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Australia's Angry Mayors: How Population Growth Frustrates Local Councils

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THE CENTRE FOR INDEPENDENT STUDIES

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The usual disclaimer applies.

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Executive Summary

Debate about population routinely dominates politics in Australia, including the (in)adequacy of Australia's infrastructure and the potential impact on our environment.

Much of the debate revolves around national statistics and aggregates. What will Australia's population be in 2050? What will Australia's 'carbon footprint' be in 2030? What is the appropriate annual level of immigration? Although important, these questions often obscure the impact of population growth on local communities, and the impediments and incentives they face in accommodating more people.

Local councils are at the coalface of population growth. Their ability to adequately provide basic infrastructure for more people will affect how Australians perceive the costs and benefits of population growth.

Population growth affects a council's budget. It usually results in extra revenue from charges and rates, but it also requires extra investment in infrastructure and increased spending on services. If we want to find out how local government is predisposed to dealing with population increases, we need to understand how extra revenue and extra costs play out in practice.

To assess the effects of population growth on local government finances and whether local officials have adequate revenue sources to deal with the challenges of the inevitable population growth,[1] we conducted an online survey of all 558 local governments in Australia (mayors and chief executives). The survey comprised 18 questions. Four key findings emerged from the 120 valid responses (or 21.5% of the entire sample):

- Local governments have been raising property rates to meet the costs of population growth. These rises are more likely in more populous and rapidly growing communities.
- Almost one-third of respondents, particularly larger councils, said population growth was damaging their bottom line, and that they were concerned about upgrading infrastructure.
- About 80% of respondents use developer levies to help pay for the costs of population growth. Levies are used more widely by larger councils, and particularly in NSW and Queensland.
- Only a fraction of respondents thought their existing revenue mechanisms were wholly adequate. Indeed, more than half of the respondents in NSW and Queensland said the current setup was not satisfactory. Overwhelmingly, local councils think better access to ongoing revenue streams would alleviate some of the pressures of accommodating extra population.

This monograph also considers the benefits and problems of changing the way local government raises funds. Allocating fractions of GST and income tax to local councils may be difficult in practice if the revenue allocated is also generated locally. It may be easier to simply re-weight the existing grants process to make it more timely and better target areas with growing populations.

However, relying on developer levies to pay for population growth is unquestionably more problematic, especially for smaller councils that don't have the resources to design and enforce them. Moreover, such levies increase the cost of housing for new residents (as developers pass on the costs) and force long-term infrastructure costs onto the current generation. In such instances, councils should make more use of debt markets.

No council should be punished for planning for development. In Australia, however, they are punished regularly for doing so.

Introduction

Australia's population growth has long been one of the most discussed topics in politics, business and the media. The 2010 *Intergenerational Report*, which predicted Australia's population would reach 35.9 million by 2050, sparked a new round of criticism. Commentators worried that such growth would degrade the environment, impede social cohesion, and further burden our already strained infrastructure.

This debate generally revolves around national aggregates such as total population and actual and expected migration and birth rates. Important and useful as these high-level discussions are, they do not consider how population growth is perceived and managed on the ground. This monograph is an attempt (as part of The Centre for Independent Studies' *Population and Growth* series) to understand the missing local perspective by studying how local governments are dealing with population challenges and associated financial pressures.

Former US Speaker of the House Tip O'Neill once famously said, 'all politics is local.' No sector exemplifies this better than population growth. As population grows, people require new houses, schools, health services, roads, and waste management facilities. A growing population in Playford has to be addressed in Playford. If Queanbeyan needs a new school, there is no use building one in Mount Barker.

This is, of course, a truism. Nevertheless, it is one often forgotten because the discussion focuses only on national aggregates. The federal government has tried to monopolise the issue of population growth, even appointing a minister for 'sustainable' population.

Geography is normally quite properly ignored at the national level, such as when designing a new tax code or competition policy. But population growth is different. Of all tiers of government (local, state and federal) the federal level is probably the least involved in managing growth in local communities.

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The virtues of local government

Support for local government is a hallmark of the classical liberal tradition. Alexis De Tocqueville, the great French liberal writer, observed with envious approval the success of local governments in New England in the United States when he toured there. He wrote in the 1830s:

> The strength of free peoples resides in the local community. Local institutions are to liberty what primary schools are to science; they put it within the people's reach; they teach people to appreciate its peaceful enjoyment and accustom them to make use of it.

Policymakers make better decisions when they also bear the cost and quality of their decisions. Moreover, clear links between tax revenue and expenditure create fewer opportunities for waste and maladministration.

Local government decisions have both these characteristics. Local councillors are affected by the quality of their council's services, and local taxes are used for local ends. Waste disposal, maintenance of basic infrastructure such as roads and parks, and town planning are therefore suitable areas of responsibility of local councils.

Broadly speaking, state or national authorities are best placed to decide on policies that have impact beyond local borders, such as defence, social security, public health, education, and law and order. There is, however, no clean or natural division of responsibilities. Some services can be provided by either local or state authorities; for example, local governments in the United States also administer police and schools.

Local government in Australia

De Tocqueville probably wrote nothing about Australia. But he would have been pleased to know that municipal institutions were germinating in Victoria, South Australia, and NSW in the 1840s and 1850s, long before the Commonwealth of Australia was a serious consideration. The local government in Melbourne (1842) predates even the colony of Victoria (1851).

Local government has expanded significantly in Australia since then. Today, more than 550 local government areas (LGAs) spend more than $20 billion each year and employ around 180,000 people. According to the Australian Local Government Association (ALGA), local councils manage physical assets worth more than $200 billion and spend around $25 billion a year on local services.

Despite their economic significance, there is no mention of local government in the Commonwealth Constitution. State constitutions mention them only briefly. For example, section 51 of the NSW Constitution requires 'a system of local government for the State.' Victoria's Constitution goes a bit further and requires local government 'be democratically elected.' Nevertheless, none of the state constitutions stipulates specific roles and responsibilities for local government, and ultimate power resides with the state parliaments. For example, NSW Premier Barry O'Farrell threatened to dismiss Marrickville Council in inner western Sydney if it persisted with its touted 'boycott of Israel.' Were local councils constitutionally independent, such a move by a state premier would not be possible.

Community expectations of local government responsibilities have changed significantly.

Having various legislative masters has resulted in different outcomes for local governments. Western Australia, for instance, has more local councils per person than other states. Victoria has the biggest local councils as a result of a rationalisation there in the 1990s. 'Rate pegs' in NSW prevent local councils from raising rates beyond a certain level, regardless of what local electors might want.

Because local governments fall under state purview, the Commonwealth can provide them with funds only via the states in the form of Local Government Assistance Grants.[3] ALGA has long been calling for constitutional recognition of local councils to ensure they have better access to Commonwealth funding and are less beholden to state governments. Referendums on this matter in 1974 and 1988 both failed.

Local governments obtain much of their revenue from rates, a form of land tax levied on the unimproved value of land within the local government jurisdiction paid directly by landowners. About 80% of local government revenues come from rates, fines and user charges for use of local services. The easiest way for councils to collect taxes is to base them on land value.

Community expectations of local government responsibilities have changed significantly since the early twentieth century when they began to be codified. Councils today provide additional services such as child care and recreation and sports facilities.

Upgrading the infrastructure to support Australia's growing population is an additional cost. The WA city of Wanneroo, one of the fastest growing councils in the country, is a case study in how a lack of incentives is stifling population growth. From 116,000 residents in 2006, its population has grown to more than 156,000 and is forecast to nearly double in the next 20 years.[4]

Despite the economic boom in Western Australia and Wanneroo, the city does not generate enough revenue to build extra infrastructure for its growing population. Residents are already dealing with more traffic, loss of amenities, and crowding of public services—and yet they are being asked to pay for accommodating more people. The local council raised its rates by 6.9% in its 2010–11 budget:

> The increase will meet the growing demands of the rapidly increasing population ... the current level of rates is insufficient to meet community expectations for new and improved services.[5]

Such statements will hardly endear local communities to their new neighbours!

A survey of local governments

To understand the attitude of Australian local government towards population growth more generally, we conducted a survey of all 558 local governments in all states and territories, from rural and urban areas, and from LGAs of different sizes and with different growth experiences.

Survey invitations with a link to the online questionnaire on the CIS website were sent by Australia Post on 1 April 2011 to all the mayors and chief executives listed on the ALGA website. Respondents were asked to identify themselves to us so we could contact them to discuss their answers.

Classifying Australia's councils by geography is tricky.

The survey comprised a total of 18 questions. Altogether, we received 128 responses. One anonymous response could not be linked to a council and had to be ignored; seven were eliminated as both the mayors and chief executives had responded. This left a total of 120 responses for our analysis (or 21.5% of all LGAs in Australia).

The first few questions were to establish the identity of the respondents and their contact details. The next set of questions was designed to get details of individual LGAs (size, classification, past population growth, and future growth expectations). The final questions were about the financial effects of population growth, and gave room for respondents to write their views on the adequacy of current local government funding options.

It is possible the political affiliations and prejudices of elected officials may have influenced their desire to respond to a CIS survey. However, councillors are less party political than their state and federal colleagues; indeed, it is quite difficult to determine the party affiliation of councillors from official sources. In any case, only 27 of 120 responses were submitted by mayors, and the remainder by unelected and ongoing executive officers.

Results

Response rates

We received responses from every state and territory except for the ACT. Response rates varied between 7% in the Northern Territory (only one out of 15 councils replied) and 28% in NSW.

Table 1: Response rates by state and territory

State	NSW	VIC	QLD	SA	TAS	NT	WA
Councils	152	79	73	69	29	15	141
Responses	42	21	14	13	5	1	24
Response rate	28%	27%	19%	19%	17%	7%	17%

Table 2: Population of councils that responded to the survey

Population	< 10,000	10,000–29,999	30,000–99,999	> 100,000
Number of councils	28	33	35	24

ALGA estimates the population of an average council to be 28,400. Our survey returned an average population of about 51,000 per council and a median population of 29,300. So, although respondents were evenly spread among our four population categories (Table 2), they are larger on average than the underlying population of councils.

Classifying Australia's councils by geography is tricky. Is the City of Blue Mountains a regional centre or part of the Greater Sydney region? Are regional centres like Dubbo and Tamworth the same as 'remote' areas of Broken Hill? Indeed, different state local government authorities use different terminology to describe their own councils.

We concluded that 44 responding councils were 'urban' councils and 76 'regional.'* Because these geographic designations become arbitrary at the edges of cities and towns, we have limited our analysis to population sizes. Of course, the population of a council is highly correlated with its degree of urbanisation. Our 'urban' councils had an average population of about 100,000, about four times the average population of 'regional' councils.

Population growth and rates increases

Altogether, a majority of councils increased rates to deal with population growth. There were, however, some variations among states.

Table 3: Did your LGA have to increase rates to cope with population growth at any stage over the past decade?†

	NSW (%)	QLD (%)	SA (%)	VIC (%)	WA (%)	AUSTRALIA
Yes	15 (36)	12 (86)	9 (69)	14 (67)	15 (63)	65 (56)
No	20 (48)	2 (14)	2 (15)	6 (29)	7 (29)	37 (34)
Don't know	1 (0)	0	2 (15)	1 (5)	1 (4)	5 (4)
Not applicable	0	0	0	0	1 (4)	1 (1)
Rate cap	6 (14)	0	0	0	0	6 (5)

NSW's rate cap appears to have curbed its councils' ability to increase rates. Admittedly, NSW did have slower population growth than Queensland and Western Australia, but Victoria and South Australia had slower population growth than NSW and similarly high confirmations. No such cap exists in other states, where local governments have used rate hikes to pay for population growth related costs.

Unsurprisingly, the degree of population growth influenced the use of rate hikes (Table 4). The stronger the population growth, the more likely rates were increased to cope with it.

Table 4: Did your LGA have to increase rates to cope with population growth at any stage over the past decade?

	Strong population growth (%)	Moderate population growth (%)	Broadly stable population (%)	Population Decline (%)	AUSTRALIA (%)
Yes	17 (71)	26 (68)	19 (40)	4 (36)	66 (56)
No	5 (21)	8 (21)	23 (49)	5 (45)	41 (34)
Don't know	1 (5)	2 (5)	2 (4)	1 (9)	6 (4)
Not applicable	0	0	0	1 (9)	1 (1)
Rate cap	1 (5)	2 (5)	3 (6)	0	6 (5)

* We considered councils that were part of large regional centres such as Townsville and Newcastle to be 'urban,' in addition to councils in suburban areas of major cities.

† Decimal places in this table and throughout this monograph are rounded to whole numbers.

Perhaps the most interesting finding with regard to rate increases concerns the distribution of rate increases by population size (Table 5). Larger councils were more likely to increase rates, while smaller councils were more reluctant.

Table 5: Did your LGA have to increase rates to cope with population growth at any stage over the past decade?

	< 10,000 (%)	10,000–29,999 (%)	30,000–99,999 (%)	> 100,000 (%)	AUSTRALIA (%)
Yes	11 (44)	16 (48)	20 (57)	19 (79)	66 (56)
No	14 (56)	13 (39)	12 (34)	2 (8)	41 (34)
Don't know	1 (4)	2 (6)	1 (3)	2 (8)	6 (4)
Not applicable	1 (4)	0	0	0	1 (1)
Rate cap	1 (4)	2 (6)	2 (6)	1 (4)	6 (5)

Population growth's bottom line effect

The financial effects of population growth on a council's bottom line are ambiguous. Councils face higher costs associated with providing infrastructure and services for extra residents, but earn more revenue through increased rates and additional grants from state and federal governments.

More than half the survey respondents believed that population growth had a positive net effect on their council's bottom line, citing the long-term benefits of population growth over the significant short- to medium-term funding shortfalls.

Table 6: Effect of population growth on a council's bottom line based on council size

	< 10,000 (%)	10,000–29,999 (%)	30,000 – 100,000 (%)	> 100,000 (%)	All (%)
Improves financial situation	17 (61)	19 (58)	19 (54)	7 (29)	62 (52)
Negative effect on financial situation	5 (18)	8 (24)	11 (31)	13 (54)	37 (31)
Don't know	0	3 (9)	3 (9)	3 (13)	9 (8)
Not applicable	6 (21)	3 (9)	2 (6)	1 (4)	12 (10)

Smaller councils believed that the positive financial effect of population growth outweighed the costs of development. With bigger councils it was the reverse. Perhaps the infrastructure requirements for bigger councils are more expensive, or at least they are more aware of costs.

Table 7: Effects of population growth on councils' net financial position by state

	NSW (%)	QLD (%)	SA (%)	VIC (%)	WA (%)	AUSTRALIA (%)
Improves financial situation	17 (40)	11 (79)	8 (62)	10 (48)	12 (50)	62 (52)
Negative effect on financial situation	15 (38)	3 (2)	2 (15)	7 (33)	9 (38)	37 (31)
Don't know	3 (7)	0	2 (15)	2 (10)	2 (8)	9 (8)
Not applicable	7 (17)	0	1 (7)	2 (10)	1 (4)	12 (10)

It is hard to explain the differences of perspective across states (Table 7). Perhaps SA councils are keener on population growth because the state is lagging nationally. However, Queensland councils are growing but are even more positive about the financial effects of population growth. Many councils in NSW, Victoria and Western Australia claimed they suffered financially from the effects of population growth.

We also asked councils about their general concerns in relation to population growth. The costs of infrastructure proved overwhelmingly to be the most important of these factors, followed by the environment.

Table 8: When it comes to dealing with population growth in your LGA, what are the major concerns?

	NSW (%)	QLD (%)	SA (%)	VIC (%)	WA (%)	AUSTRALIA (%)
Cost of infrastructure	40 (95)	13 (93)	12 (92)	19 (90)	23 (96)	113 (94)
Environmental concerns	25 (57)	5 (36)	6 (46)	8 (38)	11 (46)	59 (49)
NIMBY resistance	16 (38)	5 (36)	3 (23)	4 (19)	8 (33)	38 (32)
Neighbourhood groups	6 (14)	3 (21)	1 (8)	1 (5)	5 (21)	17 (14)

Use of developer levies

Councils have the option of using developer levies to fund infrastructure upgrades required to deal with development. Little is known about how widespread this practice is.

Eighty percent of Australian local governments that responded to our survey use developer levies, but with great variations depending on size, state and population growth rate.

Table 9: How often does your LGA use developer levies to pay for extra infrastructure?

	NSW (%)	QLD (%)	SA (%)	VIC (%)	WA (%)	AUSTRALIA (%)
Regularly	19 (45)	9 (64)	2 (15)	3 (14)	2 (8)	36 (30)
Sometimes	18 (43)	3 (21)	6 (46)	14 (67)	13 (54)	59 (49)
Not at all	4 (10)	2 (14)	5 (38)	4 (19)	9 (38)	24 (20)
Don't Know	1 (2)	0	0	0	0	1 (1)

Developer levies are widespread in NSW and Queensland, but less so in Victoria. In South Australia and Western Australia, however, relatively more councils reported not using such levies.

Table 10: Propensity to use developer levies among councils of different sizes

Size	< 10,000 (%)	10,000–29,999 (%)	30,000–99,999 (%)	> 100,000 (%)
Regularly	1 (4)	7 (21)	17 (49)	11 (46)
Sometimes	14 (50)	19 (58)	15 (43)	11 (46)
Not at all	13 (46)	6 (18)	3 (9)	2 (8)
Don't Know	0	1 (3)	0	0

Use of developer levies increased with council size in our sample. Perhaps the negotiation and design of developer levies requires legal and technical expertise that smaller councils do not have.

Population growth and local government revenue

Local governments typically raise most of their funds from rates. Other revenue sources include fees and charges for local government amenities (such as child care facilities), car park fees and fines, and state and federal grants. Respondents were asked to rate their satisfaction with existing revenue mechanisms, offer alternatives, and pick preferred revenue sources to pay for the costs associated with population growth.

Table 11: In your view, how appropriate are the existing local government funding arrangements for dealing with population growth?

	NSW (%)	QLD (%)	SA (%)	VIC (%)	WA (%)	AUSTRALIA (%)
Not at all appropriate	24 (57)	9 (64)	5 (38)	8 (38)	10 (42)	58 (48)
Partially appropriate	18 (43)	5 (36)	4 (31)	12 (57)	12 (50)	55 (46)
Very appropriate	0	0	1 (8)	1 (5)	1 (4)	3 (3)
Don't know	0	0	3 (23)	0	1 (4)	4 (3)

Only three councils believed the existing revenue structures were wholly appropriate for dealing with population growth. Indeed, in NSW and Queensland a greater fraction of councils thought arrangements were not at all appropriate.

Some of the angst in NSW could be driven by the arbitrary 'rate cap,' which prevents councils from increasing rates. Councils in other states were relatively more satisfied.

No real pattern emerged across councils with different populations. Councils of all sizes were roughly equally disapproving of the existing local funding arrangements.

Councils had an overwhelming preference for ongoing revenue streams over one-off contributions. Perhaps this is not surprising as ongoing revenue streams give councils more freedom to spend; one-off contributions involve greater administrative hassle.

Table 12: Which of the following revenue types would you prefer to receive in order to pay for the costs associated with population growth?

	NSW (%)	QLD (%)	SA (%)	VIC (%)	WA (%)	AUSTRALIA (%)
Revenue streams (such as a surcharge on income tax, increased rates or government grants linked to population)	37 (88)	10 (71)	12 (92)	18 (86)	19 (79)	99 (83)
One-off contributions (such as developer contributions)	3 (7)	3 (21)	0	2 (9)	3 (13)	12 (10)
Don't know	1 (2)	0	1 (8)	1 (5)	1 (4)	4 (3)
Combination (a combination of revenue streams and one-off contributions)	1 (2)	1 (8)	0	0	1 (4)	3 (3)

Qualitative responses

Responses to 'Which changes to local government finances would help you in dealing with population growth? Which changes would you like to see?' further showed the degree of dissatisfaction with the existing local government finance system.

Three-quarters of all respondents chose to answer the question. None of them had anything positive to say about the current funding arrangements for local government; their answers varied only in their degree of dissatisfaction. These are just a few examples of the comments we received:

> The whole system of local government funding needs a complete restructure.

> There are inherent structural deficiencies in local government financing which should be addressed.

> Rates as means of revenue raising ... belong to feudal England and have no relevance to modern society.

Thirteen NSW councils mentioned rate pegging when asked about changes to local government finance that are desirable. Another notable issue was the desire for more direct funding from state and federal governments in the form of revenue streams. Suggestions included giving:

- a percentage of the royalties from mining' to local government
- increased grants and subsidies for capital works projects, and
- a percentage return of state taxes and GST.

Respondents overwhelmingly wanted access to a fixed percentage of income tax and/or GST. Perhaps influenced by the public debate about the adequacy of Australia's infrastructure, one respondent noted, 'Consideration of Infrastructure Bonds—used in USA—may lead to preservation of affordability and increase speed of land delivery to the market (speed up supply).' Revenue streams like the GST or income tax would allow local government to borrow against future revenue, for example, in the form of infrastructure bonds.

Only three respondents raised the controversial issue of constitutional recognition of local government, but only in the context of getting better access to reliable funding:

> Constitutional recognition should bring about a share of income tax revenue.

Other answers confirmed our finding that imposing developer levies is a complicated process that probably demands too much of small- and medium-sized councils. As one respondent put it:

> In WA, the framework for developer contributions is very unclear. Clear, simple levies would be simpler and easier for both developers and local government than the complicated developer contributions plans forced on local governments by State policy. This local government has been pro-active with developer contributions, but has effectively been forced to go down that road by State and Commonwealth funding models that underfund local government in areas of rapid growth.

Dealing with the state government over grants allocations can be just as problematic as developer levies. One respondent wished for 'less of a lottery when it comes to grant money.'

Although many respondents expressed displeasure with existing finance arrangements, they believed that other local councils in different situations benefited from it. One respondent complained that it was time to recognise 'the needs of developed municipalities rather than a focus on the growth corridors.' Another respondent concurred:

> Inner city councils are not considered to be disadvantaged yet receive a significant proportion of metropolitan growth with minimal opportunities to access developer contributions.

A 'one size fits none' policy leaves almost every council complaining.

Rural councils were equally unhappy. 'Rural LGAs are responsible for large amounts of infrastructure with small populations,' one respondent complained. Fast growing municipalities complained about a lack of access to infrastructure funding. Communities with lots of inbound commuters, councils with large numbers of tourists, and municipalities with high shares of seasonal and temporary workers—all felt that the system curbed their potential. A 'one size fits none' policy leaves almost every council complaining.

Policy solutions

Policymakers might want to consider improving the incentives and efficiency of local councils, especially at the tax summit later this year.

There is no perfect solution to the concerns that local governments have about their ability to finance the costs of population growth. Government, of whatever size, will always desire more funds. Local governments are not immune from the waste and excess that bedevil all forms of government (although for reasons discussed earlier, they might be less susceptible to it).

Yet the number of councils that increased their rates to accommodate extra population, and the fraction of councils for which extra population meant a weaker bottom line, could reveal a fundamental flaw in local governments' fiscal arrangements.

At the very least, it suggests that existing local government revenues are creating perverse incentives. Glaringly, councils are penalising residents for the costs of population growth. Population growth should generate extra revenue through additional taxation and increased patronage of local services; taxation per resident should remain constant or even fall as councils enjoy economies of scale in administration.

Council rate revenue, however, comes after new population, and is not sufficient to cover larger upfront capital costs that a surge of new residents requires. Moreover, rates may not increase very much if the new population is housed in higher density residential apartments and rates are levied solely on the value of land.

Notwithstanding the intrinsic problems of rates, it is important that councils have the flexibility to set them as they see fit. This is also suggested by the Henry Review of Australia's tax system, whose recommendation 120 suggested councils have a 'substantial degree of autonomy to set the tax rate applicable to property.' If residents don't like the level of rates, they can remove elected local councillors. The rate peg in NSW, which has operated since 1977, is damaging NSW councils' ability to accommodate residents and should be removed.

Alternative payments: Income tax and the GST

Clearly, many councils are attracted to the idea of receiving a fraction of income tax or GST revenue. This would strengthen the link between council revenue and population, as extra funds would follow residents regardless of how they affected land values and how they were accommodated.

A key hurdle for distributing income tax or GST across council regions would be the increased level of information required by local councils. Councils do not know accurately how many people are living within their jurisdiction, let alone details about household incomes and business activities.

Moreover, the federal government is not constitutionally able to distribute taxes directly to local government.[6] The states allocate grants directly to the states; however, the Commonwealth has the power to make grants to state governments on the condition that they allocate the funds to councils.

Each state has its own grants commission, which distribute grants according to a broad set of national principles that try to ensure each LGA has the capacity to provide the same level of services. Current formulas are not particularly responsive to population growth and allocate funding arbitrarily according to which local councils 'need' revenue more than others.

Councils should be able to clearly observe how their revenue will be affected by increased population.

One way to make councils more conducive to population growth is to alter these grant formulas to place greater emphasis on local population. Such emphasis could be weighted, for example, to the age (and hence the likely service requirements and costs) of residents. Younger and older residents might warrant a greater allocation if they were thought to draw more heavily on local council services.

Having access to more accurate and frequent information on population within LGAs might be required for such changes. Local government might need households and landlords to inform the council the exact number of people living in their residences periodically.

More generally, these grants distribution formulas should be more transparent, predictable, and not subject to state ministerial discretion. Councils should be able to clearly observe how their revenue will be affected by increased population.

Ad hoc payments: Developer levies and debt

Developer levies are an unfair and inefficient way for local councils to raise funds. For example, it is conceivable that developer levies are used more by larger councils because they have the sophistication to negotiate and contract with developers. This means smaller councils are less able to accommodate more people.

Moreover, where they are used, developer levies put all the burden of development onto developers. Such an impost is likely to be passed on to buyers of new houses and apartments, which makes accommodation more expensive and therefore reduces the level of development that can occur.

Debt provides a better means to pay for one-off development expenses. The current generation is not the only user of the infrastructure paid for by developer levies. It would be fairer to finance the development associated with new residents with debt, whereby interest and principal costs will be retired over many years. This is also a more efficient payment structure because it will reduce the immediate cost of development and thereby encourage more of it.

Conclusion

Australia is bound to experience significant population growth in the coming decades through internal migration, immigration and natural increase. It is vital to include local government revenue arrangements and incentives in the national tax debate. Communities will welcome and provide appropriate infrastructure for more residents only if their councils have adequate resources.

Our results indicate that mayors and senior management of local governments believe financial constraints are impeding their ability to manage the inflow of people. Almost one-third of our survey respondents believe additional migration is a net cost to their budget. As a result, councils are increasing their rates, penalising existing residents—hardly an inducement to embrace change—or using developer levies, which push the cost of new development wholly onto developers and potential residents.

Not surprisingly, many councils want better access to ongoing revenue streams (federal income tax and the GST). However, obtaining direct access to such funds would be difficult, as local governments are not mentioned in the Commonwealth Constitution. State allocation of funds should be altered to be more responsive to the movement of people. Councils would then have an incentive to compete for more residents. Moreover, states should make borrowing easier for local governments to fund necessary development and to spread costs across many generations.

Endnotes

1 Jessica Brown and Oliver Marc Hartwich, *Populate and Perish? Modelling Australia's Demographic Future*, Policy Monograph 112 (Sydney: The Centre for Independent Studies, 2010).

2 Treasury, *Intergenerational Report* (Commonwealth of Australia, 2010).

3 The Roads to Recovery program is an exception; however, some believe the program would need to end if it were challenged in the High Court.

4 City of Wanneroo, *Population Forecasts* (1 April 2010).

5 http://www.wanneroo.wa.gov.au/Residents/Rates#Frequently%20Asked%20Questions.

6 Although since 2010, it has overseen the program Roads to Recovery, which gives local governments direct funding to maintain local roads. There are questions about this program's survival were it to be challenged.

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