

APPENDIX A

NATIONAL PRINCIPLES FOR
ALLOCATING GENERAL PURPOSE
AND LOCAL ROAD GRANTS

According to section 3 of the *Local Government (Financial Assistance) Act 1995*, the Federal Parliament provides financial assistance grants to the States for the purpose of improving:

- the financial capacity of local governing bodies
- the capacity of local governing bodies to provide their residents with an equitable level of services
- the certainty of funding for local governing bodies
- the efficiency and effectiveness of local governing bodies
- the provision, by local governing bodies, of services to Aboriginal and Torres Strait Islander communities.

These financial assistance grants are provided to the States for Local Government purposes in the form of general purpose and local roads grants. The States distribute these funds to local governing bodies in accordance with recommendations of Local Government grants commissions but only after the Federal Minister has approved them. In determining grant allocations, grants commissions are required to make their recommendations in line with national principles. The current national principles are set out in figure A.1.

The main objective of having national principles is to establish a nationally consistent basis for distributing financial assistance grants to Local Government under the Act. The Act includes a requirement under subsection 6(1) for the Federal Minister responsible for Local Government to formulate the national principles after consulting with States and Local Government.

The formulated national principles are a disallowable instrument. As such, any amendments, including the establishment of new principles, must be tabled in both Houses of Federal Parliament before they can come into effect. Members and Senators then have 15 sitting days in which to lodge a disallowance motion. If such a motion is lodged, the respective House has 15 sitting days in which to put and defeat the motion, otherwise the amendment will be deemed to be disallowed.

The genesis of the 1995 Act was the 1993 Local Government Ministers' Conference at which Ministers agreed to a review of processes associated with payments made to Local Government under the *Local Government (Financial Assistance) Act 1986*. Two studies, commissioned as part of the review, examined Local Government finances and the

methodologies used by the grants commissions to distribute the grants (Macklin 1994, Morton 1994). These studies found that the seven different models operating were of little relevance in ensuring equity in grant distribution or allowing for monitoring of outcomes. This finding led to the drafting of the current 1995 Act and inclusion of the requirement for the national principles and the national report.

The current national principles were formulated following extensive consultations with State Local Government Ministers and Local Government Association representatives. The principles were

formally agreed to at the April 1995 Local Government Ministers' Conference and came into effect in October 1995.

These national principles were intended to reflect existing and well established distribution practices of the Commonwealth Grants Commission and most State Local Government grants commissions. It was also intended that the application of common principles would ensure, subject to the particular methodologies of the State grants commissions, that similar local governing bodies receive similar grants, at least in relative terms.

Figure A.1 National principles for allocating general purpose and local road grants

A. General purpose grants

The national principles relating to allocation of general purpose grants payable under section 9 of the *Local Government (Financial Assistance) Act 1995* (the Act) among local governing bodies are as follows:

1. Horizontal equalisation

General purpose grants will be allocated to local governing bodies, as far as practicable, on a full horizontal equalisation basis as defined by the Act. This is a basis that ensures that each local governing body in the State/Territory is able to function, by reasonable effort, at a standard not lower than the average standard of other local governing bodies in the State/Territory. It takes account of differences in the expenditure required by those local governing bodies in the performance of their functions and in the capacity of those local governing bodies to raise revenue.¹

2. Effort neutrality

An effort or policy neutral approach will be used in assessing the expenditure requirements and revenue-raising capacity of each local governing body. This means as far as practicable, that policies of individual local governing bodies in terms of expenditure and revenue effort will not affect grant determination.

3. Minimum grant

The minimum general purpose grant allocation for a local governing body in a year will be not less than the amount to which the local governing body would be entitled if 30 per cent of the total amount of general purpose grants to which the State/Territory is entitled under section 9 of the Act in respect of the year were allocated among local governing bodies in the State/Territory on a per capita basis.¹

4. Other grant support

Other relevant grant support provided to local governing bodies to meet any of the expenditure needs assessed should be taken into account using an inclusion approach.²

5. Aboriginal and Torres Strait Islander people

Financial assistance shall be allocated to councils in a way that recognises the needs of Aboriginal and Torres Strait Islander people within their boundaries.³

B. Identified local roads grants

The national principle relating to the allocation of the amounts payable under section 12 of the Act (the identified road component of the financial assistance grants) among local governing bodies is as follows:

1. Identified road component

The identified road component of the financial assistance grants should be allocated to local governing bodies as far as practicable on the basis of the relative needs of each local governing body for roads expenditure and to preserve its road assets. In assessing road needs, relevant considerations include length, type and usage of roads in each local governing area.

Notes:

1. Principles A1 and A3 reiterate principles that exist within the current legislation. Their inclusion in the national principles contributes to the balance and completeness of the national principles and allows for clarification of their definitions. The effect of Principle A3 is to provide each local governing body with a guaranteed minimum grant.
2. This principle requires recognition and application of certain relevant grants from other sources against council expenditure needs. The issue here is to account for revenue from other sources provided for the purpose of delivering certain Local Government services.
3. This principle addresses the specific need for the provision of equitable council services to Aboriginal and Torres Strait Islander communities and indicates that the level of grants received by councils reflects the Aboriginal and Torres Strait Islander population within council boundaries.