



Appendix E: Main Findings from the CGC Review¹

Effectiveness of the Current Arrangements, Including the National Principles

The Act aims to provide financial assistance for local government to meet three underlying intentions:

- To provide all Local Government Bodies (LGBs) with at least a minimum level of assistance;
- To provide funding to contribute to the costs faced by LGBs in maintaining their local roads; and
- To provide relatively greater financial assistance to those LGBs which are relatively more disadvantaged compared with other LGBs because they face greater costs in providing services or because their ability to raise revenue is more limited.

In broad terms, the current arrangements have led to a distribution of funds in line with these intentions.

The Act sets out five purposes. Six National Principles have been developed to guide Local Government Grants Commissions (LGGCs) in allocating the assistance to achieve those purposes. The purposes, our interpretation of them and the associated National Principles are:

¹ Commonwealth Grants Commission, *Review of the Operation of the Local Government (Financial Assistance) Act 1995*, June 2001, p. ix-xiv.

- Financial Capacity, which is about ensuring that every LGB receives a share of the financial assistance provided by the Act. It is supported by the Minimum Grant and the Identified Road Component Principles;
- Certainty of Funding, which aims to ensure certainty of funds to the local government sector;
- Equitable Level of Services, which aims to ensure that relatively greater funds are provided to LGBs which, because of their greater costs of providing services or because of their more limited ability to raise revenue, are more relatively disadvantaged than other LGBs. The Horizontal Equalisation, Effort Neutrality, Other Grant Support, Aboriginal Peoples and Torres Strait Islanders and Minimum Grant Principles all bear on this purpose;
- Efficiency and Effectiveness, which aims to improve the efficiency and effectiveness of LGBs; and
- Aboriginal Peoples and Torres Strait Islanders, which relates to improving the provision of services by LGBs to Indigenous people and has an associated Aboriginal Peoples and Torres Strait Islanders Principle.

The Financial Capacity Purpose is being achieved. The Minimum Grant Principle, which is well understood and correctly applied by LGGCs, ensures that each LGB receives a minimum of 30 per cent of their population share of the General Purpose pool. All LGBs with roads responsibilities also receive a share of assistance from the Local Roads pool, in accordance with the Identified Road Component Principle. The provision of at least a minimum level of assistance to all LGBs reflects one of the underlying intentions of the Commonwealth. This intention should continue to be implemented, but expressed in the form of a Per Capita grant to ensure that every LGB receives a share of assistance. The current rate of this assistance (30 per cent) should be retained.

The Certainty of Funding Purpose is also being achieved. The Act includes an escalation process that provides for growth in the level of funds to the local government sector for the duration of the Act.

The Equitable Level of Services Purpose is described in terms of horizontal equalisation, as far as practicable. The definition of horizontal equalisation in the Act, the language of the Act, and the limited amount of funding indicate the purpose is about providing additional assistance to disadvantaged LGBs. As such, it is broadly being achieved. However, the language of the Act and of the associated Horizontal Equalisation National Principle should be revised. In particular, the term horizontal equalisation should be replaced

with 'relative need based on equalisation principles' because this more clearly reflects the Commonwealth's intentions and what is being, and can be, achieved. It would also avoid using the language of horizontal equalisation in a different way from its use in the allocation of Commonwealth general revenue assistance to the States.

The Minimum Grant Principle conflicts with the Horizontal Equalisation Principle because minimum grants and equalisation grants are funded from the same pool. As the minimum grants are not distributed on an equalisation basis, they reduce the assistance available to meet the Commonwealth's equity objective.

Implementation of the Horizontal Equalisation National Principle requires LGGCs to make comprehensive assessments covering all areas of local government expenditure and revenue, all influences that might affect the expenditure required and the revenue raised, and to assess both relative advantages and relative disadvantages. Some changes in the methods of LGGCs are required to better implement the intent of this National Principle.

The Effort Neutrality and the Other Grant Support Principles are integral aspects of any distribution of untied grants on the basis of equalisation principles or relative need. The Other Grant Support Principle is not consistently interpreted or implemented by LGGCs, with implications for LGB grants. The Principles are appropriate for an untied grant arrangement on equalisation principles, but the language of them could be improved to make the concepts better understood.

The Efficiency and Effectiveness Purpose attempts to impose conditions on the allocation of the financial assistance. This is not an appropriate purpose for an Act that distributes untied assistance on equalisation principles. It should be removed from the Act.

The Aboriginal Peoples and Torres Strait Islanders Purpose attempts to direct LGBs to spend part of their assistance on improving services to Indigenous people. It is inconsistent with the untied nature of the assistance being distributed and should be removed. However, the associated Aboriginal Peoples and Torres Strait Islanders Principle should be retained even though conceptually it is not required in a grants distribution process based on relative need. This Principle should be strengthened to make it explicit that relative need requires an assessment of the impact of Indigenous people on the expenditure requirements and revenue raising capacity of LGBs.

We think that the National Report needs to take on a much stronger monitoring role in this area. It should monitor and report on:

- The extent to which LGGCs' assessment methods recognise the needs of Indigenous people; and
- The performance of LGBs in providing services to Indigenous people (performance measures should be developed for this purpose).
- The Act also identifies two **goals of the Commonwealth** in providing the financial assistance. They are to:
 - Increase the transparency and accountability of the allocation of funds by LGGCs; and
 - Promote greater consistency in the methods used to allocate equalisation grants.

Transparency and Accountability are not defined in the Act. We think transparency is about LGBs being able to understand how their grant has been calculated and accountability is about LGGCs providing information to assist that understanding further. Improvements in these areas are required. LGGCs should provide more and clearer information in their annual reports and the National Report should provide commentary on the different approaches of the LGGCs.

The Consistency Goal described in the Act relates to consistency in the methods used by LGGCs to allocate funds. There are many differences between LGGCs in the areas of expenditure and revenue covered by their assessments, the range of influences on expenditure and revenue levels assessed and the methods of measurement. Such differences are to be expected given the differences in the circumstances of LGBs both between and within the States. LGGCs require the flexibility to adopt methods that best reflect their circumstances.

The consistency goal should focus on the consistency of LGGCs' methods with the National Principles. Changes in LGGCs' assessment methods are required to achieve consistency with the Relative Need, Other Grant Support and Aboriginal Peoples and Torres Strait Islanders Principles.

The Identified Road Component Principle is appropriate because it is consistent with the intent of the Act and provides guidance to LGGCs on how to allocate their Local Roads grants.

Improving the Arrangements

The operation of the Act would be improved if the Commonwealth's intentions in providing its assistance were clearer and more transparent, with a clearer relationship between the purposes and the funds provided. We think this could be achieved if there were:

- A Per Capita pool to provide every LGB with a share of the assistance;
- A Local Roads pool to contribute towards LGBs' costs of maintaining their local roads; and
- A Relative Need pool to improve equity by providing additional assistance to the more disadvantaged LGBs.

Every LGB would receive a fixed per capita share from the Per Capita pool. Every LGB that has a road responsibility would receive funding from the Local Roads pool. Only relatively disadvantaged LGBs would receive funding from the Relative Need pool. As part of the changes, a purpose should be drafted for the Act to outline the Commonwealth's intentions in providing the assistance from each pool.

Transitional Arrangements. The changes to the proposed three pool arrangement will not alter the total amount of assistance available or the allocation to the States. However, requiring LGGCs to amend their assessment methods to make them more consistent with the National Principles is likely to change the current distribution of grants to LGBs within States. A five year transitional period would be appropriate to enable LGGCs to modify their methods and LGBs to adjust to the changes in their grants.

The National Report should play a much stronger monitoring role. Areas that it should monitor and report on include:

- The extent to which LGGCs' assessment methods and approaches are consistent with the National Principles;
- The extent to which LGGCs are modifying their equalisation assessments to deliver greater stability in annual grants;
- The extent to which LGGCs' assessment methods recognise the needs of Indigenous people;
- Assessing the performance of LGBs in providing services to Indigenous people;
- The extent to which LGGCs explain how individual grants have been calculated and provide sufficient information to enable LGBs to calculate them if they wish; and
- The effectiveness of the proposed transitional arrangements.

Impact on Revenue Raising and the Provision of State Assistance

Since the introduction of the Commonwealth's financial assistance grants in 1974–75, local government revenue from all sources has grown on average by

10.1 per cent per annum. Revenue from local government taxes and charges was about the same proportion in 1997–98 as it was in 1974–75. The introduction of Commonwealth assistance appears to have had little impact on local government revenue raising effort at the national level.

State assistance to local government has increased absolutely in real terms over the same period. However, the rate of increase has been less than the rate of increase of other sources of local government revenue. State assistance has declined in relative importance from about 15 per cent of local government revenue in 1974–75 to 7 per cent in 1997–98.

Implications of Changes in Functions and Responsibilities

Local government functions and responsibilities have expanded over the period since 1974–75. Analysis of local government expenditure over the period 1961–62 to 1997–98 shows that the composition of services being provided by local government has changed markedly over the last 30–35 years. Local government is increasingly providing human services at the expense of traditional property-based services (particularly roads).

Some changes are the result of the changing priorities of local government, others are imposed on them by other spheres of government. The general broadening of local government functions has implications for local government finances.

Eligibility for Assistance

The Act provides the Commonwealth Minister with the capacity to declare bodies that are providing local government-type services, but are not LGBs under State legislation, to be eligible to receive financial assistance grants. 40 of the 730 LGBs eligible to receive grants under this Act are declared LGBs. These arrangements are working well and should be retained. The Act should be amended to allow:

- Either the Commonwealth or State Minister to initiate a declaration — but require both to agree to it; and
- The Ministers to revoke an existing declaration, provided both agree.