

Own source revenue: policies and options for Local Governments—a reference

Purpose

This information is provided as a quick reference guide to assist councillors, chief executive officers and senior managers of local governments in developing and implementing their revenue policies as required by the [Local Government Act 2009](#) and the [Local Government Regulation 2012](#).

Local governments in Queensland are facing increased costs in delivering services to their communities. It is important that they develop policies and strategies that generate sufficient revenue to enable continued delivery of local government services at an appropriate level and standard.

This is not intended to give an overview of all matters relating to own source revenue. A range of other Queensland Government legislation pertaining to local government and land may impact on the rates, levies and charges set by local governments.

Revenue policy

Statutory requirements

A local government's revenue policy is prepared and adopted in advance of the budget and sets the broad strategy council plans to use to raise revenue. This will include principles for setting rates and charges, and the extent to which it employs a 'user pays' approach for the delivery of its services.

The revenue policy must state:

- the principles the local government intends to apply in the financial year for:
 - levying rates and charges
 - granting concessions for rates and charges
 - recovering overdue rates and charges
 - cost-recovery methods
- if the local government intends to grant concessions for rates and charges, the purpose of the concessions
- the extent to which physical and social infrastructure costs for a new development are to be funded by charges for the development.

The revenue policy may state guidelines that may be used for preparing the local government's revenue statement.

The local government must review the policy annually and in sufficient time to allow an annual budget that is consistent with the revenue policy to be adopted for the next financial year (*Local Government Regulation 2012*, section 193).

Key considerations

These include:

- Is the revenue policy consistent with the local government's corporate and asset management policies, plans and budgets?
- What are the principles that underpin rates, levies and charges?
- What are the actual costs of providing services and how do these relate to the utility charges to be set by the local government?
- Are the actual costs of service provision reviewed on a regular basis (e.g. annually) and the rates, levies and charges adjusted accordingly?
- Will the policy include concessions for low income earners?
- Are there opportunities to develop shared service arrangements with other local governments to achieve cost reductions in, for example, administering rates and charges?
- What is the best way to inform and engage the community about service levels and rates, levies and charges?

Principles to guide revenue policy, raising and expenditure decisions

The Productivity Commission in its report [*Assessing Local Government Revenue Raising Capacity, Commission Research Report 2008*](#) identified principles which could assist local government decision making in revenue raising. The commission contextualised these principles, stating that revenue raising should promote the wellbeing of the community as effectively and efficiently as possible.

Sustainable financial management

Ensure that services and infrastructure can be provided by the local government without any unplanned increases in revenue, or unplanned disruptions or reductions to services.

Evaluate and set priorities

Local governments identify through corporate and operational planning processes:

- the services they will provide (based on priority areas for local government services identified by the community)
- how the services will be delivered
- how much the services cost and how they will be funded.

Focus on core functions

Focus on providing core municipal services that include roads, drainage, water, sewerage, community recreation, public buildings, environmental health, waste management and libraries.

No other entities, either private or public, are likely to provide or maintain municipal services.

Identify costs of service delivery

Understand the capital requirements for the community and the costs for operation and maintenance of essential community infrastructure. Effective asset management plans are critical.

Determine least cost of supply

Revenue requirements should reflect the most cost-effective ways of delivering municipal services.

Recover costs

Rates and the pricing of services should aim to recover the costs for the services provided. If this is not the case, local governments should at least know the actual costs of services and the extent to which they are subsidised.

Borrow prudently for infrastructure

Local governments can finance infrastructure through accumulated savings, through borrowings or a combination of these two funding sources.

Prudent borrowings for infrastructure can smooth out large or lump sum payments over a number of years.

Be responsible and accountable

Establish mechanisms to ensure that decisions on revenue raising and expenditure are applied consistently and accountably by councillors and staff.

Indigenous local governments

As a high percentage of Indigenous councils' revenue comes from State and Commonwealth Government grants and subsidies it is important to manage acquittals effectively. Payments by funding agencies may be delayed and/or not provided if local governments are slow, or fail, to complete their acquittals as required.

Demonstrate openness and transparency

Ensure that matters such as revenue raising, budgets, expenditure and performance are incorporated into councils' community engagement policies and plans.

Negotiate appropriate funding to provide services on behalf of other spheres of government

Local governments are often involved in the provision of services on behalf of other spheres of government and agencies.

An understanding of and evidence to support the costs associated with the delivery of those services will assist councils with their negotiations with government and other agencies over the associated grant and subsidies arrangements.

Revenue statement

Under section 172 of the *Local Government Regulation 2012* a local government is required to prepare and adopt a revenue statement each financial year. It must include if the local government:

- levies differential rates—the rating categories for rateable land in the local government area and a description of each rating category
- levies special rates or charges for a joint government activity—a summary of the terms of the joint activity
- fixes a cost-recovery fee—the criteria used to decide the amount of a cost-recovery fee
- conducts a business activity on a commercial basis—the criteria used to decide the amount of charges for the activity's goods and services.

The revenue statement must also include:

- an outline and explanation of the measure that the local government has adopted for raising revenue, including an outline and explanation of the rates and charges to be levied in the financial year and the concessions for rates and charges to be granted in the financial year
- whether the local government has made a resolution limiting an increase of rates and charges.

Revenue sources (excluding grants)

Local governments may generate own source revenue from a range of sources including:

- rates and charges
 - general rates (including differential general rates) and the minimum general rates levy
 - separate charges on rateable land
 - special charges
 - levy rates on mining claims
 - utility charges
 - charges for services or facilities
- cost recovery fees for statutory 'services'
- other revenue sources
 - community levy (Indigenous local governments only)
 - interest
 - commercial revenue from business activities

Rates and charges

The *Local Government Act 2009* (section 94) allows local governments to levy rates and charges on rateable land and to levy a utility charge on any land it provides a service to whether or not the land is rateable (**Attachment 2**).

Levy general rates (including differential general rates) on residential or commercial properties

Under the *Local Government Act 2009*, all land is rateable unless it is exempt. Exemptions provided for by the *Local Government Act 2009* (section 93) and the *Local Government Regulation 2012* (section 73) include:

- land occupied by the State or a government entity, including a local government, unless the occupation is by way of lease from someone other than the State, a government entity or local government
- Aboriginal land under the *Aboriginal Land Act 1991* or Torres Strait Islander land under the *Torres Strait Islander Land Act 1991* not used for commercial or residential purposes
- land used for charitable purposes that is exempted by local government resolution
- land allocated under an Act for recreational or sporting purposes
- land owned by a community organisation used for the protection of children, accommodation of students or educational facilities aimed at improving employment or leisure opportunities.

Indigenous local governments

Recent changes to the *Aboriginal Land Act 1991* will allow for private ownership of homes in Indigenous local government areas. Once land is privately owned, it will become rateable land for the purposes of the *Local Government Act 2009*. Some Indigenous local governments have parcels of freehold land within their council boundaries.

However, under the *Land Valuation Act 2010*, valuations are not issued for rateable land in Indigenous local government areas. Further, Section 71(2) of the *Local Government Regulation 2012* provides that Indigenous local governments are not able to use the rating options that rely upon the land having a valuation.

Although Indigenous local governments are not able to charge a general rate for freehold or other rateable land, they can levy charges (including utility, separate and special charges) on rateable land in their areas.

Separate charges on rateable land (*Local Government Regulation 2012*, section 103)

Local governments may make and levy separate charges on all rateable land to raise revenue for particular purposes. For example, a local government may decide to levy a separate charge on rateable land for the purpose of building roads, general administrative costs or maintaining a local aerodrome.

Revenue raised under a separate charge for a particular purpose must be expended on the purpose it was collected for, and cannot be used to cross-subsidise other areas of local government operations.

It is possible to levy a separate rate for a relatively general purpose such as ‘local government administration’ and expend the revenue on a broad range of services and facilities; however a separate rate cannot replace a general rate. The definition of a broad purpose such as ‘local government administration’ should outline the services for which the revenue raised will be used.

Special charges (*Local Government Regulation 2012*, sections 94 to 98)

A local government may make and levy special charges on particular rateable land within its area for particular services or facilities where it identifies that the land specifically benefits from the service or facility, or specifically contributes to the need for the service or facility.

When making a special charge, the local government must develop an overall plan for the service or facility to which the special charge will apply. The overall plan must describe the service or facility, identify the rateable land to which the special charge will apply, and state the estimated costs and time for carrying out the plan.

The revenue collected under a special charge may only be expended in accordance with the overall plan, and any surplus must be refunded to the ratepayer.

Levy rates on mining claims (*Local Government Regulation 2012*, section 79)

Councils may levy rates on mining claims for the purpose of covering the costs of municipal services. The value of mining claims for fixing minimum general rates are set out in section 79 of the *Local Government Regulation 2012*.

Indigenous local governments

As the rateable value for mining claims is not set under the *Land Valuation Act 2010*, this option is available to Indigenous local governments.

Utility charges (*Local Government Regulation 2012*, sections 99 to 102)

Local governments may make and levy utility charges to cover the costs of providing the following services:

- waste management
- gas
- water
- sewerage

A local government may also levy a utility charge on any land it provides a service to, whether or not the land is rateable.

However, the amount of a utility charge must relate to the costs of providing the service by the local government. In particular, a utility charge for a water service must be charged by either measuring consumption through a water meter or by estimating the water consumption.

Charges for services or facilities (*Local Government Act 2009*, section 262(3)(c))

A local government may charge for a service or a facility it provides.

This is a broad power, and a local government may wish to use this to generate own source revenue to fund council operations or the provision of services. The local

government may charge for the facilities and services it provides to anyone wishing to purchase them on a purely contractual basis. In doing so the council will reduce the level of revenue required to be generated from ratepayers.

An example would be the hiring of a council hall or an item of plant and equipment to a community resident.

Fees

Cost-recovery fees for statutory services (*Local Government Act 2009*, sections 97 to 98)

A local government has the power to fix a cost-recovery fee by resolution of council or under a local law.

The fees are for particular statutory 'services' including:

- application fees for the issue or renewal of a licence permit, registration or approval under a 'Local Government Act' (defined in schedule 4 of the *Local Government Act 2009*)
- seizing property or animals under a 'Local Government Act'
- performance of another responsibility imposed on a local government under the *Building Act 1975* or the *Plumbing and Drainage Act 2002*.

A cost-recovery fee must not be more than the cost of providing the service or taking the action for which the fee is charged, with the exception of those matters identified in section 97(5) of the *Local Government Act 2009*.

Each local government must keep a register of its cost-recovery fees (*Local Government Act 2009*, section 98). The register must state the paragraph of section 97(2) of the *Local Government Act 2009* under which the cost-recovery fee is fixed and the provision of a 'Local Government Act' or the *Building Act 1975* or the *Plumbing and Drainage Act 2002*, for the various fees.

These fees are usually adopted by the council as a part of its annual budget meeting; they can, however, be amended during the year by resolution if the council so decides.

A local government must keep a register of these fees and the register must be open to inspection as defined in section 98 of the *Local Government Act 2009*.

Other revenue sources

Interest

Local governments are strongly encouraged to invest any surplus cash on hand in an approved low-risk investment arrangement with the Queensland Treasury Corporation.

Borrowings

Local governments may consider borrowings for larger capital items. Local governments should be aware that monies acquired through borrowing represent a liability, rather than revenue, and must be repaid with interest. Any borrowings should be considered within the context of council's corporate planning, asset planning, budget and long term financial forecasting processes.

Local governments interested in undertaking borrowings are required to initially apply to the Department of Local Government, Community Recovery and Resilience which will complete an initial assessment of the application.

The *Statutory Bodies Financial Arrangements Act 1982* and the *Statutory Bodies Financial Arrangements Regulation 2007* outline the powers of statutory bodies to enter into financial arrangements.

Councillors should also be aware of their liabilities for unauthorised or improper borrowings as outlined in section 112 of the *Local Government Act 2009*.

Commercial revenue from business activities

Local governments may derive revenue from various business activities such as property development, caravan parks and pastoral operations. In general, the conduct of these enterprises is governed by the local government principles outlined in section 4(2) of the *Local Government Act 2009* and the financial sustainability criteria (in particular the sound contracting principles) outlined in section 104 of the *Local Government Act 2009*. A robust business case is essential when considering new business activities.

Under section 41 of the *Local Government Act 2009*, a local government's annual report must contain a list of all the beneficial enterprises conducted by the local government during the financial year.

Indigenous local governments

Levy Fee on Residents (*Local Government Act 2009*, section 100)

Indigenous local governments are able to levy a fee by resolution on residents of their areas under section 100 of the *Local Government Act 2009*.

An Indigenous local government may exempt a resident from paying a fee if another amount is payable to the council in relation to the property in which the resident resides. For example, an Indigenous local government may exempt a resident from this fee, if their property is levied a charge as set out above.

Fees on residents do not need to be levied by way of a rates notice.

Raising revenue

Identify revenue needs—planning, budgeting and service delivery

The revenue needs of local governments must be considered in the overall corporate and asset planning, budgeting and management cycles within council operations (**Attachment 1**).

Local governments should determine their revenue needs on the basis of:

- service delivery and infrastructure needs of their communities
- costs of delivering these services and infrastructure (in the short, medium and long term) including operation and maintenance costs, depreciation and replacement costs

- regulatory requirements on the supply and charging of local government services and infrastructure
- current and likely future trends in council input costs such as labour, materials and energy
- revenue projections (in the short, medium and long term) from grant funding and own source revenue
- ability and willingness of residents and commercial and other entities to pay for local government services
- current and likely future trends impacting on the local government area or the region e.g. population, economy, climate change

A key principle is to plan and deliver within a budget that is incorporated within a sustainable, long term financial model.

Understand what local government services and infrastructure the community wants, uses, and is willing to pay for

The expectations of residents in relation to the level and range of local government services and infrastructure and community understanding of the cost of their provision may affect how much revenue a local government can raise and the services it can afford to provide.

Willingness to pay

Willingness to pay may be influenced by any of the following:

- the value, or otherwise, residents and businesses place on paying for the 'consumption' of local government services
- community needs and demands for services (quantity and quality)
- services (scope and level) provided by council
- community perceptions of the 'value for money' of services that are provided
- community perceptions about who should pay for these services
- increases in costs in providing the services (e.g. through increased labour costs) and subsequent increases in local government charges
- the level of understanding amongst residents and businesses about the costs and charging arrangements associated with local government services
- local political influences e.g. councillor and/or prospective councillor policies on levies and charges.

Capacity of land to generate income

A local government cannot set rates, levies and charges on the basis of what it believes individuals or organisations can afford to pay.

It can take into account the valuation of the land, the capacity of the land to generate income (e.g. through mining) and the cost of delivering services to that land.

A local government can determine to offer concessions and hardship remissions to certain categories of ratepayers (e.g. pensioners). In determining the type and level of

concessions and remissions to implement, a local government may consider generally available demographic and other information (such as census data).

In addition, a local government may administer the Queensland Government Pensioner Rate Subsidy Scheme, under which eligible pensioners can receive a subsidy of 20 per cent (up to a maximum amount of \$200 each year) of the gross rates and charges levied by the council. More information is available at:

<http://www.qld.gov.au/community/cost-of-living-support/rates-subsidy/index.html>

Impact of charges on residents and businesses

Charges for municipal services may affect the consumption of those services by residents and businesses. For example, charging residents for the actual cost of the water may reduce water consumption.

Set rates and charges

Charges levied on land under the *Local Government Act 2009* must be decided by resolution at the annual budget meeting, and cannot be varied during the year.

The charges must also be levied on the land owner by way of a rates notice issued under section 104 of the *Local Government Regulation 2012*.

Collecting revenue

Payment

Methods used by local governments to collect service fees and utility charges (and other revenue such as rents) from residents may include:

- over-the-counter payments at council offices
- electronic funds transfer
- payroll deductions (for council employees)
- direct debits.

Debt collection

Local governments should establish effective debt collection systems, taking into account the costs associated with their administration.

Indigenous local governments may want to pay particular attention to:

- whether and how family and clan relationships impact on the payment of council fees, charges and rents and on debt collection systems
- the potential lack of security over debts
- potential inequities e.g. if a small number of residents are contributing a disproportionately high amount of revenue.

Community engagement and education

Rates, fees and charges

Local governments are likely to have greater acceptance and timely payment of rates, fees and charges if they:

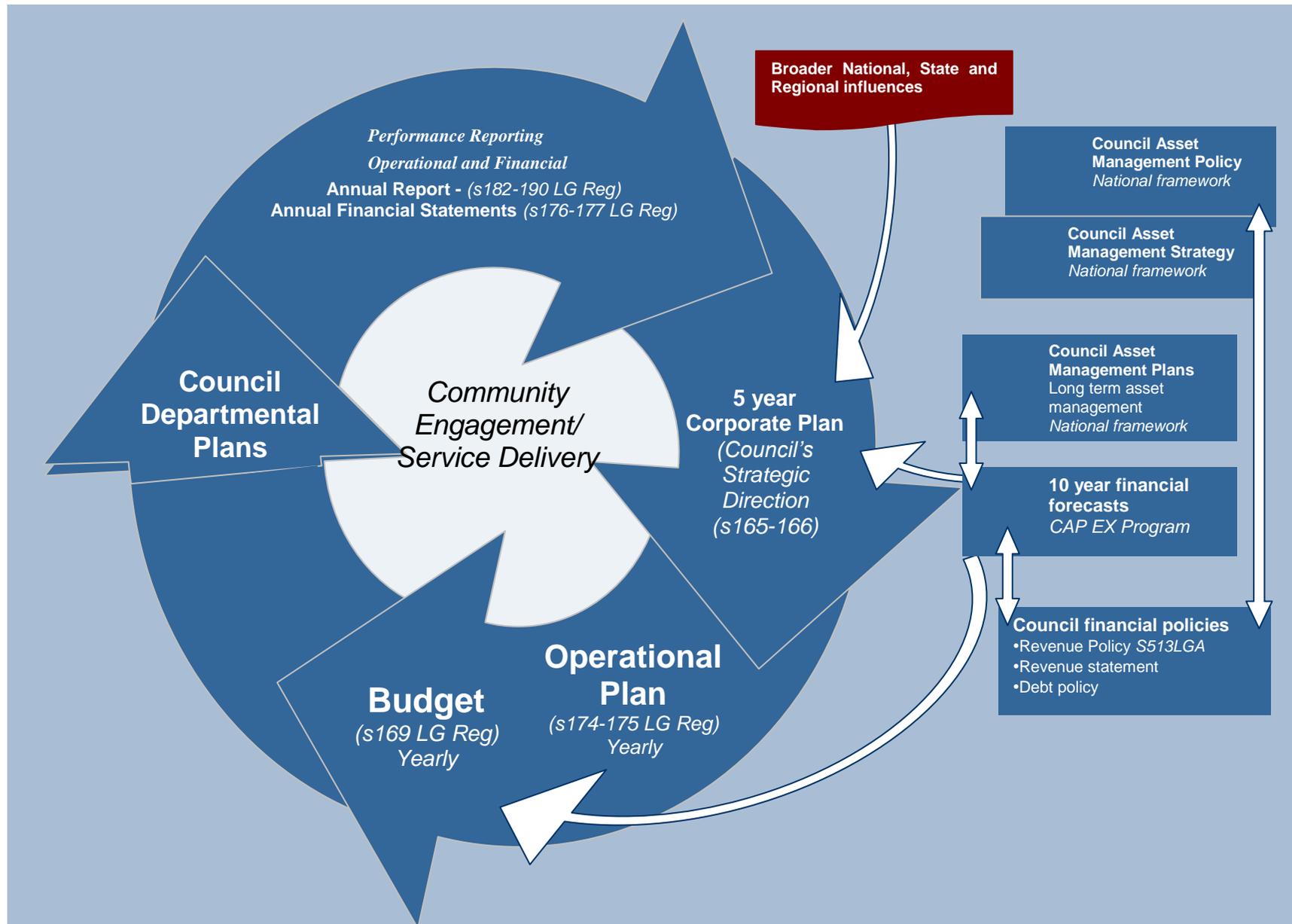
- engage effectively with residents
- provide factual, easy to understand information about the costs of services and infrastructure
- explain the basis on which rates (or levies) and charges have been set.

Community understanding of the relationships between local government services and infrastructure and council's planning and budgetary processes can lead to more informed discussions between the local government and its community about what local government services and infrastructure are most valued and needed.

Community use of municipal services

If a local government is concerned that its services or infrastructure are at risk because of overuse of council services or resources (e.g. water) or vandalism of council infrastructure, it should consider whether targeted community education and/or different service charging arrangements may help to manage the problem. Monitoring water usage through regularly reading water meters is one approach.

Attachment 1 Revenue in the context of council's overall planning budget and services delivered



Attachment 2 Quick reference guide for local governments – possible own source revenue

Type of revenue	For what purpose	Relevant legislation	Exemptions and relevant notes
Councils must levy general rates on all rateable land within the local government area	To cover the costs of delivering municipal services and facilities	Sections 91 to 96 of the <i>Local Government Act 2009</i> Sections 74 to 79 of the <i>Local Government Regulation 2012</i>	Certain categories of land are exempted from rates as set out in s93 (3) of the <i>Local Government Act 2009</i> . Indigenous local governments — under the <i>Land Valuation Act 2010</i> , valuations are not issued for rateable land in Indigenous local government areas. Section 71(2) of the <i>Local Government Regulation 2012</i> provides that Indigenous local governments are not able to use the rating options that rely upon the land having a valuation.
Indigenous local governments may, by resolution, levy a fee on residents of their local government area	To cover the costs of delivering municipal services	Section 100 of the <i>Local Government Act 2009</i>	Indigenous local governments may exempt residents from payment of these fees if another amount is payable to the council in relation to the property in which the residents reside (e.g. rates, utility charges or other charges). Fees on residents do not need to be levied on residents by way of a rates notice like the other charges set out below.
Councils may make and levy a utility charge on a Commonwealth or State or government entity where the land is not rateable and a service is provided	To cover the costs of utility services such as waste management, gas, sewerage and water services	Sections 99 to 102 of the <i>Local Government Regulation 2012</i>	The amount of a utility charge must relate to the costs of providing the service by the local government. In particular, a utility charge for a water service must be charged by either measuring consumption through a water meter or by estimating the water consumption. Councils may levy utility charges only by a rate notice.
Councils may make and levy a utility charge on any land it provides a service to whether vacant or occupied, and whether or not it is rateable land	To cover the costs of utility services such as waste management, gas, sewerage and water services	Sections 99 to 102 of the <i>Local Government Regulation 2012</i>	The amount of a utility charge must relate to the costs of providing the service by the local government. In particular, a utility charge for a water service must be charged by either measuring consumption through a water meter or by estimating the water consumption. Councils may levy utility charges only by way of a rate notice.

Type of revenue	For what purpose	Relevant legislation	Exemptions and relevant notes
Councils may make and levy separate charges on all rateable land to raise revenue for particular purposes within its area	To cover the costs of other services or facilities (examples could include the purpose of building roads, general administrative costs or maintaining the local aerodrome)	Section 103 of the <i>Local Government Regulation 2012</i>	<p>Revenue raised for a particular purpose must be expended on the purpose it was collected for and cannot be used to cross-subsidise other areas of local government operations.</p> <p>It is possible to levy a separate rate for a relatively general purpose such as 'local government administration' and expend the revenue on a broad range of services and facilities; however a separate rate cannot replace a general rate. The definition of a broad purpose such as 'local government administration' should outline the services for which the revenue raised will be used.</p> <p>Councils may make and levy a separate charge for a service whether or not the service is supplied by the council itself .</p> <p>Councils may levy separate charges only by way of a rate notice.</p>
Councils may make and levy special charges on particular rateable land within its area	To cover the cost for particular services or facilities where it identifies that the land specifically benefits from the service or facility or specifically contributes to the need for the service or facility	Sections 94 to 98 of the <i>Local Government Regulation 2012</i>	<p>When making a special charge, Councils must develop an overall plan for the service or facility to which the special charge will apply. The overall plan must describe the service or facility, identify the rateable land to which the special charge will apply to and state the estimated costs and time for carrying out the plan.</p> <p>The revenue collected under a special charge may only be expended in accordance with the overall plan and any surplus must be refunded to the ratepayer.</p> <p>Councils may make and levy a special charge for a service whether or not the service is supplied by the council itself.</p> <p>A local government may levy charges only by a rate notice.</p>
Councils may levy rates on mining claims	To cover the costs of municipal services	Section 79 of the <i>Local Government Regulation 2012</i>	<p>The value of mining claims for fixing minimum general rates are outlined in s79 of the <i>Local Government Regulation 2012</i>.</p> <p>This option is available to Indigenous local governments because the rateable value for mining claims is not set under the <i>Land Valuation Act 2010</i>.</p>

Type of revenue	For what purpose	Relevant legislation	Exemptions and relevant notes
Levy general or differential rates on residential and commercial properties <i>See notes below</i>	To cover the costs of municipal services		<i>See notes below</i>
Councils may fix, by resolution, cost recovery fees	To recover fees for particular statutory “services” including application fees for the issue or renewal of a licence permit, registration or approval under a “Local Government Act”, seizing property or animals under a “Local Government Act”, or the performance of another responsibility imposed on Council under the <i>Building Act 1975</i> or the <i>Plumbing and Drainage Act 2002</i>	Sections 97 and 98 of the <i>Local Government Act 2009</i> (the Act) Schedule 4 of the <i>Local Government Act 2009</i> for meaning of a “Local Government Act”	A cost recovery fee must not be more than the cost of taking the action for which the fee is charged. Councils must keep a register of its cost-recovery fees. The register must state the paragraph of section 97(2) of the <i>Local Government Act 2009</i> under which the cost-recovery fee is fixed and the provision of a “Local Government Act” or the <i>Building Act 1975</i> or the <i>Plumbing and Drainage Act 2002</i> , for the various fees.
Councils may fix, by resolution, a charge for a service or facility, other than a service or facility for which a cost-recovery fee may be fixed.	To charge for commercial transactions where it provides a service and a party to the transaction can choose whether or not to avail itself of the service	Section 262(3)(c) of the <i>Local Government Act 2009</i>	The charge is subject to the Commonwealth Government's Goods and Services Tax. If there is a local law relating to the charge, council must comply with the local law in making the charge.

Indigenous local governments — notes on general rates (including differential rates)

General rates are for services, facilities and activities that are supplied or undertaken for the benefit of the community in general.

Under the *Local Government Act 2009*, all land is rateable unless it is exempt. The *Local Government Act 2009* and the *Local Government Regulation 2012* provide for a range of exemptions including the following:

- Land occupied by the State or a government entity including a local government unless the occupation is by way of lease from someone other than the State, a government entity or local government
- Aboriginal land under the *Aboriginal Land Act 1991* or Torres Strait Islander land under the *Torres Strait Islander Land Act 1991* not used for commercial or residential purposes
- Land used for charitable purposes that is exempted by local government resolution
- Land allocated under an Act for recreational or sporting purposes
- Land owned by a community organisation used for the protection of children, accommodation of students or educational facilities aimed at improving employment or leisure opportunities.

Recent changes to the *Aboriginal Land Act 1991* will allow for private ownership of homes in Indigenous local government areas. Once a home is privately owned, it will become rateable land for the purposes of the *Local Government Act 2009*. Some Indigenous local governments have parcels of freehold land within their council boundaries.

However, under the *Land Valuation Act 2010*, valuations are not issued for rateable land in Indigenous local government areas. Further, section 71(2) of the *Local Government Regulation 2012* provides that Indigenous local governments are not able to use the rating options that rely upon the land having a valuation.

Although Indigenous local governments are not able to charge a general rate for freehold or other rateable land, they can levy charges (including utility, separate and special charges) on rateable land in their areas.