>
</tr>
<tr>
<td>Tax revenue</td>
<td>413</td>
<td>493</td>
<td>495</td>
<td>539</td>
<td>494</td>
<td>453</td>
<td>306  495</td>
</tr>
<tr>
<td>G&amp;S sales a</td>
<td>236</td>
<td>142</td>
<td>199</td>
<td>135</td>
<td>183</td>
<td>214</td>
<td>277  171</td>
</tr>
<tr>
<td>Grants/subsidies</td>
<td>97</td>
<td>116</td>
<td>119</td>
<td>115</td>
<td>97</td>
<td>166</td>
<td>777  126</td>
</tr>
<tr>
<td>Interest income</td>
<td>58</td>
<td>15</td>
<td>40</td>
<td>16</td>
<td>48</td>
<td>44</td>
<td>44   29</td>
</tr>
<tr>
<td>Other revenue</td>
<td>174</td>
<td>216</td>
<td>523</td>
<td>89</td>
<td>242</td>
<td>183</td>
<td>447  301</td>
</tr>
</tbody>
</table>

*a* Goods and Services Sales Revenue excludes Water Supply and Sanitation and Protection of the Environment fees and charges.

**Source:** ABS.

**IPART findings**

3 NSW councils’ revenue growth of around 4.7 per annum (in real terms) was below the average growth of 5.5 per cent experienced in the other states from 1976/77 to 2006/07. But it was higher than the council revenue growth in all other states individually except WA and Queensland. It was also higher than the estimated growth in NSW GSP over this period.
Growth in NSW council revenue slowed considerably from around 1997/98, lagging even GSP growth.

Under rate-pegging, NSW council revenue per capita has declined in comparison to other states. In 2006/07 it was $977, which is $144 or 13 per cent below the average council revenue per capita for the other states and less than the council revenue per capita in all states individually except South Australia.

2.3 Taxation revenues

2.3.1 Rate setting policies

Local councils are empowered through state legislation to raise revenue from rates on immovable property. They do not have the power to impose any other form of taxation, thus local government taxation revenue is solely revenue from property rates (including residential, commercial and rural property rates). Where councils report annual charges as part of their rate incomes (smaller rural councils rather than larger metropolitan councils) this revenue also includes some annual charges on property.

As Chapter 1 discussed, under the rate-pegging approach the maximum rate of increase in rates in any year is determined by the NSW Government. Councils may adjust the level and composition of their rates revenue, by altering the percentage rate in the dollar applied to the rateable property and the structure of rates. (The structure of rates often comprises a fixed charge, and a variable charge based on the land value.) However, councils’ ability to increase their overall level of rates revenue in any year is constrained by rate-pegging.20

In other Australian states, local councils have more autonomy in setting their rates:

- In Victoria, the Minister for Local Government has the power to control local government rate setting. This power was invoked in 1995/94, and councils were subject to temporary rate-pegging until 1997/98. Rate-pegging coincided with a package of local government reforms (including amalgamations), which were intended to pass efficiency savings onto rate-payers. However, from 1997/98 Victorian councils have set their own rates.21

- In South Australia, rate-pegging was also introduced temporarily in the late 1990s for much the same reason as in Victoria.22

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20 Factors which may have led to changes in rates and annual charges apart from the approved general rate increase include special variations, supplementary valuations, additional rateable properties and increases in unpegged rates and charges related to water, sewerage and domestic waste management.


In Western Australia, some conditions are imposed related to the rates a council may set, including that the minimum rate cannot apply to more than 50 per cent of properties. Councils are also required to seek Ministerial approval if the highest rate for an individual property is greater than twice the lowest rate within the local government area (LGA).23

In the Northern Territory, increases in residential rates in municipalities are to be capped in line with the change in the Consumer Price Index (CPI) for the first three years of the NT Government’s New Local Government Reform Program (from 2007/08). The NT Local Government Act 1978 (NT) further stipulates that councils should not budget for a deficit.

Other states’ legislation allows local councils to set their own rates, although most prescribe some conditions for rate setting regarding reporting on policies and performance and required consultations.

### 2.3.2 Growth in taxation revenue

Not surprisingly, growth in taxation revenue in NSW under rate-pegging has been considerably slower than in the other states. NSW council taxation revenue was $1.2 billion in 1976/77 and $2.8 billion in 2006/07, reflecting average annual growth of 3.0 per cent over this period. For the other states, council taxation revenues were $1.6 billion in 1976/77 and $6.8 billion in 2006/07, reflecting average annual growth of 4.9 per cent (Figure 2.5).

**Figure 2.5  Local government taxation revenue, NSW and Australia (excluding NSW) and GSP growth, 1976/77 to 2006/07**

![Graph showing local government taxation revenue, NSW and Australia (excluding NSW) and GSP growth, 1976/77 to 2006/07](image)


23  Ibid.
In the decade after rate-pegging was introduced (1976/77 to 1985/86), growth in council taxation revenue slowed in all states, but the average annual growth in NSW was slower than in the other states (4.8 per cent compared to 7.5 per cent). In the subsequent decade (1986/87 to 1995/96), this growth slowed further in all states, and the average annual growth in NSW was slightly higher than in the other states (3.5 per cent compared to 3.1 per cent).

NSW tax revenues peaked in 1996/97, however over the next ten years (1996/97 to 2006/07), the real average annual growth rate in NSW council taxation revenue was only 1.0 per cent. This is significantly different from that in the other states (4.7 per cent). The divergence is attributable to slower economic growth in NSW and faster council taxation revenue growth in the other states, in line with stronger economic growth (in Western Australia and Queensland). As a share of GSP, NSW council taxation revenue averaged 0.9 per cent from 1989/90 to 2006/07, which is similar to the average for the other states.

IPART finding

6 Since rate-pegging was introduced, the average growth in council taxation revenue in NSW was 3.0 per cent per annum in real terms, which is much lower than in the other states (4.9 per cent per annum). The growth in council tax revenue in NSW slowed significantly from 1996/97.

2.3.3 Taxation revenue per capita

Figure 2.6 shows council taxation revenue per capita over the past 40 years. It indicates that council taxation revenue grew substantially in all states in the few years prior to the introduction of rate-pegging, with highest growth in NSW. From 1973/74 to 1976/77, this revenue increased by an average annual rate of 16 per cent in NSW (in real terms), compared to 14 per cent in the other states.

Since rate-pegging (from 1976/77 to 2006/07), per capita taxation revenue increased by just 1.9 per cent in NSW on a real average annual basis, compared with 3.4 per cent for the rest of Australia.

When rate-pegging was introduced in NSW, the average level of council taxation revenue per capita was $233 per annum -- much higher than the average in the other states of $181 per annum. However, by 1989/90, the average level in NSW had fallen below the average for other states for the first time, with growth slowing considerably in NSW from 1998/99. In 2006/07, the average level of council taxation revenue per capita in NSW was $413 per annum -- 17 per cent lower than the average level in the other states of $495 per annum. (See Table 2.1 on page 19.)
Currently, the highest council taxation revenues per capita are collected in South Australia ($539). Queensland’s council tax revenue per capita has grown significantly in the last few years (to $495 in 2006/07). This is partly due to the high economic growth in that state, and partly due to increased legislative flexibility of differential and special rating instruments which have assisted Queensland councils to more fully access rates revenue.24

Figure 2.6 also shows that in Victoria, council taxation revenue per capita fell sharply from 1995/96 to 1997/98 when rate-pegging was imposed in that state. Similarly, council taxation revenue per capita tended to plateau in South Australia during the period rate-pegging applied in the late 1990s. However, in both states, growth in council taxation revenue per capita quickly increased after the rate-peggs were lifted, growing by an average of 5 and 4 per cent per year in real terms in 1999/2000 and 2000/01.

IPART findings

7 In 2006/07, the average council taxation revenue per capita in NSW was 17 per cent lower than the average in the other states.

8 The experience in NSW from 1976/77, and in Victoria and South Australia in the 1990s, demonstrates that rate-pegging can constrain growth in council taxation revenue (but the decline in this revenue is offset by increases in other revenues and/or ‘catch ups’ when rate-pegging is removed).

2.4 **Average council rates**

While the average council taxation revenue per capita provides a useful indicator of rate levels in each of state, IPART also analysed rate income per assessment property. IPART notes that the 2006 Inquiry into NSW Local Government financial sustainability (the Allan Inquiry) reported nominal growth in average rates in different jurisdictions. IPART supplemented this analysis with data from the Commonwealth Government agency, DITRDLG, the NSW DLG and the WA Grants Commission.\(^\text{25}\)

Of note is that available data on average rate levels is not as comprehensive as the ABS data on council taxation revenue (discussed in section 2.3), and may be less reliable in some cases. This is because it is based on the information that local councils report to the State Grants Commissions (and there is evidence of some council omissions and unexplained volatility in some cases.)

2.4.1 **Growth in average rates**

Table 2.2 shows the Allan Inquiry’s estimated nominal increase in average council rates from 1995/96 to 2003/04 and IPART’s estimate of the real increases, utilising these figures. The results indicate that from 1995/96 to 2003/04, the real average annual increase in rates (per assessment) in NSW was 1.0 per cent. This was the lowest growth rate of all the states over this period, and is consistent with IPART’s finding that NSW council taxation revenues significantly diverged from other states from the mid 1990s.

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\(^\text{25}\) DITRDLG provided IPART with local government rates information (collected from State Grants Commissions) from 2002/03 to 2005/06. The NSW DLG and WA Grants Commission also provided additional rates data on their states (from the 1990s for NSW data and from 2002/03 for WA data). Other State Grants Commissions (except Victoria) advised that they did not have reliable historical rates data beyond what has been provided by DITRDLG.
Table 2.2 Average annual increase in council rates by jurisdiction, 1995/96 to 2003/04

<table>
<thead>
<tr>
<th></th>
<th>Allan Inquiry estimated nominal % increase</th>
<th>CPI % increase</th>
<th>IPART estimated real % increase</th>
<th>IPART estimated average annual % increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>NSW</td>
<td>29.2</td>
<td>21.5</td>
<td>7.7</td>
<td>1.0</td>
</tr>
<tr>
<td>ACT</td>
<td>35.2</td>
<td>19.2</td>
<td>16.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Tasmania</td>
<td>36.3</td>
<td>19.3</td>
<td>17.0</td>
<td>2.1</td>
</tr>
<tr>
<td>SA</td>
<td>51.8</td>
<td>21.3</td>
<td>30.5</td>
<td>3.8</td>
</tr>
<tr>
<td>QLD</td>
<td>55.5</td>
<td>21.6</td>
<td>33.9</td>
<td>4.2</td>
</tr>
<tr>
<td>WA</td>
<td>64.8</td>
<td>19.6</td>
<td>45.2</td>
<td>5.7</td>
</tr>
<tr>
<td>Victoria</td>
<td>66.1</td>
<td>20.6</td>
<td>45.5</td>
<td>5.7</td>
</tr>
</tbody>
</table>

Note: NT was not included in the Allan Inquiry’s comparative analysis of rates due to poor data reliability.

Source: Allan Report (2006) and ABS.

The data provided by DITRDLG and the WA Grants Commission further support the finding that average council rates (per assessment) in NSW tended to be lower than the average in the other states from 2002/03 to 2006/07. These data indicate that average rates in NSW grew in real terms by 1.3 per cent per annum over this period, compared with average annual growth of 7.4 per cent in the other states (on a weighted average basis).26

IPART estimated that in 2006/07, the average rates in NSW (in 2007/08 dollars) were $978 per annum.27 This is $169 per annum (or 15 per cent) lower than the estimated weighted average for the rest of Australia ($1,147) (Figure 2.7).

Combining the results based on the Allan Inquiry and DITRDLG data, IPART estimated that growth in average NSW council rates from 1995/96 to 2006/07 was around 1.2 per cent per annum.28 This is relatively consistent with the estimated growth of 1.0 per cent in council taxation revenues in NSW over this period (section 2.3.2).

IPART finding

Available data suggest that from 1995/96 to 2006/07, average rates in NSW grew by 1.2 per cent per annum. This is much slower than the growth in average rates in other states over the same period.

---

26 This weighted average should be interpreted with caution given the unreliability of some of the data. In addition, given that water/sewerage rates and charges are included in DITRDLG data, proportional shares have been subtracted from the average weighted rate levels based on State Grants Commissions’ financials for 2006/07 (44 per cent for QLD and 67 per cent for Tasmania). Data on separate water and sewerage rates was not available for NSW so its average rate levels are likely to be marginally overstated.

27 The calculations are explained in Appendix B.

28 Not enough information is available to calculate the same average annual growth for the rest of Australia over this period.
Not surprisingly, the growth in average nominal council rates and council taxation revenues in recent years has tended to exceed the statutory rate peg limit applied in NSW (Figure 2.8). This is because councils usually set rates at the maximum allowed levels and may also apply for special variations to apply an increase above the rate peg limit. Residential rates may also rise above the rate peg limit because the rate peg is on total rate revenue (assuming no change in the number of assessments).

Figure 2.7 Average council rates ($2007/08) – NSW and Australia (excluding NSW), 2002/03 to 2006/07

This weighted average should be interpreted with caution given the unreliability of some of the data. In addition, given that water and sewerage rates and charges are included in DITRDLG data, proportional shares have been subtracted from the average weighted rate levels based on reported council financials (44 per cent for QLD and 67 per cent for Tasmania).

Note: Data on separate water and sewerage rates was not available for NSW so average rate levels may be marginally overstated.

Figure 2.8 Average nominal growth in residential rates and local government taxation revenue nominal growth compared with statutory rate-peg limit, NSW, 1976/77 to 2006/07

![Graph showing average nominal growth in residential rates and local government taxation revenue nominal growth compared with statutory rate-peg limit, NSW, 1976/77 to 2006/07.](image)

**Note:** Residential rates information is not available before 1995/96.

**Source:** DITRDLG, DLG and ABS.

### 2.4.2 Average taxation revenue per property assessment

As noted, the available rates data may be ‘lumpy’ and unreliable, and IPART has had to make assumptions related to water and sewerage rates in Queensland and Tasmania in calculating average rates in those states. Therefore, IPART considered that ABS data on total council taxation revenue divided by the number of property assessments made in each state may provide a better indicator of average rate levels. ABS council taxation revenue data completely excludes all water and sewerage charges, except where some charges may be reported as aggregate rates income by councils (likely only in low-population, rural areas). The downside of this approach is that it is an average of revenue receipts by property assessment overall, and so affords more weighting to the average rates paid in larger, metropolitan council areas where much more rates income is generated.

As Table 2.3 shows, in 2006/07 the highest council tax revenue per property assessed was in Queensland ($1,455 per annum) and the lowest was in Tasmania ($878 per annum). In NSW, council taxation revenue per property assessed was $997 in 2006/07, which is the second lowest among the states individually, and 12 per cent below the weighted average for all other states. The table also shows that council taxation revenue per property assessed in NSW declined in 2003/04 and 2004/05, indicative of lower council taxation revenues overall and a significant increase in the number of assessments in 2004/05.29

---

29 IPART cannot explain the significant increase in assessments. The statutory rate-peg limit was 4 per cent in 2004/05, which suggests that caution be exercised in interpreting the figures over these years.
### Table 2.3 Taxation revenues per property assessment (2007/08 dollars)

<table>
<thead>
<tr>
<th></th>
<th>2002/03</th>
<th>2003/04</th>
<th>2004/05</th>
<th>2005/06</th>
<th>2006/07</th>
</tr>
</thead>
<tbody>
<tr>
<td>New South Wales</td>
<td>1,018</td>
<td>1,034</td>
<td>930</td>
<td>962</td>
<td>997</td>
</tr>
<tr>
<td>Victoria</td>
<td>839</td>
<td>891</td>
<td>944</td>
<td>989</td>
<td>1,041</td>
</tr>
<tr>
<td>Queensland</td>
<td>1,128</td>
<td>1,162</td>
<td>1,245</td>
<td>1,389</td>
<td>1,455</td>
</tr>
<tr>
<td>South Australia</td>
<td>839</td>
<td>874</td>
<td>923</td>
<td>978</td>
<td>1,019</td>
</tr>
<tr>
<td>Western Australia</td>
<td>867</td>
<td>901</td>
<td>987</td>
<td>1,000</td>
<td>1,063</td>
</tr>
<tr>
<td>Tasmania</td>
<td>753</td>
<td>779</td>
<td>830</td>
<td>855</td>
<td>878</td>
</tr>
<tr>
<td>Northern Territory</td>
<td>na</td>
<td>968</td>
<td>1,004</td>
<td>893</td>
<td>1,100</td>
</tr>
<tr>
<td>Weighted Average</td>
<td>908</td>
<td>951</td>
<td>1,014</td>
<td>1,074</td>
<td>1,133</td>
</tr>
</tbody>
</table>

*The weighted average is calculated by taking average rates for states excluding NSW and weighting them by the number of rateable properties in that state as a proportion of total properties (excluding NSW). This data omits some councils which were not reported on.*

**Source:** ABS, DITRLG.

#### IPART finding

10 In 2006/07, the estimated average council taxation revenue per property assessed (or average rates) in NSW was $997, which is around 12 per cent lower than the weighted average for the other states, and the second lowest among the states individually.

There are many reasons why rate revenues vary among states. In addition to the differences in the distribution of property types and the regulatory constraints (such as rate-pegging) already discussed, there is also only modest consistency in the methodologies used to set property rates in each state. Broadly speaking, there are two approaches. The first involves basing rates on the unimproved capital value of the property (UCV), and is used NSW, Queensland and ACT. The second involves the council choosing to base rates on either the UCV, or the annual rental value of the property, and is used in Victoria, South Australia, Tasmania, and the Northern Territory. In WA, two methods of gross rental value and unimproved value are used, but these are restricted by land type.

### 2.5 Revenue from the sale of goods and services

#### 2.5.1 Sources of goods and services sales revenue

Council revenue from the sale of goods and services (sales revenue) generally includes user fees and charges (eg, for use of public places, domestic waste management), fees for regulatory services (including development applications and approvals), and rental income. In Queensland, Tasmania and rural NSW, this revenue also includes water and sewerage charges, and for the Brisbane City Council it includes public transport fares. However, as noted above, IPART has excluded revenue from water and sewerage charges, sanitation/protection of the environment levies, and public transport revenues from the analysis. The result is that the goods and services sales revenues will be slightly under-estimated for the ‘tax-supported
sector’ (ie, excluding water and sewerage utilities) given some of the waste and environmental protection levies that are administered by councils around Australia.

Many state governments set statutory limits on council fees and charges, particularly fees related to development applications (DAs) and consents. Many fees are discretionary but some, such as for processing DAs, are capped. In NSW, council are permitted to make and levy the charges for a range of services which can be set to achieve partial or full cost recovery. Charges need not be limited to cost recovery levels, except for domestic waste management charges.

### 2.5.2 Growth in goods and services sales revenue

As the Allan Inquiry noted, revenue from user charges and fees varies greatly from council to council in NSW. However, in aggregate, such income has been the fastest growing alternative source of revenue to rates since rate-pegging was introduced (Table 2.4 and Figure 2.9). In 1976/77, NSW councils collected $135 million from this source, and in 2006/07 this had increased to $1.63 billion. This represents real average annual growth of 8.7 per cent for NSW, compared with 6.4 per cent in the other states (Table 2.4 and Figure 2.10).

**IPART finding**

Since rate-pegging commenced, the sale of goods and services has been the largest source of revenue growth in NSW. Revenue from this source increased by a real average annual rate of 8.7 per cent from 1976/77 to 2006/07, compared with 6.4 per cent in the other states.

#### Table 2.4 Average annual growth in council revenue sources other than taxation ($2007/08) – NSW and Australia (excluding NSW), 1976/77 to 2006/07

<table>
<thead>
<tr>
<th></th>
<th>NSW</th>
<th>Australia (exc NSW)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales of goods &amp; services(^a)</td>
<td>8.7%</td>
<td>6.4%</td>
</tr>
<tr>
<td>Grants &amp; subsidies</td>
<td>4.1%</td>
<td>4.7%</td>
</tr>
<tr>
<td>Interest income</td>
<td>7.3%</td>
<td>6.0%</td>
</tr>
<tr>
<td>Other revenues</td>
<td>6.8%</td>
<td>6.5%</td>
</tr>
<tr>
<td>Total revenue</td>
<td>4.7%</td>
<td>5.5%</td>
</tr>
</tbody>
</table>

\(^a\) Excludes water supply and sanitation and protection of the environment levies in all states and the NT.

**Source:** ABS.

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31 See Section 501 of the *Local Government Act 1993.*
Figure 2.9 NSW local government revenues from sources other than taxation, 1965/66 to 2006/07

$ million (2007/08)  
G&S Sales  
Grants/Subsidies  
Other Revenue  
Interest Income

Note: G&S Sales refers to goods and services sales.  
Data source: ABS.

Figure 2.10 Australia (excluding NSW) local government revenues from sources other than taxation, 1965/66 to 2006/07

$ million (2007/08)  
G&S Sales  
Grants/Subsidies  
Other Revenue  
Interest Income

Note: G&S Sales excludes water supply and sanitation and protection of the environment levies in all states and territories.  
Data source: ABS.

2.5.3 Goods and services sales revenue per capita

In the year rate-pegging was introduced (1976/77), NSW councils collected an average of $27 in sales revenue per person, compared to an average of $41 per person in the other states. However, in 2006/07, NSW councils’ average sales revenue was $236 per person, compared with an average of $170 per person in the other states.
As Figure 2.11 shows, NSW councils collected the second highest sales revenue per person of all the states individually in 2006/07. Only Northern Territory councils collected more ($277 per person), while South Australia collected the lowest sales revenue per person ($135).

NSW councils’ sales revenue per capita accelerated in the early 1980s. Over the 10 years from 1976/77 to 1985/86, it grew by an average annual 21 per cent, compared to an average annual of 16 per cent in the other states. Over the next 10 years (1986/87 to 1995/96), it grew much slower - by an average annual rate of 2.8 per cent - but this still significantly faster than in the other states (which on average, experienced an average annual decline in sales revenue per capita of 1.6 per cent over this period). From 1996/97 to 2006/07, NSW council sales revenue continued to grow at a relatively slow average annual pace of 1.9 per cent compared with 1.6 per cent in the other states.

IPART finding

12 NSW councils’ revenue from the sale of goods and services also grew faster than the others states on a per capita basis. From 1976/77 to 2006/07, it grew by an average annual of 7.5 per cent compared with 4.9 per cent in the other states.

**Figure 2.11 Local government goods and services sales revenue per capita– All states, 1965/66 – 2006/07**

Note: Northern Territory local governments collected revenues from 1978/79.

Data source: ABS.
2.6 Grants and subsidies

2.6.1 Sources of grant and subsidy revenue

Council revenue from grants and subsidies includes current and capital grants from the Commonwealth and State Governments. The Commonwealth Government provides funding to local government in the form of annual, untied financial assistance grants (FAGs) and tied specific purpose payments (SPPs). FAGs consist of two types of grant:

- General purpose grants distributed among the states on an equal per person basis. Most of these grants are distributed within a state on the basis of general relative need, while 30 per cent are distributed between councils in a state on the basis of population (the minimum grant).

- Identified local road grants distributed among the states on the basis of historical shares of relative road needs (determined in 1991).32

State governments allocate both these types of grant to local governments in their respective jurisdictions according to the recommendations of the State Grants Commissions, in adherence with the National Principles under the Local Government (Financial Assistance) Act 1995 (including horizontal equalisation33, effort neutrality and minimum grant).34

The methodologies used to calculate the size of the grants to each council varies in each state but they are generally based on an array of characteristics like:

- population: size, density, growth, dispersion, proportion aged over 60, disability rates, proportion of Indigenous population
- road: length, proportion of sealed/unsealed roads, traffic
- number of dwellings
- types of expenditure services offered by the council
- cost of providing services compared to revenue-raising ability.35

The application of the horizontal equalisation principle leads to larger general purpose grants per person for councils with relatively smaller rate bases and those that are disadvantaged in terms of the relative cost of delivering services. However,

33 Horizontal equalisation distribution of grants is determined by estimating the cost each council would incur in providing a normal range and standard of services, and by also estimating the revenue each council could obtain through the normal range and standard of rates and charges. The grant is then allocated to compensate for these variations in expenditure and revenue and (ideally) bring all councils up to the same level of financial capacity. (Hawker and Burke (2003), p 204.)
the total general purpose grants pool in each state is not sufficient to achieve full fiscal equalisation.

The Commonwealth Government also makes SPPs direct to local governments to fund childcare, local roads and other infrastructure. This includes a substantial local government road program known as “Roads to Recovery”. For the year 2003/04, DITRDLG reported that the Commonwealth paid around $55 million to local governments for children’s services, and $300 million under the Roads to Recovery program.37

2.6.2 Growth in state grants to local government

While the Productivity Commission has observed that a small number of councils will probably always rely heavily on Commonwealth and state grants,38 a recent report noted that “net state government grants to local government have not increased by anywhere near the continuity or proportionality as those from the Commonwealth”.39 It is difficult to measure the level of funding from state governments to local governments, as the ABS figures include contract payments to councils to carry out state activities, rather than just grants to councils for council activities.40 With these payments included, local government capital grants per capita allocated by the state government in NSW in 2006/07 were less than those in all other states except Tasmania and Western Australia (Figure 2.12). However, from 2000/01 to 2004/05, the payments per person in NSW were higher than in all other states except Queensland and South Australia.

Further, in NSW, 68 per cent of all intergovernmental transfers in local government in 2003/04 were Commonwealth Government grants (FAGs), and only 32 per cent were state government grants. This compares with a split of 56:44 in the other states.  

Some of the state government grants to local government for specific purposes or services are reimbursements for rate concessions. The majority of the states compensate local councils in full for mandatory rate concessions (provided to pensioners). NSW is the exception: here, the state government reimburses only 55 per cent of the value of concessions councils provide to eligible pensioners.

### 2.6.3 Growth in grant and subsidy revenue

For these and other reasons, councils in NSW have experienced lower growth in grant and subsidy revenue than other Australian councils since rate-pegging commenced. Over the period 1976/77 to 2006/07, such revenue grew by an average annual rate of 4.1 per cent per annum, compared to 4.7 per cent in the other states (Figure 2.13). The growth in council revenue from grants and subsidies in NSW was second lowest among the states. Only Victoria recorded lower growth of 3.4 per cent per annum. Queensland experienced the highest growth (an average 5.8 per cent per annum), in part due to its additional road network needs.

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**Note:** These figures include council funding for state government activities, as well as local government activities.  
**Data source:** ABS, 5512.0, Government Finance Statistics, 2006/07 (operating statements).

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42 *Local Government Act 1993* (s. 581).
Growth in the first ten years after rate-pegging (1976/77 to 1985/86) was particularly high in NSW and elsewhere nationally – 12.0 per cent and 11.2 per cent respectively. Over the next ten years (1986/87 to 1995/96), this growth slowed considerably in NSW to just 1.8 per cent compared with 5.2 per cent growth outside NSW. Then from 1996/97 to 2006/07, the level of grants and subsidies to NSW councils fell by an average annual rate of 0.7 per cent, while councils in other Australian states and NT experienced no change. This lower level of grants was due to a decision by the Howard Government in 1997 to redistribute the escalation of FAGS by the CPI only, excluding the population component. The Government reasoned that tight economic pressures at the time did not allow the full FAGS escalation. According to PwC, the impact of this policy was as follows:

As there was no increase in the CPI between 1996/97 and 1997/98, the quantum of FAGS funding saw a slight decrease of 0.1 per cent or $14 million. The cumulative effect of this decision has seen local government receive $171 million less in FAGS funding up to the end of 2006/07.43

2.6.4 Grant and subsidy revenue per capita

Similarly, NSW council revenue from grants and subsidies per capita has tended to be lower than the average in other states. In 1976/77, NSW council revenue from grants and subsidies was $40 per person, compared with $49 per person in the other states. By 2006/07, this revenue was $97 per person in NSW and $126 per person in the other states, a difference of 30 per cent.

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IPART finding

13 From 1976/77 to 2006/07, council revenue from grants and subsidies grew at a slower average annual rate in NSW than in the other states (4.1 per cent compared with 4.7 per cent). On a per capita basis, this revenue has tended to be lower in NSW than in the other states, and the gap between NSW and the other states has widened in recent years.

2.7 Other revenue

2.7.1 Sources of ‘other revenue’

Other than interest and dividend income, the last source of revenue for local councils in Australia is fines, developer contributions (including charges and donations), rents and other current and capital revenues (‘other revenue’). Local governments have the authority, through planning and development legislation, to raise revenue from developer contributions for economic and social infrastructure. This includes items such as contributions for private work carried out by councils or work carried out on behalf of the roads and traffic authorities in each state. It also includes developer charges for water and sewerage in relevant states (Queensland, Tasmania and regional NSW) and as noted, these charges could not be separated out from the data. Up to now, developer charges for water supply and sewerage have not been capped in NSW.

Intuitively, one would expect the magnitude of ‘other revenue’ to vary significantly from council to council, and from year to year. The ABS does not provide a breakdown of councils’ ‘other revenue’, so it is not clear how much comes from each possible source. However based on a sample of individual council data across Australia, the Productivity Commission observed that fines are likely to contribute to a relatively larger share of ‘other revenues’ in ‘capital city’ and ‘urban developed’ councils, and developer contributions are likely to account for a relatively large share of rural and remote councils’ ‘other revenue’. Nonetheless, the fast-developing council areas will generate the most revenues from developer contributions.

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44 Legislative restrictions on the ability of local government to impose developer charges and contributions vary across states. Planning legislation in NSW, Victoria, Queensland and Tasmania allows for local government to impose charges to recover the costs of infrastructure. In NSW, councils can grant consent for developments conditional upon a developer contributing land free of cost, making a monetary contribution, or both under section 94 of the Environmental Planning and Assessment Act 1979 (NSW).

45 Recently the NSW Government removed developer charges for water and sewerage services in Sydney and the Hunter region.

46 2006/07 income statement information for NSW councils from the NSW DLG suggests developer contributions and donations amounted to around 52 per cent of ‘other revenues’ and fines 8 per cent of ‘other revenues’.

2.7.2 Regulatory influences on developer contributions

In NSW, section 94 of the NSW Environmental Planning Act 1979 (EPA Act) provides councils with a formal legal framework for levying developers for infrastructure and service provision related to most categories of new development. These levies have only been fully utilised since 1989 owing to various legal complications. From 1992, councils have been required to complete s.94 Contributions Plans before they can impose developer contributions. Following amendments to the EPA Act in 2005, councils may also raise revenues from developments through Voluntary Planning Agreement or Fixed Levies, as well as s94 Contributions Plans. The option of ‘cross boundary’ levying was also introduced by the amending legislation.

Following a review of infrastructure contributions in NSW, the state government announced in December 2008 the establishment of a $20,000 threshold for developer contributions to councils in relation to residential dwellings. Councils will only be able to charge above the threshold if they have approval from the Minister for Planning.

In Queensland, infrastructure charges on developers are provided for in the Integrated Planning Act 1997. Local governments may impose a charge for the supply of trunk infrastructure and require development contributions for ‘development’ infrastructure.

In Victoria, a developer contribution system has existed since 1987, but the system varies between councils. In the past, the level of developer contributions has tended to be much lower in Victoria than in NSW. However, in 1994, a number of reforms to the developer contribution system were implemented to provide more guidance and transparency in the process. In 2004, the Victorian Government passed the Planning and Environment (Development Contributions) Act (2004) which provided for further flexibility and accountability in the provision of social and community infrastructure, and better guidance on Development Contribution Plans (including a schedule of limited infrastructure charges).

In other states, there have been relatively limited powers available to councils to levy developer contributions. In Western Australia, the Town Planning and Development Act 1928 (WA) allows local governments to require contributions for on-site physical infrastructure and the ceding of land for primary schools and open space.

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51 As amended by the Integrated Planning and Other Legislation Amendment Act 2003.
53 Ibid.
2.7.3 Growth in ‘other revenue’

Over the period since rate-pegging was introduced in NSW, the overall level of councils’ ‘other revenue’ increased significantly both in this state and in the other states, particular since the early 1990s (Figure 2.14). In particular, from 1976/77 to 2006/07:

« In NSW, councils’ ‘other revenue’ increased from $167 million to $1.2 billion (in real terms), which represents an average annual growth rate of 6.8 per cent.
« In the other states, councils’ ‘other revenue’ increased from $627 million and to $4.1 billion. This represents average annual growth of 6.5 per cent, which was faster than the growth in any other source of council revenue over this period.

The figures above are likely to marginally overstate the growth rates for ‘other revenue’ due to the inclusion of water and sewerage developer charges (in NSW, Queensland and Tasmania figures). For example, Queensland councils’ ‘other revenue’ grew by a real average annual rate of 9 per cent per annum over this period, while Tasmanian councils’ increased by an average rate of 8.4 per cent per annum.

Figure 2.14 Local government ‘other revenue’ -- All states, 1976/77 to 2006/07

In NSW, an upward trend in councils’ ‘other revenue’ from 1992/93 to 2001/02 reflected increased access by councils to developer contributions and a buoyant property market over this time. With the downturn in the property market, councils’ other revenue declined from a peak in 2001/02.
In Victoria, councils’ ‘other revenue’ grew by an average of 15 per cent per annum in real terms from 1996/97 to 2006/07. This was consistent with property market growth in Victoria over this time, facilitated by some legislative changes to the system.

Despite the fact that Western Australian councils cannot access developer contributions, these councils’ other revenue grew very strongly from 1996/97 – by an average annual rate of 16 per cent (in real terms). While there was a persistent upward trend in WA’s property market over this time (apart from a dip due to the introduction of the GST in 2000), this growth may also be partly due to growth in other income sources (such as rental incomes or fines, for example).

While much of the growth in councils’ ‘other revenue’ has been driven by economic growth and building/property sector performance, IPART found that this revenue as a share of GSP has also increased from 1989/90 to 2006/07 in each state except for South Australia (Figure 2.15). This means there are other contributing factors involved (apart from economic growth) which impact the level of developer contributions (and other revenue sources grouped in this ‘other’ category).

**Figure 2.15 Local government ‘other revenue’ as share of GSP -- All states, 1989/90 to 2006/07**

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Data source: ABS.

### 2.7.4 ‘Other revenue’ per capita

In per capita terms, NSW councils have one of the lowest levels of ‘other revenues’ among the states (see Table 2.1 on page 19). In 2006/07, NSW councils’ ‘other revenue’ was $174 per person, compared with an average of $301 per person in the other states. Only South Australia recorded a lower level of ‘other revenue’ per capita ($89), while Queensland councils generated the highest level ($523).
NSW councils’ ‘other revenue’ per person hasn’t changed much relative to other councils’ on average since rate-pegging. In 1976/77, NSW councils generated ‘other revenue’ of $33 per person, and the other states (on average) generated $70 per person. Over the period up until 2006/07, NSW councils’ ‘other revenue’ grew by an average of 5.7 per cent per annum, compared with 5.0 per cent in other states. For the last 11 years, NSW councils’ ‘other revenue’ per person has been around $29 lower than average ‘other revenue’ per person for the other states.

**IPART finding**

14 In the 30 years to 2006/07, councils in both NSW and the other states experienced significant growth in ‘other revenues’ of 6.8 per and 6.5 per cent in real average annual terms respectively. However, NSW councils have one of the lowest levels of ‘other revenue’ per capita among the states individually, a situation that has not changed since 1976/77.
In this chapter, IPART examines NSW councils’ operating positions and net debt performance at the aggregate level, and compares them with those of local government sectors in other states. This analysis has provided insight into whether rate-pegging has allowed NSW councils to collect sufficient revenues to meet their operating expenses and their community’s infrastructure needs.

The analysis was not designed to assess NSW councils’ financial sustainability. Rather, it is aimed at determining whether councils’ revenues for capital purposes (i.e., through grants and subsidies and developer contributions) have been used to fund capital needs, or whether a proportion has been spent on recurrent expenditure. In addition, an examination of the net debt levels has been undertaken in the context of determining how much councils in each of the states tend to borrow to help renew and enhance existing infrastructure.

Like in the revenue analysis, water supply and sanitation/protection of the environment expenditure (as well as relevant revenue) has been excluded from most of the results in this section. With these exclusions, it is apparent that NSW councils’ level of operating expenditure per person has grown at a faster rate than councils’ in the other states under rate-pegging. However, councils’ operating expenditure per person in NSW is still considerably lower than in other states. As a result, NSW councils have tended to run more operating surpluses than elsewhere.

NSW councils have also taken on much less debt than other Australian councils. This may be due to their perception that rate-pegging imposes a constraint on their ability to generate future revenues. However, it also reflects a deep seated philosophy among councils that debt is bad.

### 3.1 Operating expenditure versus revenue

At the aggregate level, council revenues have been higher than operating expenditure in both NSW and other states since 1976/77 (Figure 3.1). This is not surprising since councils need additional revenue to fund capital expenditure purposes.

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55 Where this was not possible (as for the analysis of net debt and individual council operating positions), this is clearly indicated in the text.

56 This excludes capital expenditure.
From 1976/77 to 2006/07, NSW councils’ total operating expenditure grew by an average annual rate of 8.3 per cent (real). This was faster than in the other states, where on average, councils’ operating expenditure grew by 6.4 per cent. Over this period, the average expenditure per person in NSW was $518, which was $81 lower than in the other states where average expenditure per person was $599.

The gap between their average operating expenditure per person and that of the councils’ in the other states has shrunk in percentage terms since rate-pegging. In 1976/77, average council operating expenditure in NSW was $99 per person - $125 or 56 per cent lower than in the other states ($224 per person). In 2006/07, this expenditure was $777 per person in NSW - $155 or 17 per cent lower than in the other states ($932 per person).

While operating expenditure per person is lower in NSW, it is not possible to draw conclusions about relative council efficiencies on this basis alone. Larger populations can assist economies of scale in service delivery and the level of a council’s expenditure also depends on the mix, level and quality of services it delivers to its community, as well as the costs involved. As a recent study has noted:

… lower cost of service per population for any given municipal function may be a result of being more cost efficient (i.e. quantity of service measure), a result of providing a lower level of service (i.e. quality of service measure), or a result of the mix of services provided.57

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Nonetheless, other research on NSW councils’ back-office efficiency concluded that the corporate efficiency of NSW councils - of all sizes, populations and locations - is at least comparable to, and possibly better than, that of equivalent-sized state government agencies in this state.\(^{58}\)

Even so, the higher growth in council operating expenditure in NSW compared with other states since rate-pegging suggests that this policy has not constrained councils’ spending on operating needs.

**IPART finding**

15 Real average annual growth in NSW councils’ operating expenditure exceeded that of other states from 1976/77 to 2006/07 (8.3 per cent compared with 6.4 per cent). On a per capita basis, NSW councils’ operating expenditure was $154 or 17 per cent below the average in the other states in 2006/07.

Most of councils’ operating expenditure comprises gross operating expenses – including employee expenses and other operating expenses. Figure 3.2 plots the annual growth in gross operating expenses for councils in NSW and the other states. From 1976/77 to 2006/07, average annual growth in gross operating expenditure in NSW was 7.4 per cent compared with 7.0 per cent in other states.

Figure 3.2 also shows that there have been some sharp increases in growth in certain years, particularly in NSW. Before the mid-1980s, the spikes could be due to new service responsibilities being delivered by local government. In 1995/96, the smaller spike may be due to the transfer of regional roads from state to local government responsibility in NSW.\(^{59}\) In 1998/99, the spikes in all states were due to the introduction of accrual accounting. In NSW, this peak is particularly high as a much higher proportion of depreciation expenses were recorded in this state in that year - an additional $1.3 billion (on $1 million in 1997/98), compared with an additional $992 million in depreciation expenses (from $1.4 billion) for all other states. This is because councils in most other states had already begun recording depreciation expenses from 1993/94. It is worth noting that if depreciation expenses are excluded from the calculations of average annual growth in operating expenditure from 1976/77 to 2006/07, NSW councils’ growth still exceeds that in other states (7.5 per cent compared with 5.5 per cent).

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Figure 3.2  Local government gross operating expenditure growth -- NSW and Australia (excluding NSW) 1976/77 - 2006/07

Note: Gross operating expenses exclude the operating expenses associated with water supply and sanitation and protection of the environment (all states and the NT).

3.2  Net operating positions

As discussed in the previous section, the local government sector in aggregate tends to generate higher revenues than operating expenditures, when all revenues are included. Figure 3.3 plots the ‘operating surpluses’ as a share of a council’s ‘own-source revenue’. This chart shows how, since 1976/77, the size of this ‘surplus’ has been significantly reduced as share of own-source revenues in NSW, and to a lesser degree in other states.

In 1976/77, the NSW local government sector ‘operating surplus’ represented 83 per cent of own source revenues. This fell to just 39 per cent in 1982/83, driven by strong expenditure growth over this period. From 1982/83, the NSW local government sector’s ‘surplus’ has fluctuated within a band of around 20 to 45 per cent of own-source revenues. In 2006/07, it amounted to 24 per cent.

For other states, the local government ‘net operating position’ as a share of own-source revenue remained fairly stable around the 40 per cent mark over the first ten years after 1976/77. It gradually fell to 33 per cent in 1982/83, and then as low as 3 per cent in 1998/99. The ‘surplus’ increased back to 20 per cent of own-source revenues in 2006/07.

60 Capital expenditures are excluded from net operating positions.
61 ‘Own-source revenue’ includes taxation revenue, goods and services sales revenue and ‘other revenue’.
62 A similar downward trend is indicative of the surpluses’ share of total revenues though this is not illustrated.
Clearly, the size of the ‘surpluses’ contracted with the introduction of accrual accounting in 1998/99, (and in the lead up to accrual accounting in other states) due to the requirement to record depreciation as discussed in the previous section. But from 1998/99 to 2006/07, the ‘surplus’ in NSW increased from 17 to 24 per cent of own-source revenues, averaging 23 per cent over this period. For the rest of Australia, the ‘surplus’ also increased, and averaged 9 per cent per annum over this period.

### 3.2.1 Operating position as a share of own-source revenue

NSW councils currently generate the largest operating ‘surpluses’ as a share of own-source revenue among all the states individually (24 per cent), following by Queensland councils (23 per cent of own-source revenue in 2006/07) and Tasmanian councils (20 per cent). Northern Territory and Victorian councils generated the smallest ‘surpluses’ as a share of own-source revenue in 2006/07 (7 per cent and 17 per cent respectively).

Figure 3.3 Local government operating position as a share of own-source revenues - NSW and Australia (excluding NSW), 1976/77 to 2006/07

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**Notes:**

a. The operating positions exclude ‘water supply’ and ‘sanitation and protection of the environment’ expenditure and associated goods and services sale incomes, and all capital expenditures.

b. “Own-source revenue” consists of tax revenues, goods and services sales income and ‘other revenue’.

**Data source:** ABS.

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63 These surpluses will be higher in these states in part due to the inclusion of local water utility revenues, apart from goods and services sales revenues.
3 Operating positions and debt

IPART finding

16 Local government ‘operating surpluses’ (amounts by which total revenue exceeds operating expenditure) have fallen significantly in NSW, and to a lesser degree, in other states since 1976/77. However, NSW still generates the highest surpluses of all states, averaging 23 per cent of own-source revenues per annum from 1998/99 to 2006/07, compared with an average of 9 per cent per annum for other states.

3.2.2 Individual council operating positions

Figure 3.4 and Figure 3.5 present scatter-plots of the net operating positions of individual councils in NSW and the other states (excluding capital expenditure for NSW and most other states) in 2006/07. These figures show the final operating positions including the impact of the local water utilities for NSW, Queensland and Tasmania. With these inclusions in mind, most councils in NSW ran operating surpluses of up to $5 million in this year. Councils in the other states ran small deficits. The median position of councils was a surplus of $3.8 million in NSW, compared with a small deficit of around $41,000 in the other states.

Figure 3.4 Individual councils’ net operating positions (nominal), NSW, 2006/07

Note: Scatter plot excludes high outliers (three above a $40 million surplus).

Data source: NSW DLG.
Operating positions and debt

Figure 3.5 Individual councils’ net operating positions (nominal), Australia (excluding NSW), 2006/07

Notes:

a  The scatter-plot excludes high outliers (five above a $40 million surplus and seven below a $10 million deficit, including one below a $40 million deficit (Brisbane City Council).

b  Includes WA, Queensland, Victoria, South Australia and Tasmania council net operating position figures. Data was not available for NT local government sector operating positions.

Data source: Council financial statement information provided by the Victorian Grants Commission, Tasmanian Department of Premier and Cabinet, WA Department of Local Government and Regional Development and QLD Department of Local Government, Sport and Recreation.

3.2.3 Net operating positions less grants, subsidies and ‘other revenue’

The analyses above focused on the net operating positions of councils at the state and individual council level, excluding capital expenditures. However, it is difficult to assess whether a council’s operating revenues are sufficient to meet its operating needs, or if it is using capital funds to fund recurrent expenditures without also excluding revenues specifically for capital purposes from its operating position. In a 2006 study of local government finances in NSW, Access Economics noted that examining a council’s operating surplus or deficit before capital amounts is most appropriate from an inter-generational equity perspective.64 When the operating surplus measured in this way is positive, own-source revenues are more than sufficient to finance current operations.

Revenues collected directly for capital expenditure purposes are primarily grants and subsidies, but also consist of developer contributions captured in the ‘other revenue’ figures. Of course, some grants and subsidies, as well as fines and other income

captured in ‘other revenues,’ would also be appropriately used for recurrent expenditure, but these revenues cannot be separated out from the data.65

Figure 3.6 charts the average operating position of councils on a per capita basis in each state, excluding grants and subsidies. Figure 3.7 charts the same thing but also excludes ‘other revenues’. Given the mix of revenues captured in ‘other revenue’ sources (some of which are not ‘capital revenues’ like fines, for example) and significant variation in the level of revenues from this source by councils among the states, the two charts help to more thoroughly assess the true, average operating position of NSW (that is, excluding capital expenditure and revenue flows), compared with other states.

Figure 3.6 indicates how NSW has consistently been running operating surpluses if just grants and subsidies are excluded from revenues. All other states ran ‘operating deficits’ on this basis until 2005/06 and 2006/07. This serves to emphasise how NSW councils receive relatively less funding in grants and subsidies per person than other states. Should ‘other revenues’ also be excluded from the operating position (Figure 3.7), NSW councils’ have been consistently running one of the smallest operating deficits per person of all states (excluding NT) from 1998/99 to 2006/07. This has averaged $98 per person per annum over these years, compared with an average of $268 per person for other states.

The comparisons suggest that NSW councils could still be using revenues for capital purposes to fund recurrent expenditure, but to a lesser extent than other councils in Australia on an average, per capita basis.

IPART finding

17 Excluding capital revenues (grants, subsidies and ‘other revenues’), NSW councils, in aggregate, have been generating operating deficits since 1998/99. However, the sizes of the deficits on a per capita basis have been the lowest of all states.

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65 Access Economics also subtracted the net gain from the disposal or revaluation of assets, based on information in councils’ financial statements.
Operating positions and debt

Figure 3.6  Local government operating positions, excluding capital expenditure and grants/subsidies -- All states except NT, 1998/99 to 2006/07

$ per capita  (2007/08)

Note: Northern Territory’s operating position is not included in this chart because its local government sector generates significant operating deficits per capita due to councils’ high dependence on grants and subsidies.

Data source: ABS.

Figure 3.7  Local government operating positions excluding capital expenditure, grants/subsidies and other revenues -- All states except NT, 1998/99 to 2006/07

$ per capita (2007/08)

Note: As in Figure 3.6, NT is not included in this chart.

Data source: ABS.
3.3 Bottom-line balances

With all capital expenditures and revenues included, the bottom-line balances of the NSW local government sector has tended to change considerably since 1976/77 (Figure 3.8). While the sector has consistently remained in a net lender position throughout this period (except for 1989/90), the size of the surplus increased significantly from the early to mid 1990s, peaking in 1996/97. It amounted to $682 million in 2006/07.

For other states overall, the trend has been quite similar though the balance has tended to be lower than in NSW in most years. In more recent years, the position has also exhibited more volatility, declining to a deficit of $33 million in 2003/04 but increasing to a surplus of $881 million in 2006/07, representing a higher surplus than in NSW.

**Figure 3.8 Local government sector net lender/borrower position — NSW and Australia (excluding NSW), 1976/77 to 2006/07**

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<td>1996/97</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2000/01</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2004/05</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2006/07</td>
<td>$682 m</td>
<td>$881 m</td>
</tr>
</tbody>
</table>

**Note:** A negative position indicates that the sector is in a net borrowing position and a positive position that it is in a net lending position.

**Data source:** ABS.

**IPART finding**

18 Since rate-pegging, NSW councils, in aggregate, have tended to generate bottom-line surpluses (including capital flows) which significantly increased in size from 1991/92 to 1996/97. The trend has been similar to the rest of Australia overall. In 2006/07, NSW councils generated a bottom line surplus of $682 million.
3.4 Net debt performance

Consistent with the prevalence of operating surpluses run by NSW councils, there has been little uptake of debt by the local government sector in NSW.\textsuperscript{66}

The net debt figures for councils in each state from 1998/99 to 2006/07 indicate that NSW councils have held the least debt at the aggregate level over this time. In fact, the NSW local government sector’s increasing negative net debt position suggests that councils’ gross cash reserves have increasingly exceeded gross debt levels. In 2006/07, NSW councils were essentially net creditors to the value of $3.5 billion overall, or $509 per person. This translates into an average net credit position of around $23 million per council in NSW, although net credit or debt positions will vary considerably between individual councils.

Looking at the other states individually, the local government sectors in South Australia and Queensland have recorded net debt positions over these years. Like in NSW, the local government sectors in Victoria, Western Australia and Northern Territory have consistently held net credit positions.

On a per capita basis, the NSW local government sector did not hold the highest net credit position in 2006/07 ($509 per person). Both WA and Northern Territory sectors held higher ‘credit’ per person ($520 and $811 respectively) (Figure 3.9).

Unlike the other results, these net debt figures are for the local government sector in aggregate and include the impact of the local water utilities. However, Access Economics, in their study on the financial sustainability of NSW councils, noted that the low reliance on external borrowings was evident in both the council’s tax-supported sector and their water businesses (based on balance sheet information as at the end June 2005). They reported that:

> There is little doubt that councils are under-using debt. To an informed external observer, the level of indebtedness of NSW councils is well below levels appropriate to their circumstances, reflecting a widespread reluctance by councils to borrow even when it may be prudent to do so.\textsuperscript{67}

Access Economics further reported that in 2004/05, only a handful of councils in NSW had net financial liabilities in excess of 10 per cent of the capital they employed. This compares with the 25 per cent ratio exhibited on average by the non-financial sector of the NSW state government, and the 50 per cent plus ratio often targeted by infrastructure operators in the private sector with stable investment-grade credit ratings.\textsuperscript{68}

\textsuperscript{66} Previously, NSW Treasury had imposed global borrowing limits on the aggregate borrowings of all NSW councils but this arrangement ceased several years ago. In 2007, the administrative requirement for Ministerial approval of proposed loans by councils also ceased. However, DLG is still required to include the aggregate borrowings of councils in its annual Council Loan Reporting Returns to NSW Treasury. Further, some borrowing restrictions still apply (s621 Local Government Act) related to interest rates, borrowing periods and lending sources.


Operating positions and debt

Comparative analysis of local government revenue and expenditure in Australia

Figure 3.9  Net debt per capita of local government sector – All states, 1998/99 to 2006/07

$ per capita (2007/08)

Note: A negative position indicates that the sector is in a net credit position and a positive position that it is in a net debt position.


IPART finding

19 NSW councils have tended to accumulate much less debt than other Australian councils. In fact, the NSW local government sector was in a net credit position from 1989/90 to 2006/07, which increased over these years. In 2006/07, net credits in NSW averaged around $23 million per council.

There are no significant regulatory constraints on borrowing in NSW which would explain why councils are under-utilising debt, compared with other Australian councils. In every state except for South Australia, local governments are required to seek approval from the relevant Minister prior to entering into contractual arrangements to borrow. In NSW, councils may not borrow at a rate which exceeds the indicative rate determined by the NSW Treasury Corporation, nor may they borrow from foreign sources. In addition, they may not borrow for a period of less than 30 days or for a period which exceeds the estimated life of the asset financed by the borrowings. However, these are fairly standard local government borrowing prudency-based requirements as exist in similar forms in other states, and all in all, councils in NSW are still free to borrow.69

The more significant difference between the regulatory environments in NSW and other states is rate-pegging. Councils in NSW have been reluctant to take on debt because of this perceived constraint on their ability to generate future revenues, and because they consider debt to be bad anyway. The next chapter explores how rate-pegging and councils’ apparent reluctance to take on debt may have impacted infrastructure provision in NSW, relative to other states.

4 Infrastructure provision

Local government infrastructure comprises the assets needed to provide people with access to economic and social facilities and services. This infrastructure includes local roads, bridges, footpaths, water and sewerage (in Queensland, regional NSW and Tasmania), stormwater drainage, waste disposal, public buildings, parks, regional aerodromes and recreational and cultural facilities. In general, infrastructure facilities are fixed in place, costly and time-consuming to plan and build, durable and require routine maintenance and periodic upgrading to prolong their lives. This requires constant spending on infrastructure expenditure at least in line with the rate of consumption of the assets. However, there is concern among all spheres of governments in Australia that councils are not devoting sufficient resources to preserving and renewing these assets, particularly the local road networks.

In this chapter, IPART explores NSW councils’ infrastructure provision relative to other Australian councils to assess the impact rate-pegging may have had on this provision. For this analysis, it looked at current infrastructure assets and measured infrastructure provision by local government sector expenditure and overall capital expenditure at the state-aggregated level. As for other analyses, it excluded the capital expenditure on ‘water supply’ and ‘sanitation and protection of the environment’ assets from the relevant datasets.

IPART’s findings suggest that NSW councils on average spend less per person on the accumulation of new infrastructure assets, compared with councils in the other states. Further, since rate-pegging was introduced, growth in capital and infrastructure expenditure has also been lower in NSW. However, from the mid 1990s, spending on infrastructure assets by councils has improved in NSW, such that growth outpaced the average for other states.

Of some concern is that individual NSW council data from 1999/2000 indicates that a large proportion of councils’ capital expenditure has fallen short of their annual depreciation expense. Therefore, these councils are not meeting their capital renewal needs and future rate-payers will be forced to bear the greater burden of renewal costs. With this shortfall in capital expenditure apparent over some years, it would appear that councils in NSW are shouldering some infrastructure backlogs. However, it is difficult to determine the magnitude of the backlogs overall, and it is not clear that the situation in NSW is any worse than in other states.

4.1 Infrastructure assets

Local governments in Australia held around $211 billion in land and fixed assets in 2006/07. Over half of this is estimated to be in local road networks. The Allan Inquiry report noted that local governments in NSW are now responsible for a significant “infrastructure legacy.” Many assets like roads and public buildings originally transferred to local government in 1919 (with the establishment of the Local Government Act (NSW) 1919) are now over 100 years. In addition, much of the infrastructure assets developed by councils are reported to be 50 to 80 years old and coming to the end of their useful life. In NSW, councils’ road assets also increased significantly with a transfer of assets from the State Government to local government responsibility in 1995.

Table 4.1 provides some breakdown of the value of roads, bridges and buildings by state for 2004/05 extracted from the Commonwealth Government’s National Local Government Report 2005/06. (This is the latest data available.) It excludes land and other infrastructure assets.

Table 4.1 Estimated value of local government owned roads, bridges and buildings – All states and Australia, 2004/05 (nominal $)

<table>
<thead>
<tr>
<th></th>
<th>Estimated replacement value of local roads and bridges ($b)</th>
<th>Estimated written down value ($b)</th>
<th>Estimated written down value/replacement cost (%)</th>
<th>Estimated value of local government buildings, net of depreciation ($b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>NSW</td>
<td>30.94</td>
<td>19.10</td>
<td>61</td>
<td>4.3</td>
</tr>
<tr>
<td>Victoria</td>
<td>16.04</td>
<td>na</td>
<td>63</td>
<td>4.5</td>
</tr>
<tr>
<td>Queensland</td>
<td>11.72</td>
<td>na</td>
<td>73</td>
<td>2.3</td>
</tr>
<tr>
<td>SA</td>
<td>5.41</td>
<td>3.33</td>
<td>63</td>
<td>1.3</td>
</tr>
<tr>
<td>WA</td>
<td>12.92</td>
<td>8.37</td>
<td>65</td>
<td>1.7</td>
</tr>
<tr>
<td>Tasmania</td>
<td>3.38</td>
<td>1.97</td>
<td>60</td>
<td>0.4</td>
</tr>
<tr>
<td>NT</td>
<td>0.27</td>
<td>na</td>
<td>na</td>
<td>0.2</td>
</tr>
<tr>
<td>ACT</td>
<td>1.23</td>
<td>na</td>
<td>na</td>
<td>2.5</td>
</tr>
<tr>
<td>Australia</td>
<td>81.91</td>
<td>na</td>
<td>62</td>
<td>17.4</td>
</tr>
</tbody>
</table>

Note: The estimated replacement value for local government buildings (exclusive of depreciation) was not published separately by DOTARS.


The estimated value of local roads and bridges in NSW in 2004/05 was $30.94 billion, of which 61 per cent of the replacement cost has been written down. That means that 39 per cent of the replacement cost of the asset has not been depreciated yet, or in
other words, that amount of funds has not yet been set aside by councils for these assets’ replacement.

The issue of infrastructure sustainability and the adequacy of councils’ asset renewal/replacement expenditure will be explored more in section 4.4. The following sections present IPART’s analysis of infrastructure and expenditure trends over the 30 years of rate-pegging to determine how these may have varied between NSW and the other states.

### 4.2 Infrastructure expenditure

One measure of local government infrastructure expenditure, which the ABS collects data on, is the purchase of new and second-hand infrastructure assets. It does not include the maintenance or renewal spending on infrastructure. However it does provide an indication of the rate of council accumulation of infrastructure assets in NSW, compared with other states.

#### 4.2.1 Growth in infrastructure expenditure

Spending on infrastructure by government tends to be cyclical, as Figures 4.1 and 4.2 illustrate. When rate-pegging was introduced in NSW in 1977, the state was nearing a peak in council infrastructure expenditure in 1978/79. Therefore, while the preceding analysis on revenues and operating positions has examined the 30 year period since rate-pegging was introduced, the analysis in this section will encompass the 32 years from 1974/75, to reduce the effect of this peak on growth results.

From 1974/75 to 2006/07, infrastructure spending in NSW increased from $759 million to $1.1 billion. This translated into a real average annual growth rate of 1.2 per cent. This was considerably lower than average annual growth of 2.8 per cent for other Australian councils, with infrastructure spending increasing from $1.2 billion in 1974/75 to $2.9 billion in 2006/07.

The growth rate in NSW is one of the lowest growth rates of all states and territories over this period. The South Australian and Queensland local government sectors recorded the highest growth in infrastructure spending, averaging 4.4 and 4.0 per cent per year in real terms respectively. Victoria and Tasmania recorded lower growth than in New South Wales (0.8 and 1.0 per cent respectively).
Figure 4.1  Local government infrastructure expenditure - NSW and Australia (excluding NSW), 1974/75 - 2006/07

Note: This figure excludes ‘water supply’ and ‘sanitation and protection of the environment’ infrastructure expenditure across all states. It also includes a proxy level for infrastructure spending in 1995/96 for NSW because of the spike in NSW infrastructure expenditure ($10.5 billion) due to an asset transfer rather than new spending on infrastructure.

Data source: ABS.

IPART finding

20 From 1974/75 to 2006/07, the real average annual growth in infrastructure spending in NSW was 1.2 per cent, one of the lowest growth rates of all states and the NT and lower than real average annual growth of 2.8 per cent for the rest of Australia.

4.2.2 Infrastructure expenditure per capita

Infrastructure expenditure by NSW councils has also grown at a slower rate than in other states on a per capita basis since 1974/75. From 1974/75 to 2006/07, council infrastructure expenditure per capita in NSW grew at a real average annual rate of 0.1 per cent per annum (in real terms). This compares with real average annual growth of 1.4 per cent for the rest of Australia.

Figure 4.2 provides a stark illustration of how the level of spending on infrastructure per person by councils has declined in NSW since the mid 1970s. Infrastructure expenditure by councils in NSW has increased by $154 per person in 1974/75 to $161 per person in 2006/07. This compares with an increase in spending from $135 per person in 1974/75 to $208 per person in 2006/07 for councils in other states and territories. South Australian councils’ spending on infrastructure per person has increased the most in real average annual terms over this period (3.7 per cent) while Victorian councils’ spending has fallen by 0.2 percentage points per annum on average, in real terms.
Figure 4.2 Local government infrastructure expenditure per capita – All states, 1961/62 - 2006/07

Notes:

a. The NT Local Government Act was established in 1978 so infrastructure expenditure in NT is from 1978/79 only.

b. This figure excludes ‘water supply’ and ‘sanitation and protection of the environment’ infrastructure expenditure across all states. It also incorporates a proxy 1995/96 level for NSW infrastructure spending equal to the nominal 1994/95 level plus the CPI increase. This is to smooth the spike in NSW infrastructure expenditure ($10.5 billion) in that year due to an asset transfer.

Data source: ABS.

While infrastructure spending undoubtedly declined in NSW following rate-pegging, from the early 1990s, there was renewed infrastructure spending by councils. NSW councils’ expenditure on infrastructure per person increased by an average annual rate of 5.2 per cent from 1996/97 to 2006/07 (in real terms), which was higher than growth of 3.3 per cent for the other states. This may be partly attributable to the Olympics being staged in Sydney in 2000 and increased spending on infrastructure by councils in the lead up.

As a share of GSP, the average infrastructure expenditure was 0.28 per cent in NSW from 1996/97 to 2006/07 which is marginally lower than the average share of 0.33 per cent (of aggregated state product) for the rest of Australia over this period.

IPART finding

21 Since rate-pegging, council infrastructure spending per person has increased by just 0.1 per cent per annum (in real terms), compared with growth of 1.4 per cent for other Australian councils. However from 1996/97 to 2006/07, growth in NSW outpaced that of other states (5.2 per cent compared with 3.3 per cent).
4.2.3 Infrastructure expenditure as a share of revenue

In considering the impact the level of revenue generated by councils has had on their ability to provide infrastructure, it is useful to examine their infrastructure expenditure as a share of total revenues. Figure 4.3 plots councils’ infrastructure expenditure as a share of total revenues by states from 1974/75 to 2006/07.

Figure 4.3 Local government infrastructure expenditure as a share of total revenues – All states, 1974/75 - 2006/07

Notes:

a  The NT Local Government Act was established in 1978 so infrastructure expenditure in NT is from 1978/79 only.
b  This figure excludes ‘water supply’ and ‘sanitation and protection of the environment’ infrastructure expenditure across all states. It also incorporates a proxy 1995/96 level for NSW infrastructure spending equal to the nominal 1994/95 level plus the CPI increase. This is to smooth the spike in NSW infrastructure expenditure ($10.5 billion) in that year due to an asset transfer.

Data source: ABS.

NSW local governments have spent much less of their revenues on infrastructure since rate-pegging commenced with a share of 58 per cent in 1974/75 falling to 16 per cent in 2006/07. The decline is indicative of the national trends. Nonetheless, NSW’s share relative to other states’ shares has also declined over this period, with some recovery again evident from the mid 1990s.

From 1996/97 to 2006/07, the proportion of NSW council’s revenues spent on new and second-hand infrastructure has averaged 14 per cent of revenues which is lower than the average of 16 per cent for the rest of Australia, and lower than all other states’ shares except the Northern Territory and Victoria. This is despite the infrastructure spending surge in NSW associated with the staging of the Olympics. The Tasmanian and Queensland local government sectors recorded the highest average shares of infrastructure on revenues (26 and 22 per cent respectively) over this time. These results suggest that councils in NSW may have some scope to increase their infrastructure expenditure from their current revenue base, which could involve greater use of debt financing.
4 Infrastructure provision

IPART finding

22 NSW councils’ infrastructure expenditure as a share of revenues has declined relative to the average share of other Australian councils since 1974/75. From 1996/97 to 2006/07, the NSW share averaged 14 per cent, which was lower than the 16 per cent average for the rest of Australia, and below all other states’ shares except Northern Territory and Victoria.

4.3 Capital expenditure

Gross fixed capital formation is reported by the ABS for each state’s local government sector and represents capital expenditure before depreciation, changes in inventories or other transactions. It includes spending on capital assets like cars or equipment as well as infrastructure, and also includes renewal or replacement capital in addition to new capital expenditure.

4.3.1 Growth in capital expenditure

Since rate-pegging, the growth in NSW councils’ spending on capital has not been as high as in other states overall. From 1974/75 to 2006/07, NSW gross fixed capital formation grew by an average annual rate of 3.0 per cent (in real terms), compared with 5.0 per cent for the rest of Australia.

As Table 4.2 indicates, a decline in gross fixed capital expenditure occurred from the late 1980s in NSW. From 1986/77 to 1995/96, it fell by an average of 1.5 per cent per annum, compared with an average annual increase of 1.5 per cent for other Australian councils. This coincided with the national economic downturn from 1989/90.

Renewed capital expenditure growth occurred from 1996/97. Real average annual growth in NSW was 9.0 per cent from 1996/97 to 2006/07, compared with 8.0 per cent for the rest of NSW. As with infrastructure spending, this high growth in NSW may be partly due to the impact of the Olympics and the additional infrastructure spending undertaken by councils in Sydney in the lead up to 2000.

IPART finding

23 From 1974/75 to 2006/07, NSW councils’ gross fixed capital formation increased by a real average rate of 3.0 per cent per annum, lower than average annual growth of 5.0 per cent for the rest of Australia. However, from 1996/97, capital expenditure growth in NSW has outpaced average growth in the other states.
4.3.2 Capital expenditure per capita

On a per capita basis, growth in NSW councils’ capital expenditure was 1.9 per cent over the period 1974/75 to 2006/07, compared with 3.5 per cent for the rest of Australia. This resulted in a significant turnaround in the level of capital expenditure per person by councils in NSW, compared with other states. In 1974/75, councils on average spent $148 per person capital in NSW, which is $30 higher than the $118 per person spent by other Australian councils. In 2006/07, NSW councils’ spending was $273, which is $83 or 23 per cent lower than the average of $356 per person spent by councils in other states.

A decline in gross fixed capital expenditure per person is once again evident from the late 1980s in NSW (Table 4.2 and Figure 4.4). From 1986/77 to 1995/96, capital expenditure declined by an average of 4.5 per cent per annum, compared with an average annual increase of 0.1 per cent for other Australian councils.

Table 4.2 Local government capital expenditure per capita and growth (2007/08 dollars) – All states and Australia (excluding NSW), 1974/75 to 2006/07

<table>
<thead>
<tr>
<th></th>
<th>NSW</th>
<th>VIC</th>
<th>QLD</th>
<th>SA</th>
<th>WA</th>
<th>TAS</th>
<th>NT</th>
<th>Australia (exc. NSW)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1974/75</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1974/75</td>
</tr>
<tr>
<td>Capital expenditure per capita</td>
<td>$148</td>
<td>$122</td>
<td>$131</td>
<td>$69</td>
<td>$158</td>
<td>$73</td>
<td>na</td>
<td>$118</td>
</tr>
<tr>
<td><strong>1974/75 to 1985/86</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1974/75 to 1985/86</td>
</tr>
<tr>
<td>Average annual growth</td>
<td>1.2%</td>
<td>1.6%</td>
<td>6.1%</td>
<td>7.7%</td>
<td>2.2%</td>
<td>5.5%</td>
<td>na</td>
<td>3.9%</td>
</tr>
<tr>
<td><strong>1986/87</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1986/87</td>
</tr>
<tr>
<td>Capital expenditure per capita</td>
<td>$183</td>
<td>$130</td>
<td>$244</td>
<td>$138</td>
<td>$211</td>
<td>$148</td>
<td>$86</td>
<td>$172</td>
</tr>
<tr>
<td><strong>1986/87 to 1995/96</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1986/87 to 1995/96</td>
</tr>
<tr>
<td>Average annual growth</td>
<td>-2.5%</td>
<td>-4.5%</td>
<td>1.2%</td>
<td>-0.4%</td>
<td>0.0%</td>
<td>1.0%</td>
<td>24.5%</td>
<td>0.1%</td>
</tr>
<tr>
<td><strong>1996/97</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1996/97</td>
</tr>
<tr>
<td>Capital expenditure per capita</td>
<td>$127</td>
<td>$98</td>
<td>$282</td>
<td>$147</td>
<td>$237</td>
<td>$179</td>
<td>$743</td>
<td>$191</td>
</tr>
<tr>
<td><strong>1996/97 to 2006/07</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1996/97 to 2006/07</td>
</tr>
<tr>
<td>Average annual growth</td>
<td>8.0%</td>
<td>10.4%</td>
<td>6.4%</td>
<td>5.3%</td>
<td>4.0%</td>
<td>4.8%</td>
<td>-7.9%</td>
<td>6.4%</td>
</tr>
<tr>
<td><strong>2006/07</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2006/07</td>
</tr>
<tr>
<td>Capital expenditure per capita</td>
<td>$273</td>
<td>$264</td>
<td>$525</td>
<td>$247</td>
<td>$350</td>
<td>$287</td>
<td>$325</td>
<td>$356</td>
</tr>
</tbody>
</table>

Source: ABS based on Gross Fixed Capital Formation figures.
However, from 1997/98 to 1998/99, the gross fixed capital expenditure per person in NSW increased significantly (by 48 per cent) due predominantly to the Olympics. Since then, growth has been relatively slow, and in 2006/07, gross fixed capital spending per person by councils in NSW was only higher than in Victoria and South Australia.

IPART finding
24 NSW councils’ capital expenditure per person was $273 in 2006/07, which is $83 or 23 per cent lower than the average spent by other Australian councils per person.

4.3.3 Capital expenditure share of total expenditure

As a share of NSW councils’ total expenditure, gross fixed capital formation accounted for 26 per cent in 2006/07. This was a slight change on the 27 per cent share in 1982/83, but quite a fall from the 65 per cent in 1974/75 (Figure 4.4). In other states, the share was just 39 per cent in 1974/75, which converged towards a similar share as in NSW from the early 1980s (and was 28 per cent in 2006/07).

IPART finding
25 After rate-pegging was introduced in NSW, councils experienced a sharp fall in capital expenditure as a share of their total expenditure. However, since 1982/83, it has remained stable at around 26 per cent. This is similar to councils in other states’ shares over this time.
4.3.4 Net change in asset values

The net change in asset values is reported by the ABS as the net acquisition of non-financial assets in council’s operating statements. It is made up of gross fixed capital formation less depreciation plus changes in inventories and other transactions in non-financial assets.

Net capital expenditure by NSW local governments declined in real terms from $732 million in 1974/75 to $692 million in 2006/07 (Figure 4.5). This represented a real average annual decline of 0.2 percentage points. Over the same period, councils in the rest of Australia increased their net capital expenditure from $1.0 billion in 1974/75 to $1.7 billion in 2006/07, or by an average of 1.7 per cent per annum (in real terms). The higher growth in other states is attributable to high growth generally apart from the mid to late 1990s, particularly a sharp acceleration in capital expenditure from 1999/2000.

Figure 4.5 Local government capital expenditure and GSP growth– NSW and Australia (excluding NSW), 1974/75 - 2006/07

Data source: ABS and Harris and Harris EAP Paper for GSP growth from 1974/75 to 1989/90.

The decline in NSW and Australia in the late 1990s may in part be explained by the introduction of accrual accounting from which time depreciation was recorded by councils. Average net expenditure on capital per person by councils has tended to fall by around half (or even more in some cases) after accrual accounting was captured in the figures from 1998/99.

In 2006/07, net capital expenditure per person by NSW councils increased to $101, which remained higher than most other states’ levels except Queensland ($227) and Western Australia ($109).
IPART finding

26 While capital expenditure levels remain relatively low in NSW, in 2006/07, net spending on assets per person by NSW councils ($101) was higher than most other states’ levels except Queensland ($227) and Western Australia ($109).

4.4 Infrastructure expenditure shortfalls

4.4.1 Previous research estimating shortfalls

A number of studies have been undertaken in recent years to assess whether councils in Australia are sustainable or failing to invest adequately in infrastructure.

The Hawker report (2003), the Allan report (2006); including the Roorda and Associates (2006) and Access Economics (2006) findings, and the PwC report (2006) all found that a significant number of councils, typically between 10 and 30 per cent, are financially vulnerable or, in extreme cases, not sustainable. All but the Hawker report also provided evidence of what they considered to be substantial council ‘infrastructure backlogs’.

A council’s financial sustainability is considered adequate if among other indicators, its capital expenditure on the renewal or replacement of existing assets on average approximates the level of the council’s annual depreciation expense. Infrastructure backlogs may be estimated by examining the ratio of renewal/replacement capital expenditure to depreciation in a year and calculating any shortfall based on how much asset spending is below depreciation recorded renewal needs (and then if possible, aggregating those shortfalls across years to estimate a backlog). The benchmark ratio for the sustainability ratio or capex/depreciation is thus 1.0. That is, capital expenditure matches the depreciation expense. Results over 1.0 indicate that the council’s overall asset base is increasing, or being replenished, at a rate above the consumption of assets whilst results under 1.0 indicate a declining asset base and potential sustainability risks.

Roorda and Associates employed this approach in their research which examined the sustainability of infrastructure of councils in NSW. They found that the capex/depreciation ratio for NSW councils was in a range of just 50 to 60 per cent (including water and sewerage assets). This suggested that the renewal needs of the assets were being underfunded by around 40 to 50 per cent or $500 to $600 million each year in NSW.

76 Based on a sample of 103 councils in 2006, and analysis of councils’ annual reports.
Roorda also estimated an infrastructure backlog based on council’s estimates of the amount of spending required to bring their assets to a ‘satisfactory’ standard. These estimates indicated that councils are reporting a current backlog in infrastructure renewals of $6.3 billion of which $1 billion is in water and sewerage assets. If this were true, levels of council expenditure would need to increase eightfold (765 per cent) to bring assets to a satisfactory level. As Roorda acknowledged, this is clearly unrealistic and exposes the flaw in the concept of ‘backlog maintenance’ approach. It tends to be an engineering / technical view of what the ideal condition should be, and encompasses substantial service improvements in the interpretation of what constitutes bringing an asset to a ‘satisfactory’ standard.

Access Economics utilised the capex/depreciation ratio approach in its study which further informed the NSW Allan Inquiry. On average, Access Economics estimated that the annual capital expenditure of NSW councils on the renewal or replacement of existing assets fell short of the annual depreciation of those assets by $400 million, or 40 per cent of that capital expenditure in 2004/05. This is relatively consistent with Roorda’s findings. The Allan report further recommended that NSW local governments would need an extra $900 million a year to overcome the “infrastructure crisis”, including $400 million to service $5.3 billion debt (excluding water and sewerage assets) and $500 million to close the gap between use of assets (depreciation) and current expenditure on asset renewal (based on Roorda’s estimate). It was noted in the Allan Inquiry that it was a conservative estimate as it did not take account of population growth areas; rising demands with living standards; or special needs of rural areas with large road networks and narrow rate bases.

PwC undertook a national study on the financial sustainability and infrastructure backlogs of councils in 2006, extrapolating other researcher’s results on 441 councils for NSW, SA, WA and Victoria. PwC reported that they applied the average infrastructure backlog result calculated by Access Economics and the Municipal Association of Victoria (MAV) across a sample of 700 councils in Australia to calculate an aggregate national renewals backlog of approximately $14.5 billion. The estimated funding gap to clear both this backlog and to cover the annual underspend on renewals was estimated to be $3.1 million per council per annum or $2.16 billion nationally. Table 4.3 details PwC’s results.

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78 Published in Council Annual Reports Special Schedule 7.
81 The PwC results are slightly more positive than the Access results as data constraints meant that PwC analysis included all grants whereas the Access results excluded capital grants. Whilst capital grants fluctuate and they are arguably not a certain revenue stream, PwC asserted that many councils have come to depend on capital grants and government usage of them is growing. Hence retaining them within the analysis potentially provides a more realistic picture of sustainability (PwC Report, p 9).
Table 4.3  PricewaterhouseCoopers – Reported local government infrastructure underspend and backlogs (as at 2006)

<table>
<thead>
<tr>
<th>Study source</th>
<th>Access</th>
<th>Access</th>
<th>Access</th>
<th>MAV</th>
<th>PwC</th>
<th>PwC</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of LGBs in study</td>
<td>152</td>
<td>68</td>
<td>142</td>
<td>79</td>
<td>441</td>
<td>700</td>
</tr>
<tr>
<td>Estimated backlog in infrastructure renewals ($m)</td>
<td>$6,300</td>
<td>$300</td>
<td>$1,750</td>
<td>$806</td>
<td>$9,156</td>
<td>$14,533</td>
</tr>
<tr>
<td>Estimated underspend on existing infrastructure renewals per annum ($m)</td>
<td>$500</td>
<td>$20</td>
<td>$110</td>
<td>$81</td>
<td>$711</td>
<td>$1,129</td>
</tr>
<tr>
<td>Estimated funding gap per council per annum^a ($m)</td>
<td>$5.9</td>
<td>$0.6</td>
<td>$1.5</td>
<td>$2.6</td>
<td>$3.1</td>
<td>$3.1</td>
</tr>
</tbody>
</table>

Notes:

a Estimated funding gap covers backlog and annual underspend to be generated via savings or extra revenue/grants.

b Access estimate for SA based only the backlog developed over last 10 years and full backlog will be higher.

c MAV estimate of infrastructure backlog is in 2003/04 dollars, for the period between 1997/98 – 2003/04, hence is understated.

d Total includes 441 LGBs: 63 per cent of LGBs, 76 per cent of population and 73 per cent of local road km.

e Mid Case National Estimate (700 LGBs) (apply WA, Victoria, SA and NSW average result per council to 259 councils in Queensland, Tasmania and NT).


According to PwC, NSW had the highest per council backlog of all Australian councils, estimated to be $5.9 million per council per annum compared with the mid-estimate of $3.1 million per council nationally. While PwC’s findings for NSW regarding the expected annual underspend on asset renewals and replacements of $500 million are roughly in line with the $400 million estimated by Access Economics, the $6.3 billion backlog estimate appears to be sourced from Roorda’s assessments based on councils’ reporting of what spending is required to bring their assets to a ‘satisfactory standard.’ As mentioned, this backlog estimate is likely to be substantially overstated. Nonetheless, any current backlog may also be estimated by summing previous infrastructure funding shortfalls. Should the estimate be around $400 million per year in assets are being under-funded by NSW councils, then over 15 years, this would equate to a $6 billion backlog, all else being equal.

A mean, high and low estimation was determined for each of these backlog estimates by PwC, due to the large variation in each state’s average council backlog as estimated by Access. The “low case” estimate applied the average of WA, Victoria and SA average result per local government to 259 councils in QLD, Tasmania and NT. The “mid case” estimate applied the average of WA, Victoria, SA and NSW average result per council to 259 councils in QLD, Tasmania and the NT. The “high case” estimate applied the NSW, Victoria and WA average result per council to 259 councils in QLD, Tasmania and the NT.
The strength of the estimates of asset renewal and replacement expenditure gaps per year relies on the validity of the council’s estimates of renewal and replacement capital expenditure. The distinction is made between capital expenditure for upgrade purposes as opposed to renewal purposes, and capital expenditure on new assets. The inclusion of other capital expenditure (besides renewal/replacement expenditure) in the calculations is considered to constitute a service improvement, and any capital expenditure on renewals and replacements should thus be recorded separately to upgrades, and proportionally should some projects involve aspects of both. However, given the insufficiencies in council’s asset management approaches that have also been identified in these studies, it seems possible that some capital expenditure may not be recorded so prudently and that some upgrades, which are renewing old assets essentially, may not be captured in the asset renewal/replacement spending figures.

In addition, any estimate of a shortfall in one particular year should be interpreted with caution given the lumpy nature of capital expenditure and the fact that replacement and renewal expenditure may increase significantly from one year to the next.

On the other hand, the backlog measure of infrastructure condition is retrospective and does not take account of new infrastructure needs generated by a growing and shifting population, changing profile, likely changes to building and construction standards or rising community expectations and demands. Therefore, some estimates may be understated because they do not fully reflect future infrastructure needs. Further, in the case of Roorda’s research, there was concern that the depreciation was based on historical cost of the assets, not fair value, and that this would result in further under-estimation of the expenditure gaps.

4.4.2 Comparing capex/depreciation ratios

To best assess NSW councils’ performance in funding their capital renewal and replacement needs compared with other Australian councils, a study of council financial statements over a number of years would need to be undertaken. This is beyond the scope of this analysis. Instead, IPART examined capex/depreciation ratios based on total capital expenditure (gross fixed capital formation) divided by depreciation expenses at the state-level to compare the NSW local government sector’s position relative to other states.

Gross fixed capital formation includes more than just expenditure on renewals and replacements and so the ratios do not depict the actual ‘asset replacement’ performance of all states’ councils. Nonetheless, the analysis is useful for comparative purposes because it demonstrates how capital expenditure overall in a state has compared with depreciation levels. The results indicate that over an eight

year period (1998/99 to 2006/07), NSW’s capex/depreciation ratio has been higher than most other states.’ Since 2003/04, it was higher than all other states except Queensland’s and Victoria’s. Since 1998/99, the ratio for NSW has increased from 108 per cent to 180 per cent in 2006/07. The ratio averaged 143 per cent for NSW over the period, higher than the Australia (excluding NSW) average of 141 per cent and higher than all other states’ individually except Queensland (166 per cent).

Figure 4.6 Local government capex/depreciation ratios – All states, 1998/99 - 2006/07

Note: The capex/depreciation ratio is calculated by dividing state-level total gross fixed capital formation by state-level total depreciation expenses.

Data source: ABS.

Individual council financial statement information provided by the NSW DLG for 1999/2000 to 2006/07 indicates further improvement in the capex/depreciation ratio over these years (Figure 4.7). The ratio was based on councils’ reported change in property, plant and equipment (excluding land, water and sewerage) each year and the annual depreciation expense (excluding water and sewerage).

The median ratio of councils over these years ranged from 0.78 in 2000/01 to 1.27 in 2004/05. The estimated asset funding shortfall based on the sum of the differences between the change in capital equipment and the depreciation expense for a particular council (when the latter exceeded the former), ranged from $308 million in 2000/01 to $151 million in 2004/05. In total, the estimated backlog over these years was $1.8 billion for all councils or an overall average of $231 million per annum. This translates into an average estimated shortfall of $1.5 million per council each year86.

In addition, in 1999/2000, 60 per cent of councils had a capex/depreciation ratio below 1.0 and thus under-funded asset renewal/replacement needs but in 2006/07,

86 Based on 152 councils.
this share was 36 per cent. In 2006/07, 25 per cent of NSW councils had a ratio below 0.75.

**Figure 4.7** NSW local government capex/depreciation ratios and estimated annual asset funding shortfalls per council, 1999/2000 - 2006/07

![Graph](image)

**Note:** The ratio is based on total capital expenditure divided by depreciation expenses.  
**Data source:** NSW DLG.

**IPART finding**

27 NSW councils’ capex/depreciation ratios from 1999/2000 to 2006/07 suggest that local governments, on average, have been under-funding infrastructure by at least $231 million per annum (overall). In 2006/07, 36 per cent of NSW councils under-funded their asset renewal/replacement requirements, down from 60 per cent in 1999/00.

It was difficult to undertake a comparative analysis of these results against other states’ median council capex/depreciation ratios because of the variations in data availability and reporting methods among the states. However, IPART examined other states’ ratios where possible:

- In South Australia, the capex/depreciation ratios for 2006/07 were calculated by IPART based on councils’ reported renewal/replacement capital expenditure divided by their depreciation expenses. This excludes capital expenditure on new and upgraded assets and will be lower than the estimated ratios for NSW councils, all else being equal. The median council renewal/replacement capex/depreciation in 2006/07 was 80 per cent in 2006/07, and the total estimated asset funding shortfall was $90 million or $1.3 million per council (based on 68 councils in South Australia).87

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In Queensland, like in NSW the reported capex/depreciation ratio is based on total annual capital expenditure divided by depreciation. Based on these reported ratios (rather than the ratios being derived by IPART), the median ratio for Queensland councils was 0.99 in 2004/05, 1.21 in 2005/06 and negative 0.21 in 2006/07 (as capital expenditure appeared to be scaled back by many councils in this year). 88

Victoria publishes infrastructure renewal ratios which compare spending on capital renewal of existing infrastructure assets to an average annual consumption of capital (AAC), rather than depreciation expenses. Once again, these ratios would be lower than NSW councils’ estimated capex/depreciation ratios, all else being equal. The median ratios reported were 56 per cent in 2005, 58 per cent in 2006 and 67 per cent in 2007. 89

In Tasmania, the reported capex/depreciation ratios for councils in 2006/07 (based on capital expenditure on existing assets like in South Australia and Victoria) indicated a median ratio of 65 per cent. 90

Western Australia and NT do not publish any similar ratio figures.

Referring back to Roorda’s estimates that NSW councils had (renewal/replacement) capex/depreciation ratios of around 50 to 60 per cent in 2004/05, these interstate comparisons suggest that South Australian, Victorian and Tasmanian councils, at least, may be marginally out-performing NSW councils in funding their asset renewal and replacement needs. However, the median ratios compared refer to different years, and there may be a number of other inconsistencies evident between different states’ reporting methodologies as previously mentioned. Further, this is inconsistent with IPART’s comparative findings regarding state-level capex/depreciation ratios from 1998/99 to 2006/07, when all capital expenditure is included. Therefore, IPART believes that insufficient information was available in its analysis to assert a finding on comparative capex/depreciation ratios between NSW and other states.

4.5 Implications for IPART’s review

Given the findings on the annual gaps in asset funding in NSW and relatively low average annual growth in capital and infrastructure expenditure, there appears to be sufficient evidence to suggest that NSW councils are shouldering some infrastructure backlogs. Further, over a third of councils were still not funding their annual asset renewal/replacement needs in 2006/07, based on total capital expenditure alone.

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89 Victorian Grants Commission, Victorian Local Government Data, email correspondence.
Of course, the magnitude of an infrastructure backlog is difficult to determine because it requires analysis of councils’ renewal and replacement capital expenditure over some years, and depends on community’s needs for new assets due to changing demographics or environmental or economic conditions (which are not covered by depreciation expenses). The backlogs that have been quoted in previous studies, which are based on estimates of ‘satisfactory’ asset standards, could be well overstated. The data explored in this paper on capital expenditure versus depreciation levels suggests that NSW councils may not be performing as poorly relative to other Australia councils as some previous studies have highlighted.

For these reasons, the link between inadequate spending on infrastructure needs and the policy of rate-pegging cannot be established in this analysis. Rate-pegging acts as a constraint on revenues, but revenue growth overall has not been that much below the overall Australian average (excluding NSW). Growth in operating expenditure has been relatively strong, and there is evidence that councils are spending less of their revenue base on the accumulation of new infrastructure assets, compared with councils in other states. They are also not utilising debt anywhere near as much.

Further, a number of other factors contribute to a council’s performance regarding infrastructure provision. These include economic growth, the policies they choose (eg, choosing to forgo maintenance to provide funding for new capital works), the council’s asset management approach, the level of grants, subsidies and developer contributions they receive and the increasing demands on their revenue funds associated with asset maintenance.

Nonetheless, IPART’s findings regarding NSW councils’ capital and infrastructure expenditure and revenue patterns are significant. They suggest that there should be scope for NSW councils to increase spending on infrastructure. In light of their relatively low use of debt in this past, one option to achieve this could be through increased borrowing.

IPART finding

28 While infrastructure provision by NSW councils appears to be improving in recent years many councils are still under-funding annual asset renewal/replacement requirements, and the extent of any accumulated backlog will require further increases in infrastructure expenditure.
Appendices
Infrastructure provision

Comparative analysis of local government revenue and expenditure in Australia
A Terms of Reference

I, Morris Iemma, Premier of NSW, under section 9 of the Independent Pricing and Regulatory Tribunal Act 1992 (the ‘IPART Act’), approve of the Independent Pricing and Regulatory Tribunal (‘IPART’) entering into an arrangement with the Department of Local Government to provide assistance to the Department by conducting a review with the following terms of reference.

IPART is to investigate and make recommendations on the following matters:

1. An appropriate inter-governmental and regulatory framework for the setting of rates and charges that facilitates the effective and efficient provision of local government services in NSW.

2. A role for IPART in setting of local government rates and charges in future years.

3. A framework for setting of charges by certain public authorities such as the Sydney Harbour Foreshore Authority, Redfern Waterloo Authority, Sydney Olympic Park Authority and the Growth Centres Commission to enable these authorities to recover costs for the provision of services that are normally provided by local government.

In undertaking this review, the IPART is to have regard to:

- the particular role of local government in the delivery of infrastructure and services to the community;
- the current financial position of local government;
- the present roles and responsibilities of local government, and the extent to which these are self-determined or determined by statutory requirements;
- the current and likely future level of expenditure required by local government to undertake its responsibilities;
- the scope for greater efficiency in the provision of local government services, including the use of total asset management planning;
- all of the revenue sources available to local government, the potential adequacy of these revenue sources, constraints on those revenue sources, and the financial capacity of local government to meet its statutory obligations and remain financially sustainable;
- the extent to which local government provides infrastructure and services that overlap those provided by other levels of government;
Terms of Reference

- the socio-economic impacts of rates and charges, including the ability of families and pensioners to meet their rate obligations, and local government hardship and concessions policies;
- differences between metropolitan, regional and rural councils, and also between new development areas and established suburbs;
- the current process by which increases in rates and charges are determined and whether this process adequately meets local government wage cost and other expenditure adjustments;
- the roles and responsibilities of local government and State Government in determining local government revenues; and
- any relevant recent reviews of local government such as those conducted by the NSW Local Government and Shires Associations and the Productivity Commission.

In addition, IPART is to consider the matters listed under section 15 of the IPART Act to the extent that they are relevant to this review and they are not otherwise addressed by the matters set out above.

In undertaking this review, IPART is not required to consider, review or make recommendations on:
- issues relating to the valuation of individual properties; and
- matters associated with the operation of councils’ water and wastewater businesses.

IPART should provide a draft report to the Minister for Local Government within 12 months of commencement. IPART may also make an interim report to the Minister for purposes of setting rates revenues from 1 July 2009. The draft report should be made publicly available and comments invited from interested parties. A final report is to be provided to the Minister within a further 4 months of the draft report.

Background

The roles and responsibilities of local government have evolved over many years. The Local Government Act 1993 sets out the means by which councils are financed. Councils have the power to set rates and charges on individual properties in line with local needs and the provisions of the Local Government Act 1993, which requires that rates that councils set must be fair and equitable. Local government revenue is also influenced by statutory requirements set out in other legislation, such as the developer contributions provisions of the Environmental Planning and Assessment Act 1979 (currently under review). Local Government also derives revenue from the Commonwealth Government and other sources. A significant component of the revenue base of councils has been subject to ‘rate-pegging’ since 1976, with provision for special variations.
B  Data sources and methodology

This Appendix provides an overview of key data sources utilised by IPART in the analysis and a detailed description of IPART’s methodology, including its assumptions and calculations.

B.1  Data sources

Table B.1 lists the key datasets by source.

<table>
<thead>
<tr>
<th>Data Title</th>
<th>Data Source</th>
<th>Time Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local government sector by state/territory</td>
<td>ABS – similarly reported on in 5512.0 Government Finance Statistics, Australia (operating statement information)</td>
<td>1965/66 to 2006/07</td>
</tr>
<tr>
<td>- Revenues</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Expenditures</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- GFS operating balances</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Goods and services sales revenue</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Expenditure (all items)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brisbane City Council public transport revenues</td>
<td>Brisbane City Council (in email correspondence) similarly reported on in annual reports</td>
<td>1993/94 to 2006/07</td>
</tr>
<tr>
<td>Rate income and property assessments by council</td>
<td>Department of Infrastructure, Transport, Regional Development and Local Government (NSW, TAS, QLD, SA, NT, VIC) WA Grants Commission (WA)</td>
<td>2002/03 to 2006/07</td>
</tr>
<tr>
<td>NSW average residential rates</td>
<td>Department of Local Government (DLG), NSW</td>
<td>1995/96 to 2006/07</td>
</tr>
</tbody>
</table>
### Data sources and methodology

#### B.2 IPART’s adjustments and calculations

IPART’s work with the data and key calculations on which its findings are based are outlined below.

#### B.2.1 Inflating nominal data

IPART utilised ABS consumer price index (CPI) data for capital cities to inflate nominal, time-series data at the state level to 2007/08 dollars. For example, the NSW values were inflated by the Sydney index inflators. The Australia (excluding NSW) various aggregates were based on the sum of individually inflated state values. The exception is GSP at factor cost figures from 1975/76 to 1989/90 for which the Australian inflator was applied– see section B.2.4.

#### B.2.2 Growth rate calculations

To smooth the annualised growth over the time period and reduce the impact of volatility of individual year values, all growth rates calculated were based on the compound annual growth rate (CAGR) formula equal to:

\[
(FV/OV)^{1/n} - 1
\]

where FV is the future or most recent value, OV is the original value and n is the number of years from the original to the future value.

<table>
<thead>
<tr>
<th>Data Title</th>
<th>Data Source</th>
<th>Time Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual council financials</td>
<td>DLG NSW, Victorian Grants Commission, Tasmanian Department of Premier and Cabinet, WA Department of Local Government and Regional Development, QLD Department of Local Government, Sport &amp; Recreation.</td>
<td>2006/07</td>
</tr>
<tr>
<td>- Net operating positions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Infrastructure expenditure (purchase of new and second-hand infrastructure assets) by state/territory</td>
<td>ABS (“Expenditure on non-financial assets for other construction/infrastructure”)</td>
<td>1965/66 to 2006/07</td>
</tr>
<tr>
<td>Individual council financials</td>
<td>DLG NSW, Victorian Grants Commission, QLD Department of Local Government, Sport and Recreation, Local Government Association of SA, Tasmanian Department of Premier and Cabinet</td>
<td>1999/00 to 2006/07</td>
</tr>
<tr>
<td>- Capex/depreciation ratios</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Per capita values were calculated by dividing the value in question by the number of persons in the population (based on ABS Census data) in that year for that state or group of states.

**Gross state product calculations**

The ABS has collected GSP data since 1989/90. IPART used ABS’s chain volume measures (CVM) of GSP for all states from 1989/90 to 2006/07 (because they take into account specific price movements associated with the indexes, applying the Laspeyres formula). The ABS CVM estimates are based on an average of the estimate of GSP on the expenditure and incomes side (the GSP series previously reported by the ABS), and the ABS’s production measure of GSP.

In IPART’s analysis, only these CVM GSP figures from 1989/90 were utilised to calculate values expressed as a share of GSP.

For earlier GSP figures (from 1976/77 to 1989/90), IPART sourced GSP at factor cost data published in an *Economic Analysis and Policy* (EAP) September 1992 paper by Harris and Harris. The values were in 1980/81 dollars so IPART inflated them to 2007/08 dollars. The GSP total for Australia excluding NSW and the ACT is inflated by the Australian CPI inflator. A weighted average CPI inflator for Australia (excluding NSW and the ACT) was not applied because the EAP paper did not publish separate NT figures.

IPART calculated the real CAGR from 1976/77 to 1989/90 utilising the adjusted GSP at factor cost data, and this was extrapolated backwards from the GSP chain volume figure in 1989/90 to calculate an overall CAGR from 1976/77 to 2006/07.

In charts (Figure 2.3, Figure 2.5, Figure 3.2, and Figure 4.5) the year-on-year growth rates from 1976/77 to 1989/90 based on the figures in the EAP paper (adjusted to 2007/08 dollar terms) and from ABS CVM data from 1990/91 to 2006/07 were presented as a single series.

**Excluding the impact of local water utilities**

Councils in Queensland, Tasmania and most regions of NSW\(^1\) are the only Australian councils with water and sewerage service responsibilities over the examined time period. To ensure more consistent comparisons among states, IPART sought to exclude the impact of these operations on state-level aggregates of revenue and expenditure.

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\(^{1}\) There are 106 Local Water Utilities (LWUs) responsible for providing water supply and sewerage services in NSW, mostly in non-metropolitan areas.
In addition to the Local Government Sector Operating Statement data by state sourced from the ABS, IPART collected data on:

- Water Supply.

- Sanitation and Protection of the Environment – covers outlays on administration, regulation and support of household garbage collection and disposal services; other sanitary services; sewerage collection; sewerage treatment and disposal operations; urban stormwater drainage services; pollution abatement and control; and other environmental protection programs.

These series cover the water supply and sewerage services but they also capture other services such as waste management and environmental protection, which are delivered by councils more generally across Australia. This presents a risk to IPART’s findings, essentially under-estimating council revenues and expenditures for all states, as outlined in section B.3.

The series for which data was available within these categories were:

- Goods and services sales revenue.

- Current expenses – wages and salaries, other employee expenses, other non-employee expenses, bad debts written-off, depreciation of fixed assets and other current transfer expenses.

- Capital expenses – capital grant expenses and other capital transfer expenses.

- Purchases/sales of assets – purchases of new non-financial assets, purchases of second-hand non-financial assets and sales of non-financial assets.

Water supply values were recorded for NSW and Queensland from 1982/83 only, but across the full time-series (at least from 1974/75) for Tasmania.

For NSW, current and capital expenses were only recorded until 1997/98 (apart from some sporadic, small negative values in a few years) and purchases/sales of assets from 2002/03 in these categories. DLG advised IPART that they submitted annual information to the ABS based on water and sewer combined, which may be why the ABS did not split data into these categories. However, given the significant distortion that application of this data would have created for overall NSW council expenditure results, IPART pooled other data into this time-series to replace these values. For this purpose, IPART drew upon:

- Available DLG council operating expenditure data relevant to the ‘water supply’ and ‘sanitation and protection of the environment’ categories for 2003/04 and 2006/07.

- Access Economics published data on NSW councils’ aggregated financial statements from 2000/01 to 2004/05 for LWUs - operating expenditure, depreciation expenses, net acquisition of non-financial assets and gross fixed capital formation reported figures.\(^{92}\)

• Historical average growth rates (previous 5 or 10 years) for other missing values.

IPART’s adjustments to estimate the missing figures were as follows:

• The values for 2003/04 and 2006/07 total operating expenses were replaced with the DLG data. The remaining missing values for total expenses were calculated by applying average growth rates based on the CAGRs calculated from the 1997/98 ABS provided values to the 2003/04 and 2006/07 DLG data.

• IPART also replaced the gross operating expenses values for these years with an estimated percentage share of the total expenses (1997/98 share of gross operating expenses - 98.7 per cent).

• The missing depreciation expense values for 1998/99 to 2000/01 were calculated based on applying a growth rate from the 1997/98 value equal to the CAGR growth from 1993/94 to 1997/98 (6 per cent). The remaining depreciation values were based on applying an average growth rate based on the CAGR from Access Economics’ published values from 2000/01 to 2004/05 (7 per cent).

• Missing gross fixed capital formation figures from 2002/03 were estimated by applying the growth rate from 2001/02 based on the CAGR for Access Economics published values from 2000/01 to 2004/05 (8 per cent).

• Missing values for purchases of assets net of sales of assets from 2002/03 were estimated by applying the average annual year-on-year growth in the ABS values for the previous 5 years (1997/98 to 2000/01). This was 2 per cent per annum. The CAGR and Access Economics net acquisition of non-financial assets growth rates were not applied due to the lumpy nature of the data.

### B.2.6 Excluding the impact of Brisbane City Council’s public transport services

Brisbane City Council is the only council in Australia responsible for providing urban public transport services. IPART sought to exclude this council’s income from these services from Queensland councils’ goods and services sales revenues to ensure consistency in state comparisons.

IPART accessed actual public transport revenue information from Brisbane City Council for 1993/94 to 2006/07. These figures were directly subtracted from Queensland’s goods and services sales revenue (and thus total revenue) figures. For earlier public transport revenue figures, IPART applied the transport revenue’s percentage share of Queensland’s total goods and services sales revenue in 1993/94 (7.9 per cent) across the remaining years (back to 1976/77).

IPART was not able to collect separate expenditure data for these transport services so this expenditure is still captured in Queensland’s expenditure (and operating balance) results. This is a risk to the IPART’s findings as explained in section B.3.
### B.2.7 Average rate calculations

IPART’s average rate calculations were primarily based on the council rate income and property assessment data by council from 2002/03 to 2006/07, supplied by DITRDLG. This data is collected from State Grants Commissions by the DITRDLG, based on information returns submitted to them by councils. While most councils in Australia were reported upon in each of the years, the information for some councils was missing and there was also some unexplained volatility apparent across both the rate income and property assessment figures. In particular, due to some unexplained volatility in the data for Western Australia rate income, IPART sought additional figures from the WA State Grants Commission for these years and incorporated this data into the estimates.

Average rates for each state for a given year $t$ were calculated as:

$$\frac{\sum_{i=1}^{n} (RI_i / PA_i))}{n}$$

where $RI_i$ = rate income of council $i$ in year $t$

$PA_i$ = no. of property assessments by council $i$ in year $t$

$n$ = no. of councils in the state in year $t$

This formula weighted each council’s average rate equally in the state average level, regardless of it being a large, metropolitan council or a small, rural council.

However, the rate income information for Queensland and Tasmania incorporated the water and sewerage rate income, as well as the property rate income, and so the average rates were considerably overstated for these states. IPART had no information on which to separate the water and sewerage rate income information from the total rate incomes, so instead gained an estimate of the likely proportion of water and sewerage rates captured in the data based on available state information on water and sewerage rates in 2006/07. This resulted in an estimate that 44 per cent of the estimated average rates in Queensland were property rates and 67 per cent of the estimated average rates in Tasmania were property rates.

The weighted average for Australia (excluding NSW) incorporated these adjusted average rate levels. For a given year $t$, it was calculated by summing the average rates for each state, multiplied by the state property assessments divided by the total property assessments in Australia (excluding) NSW:

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93 Queensland State Grants Commission water and sewerage rates information (email) and Tasmanian Department of Premier and Cabinet (KPI report on “Measuring Council Performance in 2006-07”).
\[ \sum AR_s \cdot (PA_s / PA_A) \]

where \( AR_s \) = average rate for state or territory \( s \) in year \( t \)

\( PA_s \) = no. of property assessments in state or territory \( s \) in year \( t \)

\( PA_A \) = no. of property assessments in Australia (excluding NSW) in year \( t \)

**B.2.8 Average taxation revenue per property assessment**

Due to the number of limitations associated with the data and the need for certain assumptions to be applied, IPART chose to utilise taxation revenue per property assessment numbers as a proxy estimate of average rates. This was calculated based on taxation revenues at the state level (ABS data) divided by the number of property assessments (DITRDLG and WA Grants Commission data).

The results suggested a decline in average tax revenue per property assessment levels in NSW from 2002/03 to 2003/04 due to higher growth in property assessment numbers than taxation revenue. IPART acknowledges that this is a questionable result, and emphasises the need for caution in interpreting these estimates.

**B.2.9 Operating balance calculations**

There are a number of different operating positions expressed in the paper, and it is important to understand the difference between each of the reported positions. The state-level operating positions are based on the GFS operating statement information which has been adjusted for the LWU operations and Brisbane City Council transport revenues as already outlined. IPART also calculated operating positions less grants and subsidies and ‘other revenue’ to try to remove the impact of ‘revenue for capital purposes from the balance. The different state-level operating positions referred to in the paper are as follows:

1. GFS operating balances equal to a state’s local government sector total revenues less the state’s local government sector total operating expenditure which excludes capital expenditure (Sections 3.1, 3.2 and 3.2.1).

2. GFS operating balances equal to a state’s local government sector total revenues less its grant and subsidy revenue minus the state’s local government sector total operating expenditure which excludes capital expenditure (Sections 3.1, 3.2 and 3.2.1).

3. GFS operating balances equal to a state’s local government sector total revenues less its grant and subsidy and ‘other’ revenue minus the state’s local government sector total operating expenditure which excludes capital expenditure (Sections 3.1, 3.2 and 3.2.1).
In addition, IPART has reported on individual council net operating positions for 2006/07 (Section 3.2.2 and Figures 3.5 and 3.6) which encompasses total operating revenue minus expenditure information by council (excluding capital expenditure) for each of the states, and includes the LWU expenditures and revenues for NSW, Queensland and Tasmania.

IPART also reported ‘bottom-line’ balances which equates to total expenditure including capital expenditure minus total revenues.

**B.2.10 Capex/depreciation ratios and estimated infrastructure shortfalls**

IPART examined two indicators to determine how NSW councils’ funding of renewal and replacement capital expenditure compared with councils’ in other states. The first was state level values for gross fixed capital formation divided by total depreciation expenses over 1998/99 to 2006/07. The measure of gross fixed capital formation includes all capital expenditure (but not depreciation expenses) and so is not representative of the recommended ratio of renewal/replacement capital expenditure divided by depreciation expenses\(^\text{94}\). It also includes all councils in a state aggregated together and so any surplus funding in one council would cancel out under-funding to that level in another. Nonetheless, IPART considered that it was still useful to compare states over time, since on average, it reveals how councils have been spending on capital relative to their asset replacement needs.

The second indicator IPART examined was capex/depreciation ratios at the council level, dependent on available data. In NSW, data on capital expenditure divided by depreciation was available from 1999/2000 to 2006/07. This measure of capital expenditure includes spending on upgrades and new assets as well as renewal and replacement capital expenditure. Ratios on this basis were also examined regarding councils in Queensland (2004/05, 2005/06 and 2006/07). Ratios of capital expenditure on renewals and replacements (only) to depreciation expenses were reported on regarding councils in South Australia (2006/07) and Tasmania (2006/07). In Victoria spending on renewals and replacements were reported on by the Municipal Association of Victoria (2006, 2007, 2008), but instead of depreciation expenses, the average annual consumption of capital (AAC) was used as the denominator. In each case, IPART reported the median ratio for councils in a state in a particular year, acknowledging that direct state comparisons were difficult to make given the variations in the basis for calculating the ratio and time periods.

**B.3 Risks to IPART’s results**

There were a number of limitations associated with the local government datasets utilised in this analysis and a number of assumptions needed to be made by IPART to compensate, as outlined in section B.1.

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\(^{94}\) As utilised by Access Economics, Roorda and Associates and PwC in their studies.
As a result, reported figures and state-level comparisons are acknowledged to be less reliable in some cases due to data reliability and consistency issues. IPART wishes to highlight the following key risks to the results outlined in this paper:

- IPART accounted for the local water utilities in Queensland, regional New South Wales and Tasmania by adjusting goods and services sales revenue and expenditure figures by total ‘water supply’ and ‘sanitation and protection of the environment’ ABS category measures for all states. Councils across Australia provide waste management services as a core service and so exclusion of the associated income and expenditure flows does reduce overall revenues and expenditure across all states from actual levels. For example, in 2006/07, excluded Victorian council revenues within these categories amounted to 6 per cent of total Victorian council revenues and excluded operating expenditure amounted to 12 per cent of total Victorian council operating expenditure (both in nominal terms).

- The ABS only had revenue data on ‘water supply’ and ‘sanitation and protection of the environment’ categories concerning goods and services sales revenues, so any grants and subsidies, interest income or ‘other revenue’ (namely developer contributions) in these categories, could not be extracted. Therefore, NSW, Tasmania and Queensland revenues in these source categories are over-estimated, relative to other states, which will impact total revenue results.

- ABS operating expenditure and capital expenditure data on ‘water supply’ and ‘sanitation and protection of the environment’ figures for NSW were incomplete from 1998/99 (operating expenditure) and 2002/03 (capital expenditure) and had to be supplemented with IPART’s estimates as outlined in B.2.5. IPART’s estimates of NSW revenue and expenditure, net of these figures, will vary from actual revenues and expenditure by how much these estimates vary from actuals in the opposite direction. To ensure as much accuracy as possible, IPART utilised actual DLG data for 2003/04 and 2006/07.

- While IPART was able to extract the impact of Brisbane City Council’s public transport services on revenue figures (goods and services sales only), it did not have access to similar data available on the expenditure side. Therefore, Queensland expenditure figures are over-stated on this basis also.

- The introduction of accrual accounting led to substantial changes in reported capital expenditure (net acquisition of non-financial assets) in 1998/99, and growth results over this period should be interpreted with caution as they are likely to be under-estimated. Further, councils in different states started recording depreciation expenses at different rates from 1993/94 which affects the capital expenditure results from 1993/94 to 1998/99.

- Significant council amalgamations occurred in NSW in 2003/04, reducing the number of local governing bodies from 172 to 155, while Victoria merged 210 councils to 79 in the mid 1990s and SA merged 122 councils to 74 in the same period. These mergers will have impacted operating expenditure levels and other aggregates in these states over these periods.
The abovementioned impacts will also affect the state-level operating balances reported on. The results for Queensland will be most affected with estimated expenditure and revenues both likely to be lower (excluding the impact of removed waste management revenues and expenditure). This is because reported expenditure includes Brisbane City Council expenditure on public transport and revenues include local water utility developer contributions, grant income and interest income.

In the case of individual council operating positions (section 3.2.2) and net debt positions (section 3.4) analysed by IPART, these figures include the local water utilities in regional NSW, Queensland and Tasmania, not just the ‘tax supported sector,’ and interpretation of the results needs to take into account the revenues and expenditures of these operations.
Bibliography


Bibliography


# Glossary

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
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<tr>
<td>ABS</td>
<td>Australian Bureau of Statistics</td>
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<tr>
<td>Accrual accounting</td>
<td>Accounting approach whereby items are recorded when they are earned or owed, as opposed to cash accounting when items are recorded based on payment transactions.</td>
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<tr>
<td>ACLG</td>
<td>Australian Classification of Local Governments</td>
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<td>ALGA</td>
<td>Australian Local Government Association</td>
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<tr>
<td>Allan Inquiry</td>
<td>Independent Inquiry into the Financial Sustainability of NSW Local Government in NSW undertaken in 2006 and chaired by Professor Percy Allan.</td>
</tr>
<tr>
<td>Annual Charges</td>
<td>A charge levied by council on an annual basis for provision of services. These charges are levied against the land.</td>
</tr>
<tr>
<td>Annual rental income rates approach</td>
<td>Rates based on the annual rental income that may be generated from the property.</td>
</tr>
<tr>
<td>Bottom-line balance</td>
<td>Total expenditure minus total revenue</td>
</tr>
<tr>
<td>Capex/depreciation ratio</td>
<td>Annual capital expenditure (on renewal/replacement assets only in some ratios) divided by depreciation expenses</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>Expenditure on capital assets</td>
</tr>
<tr>
<td>Chain Volume Measure (CVM)</td>
<td>ABS official volume measure of production which uses the Laspeyres formula to calculate year-to-year volume indexes of an aggregate. This is derived by expressing the value of the aggregate in each pair of consecutive years in the prices of the earlier year, and then dividing the value for the later year by the value for the earlier year.</td>
</tr>
<tr>
<td>CPI</td>
<td>Consumer Price Index</td>
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<tr>
<td>Depreciation</td>
<td>Annual decline in the value of a council’s non-financial assets due to the usage (and deterioration) of those assets</td>
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<td>----------------------------------</td>
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<tr>
<td><strong>Developer Contributions</strong></td>
<td>Payments from developers to councils in the form of developer charges or donations.</td>
</tr>
<tr>
<td><strong>DLG</strong></td>
<td>Department of Local Government (NSW)</td>
</tr>
<tr>
<td><strong>DOTARS</strong></td>
<td>Department of Transport and Regional Services (Commonwealth) (now Department of Infrastructure, Transport, Regional Development and Local Government)</td>
</tr>
<tr>
<td><strong>DITRDLG</strong></td>
<td>Department of Infrastructure, Transport, Regional Development and Local Government (Commonwealth)</td>
</tr>
<tr>
<td><strong>Effort neutrality</strong></td>
<td>Principle that a council’s grant level be independent of its policies.</td>
</tr>
<tr>
<td><strong>Financial Assistance Grant (FAG)</strong></td>
<td>Untied grants provided to councils by the Commonwealth, which are in the nature of tax-sharing grants.</td>
</tr>
<tr>
<td><strong>Fees</strong></td>
<td>A charge imposed by council for the provision of a service at the time of its use. This is charged to the user of the service and is not a charge against the land.</td>
</tr>
<tr>
<td><strong>Financial Sustainability</strong></td>
<td>The extent to which a council’s financial capacity is sufficient for the foreseeable future to allow the council to meet its expected financial obligations without significant revenue or expenditure adjustments.</td>
</tr>
<tr>
<td><strong>Gross operating expenses</strong></td>
<td>Total operating expenses equal to sum of employee and non-employee expenses and other operating costs.</td>
</tr>
<tr>
<td><strong>GSP</strong></td>
<td>Gross State Product</td>
</tr>
<tr>
<td><strong>GST</strong></td>
<td>Goods and Services Tax</td>
</tr>
<tr>
<td><strong>Horizontal equalisation</strong></td>
<td>Allocation of grant funding to local governments in a state taking into account the differences in expenditure required for reasonable service provision and the council’s capacity to raise revenue. Ideally, it should bring all councils up to the same level of financial capacity.</td>
</tr>
<tr>
<td><strong>Infrastructure backlog</strong></td>
<td>Amount of expenditure required by a council to bring infrastructure to a satisfactory standard, over and above the expected remaining depreciation expenses of the asset.</td>
</tr>
<tr>
<td><strong>Infrastructure expenditure</strong></td>
<td>Expenditure on new and second hand infrastructure assets</td>
</tr>
<tr>
<td><strong>IPART</strong></td>
<td>Independent Pricing and Regulatory Tribunal</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
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<tr>
<td>KPI</td>
<td>Key Performance Indicator</td>
</tr>
<tr>
<td>LGA</td>
<td>Local Government Area</td>
</tr>
<tr>
<td>LGSA</td>
<td>Local Government and Shires Association (NSW)</td>
</tr>
<tr>
<td>Minimum grant</td>
<td>This is a principle to ensure that each council receives at least a minimum level of general purpose assistance (set at 30 per cent of a council’s per capita share of general purpose grants.)</td>
</tr>
<tr>
<td>Net acquisition of non-financial assets</td>
<td>Net capital expenditure on new and existing assets less depreciation expense.</td>
</tr>
<tr>
<td>Net debt</td>
<td>Net value of liabilities and debts less cash and other similar liquid assets.</td>
</tr>
<tr>
<td>Net financial liabilities</td>
<td>Net financial obligations equal to total liabilities less its holdings of financial assets, net of restricted cash and securities.</td>
</tr>
<tr>
<td>Operating expenditure</td>
<td>Expenditure on operating needs such as employee costs.</td>
</tr>
<tr>
<td>Operating position</td>
<td>Council total revenue less operating expenditure. It may exclude capital-related revenues as an analytical measure.</td>
</tr>
<tr>
<td>Operating deficit</td>
<td>Operating expenditure exceeds total revenues</td>
</tr>
<tr>
<td>Operating surplus</td>
<td>Total revenues exceed operating expenditure.</td>
</tr>
<tr>
<td>Other revenue</td>
<td>ABS definition including developer contributions, fines, rental and other income.</td>
</tr>
<tr>
<td>Per capita</td>
<td>The amount per each individual in the population.</td>
</tr>
<tr>
<td>PC</td>
<td>Productivity Commission</td>
</tr>
<tr>
<td>Property Assessment</td>
<td>Council assessment of a rateable property such that the number of rateable properties equals the number of assessments</td>
</tr>
<tr>
<td>PwC</td>
<td>PricewaterhouseCoopers</td>
</tr>
</tbody>
</table>
### Glossary

**Rates**
A tax on property which is for a local purpose and assessed and paid to local government. Under the *Local Government Act*, a rate may consist of:

(a) an ad valorem amount (i.e., an amount calculated according to the rateable value of the property), or

(b) a base amount to which an ad valorem amount is added.

**Rate-pegging**
Practice of setting a maximum percentage limit on council rate income increases.

**Recurrent expenditure**
Expenses that occur repeatedly (e.g., employee expenses).

**Specific Purpose Payment (SPP)**
Tied grants made by Commonwealth or State governments to councils basis, financed mainly by means of rates and other compulsory transfers.

**State Grant Commissions**
Independent statutory bodies established under state legislation to make recommendations concerning the distribution of FAGs and identified local roads funds (ILRFs) to local government.

**Statutory rate-peg limit**
Annual percentage limit set by the Minister for Local Government by which councils may increase the total income it will receive from rates.

**Tax-supported sector**
Activities of councils providing services to the community or to individuals on a non-market basis. This excludes local water utility operations.

**Unimproved Capital Value (UCV)**
The value of a block of land if no structural improvements had been made.