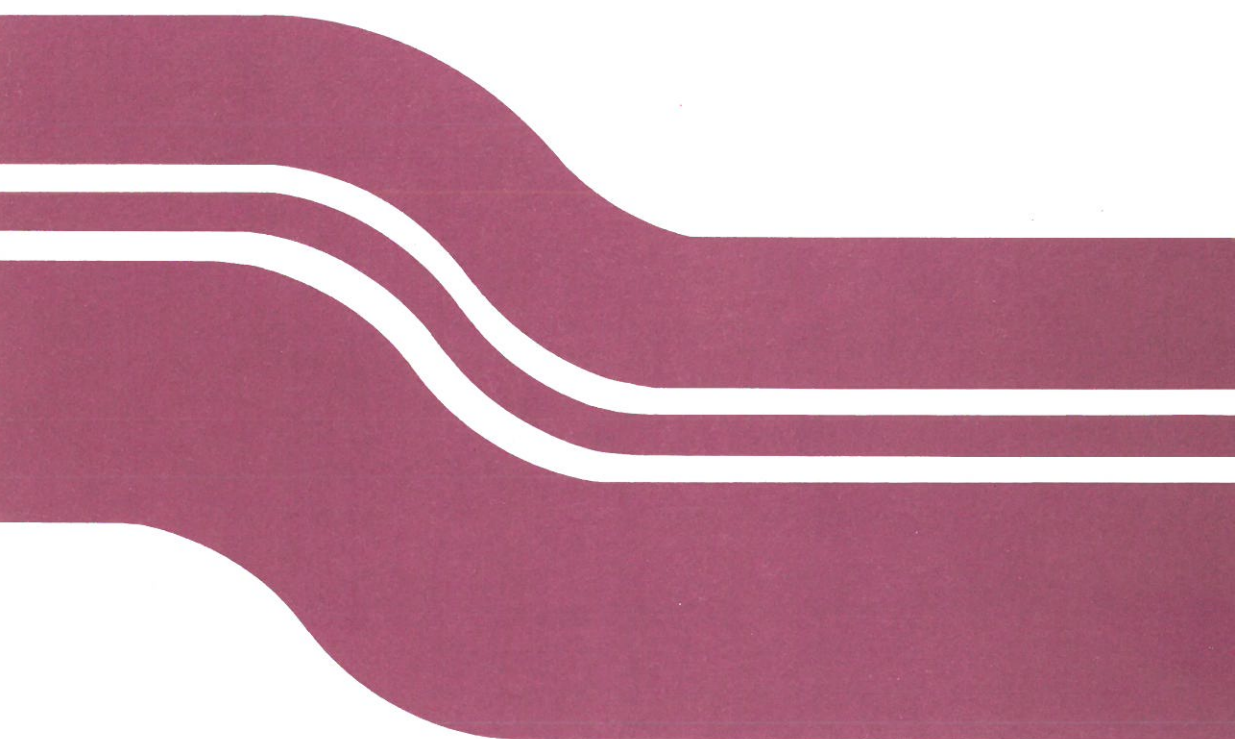


Occasional Paper

35

Local Government in Queensland

C.P. Harris



Centre for Research on Federal Financial Relations
The Australian National University

LOCAL GOVERNMENT IN QUEENSLAND

C.P. Harris

Occasional Paper No. 35

Centre for Research on Federal Financial Relations
The Australian National University: Canberra

First published in Australia 1985

Printed in Australia for the Centre for Research on Federal
Financial Relations, The Australian National University, Canberra.

© C.P. Harris 1985

This book is copyright. Apart from any fair dealing for the purpose
of private study, research, criticism, or review, as permitted under
the Copyright Act, no part may be reproduced by any process without
written permission. Inquiries should be made to the publisher.

National Library of Australia card number and

ISBN 0 86784 567 8

ISSN 0313 5241

28-5-83

The Centre for Research on Federal Financial Relations

The Australian National University's Centre for Research on Federal Financial Relations was established in 1972 under a special research grant from the Australian Government. Its role in relation to the Australian federal system is to sponsor research which will extend the range of information and analysis and suggest ways and means of making the system function more effectively. The research program of the Centre has regard especially to expenditure responsibilities of the several levels of government, financial powers (with respect to both taxation and loan finance), grants arrangements and the scope for intergovernmental co-operation.

In addition to occasional papers, the Centre publishes books, research monographs, reprints of selected journal articles and other papers, information about which may be obtained from:

The Secretary,
Centre for Research on Federal Financial Relations,
The Australian National University,
Copland Building,
GPO Box 4,
Canberra, ACT, 2601
Australia.

Views expressed in the Centre's publications are those of individual authors and no endorsement by the Centre or by the University is implied.

PREFACE

Charles Percy Harris is Professor of Economics at the James Cook University of North Queensland. His special interests include regional and urban economics, social welfare policies, local government, and intergovernmental relations.

ACKNOWLEDGEMENTS

The Centre for Research on Federal Financial Relations records its thanks to ANU Graphic Design.

The Centre also records its thanks to Mrs R. Barker for making the necessary publication arrangements.

March 1985

R.L. Mathews
Director

CONTENTS

	<i>Page</i>
Foreword	iii
Preface	iv
Acknowledgements	iv
Tables	vi
INTRODUCTION	1
THE LEGAL STATUS OF LOCAL GOVERNMENT	2
FUNCTIONS AND OUTLAYS OF LOCAL GOVERNMENT IN QUEENSLAND	3
SOURCES OF FUNDS	5
THE FUTURE OF LOCAL GOVERNMENT IN QUEENSLAND	10
SOURCES OF FUNDS AND THE FUTURE	11
CONCLUSION	16
Select Bibliography	22

TABLES

		<i>Page</i>
1	Classification of Outlays by All Queensland Local Authorities 1971-72 and 1981-82	6
2	Sources of Funds for All Local Authorities in Queensland 1971-72 and 1981-82	8
3	Assignment of Local Authority Current and Capital Revenue Sources by Type of Function	20

INTRODUCTION

This paper is concerned with a broad review of local government in Queensland, in particular with the legal status of local government bodies, their functions, their sources of funds, and the future prospects for local government in the State. Before we examine these matters, it is necessary to emphasise the extreme disparities which exist among local government bodies in Queensland with respect to various features of their structure and operations. In addition it is also important to recognise the fact (not discussed in this paper) that the system of local government in Australia is not the same in every State and Territory of the Federation.

First, there are 134 local government bodies (or local authorities) constituted or incorporated under the Queensland *Local Government Act*. The area of Queensland is 1,727,000 km², so that if each local authority had the same territorial area, each Local Authority Area would be 12,888 km² in extent. In fact the actual areas of the 134 local authorities range from 16 km² (Goondiwindi Town) to 115,341 km² (Cook Shire). In effect, therefore the smallest local authority has an area which in size is about one-eight-hundredth of this uniform size or average area while the largest local authority has an area about 9 times larger than this average.

Second, the estimated resident population of Queensland at 30 June 1983 was 2,471,600, which, if uniformly divided among the 134 local authorities, would give an average population per local authority of 18,445 persons. In reality, however, the actual populations of these local authorities ranged from 280 (Croydon Shire) to 740,130 (Brisbane City). Thus the smallest population of any local authority in Queensland in 1983 was about one-seventieth of the average population of 18,445, and the largest population was 40 times larger than this average.

Third, the combination of area and population gives statistics on the territorial density of the population. For Queensland as a whole this territorial density in 1983 was 1.43 persons per km² (which would also be the density for each local authority if all local authorities were the same in size and contained the same population). In practice, however, the population densities of the local authorities ranged (about this mean of 1.43 persons per km²) from 0.003 persons per km² in Diamantina Shire (320 persons in 94,690 km²) to 1,294 persons per km² in Redcliffe City (45,290 persons in 35 km²).

Fourth, the activities of local authorities may be measured by the levels of their outlay in carrying out their functions. In the year 1981-82 the 134 local authorities in Queensland had a combined outlay (for both current and capital purposes) of \$1,101.4 million, or an average outlay of \$8.219 million per authority. For the actual local authorities, however, this outlay ranged from \$418,000 (Perry Shire) - one-twentieth of the average - to \$333.1 million (Brisbane City) - 40 times larger than the average.

Fifth, as governing bodies, local authorities in Queensland levy taxes called *general rates*. Overall in 1981-82 the 134 local authorities in Queensland in that year raised a total tax (rates) revenue of \$261.4 million, or an average of \$1.950 million per local authority. The actual taxes raised, however, ranged from zero (Aurukun and Mornington Shires) to \$81.4 million (Brisbane City) - i.e., Brisbane City in that year raised 31 per cent of total general rates for all 134 Queensland local authorities.

In any study of local government in Queensland, therefore, the basic starting point must be a recognition of the significant degree of disparities that exists among local authorities with regard to their areas, populations, levels of activity, and financial transactions. This is a matter which is not further examined in this paper.

THE LEGAL STATUS OF LOCAL GOVERNMENT

In its most general meaning the term *government* refers to the body of persons who administer the functions of state within an organised society. This body of persons derives its authority to control and rule from specific laws. Within the Australian federation the basic law giving authority to govern to the Commonwealth is the Constitution, which is Clause 9 of a British statute, the *Commonwealth of Australia Constitution Act* 1900, while the power to govern for the States dates back to the *Australian Colonies Government Act* 1850, with residual powers also given by the *Constitution Act*. The powers of the State and Commonwealth Governments are therefore both derived from British statutes.

The power to govern at the local or sub-state level is given by specific State legislation, and represents a devolution or delegation of authority to another body by a State government to carry out the functions of local government. All States introduced local government legislation in the pre-federation period from 1839 onwards.

In Queensland the power to govern at the local level is given to what is termed a *Local Authority*, which is a corporate body constituted under the *Local Government Act*, although local authorities are also given additional powers and duties by other State Acts. In this respect the three main features of a Local Authority are that:

- (a) it is a Local Authority which is a subordinate not a sovereign state;
- (b) it is a Local Authority which is an elected governing body (currently in Queensland by adult franchise, although such adult franchise does not apply in all Australian States, and it has applied in Queensland only since 1920);
- (c) it is a general purpose Local Authority given powers to carry out a variety of functions (local government functions), as opposed to a specific purpose or semi-government authority which has powers to carry

out only one function (e.g., electricity distribution, seaport administration and operations, fire brigades, TAB etc.).

Section 51 of the Commonwealth Constitution gives the Commonwealth Parliament the power to make laws for the peace, order, and good government of the Commonwealth, and in so doing specifies the powers of the Commonwealth. The residual powers reside with the States. Sections 106 and 107 of the Commonwealth Constitution continue the pre-federation colonial constitutions of the States and the powers of the State, formerly Colonial, Parliaments which, under the 1850 British legislation referred to previously, had been given the general power to make laws for the peace, welfare and good government of their respective territories.

In contrast local authorities do not have the power to make laws. Section 30 of the Queensland *Local Government Act*, in charging a constituted Local Authority with the good rule and government of its Area, gives the Local Authority power to govern by making by-laws, which are ordinances, decrees or provisions enacted by a local authority under powers given to it by law for local application only within its own Area. By-laws are therefore not necessarily uniform in all local authority areas in the State.

FUNCTIONS AND OUTLAYS OF LOCAL GOVERNMENT IN QUEENSLAND

Section 30 of the Queensland *Local Government Act* defines the functions of local government in three ways.

First, in the widest sense, the Act states that a Local Authority may make by-laws for the promotion and maintenance of the peace, comfort, culture, education, health, morals, welfare, safety, convenience, food supply, housing, trade, commerce and manufactures of its Area and its inhabitants; for the planning, development, and embellishment of its Area; and for the direction, administration, and control of the working and business of the government of its Area.

The *second definition* is also a broad one in that it gives a Local Authority powers to make by-laws in relation to the undertaking, provision, construction, maintenance, management, execution, control, regulation, and regulation of the use of all works, matters and things which in the opinion of the Local Authority are necessary or conducive to the good rule and government of its Area and the well-being of its inhabitants. In this regard the Local Authority is empowered to take any land and provide, acquire, construct, maintain, manage, control, and carry on any work, service, or undertaking with all associated or ancillary works and services, where an undertaking is defined as the provision of water, gas, electricity, transport or any other function which a Local Authority is authorised to do under the *Local Government Act* or any other Act.

The *third definition* is a more specific one in that the Local Authority is given powers to make by-laws for particular named functions

such as those concerned with roads, public parks, playing grounds, means of public transportation, health, traffic, sewerage, stormwater drainage, town planning, libraries, museums, cemeteries, quarries, saleyards, shops, offices, advertising on roads, petrol pumps, places of public amusement, boarding houses, flats, stalls on roads, storage and transport of dangerous goods and so on. The express powers over these listed functions are stated as being given without limiting the generality of a Local Authority's powers.

The powers delegated by a State Parliament to the Council of a Local Authority are, of course, concerned with functions included in the residual powers given to the States under the Commonwealth Constitution. In some instances the State may give virtually exclusive control (subject to State Government approval in some instances) over a particular function to the Local Authority - e.g., town planning, refuse collection, the reticulation of water, sewerage - while in other instances the function may be one shared by the State Government and local authorities or by local authorities and semi-government instrumentalities - e.g., water storage, roads, urban public transport, pollution control, electricity distribution.

The functions of local government as specified in the Queensland Act are therefore wide and comprehensive, but it is clear from the statistics on outlays given in Table 1 that within these broad provisions the actual development of local government in Queensland has tended to be relatively narrowly oriented to what are called *services to real property*. These services include water supply, sewerage, refuse collection, roads, footpaths, kerbing and channelling, private land development, town planning and building controls. That local government has not developed a broader base of services oriented to the general well-being of the inhabitants of the Local Authority Area, or what may be called *services to citizens*, is due to the form and traditions of the initial development of local government in Queensland in the second half of the 1800s, to the conservative attitudes of successive State Governments, and to the limited taxing powers given to local authorities.

Table 1 shows that (even not taking into account related administrative and debt charges) outlays by local authorities in Queensland on sewerage, water supply and roads account for nearly one-half of their total outlays. Moreover, debt charges, which account for about one-sixth of total outlays, are to a significant extent related to sewerage and water supply.¹ When debt charges and other items are also considered, outlays on sewerage, water and roads in 1981-82 accounted for 57 per cent of total outlays.

The statistics in Table 1 also enable some conclusions to be drawn about changes in local government outlays in Queensland over the decade 1971-72 to 1981-82. The main conclusions in this regard are:

(a) During this decade Queensland local authorities have virtually ceased to be involved in the distribution of electricity within the State,

¹ For example, in 1981-82 total debt charges were \$177 million, of which \$81 million (46 per cent) was for sewerage and water supply.

with outlay for this purpose declining from 16 per cent of total outlays in 1971-72 to 0.1 per cent in 1981-82.

(b) Despite the loss of their electricity undertakings, and the consequent reduction in debt outstanding for this purpose, debt charges as a relative component of total outlays have remained about the same over the decade at 16 per cent, although the significance of interest payments (as compared with redemption payments) has increased as interest rates have risen in this inflationary period of tight monetary policy. In other words, local authorities are paying more for their borrowed funds and repaying outstanding loans more slowly than previously.

(c) Comparisons of outlays per head (at constant 1981-82 prices) show that overall the activities of local government in Queensland have only just kept pace with population growth, after allowing for the loss of their electricity undertakings. Omitting these undertakings,² Queensland local authorities in 1981-82 outlaid an average of \$460 per head of resident population, compared with an average of \$454 per head (1981-82 prices) in 1971-72.

(d) Within this constant overall total, however, outlays per head increased substantially for community amenities, recreation and culture, and decreased significantly for sewerage.

SOURCES OF FUNDS

Local authorities in Queensland have four main sources of funds - local taxes, user charges, grants from other governments, and loans. These sources provide over four-fifths of total funds available to local authorities. The relevant powers to raise funds are contained in Sections 21 to 29A of the *Local Government Act*.

Statistics for receipts for the years 1971-72 and 1981-82 are given in Table 2. The main features of this Table are summarised below.

(a) In 1981-82 local taxes yielded 24 per cent of all funds (total receipts), user charges 28 per cent, grants from other governments 14 per cent, and loan receipts 16 per cent. A decade previously the proportions had been local taxes 18 per cent, user charges 37 per cent, grants from other governments 9 per cent, and loan receipts 21 per cent.

(b) The changes in these proportions over the decade reflect two main developments, the loss of electricity undertakings after 1977, and the increase in grants from the Commonwealth Government (mainly general revenue grants from 1974 and income tax sharing grants after 1976).

² The amounts deducted from total outlays for the electricity undertakings include the amounts shown in Table 1 plus debt charges and the administrative costs for these undertakings included in the amounts shown against those two items in Table 1. These latter items amounted to an outlay of \$20 per head (1981-82 prices) in 1971-72.

Table 1
 CLASSIFICATION OF OUTLAYS BY ALL QUEENSLAND LOCAL AUTHORITIES 1971-72 AND 1981-82
 (ALL FUNDS)

Purpose	Total Outlay \$ million			Proportion of Total Outlay %		Outlay Per Head of Resident Population (1981-82 prices) \$	
	1981-82	1971-72 (current prices)	1971-72 (1981-82 prices)	1981-82	1971-72	1981-82	1971-72
sewerage	118.3	37.4	121.0	10.7	11.5	49.42	64.32
water supply	145.9	33.5	108.3	13.3	10.3	60.97	57.58
debt charges - interest	131.8	32.2	104.2	12.0	9.9	55.06	55.42
- redemption	44.7	21.7	70.1	4.1	6.6	18.67	37.26
education, health and welfare	13.3	4.6	15.0	1.2	1.4	5.54	7.98
housing and community amenities	96.4	{ 29.2	94.6	8.8	{ 9.0	40.28	{ 50.32
recreation and culture	82.8			7.5			
law, order and public safety	3.5	1.7	5.5	0.3	0.5	1.44	2.91
roads and bridges	236.9	57.5	186.0	21.5	17.6	98.96	98.89
public transport	36.6	11.0	35.6	3.3	3.4	15.31	18.93
electricity and gas	0.7	50.9	164.8	0.1	15.6	0.28	87.61
general administration (all activities)	63.8	21.1	68.2	5.8	6.5	26.67	36.28
all other purposes	126.8	25.6	83.0	11.5	7.9	52.96	44.13
<i>Total</i>	<i>1101.4</i>	<i>326.4</i>	<i>1056.3</i>	<i>100.0</i>	<i>100.0</i>	<i>460.16</i>	<i>561.64</i>

.../contd.

Table 1 (continued)

- Notes:*
1. Calculation of 1971-72 outlays at constant (1981-82) prices made by using a weighted combination of national accounts implicit price deflators for government final consumption expenditure and public gross fixed capital expenditure. With 1981-82 = 100, the index for 1971-72 was 30.9.
 2. Outlays per head of population have been calculated by using estimates of mean resident population for the year, the mean being based on the 4 quarterly estimates (September to June quarters respectively). The 1971-72 mean resident population is 1,880,800, and for 1981-82 it is 2,393,500.
 3. *General administration* outlays refer to all outlays of this kind, whether the activities were concerned with ordinary services, sewerage, water supply and other business undertakings.
 4. Similarly *debt charges* refer to outlays for all loan funds, irrespective of the purpose of use of those loans.
 5. Outlays on items such as *sewerage, water supply, public transport, and electricity and gas* do not include outlays on administration or debt charges.
 6. Total outlays include outlays on *recoverable works*, that is, for works done for State Government (e.g., Main Roads Department) and private persons and organisations for which the Local Authorities are reimbursed. In 1981-82 reimbursements received by Local Authorities totalled \$103.4 million, of which \$61.6 million (60 per cent) was for road works undertaken by the Councils.
 7. Outlays include current and capital expenditure, whether financed from revenue or loan funds.

Source: *Local Government, Queensland 1981-82*, Australian Bureau of Statistics, Queensland Office, Brisbane, 1983; *Statistics of the State of Queensland for the year 1971-72, Part E Local Government*, Australian Bureau of Statistics, Queensland Office, Brisbane, 1973; *Australian National Accounts, National Income and Expenditure 1982-83*, Australian Bureau of Statistics, Canberra, 1984; *Australian Demographic Statistics Quarterly*, Australian Bureau of Statistics, Canberra, December Quarter 1982 issue.

Table 2
SOURCES OF FUNDS FOR ALL LOCAL AUTHORITIES IN QUEENSLAND 1971-72 AND 1981-82

Source	Total Receipts \$ million		Proportion of Total Receipts %		Receipts Per Head of Resident Population (1981-82 prices) \$	
	1981-82	1971-72 (current prices)	1981-82	1971-72	1981-82	1971-72
local taxes (general, special and separate rates)	261.4	60.6	23.5	17.9	109.20	104.20
user charges:						
sewerage rates and charges	91.8	25.5	8.3	7.5	38.35	43.80
water rates and charges	139.0	26.1	12.5	7.7	58.08	44.92
transport charges	14.6	10.0	1.3	3.0	6.11	17.14
electricity and gas charges	0.5	48.6	0.0	14.4	0.22	83.57
charges for ordinary services	70.2	13.6	6.3	4.0	29.32	23.35
licences, fees and fines	21.8	1.6	2.0	0.5	9.12	2.76
grants: from Queensland Government (including loan subsidies)	92.9	29.1	8.4	8.6	38.82	50.13
from Commonwealth Government	63.9	0.6	5.7	0.2	26.70	1.03
reimbursements (for recoverable works)	113.2	32.5	10.2	9.6	47.29	55.92
other revenue receipts	68.7	20.5	6.2	6.1	28.71	35.26
loan receipts (all funds) (excluding loan subsidies)	174.4	69.1	15.7	20.5	72.86	118.94
<i>Total Receipts (All Funds)</i>	<i>1112.4</i>	<i>337.7</i>	<i>100.0</i>	<i>100.0</i>	<i>464.76</i>	<i>581.02</i>

.../contd.

Table 2 (continued)

- Notes:*
1. Loan subsidies are included in grants.
 2. Grants from the Commonwealth Government are those made either direct to the local authorities or to the Queensland Government for on-passing to local authorities. However, road grants are classified as a grant received from the Queensland Government. Data on Commonwealth Grants were estimated from Tables in Budget Paper No. 7.
 3. Prior to 1977 electricity supply undertakings were operated by 13 local authorities in Queensland. In 1977 an extensive restructuring of the electricity industry occurred, and generation and distribution functions were transferred from local authorities to State and regional electricity statutory authorities. In 1981-82 electricity undertakings existed only in Aurukun and Mornington Shires. In addition the Towns of Dalby and Roma had natural gas undertakings.
 4. For other relevant details see Notes to Table 1.

Source: as for Table 1; and *Payments to or For the States, the Northern Territory and Local Government Authorities*, AGPS, Canberra (1984-85 and 1974-75 issues).

(c) Changes over time in the individual items are better shown by the data on constant-price per capita receipts, since these data are not constrained by the percentages requirement to add to 100. These statistics show that local taxes have just kept pace with population growth and inflation (\$104 per head in 1971-72 and \$109 per head in 1981-82, all in 1981-82 prices), grants from the State Government have declined from \$50 per head to \$39 per head, while those received from the Commonwealth Government have increased from \$1 per head to \$27 per head. The decline in loan receipts to a small extent reflects the loss of electricity undertakings (if these are omitted the 1971-72 figure is \$111 per head). Thus in a period of high inflation, high interest rates, and tight monetary policy the local authorities in Queensland are shown to have restricted to a significant extent their reliance on loan funds to finance their activities. This reduction in loan receipts from \$111 per head to \$73 per head (both in constant 1981-82 prices) therefore suggests that local authorities over this period have not, to the same extent as in the past, been able to expand and upgrade those elements of the local physical and social infrastructure normally financed by borrowings, although they may have decided to utilise more of their current revenue to finance some of these infrastructure requirements.

(d) If electricity undertakings are omitted from the 1971-72 statistics, total receipts per head (1981-82 prices) were \$479 per head, while 1981-82 receipts per head were \$14 lower at \$465 per head.

THE FUTURE OF LOCAL GOVERNMENT IN QUEENSLAND

It is reasonable to conclude that the main concern of local authorities about their future activities is with their sources of revenue. *First*, the Queensland Government has never since federation shown any real intention to reform the system of local government by adopting a new approach to its structure, or by adopting a more dynamic process of boundary reviews as land uses and population levels change over time. In particular there is no threat to Queensland local authorities (as occurred in recent past years in New South Wales) from State Government proposals for a substantial restructuring of the existing Areas, whether by amalgamations of two or more Areas, or by a more continuous program of boundary review, especially in the main urban centres. In the 1870s Queensland had a dual system of local government with separate Acts (Municipalities and Divisional Boards), but there seems little likelihood that the Queensland Government today would seriously consider any proposals for a similar statutory distinction to be made between urban and rural local authorities.

Second, as noted above in Section 2, Queensland local authorities potentially have wide powers, although the extent to which they can in practice exercise many of these powers has been constrained by the attitudes of various State Governments, which have in many instances shown a preference for some functions available to local government to be carried out by specific purpose semi-government instrumentalities. The most recent example of this kind of development was the loss of the

electricity function by local authorities after 1977. Even so, there are many functions which local authorities could reasonably undertake, especially in the so-called "services to citizens" area (cultural and recreational services and facilities, child care, other social welfare services and facilities), but in broad terms local authorities are prevented from so doing because of financial constraints. With most of their funds coming from their "services to property" functions, the use of these funds for related "services to property" activities leaves local authorities with relatively small financial resources to devote to services more directly oriented to the well-being of citizens as a whole.

Acceptance of the two propositions outlined above is therefore a justification for concentrating only on matters related to sources of funds for the remainder of this paper.

SOURCES OF FUNDS AND THE FUTURE

(i) *Local Taxes*

Taxes levied by local authorities are not specifically referred to as taxes but are called *rates*. The use of the term "rates" for this purpose dates back at least to 1601, when rates were levied to provide funds for the relief of the poor under the Statute of Elizabeth. The term is also probably related to the levy in England of the church rate. The term *rate* is derived from the Latin, *pro rata*, the particular feature of the rate as a tax being that it is a proportional tax. In Queensland the tax base is the *rateable value of land*, which is the unimproved capital value of land as defined in the *Valuation of Lands Act*. This has been the tax base for local government in Queensland since 1890, and there seems no reason to suppose that the Queensland Government would seriously consider any change to that tax base.

In practice the local tax is a tax paid by landowners from income, either from income earned by using the land for business purposes, or from other income where the land is not used for business purposes. In each case, however, the tax liability is calculated by reference to the value of the land, however defined, not to the income derived from the use of the land. Moreover, as a tax, the rate conforms neither to the ability-to-pay principle nor to the benefit principle.

In federations taxes paid to one level of government are sometimes allowed as offsets against taxes due to other levels of government. Local taxes fall within this category in Australia (as do some of the user charges described below), but the real effect of this on taxpayers is different according to whether the land is or is not used to derive taxable income. Where land is so used the taxes and charges paid to the local authorities become deductions in full from taxable income like any other business cost. In this instance the Commonwealth Government, by forgoing income tax, subsidises the payment of the local taxes.

In contrast, where the land is not used to derive income, but is, for example, used for a private residence, tax is paid from the general

income of the owner. However, given that the associated tax rebate is in this case merged within an all-embracing and unidentifiable "concessional expenditure rebate" and is limited to a claim of \$300 per annum, it is reasonable to conclude that the vast majority of these individual taxpayers pay the local taxes in full without any Commonwealth subsidy. Why such discrimination should exist is difficult to say, or to justify. Moreover, it is also reasonable to conclude that, from the Federal viewpoint, this aspect of local taxes has no perceived political merit or priority, and it can therefore be expected that this kind of local tax subsidy system will continue to exist in the future, and the local tax system will therefore not change because of reform in this area.

Of course local taxes, while important for local authorities in Queensland (providing nearly one-quarter of their total funds in 1981-82), are not substantial taxes overall. For example, in 1981-82 local authorities in Queensland raised local taxes (rates) totalling \$261 million, or \$109 per head of population. In the same year the Queensland State Government raised total taxes of \$920 million, or \$384 per head, while the taxes levied by Commonwealth Government throughout Australia raised \$37,992 million, or \$2,520 per head of population. Alternatively, the general situation may be illustrated on an Australia-wide basis, where, in 1981-82, the Commonwealth raised 81 per cent of all taxes, the six States and the Northern Territory 15 per cent, and local authorities in all States and the Northern Territory 4 per cent of the total.³

On balance therefore there seems little prospect that the local tax system in Queensland will change much in the future, and perhaps the most reasonable conclusion, given many statements by local authority Chairmen and Mayors in recent years, is that the level of rates in the foreseeable future will increase generally in line with inflation. It will follow that, in real terms, this kind of growth of tax revenue will not permit local authorities in Queensland to expand, or upgrade the quality of, their public facilities and services to any significant extent.

(ii) *User Charges*

Economists apply the term *user charges* where a public authority provides a good or a service and the consumer of that good or service pays a price or a fee which is related either to the quantity of the good or service consumed or provided, or to the total cost incurred in providing that service. Local authorities in Queensland are given powers to levy these user charges for water supply, sewerage, cleansing, and generally for supplying any service or commodity, making any registration, granting any licence, giving any permission, furnishing any information, or receiving any application for approval.

In reality the so-called user charges levied by local authorities in Queensland are mainly imperfect, in that they frequently are flat charges for a set or maximum usage rather than for actual usage (e.g., water). In other cases, e.g., community theatres or similar facilities, generally the

³ Source: *Taxation Revenue, Australia, 1981-82*, Australian Bureau of Statistics, Canberra, 1983.

costs of operations are cross-subsidised from general rates rather than being fully met from user prices.

User charges are generally regarded favourably by economists as means of financing the supply of appropriate public sector goods and services. These types of charges are based on the benefit principle, and conform to an equity criterion of payment in proportion to consumption or equal to the cost of the service provided. However, in some instances user charges may conflict with another equity principle based on ability to pay and income distribution.

As noted previously, user charges account for about 30 per cent of local authority receipts in Queensland, but in some instances there may be preferable ways of calculating and applying these charges. First, for many services related to applications, licences, permits and the like an analysis should be made to determine the full costs of providing the services, so that the fee or charge covers all costs.

Perhaps of more importance, however, is the means of charging for water. A common method in Queensland is to levy a flat charge for a specified quantity of water, and then to levy an excess charge for usage beyond that quantity.⁴ If the maximum quantity specified for the flat charge is relatively large, as frequently appears to be the case, there may be no incentive for consumers to economise on water use because the excess charge rarely applies. In many instances it is likely that a majority of households, for example, may never reach the upper limit specified by the flat charge, and the charge does not therefore act as a rationing mechanism as prices normally do. It would therefore be preferable for a local authority in its water supply undertaking to operate more like an electricity supply authority, where the charges are directly linked to usage, and hence there is an incentive for consumers to economise on usage.

Water supply is an increasingly costly service in growing urban areas, and the normal planning approach appears to be based on the objective of meeting expected demand by increasing capacity. This means greater capital investment in dams, treatment plants, and reticulation facilities. Rarely is the alternative approach adopted of trying to equate demand to available supply by limiting demand through an effective price system. Instead when demand is restricted it tends to be achieved by various direct controls over the use of water, such as by the banning of garden sprinklers, not by the invisible hand of the market.⁵

⁴ The main exception is the City of Brisbane where water charges are levied as water rates, or a proportional charge on the unimproved capital value of the land. This approach does not require the installation of water meters.

⁵ In this regard see, The Hunter District Water Board, *An Equity Based Water and Sewer User Pays Tariff*, July 1982.

(iii) *Government Grants*

Local authorities in Queensland receive both general and specific purpose grants from the Commonwealth and State Governments. General purpose grants, which may be spent on goods and services at the discretion of the Local Authority, are received from the Commonwealth, the amounts, based on a share of Australia-wide personal income tax collections in the previous year, being paid to the States as a specific purpose grant for on-passing to local authorities. The amount paid to each Local Authority in a State is determined by that State's Local Government Grants Commission in accordance with criteria specified by Commonwealth and State Governments.

Specific purpose grants (current and capital) are received by local authorities from the Commonwealth Government either as direct payments (e.g., for nursing homes, aged persons homes and hostels, delivered meals subsidy, children's services, employment creating programs, and aerodrome local ownership plan); or as payments made through the States for on-passing to local authorities (e.g., for home care services, senior citizens' centres, national estate). The State Government may also transfer to local authorities some of its own specific purpose grants received from the Commonwealth (e.g., road grants), or may provide grants (or subsidies) from its own funds for specific kinds of local authority activities (such as loan subsidies for expenditure on water supply, sewerage, and various kinds of ordinary services).

Table 2 above shows that in 1981-82 Queensland local authorities received a total of \$157 million in grants from other governments, which represented 14 per cent of their total receipts in that year. This proportion compares with one of only 9 per cent a decade earlier in 1971-72. The main increase has been in grants from the Commonwealth, which in real (constant-price) terms were 30 times larger in 1981-82 than in 1971-72; in contrast grants from the Queensland Government remained virtually constant in real terms, but, after allowing for population growth, these State grants (in constant-price terms) declined from \$50 per head in 1971-72 to \$39 per head in 1981-82.

Although local authorities have in general placed great stress in recent years on their need for access to grants from higher levels of government, it does not seem reasonable to expect significant increases from this source of funds in the future. The concern of the Federal Government with national economic and social problems, including a proposed review of the tax system, will almost certainly mean that local authorities cannot expect any major improvement in, and expansion of, existing grants programs in the foreseeable future.

(iv) *Loans*

Loans are an important source of funds for local authorities in Queensland, and in 1981-82 loans (excluding loan subsidies) provided these authorities with 16 per cent of their total funds, about the same amount as they received in the form of grants from the Queensland and Commonwealth Governments. As noted above, however, higher interest rates and poor economic conditions have tended to restrict local government borrowing in recent years.

Loan finance, of course, carries with it the obligation to meet annual interest and redemption charges, and these debt charges impose fixed commitments on the budgets of the local authorities. The significance of this loan servicing problem can be highlighted in two ways. In 1981-82 Queensland local authorities outlaid nearly \$177 million for debt charges, an amount which represented 68 per cent of local taxes (general rates), and just exceeded new loan funds raised. Thus it may be said that about two-thirds of all rates raised were required to meet debt charges (the costs of past borrowings), or that all new loan funds raised were committed to paying charges on past loans still outstanding. Whichever way the problem is illustrated, the significance of debt servicing for Queensland local authorities is evident, although it must be stressed that the average position for all Queensland local authorities as a whole differs widely from that of the individual local authorities. For example, in 1981-82 debt charges constituted 13 per cent of total receipts in Bundaberg City (the Queensland average for all authorities was 16 per cent), but this percentage was 25 per cent in Townsville City. Thus in Bundaberg City at 30 June 1982 debt liability per head of population was \$343 compared with \$922 per head in Townsville City.

In recent years there has been a move among local authorities and their associations to seek representation on the Australian Loan Council, apparently in the belief that this will in some way produce favourable developments for their loan raising and debt management programs. However, there is no reason to believe that such representation is really feasible.

First, there is the problem of how many local authority representatives there would be on the Loan Council. Given the relatively minor place of local government in the overall government sector in Australia, local government representation on the Loan Council could only be minimal, perhaps one or two persons at the most. Yet given the existence of more than 870 local authorities in Australia, the differences between local government in the six States and the Northern Territory, and the differences between local authorities even within a given State, it is not practicable to assume that one or two members on the Loan Council could represent the widely divergent priorities and needs of all local authorities from the viewpoint of local government both in the individual States and in Australia as a whole.

Second, under Loan Council arrangements the Commonwealth, with limited exceptions, raises all loans on behalf of State Governments, but all loans for semi-government and local government authorities, both larger and smaller authorities, must be raised by each individual authority itself, although, as noted below, three States now have central borrowing agencies for these authorities. This is no reason to believe that the Commonwealth would extend its commitment to encompass local government loans merely because these authorities were represented on the Loan Council.⁶

⁶ In some instances, however, local authorities in Queensland obtain loan funds from the State Treasury.

Third, it does not seem reasonable to conclude that local government membership of the Loan Council would in any way increase the total amounts approved for borrowing by local authorities by their State governments, or vary in a favourable way the terms and conditions applying to their loans, or facilitate the actual raising of the loans approved. On balance it appears that local authorities are not disadvantaged because they are allowed to raise loans only to a smaller total than they desire; nor, given the general structure of interest rates in Australia, are they disadvantaged by having to offer on comparable loans higher interest rates than the Commonwealth. The major disadvantage facing local authorities appears to be that most of the 870 or so authorities in Australia must make their own arrangements to obtain the loan funds approved by its State Government. The exceptions are local authorities in Victoria and South Australia, which States have established central borrowing agencies for both local and semi-government authorities. In addition Tasmanian local authorities use the Victorian agency. Delays in raising loan funds, the uncertainty of when funds will be available, the failure to raise the total borrowings approved, and the weak financial bargaining position of each Local Authority - these features of local authority loan programs, rather than prospective membership of the Loan Council, appear to require resolution if the loan-financed operations of local authorities are to be conducted more efficiently and smoothly over time.

Being long-term borrowers, local authorities in Queensland have been adversely affected by high and rising interest rates in recent years. Moreover, in an uncertain capital market, many local authorities have found it impossible to arrange long-term loans as in previous years, but have had to resort to the finance of long-term investment by raising short-term loans renegotiable at future dates. This development may, as suggested by statistics given above, have led some local authorities to begin financing at least some of their capital outlays out of current funds, as electricity authorities do through their tariff system.

CONCLUSION

This paper has addressed itself to the question, "What is Local Government in Queensland" and it is appropriate to conclude by summarising the answers that have been given.

First and foremost, local government in Queensland is concerned with the activities and operations of a Local Authority, which is a corporate body constituted under the *Local Government Act*. In a broad sense the activities of this statutory local body may be seen as encompassing both the functions of local government and the functions of a local commercial public authority. With respect to the functions of local government, a Local Authority taxes landowners in its Area and uses the funds to provide free public sector goods and services to the residents of that Area. Some of the persons or bodies paying the taxes may not reside in the Area, and therefore may not directly consume any of the free goods and services provided by the Local Authority. Conversely, many persons who consume the goods and services supplied

by the Local Authority may not own land in the Area, and so do not directly pay local taxes, though they probably, of course, pay indirectly through rent payments to landowners. A Local Authority, under its constituting Act, governs by enacting by-laws.

As a local commercial public authority the Local Authority provides goods and services where there is a closer relationship between the benefit received by the consumer of the good or service, and the amount paid to the Local Authority. In such cases the Local Authority levies a charge or fee which is paid only by those persons or bodies which actually consume the good or service.

In Queensland, at least at the beginning of the 1980s, the activities of local authorities, as measured by their money outlays, were about evenly divided between their functions as a local government and their functions as a local commercial public authority. As a local government the main services provided "free" to local consumers, and therefore financed out of local taxes, were roads and recreational and cultural amenities. As a local commercial public authority, charging prices and fees for the services it provides, the main services were concerned with water supply, refuse collection, sewerage, and planning and building controls.

Second, in their role as a local government, local authorities levy a local tax called the rate, which in Queensland is a proportional tax levied on the unimproved capital value of land. The justification for such a local tax is basically tradition - in earlier days land was a good object to tax because it was visible and immobile; the ownership of the land was readily determined; and the early development of local government emphasised the "services to property" function. Although "services to property" still form the major part of the activities of local authorities in Queensland, it is perhaps time to emphasise more strongly the "services to citizens" function which is compatible with the wider definition of the functions of local government in the Queensland *Local Government Act*.

Such a change in emphasis would justify a reconsideration of the tax base of local authorities. An appropriate base, used in many other countries, is personal income, so that the residents of each Local Authority Area would pay a prescribed rate of income tax to the Local Authority. In Australia this tax could be collected by the Commonwealth and paid to the individual local authorities, thereby replacing the existing tax sharing scheme.⁷ The basic income tax rate could be a common uniform rate for all local authorities, but each Local Authority could also be given the right to vary the basic rate upwards or downwards at its discretion. If income tax became more important for local authorities,

⁷ This may require an expanded system of equalising grants from the Commonwealth to offset differences in the taxable capacities of local authorities, the cost of which would be met from the general tax revenue of the Commonwealth. The existing tax sharing arrangements include, of course, an equalisation element in the distribution criteria.

rates on residential land could be reduced, and rates would then be used more as a means of taxing businesses in the Area, particularly corporations, which is a reasonable approach given that the land being taxed is then being used by the person or organisation to make profits.

Third, in their role as a commercial local public authority, local authorities levy various kinds of charges and fees, but a more business-like approach to determining these charges and fees seems warranted. In the case of urban water supply, for example, there appears to be a strong case for the introduction of a genuine pricing system, where the amount payable is determined by the quantity consumed. This would be preferable to the flat-rate charge system (generally combined with excess water charges) or the rating system (where water charges are based on the value of the land). Such an approach would make the water price a genuine rationing mechanism designed to limit and ration increasing demand for urban water. Its application could reduce the pressure for increasing capital investment in water storage and distribution facilities. The existing method basically means that supply in the long-run is always increased to meet demand, any short-run supply deficiencies being met by imposing physical controls over the use of water.

In addition local authorities should review the fees and charges for various kinds of services, so as to determine the full cost incurred by the authority in providing each service. The charges levied in these instances should be a fee for service set to cover all costs, both direct and imputed.

Fourth, local authorities in Queensland finance a significant proportion of their activities from loans. Given their dependence on loan funds to this extent the main problem facing the Local Authority is the actual raising of the loan funds approved for it by the Queensland Government. Each Local Authority must individually raise its own loan funds, mainly through direct dealings with financial institutions such as banks, insurance companies, and superannuation funds, and also the State Treasury. Local authorities do not make public issues of debentures.

In the capital market each Local Authority has no market power, and must therefore meet the market in regard to the supply of loanable funds, given that the interest rate offered, and other terms and conditions of loans, are set by the State Government.⁸ With weak market power, many local authorities experience considerable difficulties in raising the total amount of loans approved, and in obtaining the funds at the time required for the most effective planning and execution of their activities. Thus local authorities in Queensland could benefit from a more centralised approach (as adopted in some other States) to their loan raising activities, just as State Governments benefit because their loan funds are raised collectively by the Commonwealth.

⁸ These arrangements were introduced at the 1984 meeting of the Australian Loan Council.

The views expressed in this paper are based on the proposition that local government is concerned more with people than with real properties and land use, but it is also about how the residents of local authority areas can best pay for the goods and services which their local authorities supply. In this latter regard it has been suggested that where practicable those who receive the benefit from the goods and services supplied should pay in a way which is related to the benefit received. Where taxes have to be levied, it is preferable that the accountability link between taxpayer and taxpayer should be preserved. This link exists with rates, but not with income tax sharing grants received from the Commonwealth. More particularly it has been suggested that the latter link could be established if each Local Authority received a proportion of personal income tax raised within its own Area, and if this amount was identified to each taxpayer as being paid to the Local Authority. Each Local Authority could also be given the right to vary the income tax rate levied on its residents, perhaps in some cases wishing to increase it (a levy) as an offset to a reduction in rates on residential properties, and in other cases wishing to reduce it (a rebate). Rates would still remain an appropriate tax to levy on land used for industrial and commercial purposes as an indirect way of the local authority taxing business profits. Rates on private residential land do not reflect any of the benefit or ability to pay principles of taxation, and also face deficiencies in application due to problems of revaluing the tax base in periods of inflation and rapid local development. They could perhaps be replaced by a simple uniform residence tax.

Change merely for the sake of change is, of course, a philosophy of reform or progress that must be rejected. In decision analysis no change, or doing nothing, is always a genuine policy option to consider. Change must be related to the goals being sought by the Local Authority, and these goals must be first spelled out so that they are understood by public officials, and can be debated by the residents of the Area. In a general sense it has been suggested in this paper that the basic goals of a Local Authority are to provide its citizens with local public sector goods and services in the most efficient and equitable way possible, and to finance those goods and services by an appropriate combination of taxes, user charges, grants from other governments, and loan funds. This general goal must then be translated into specific operational objectives by each local Council.

The views just expressed may be amplified by considering an appropriate assignment of revenue sources to local authority functions. A suggested assignment profile is given in Table 3, where the numbers in each column against a particular function indicate the decreasing order in importance of sources of funds to finance that service.

The assignment pattern in Table 3 is a traditional view of local authority financing, and is based on the following four propositions:

(i) Local taxes (rates) are assigned to finance local public goods and services which cannot be supplied, or readily supplied, by charging a price, either because the goods and services are collectively supplied and those who do not pay cannot be separated from those who do pay if a price is charged (i.e., consumers who do not pay cannot be

Table 3

ASSIGNMENT OF LOCAL AUTHORITY CURRENT AND CAPITAL
REVENUE SOURCES BY TYPE OF FUNCTION

<u>Function</u>	<u>Local Taxes (Rates)</u>	<u>User Charges</u>	<u>Current and Capital Grants from Other Governments (specific purpose)</u>	<u>Loans</u>
<i>Public utilities and undertakings</i>				
water supply, sewerage, refuse collection, electricity supply, gas supply		1	2	1
markets, abattoirs, swimming pools, caravan parks, land development		1		1
public transport, aerodromes	3	1	2	1
metered parking and parking stations, theatres and other commercial ventures	2	1		1
<i>Health and welfare services</i>				
immunisation	1			
health education programs	1		2	
health inspection services	1			
kindergartens and day care, services for the aged, and other health and welfare services	1		2	3
<i>General Recreational and Cultural Services</i>				
sports grounds and playing fields	1	4	2	3
parks, gardens, reserves, museums, art galleries	1		2	
halls	1	2	4	3
libraries and other recreational and cultural services	1		2	3
<i>Other Services</i>				
roads and streets (excluding reimbursements)	2		3	1
drainage	2			1
environmental planning and protection	1	4	3	2
general public administration	1			2

- Notes:*
1. The figure 1 in a column indicates the primary source of funds; the figure 2 indicates the most appropriate second source of funds and so on.
 2. When the figure 1 appears in more than one column this implies a current revenue source is most appropriate to finance current outlay and loans are the most appropriate source to finance capital expenditure.
 3. General purpose grants from other governments may be treated the same as rates and user charges.

excluded from benefiting from the supply of the good or service), or because the costs of establishing a market and prices may be too costly (e.g., fencing all parks and playing fields and collecting admission charges). In these cases of what are called pure or quasi public goods and services, the goods and services are supplied "free" to consumers.

(ii) For local public sector goods and services where the exclusion principle can be applied, and where collection costs are not excessive, user charges or prices should apply.

(iii) Public goods and services where there are substantial social spillover or external benefits (such as health or environmental management) can be assigned to intergovernmental transfers and grants.⁹ This kind of funding is also appropriate when the goods and services are to be provided at a similar standard in all local authority areas (redistribution argument).

(iv) The creation of public assets will be appropriately financed from loan funds because the benefits accruing from this investment are spread over time.

One of the difficulties in assigning grants from other governments is related to the tax sharing program in Australia, because the tax sharing entitlements of local authorities are general purpose funds in their hands. Thus these funds may be used by a Local Authority to finance the development or extension of any service, or even to reduce its revenue from another source, but there is unlikely to be a uniform pattern of response among all local authorities. For this reason the numbers shown in the "grants from other governments" column in Table 3 tend to refer to specific purpose grants, and all functions shown have the potential to be funded, at least at a minor level, from general purpose transfers from the Commonwealth Government.

A funds assignment profile of the type shown in Table 3 is therefore a guide to the Local Authority as to the financing requirements for any function or activity which it is planning to expand or upgrade. The finance-function link is important for accountability.

⁹ Some of these benefits may accrue to residents of other local authority areas or benefit the community as a whole.

SELECT BIBLIOGRAPHY

- Advisory Council for Inter-government Relations Report No. 7 (1984), *Responsibilities and Resources of Australian Local Government*, AGPS, Canberra.
- Bahl, R.J. and Lunn, J.F. (1983), "The Assignment of Local Government Revenues in Developing Countries", in Charles E. McLure Jr. (ed.), *Tax Assignment in Federal Countries*, Centre for Research on Federal Financial Relations, The Australian National University, Canberra.
- Bowman, M. (1978), *Local Government in the Australian States*, AGPS, Canberra.
- Grewal, B.S. (1981), "Economic Criteria for the Assignment of Functions in a Federal System", in *Towards Adaptive Federalism*, AGPS, Canberra (Advisory Council for Inter-government Relations Information Paper No. 9).
- Harris, C.P. (1975), *Financing Local Government in Australia*, Centre for Research on Federal Financial Relations, The Australian National University, Canberra.
- Harris, C.P. (1977), "Local Authorities and Social Welfare Services and Facilities", in *The Delivery of Welfare Services*, AGPS, Canberra (Commission of Inquiry into Poverty Report).
- Harris, C.P. (1977), "Regional and Local Government", *Publius*, v. 7, no. 3, pp. 119-45.
- Harris, C.P. (1978), *Local Government and Regionalism in Queensland 1859 to 1977*, Centre for Research on Federal Financial Relations, The Australian National University, Canberra.
- Harris, C.P. (1980), "Local Government in Australia with Special Reference to State-Local Relations", in R.L. Mathews (ed.), *Federalism in Australia and the Federal Republic of Germany*, Centre for Research on Federal Financial Relations, The Australian National University, Canberra.
- Harris, C.P. (1981), "Local Government in Australia", in *Studies in Comparative Federalism: Australia*, Washington, D.C., Advisory Commission on Intergovernment Relations, pp. 39-50.
- Mathews, R.L. (ed.) (1978), *Local Government in Transition*, Centre for Research on Federal Financial Relations, The Australian National University, Canberra.

ISBN 0 86784 567 8

ISSN 0313-5241

