

APPENDIX C

ACTIONS REQUIRED TO IMPLEMENT  
COMMONWEALTH GRANTS  
COMMISSION REVIEW FINDINGS

In June 2001, the Commonwealth Grants Commission (CGC) provided its report to the Government on the review of the operations of the *Local Government (Financial Assistance) Act 1995*.

In summary, the CGC found ‘in broad terms’ that the current arrangements have led to a distribution of funds in line with the intentions of the Act. Their findings suggest that there should be changes to the legislation to clarify some areas of ambiguity and strengthen the intention of the Act. The CGC also found cause for some changes to the reporting procedures in the Commonwealth’s National Report and to the reporting and administration procedures of the Local Government Grants Commissions.

The Department of Transport and Regional Services, in its submission to the Inquiry into Local Government and Cost Shifting, proposed 26 actions that it suggested would need to be taken to implement the CGC findings. These were presented to the Committee for consideration and comments.

These 26 actions are reproduced below.

Overview

1. The objectives of the Commonwealth in providing untied financial assistance to the States for Local Government purposes under the Act should be specified. The objectives of the grants should be to provide:

- a share of financial assistance grants to all Local Governing Bodies (LGBs)
- a contribution to the costs faced by LGBs in maintaining their local roads
- relatively greater financial assistance to those LGBs which, because of their greater costs in providing services or because of their more limited ability to raise revenue, are relatively more disadvantaged than other LGBs.

2. The current arrangements should be changed by:

- creating a separate pool of financial assistance for each of the three Commonwealth’s objectives, with appropriate national principles to guide Local Government Grants Commissions (LGGCs) in allocating each pool to LGBs
- requiring a more consistent implementation of the national principles by LGGCs to ensure the Commonwealth’s intentions are effectively achieved.

## Three pools

3. A separate pool for each objective would involve establishing three pools of financial assistance instead of the current two pools.

The pools would be:

- a Per Capita pool
- a Local Roads pool
- a Relative Need pool.

4. The provision of at least a minimum level of assistance to all LGBs should be retained and provided through the separate Per Capita pool. The purpose of the Per Capita grant pool would be 'to provide an equal per capita amount of assistance to each LGB to improve its capacity to provide services'. The Per Capita pool would be funded with what would have been 30 per cent of the General Purpose pool.

5. The separate Local Roads pool should continue. The purpose of the Local Roads pool would be 'to improve the capacity of all LGBs with responsibility for local roads to maintain those roads'.

6. The Relative Need pool should be intended to provide assistance to disadvantaged LGBs. The purpose for the Relative Need pool would be 'to provide additional assistance to needier LGBs to improve their capacity to provide services'. The establishment of this pool would be funded from what is left of the present General Purpose pool after the proposed Per Capita grant pool is established – that is, 70 per cent of the present General Purpose pool.

7. The process described by the Act as horizontal equalisation is about assessing relative needs, with the assessment of those needs being based on equalisation principles. The language of the Act should be amended to make the real intention of this purpose clear. The expression of horizontal equalisation should be removed from the Act. The concept of relative need using equalisation principles should be used in place of horizontal equalisation.

## Purposes

8. Establishing a separate Per Capita pool and a separate Relative Need pool would make the existing purpose of 'improving the financial capacity of local governing bodies' unnecessary and it could be deleted from the Act.

9. The purpose of 'improving the efficiency and effectiveness of local governing bodies' should be removed because it is conceptually inconsistent with arrangements that provide for the distribution of untied grants. That is, no purpose can be assigned to untied grants.

10. Similarly, the purpose of 'improving the provision by local governing bodies of services to Aboriginal and Torres Strait Islander communities' should be removed because it is conceptually inconsistent with arrangements that provide for the distribution of untied grants.

11. The Act should continue to provide for:

- the formulation of national principles to guide States' allocation of the funds to LGBs
- an annual report to the Parliament (called the National Report) about the operation of the Act, including commentary on the States' allocation of the funds to LGBs.

## Goals

12. The Act should continue to specify goals relating to:

- increasing the transparency and accountability of the States in respect of the allocation of these funds
- improving the consistency in the methods by which the States allocate the Relative Need and the Local Roads pools.

13. The current transparency and accountability goal is being achieved to a limited extent but further improvements can be made. LGGCs should provide more information in their annual reports (see paragraph 14) and the National

Report should provide commentary on the approaches used by LGGCs to enhance the transparency and accountability of their processes (see paragraph 23).

14. As a minimum, the LGGCs' annual reports should provide information on:

- the grant outcomes of all LGBs in the State
- the expenditure and revenue assessments of all LGBs in the State
- the key drivers of LGGCs' expenditure and revenue assessments.

15. Understanding of the process would be improved if the National Report provided commentary on the LGGCs' approaches, explained how those approaches relate to and satisfy the national principles, and analysed the influences on and trends in grant outcomes across LGBs and States.

16. Consistency of methods is about ensuring the methods and policies of LGGCs are consistent with the national principles rather than achieving uniformity of LGGCs' methods and policies. The language of the Act should be amended to make the intention of this goal clear.

## National principles

17. The Per Capita national principle should instruct the LGGCs to distribute the Per Capita pool on the basis of population. The proposed Per Capita national principle would be:

Grants to local governing bodies from the Per Capita Pool shall be allocated to each local governing body on the basis of its population.

18. The existing Local Roads national principle should be retained with minor simplifying amendments to instruct the LGGCs to distribute the pool on the basis of relative road needs. The amended national principle for the local roads pool would be:

Grants to local governing bodies from the Local Roads Pool shall be allocated on the basis of the

relative road needs of each local governing body for roads expenditure. Local governing bodies would be assessed to have greater relative need if, for reasons beyond their control, they faced higher than average costs of providing road services.

19. The Relative Need principle should instruct LGGCs to distribute the Relative Need pool using assessments of relative need based on equalisation principles. The proposed national principle would be:

Grants to local governing bodies from the Relative Needs Pool shall be allocated using assessments of relative need based on equalisation principles. Relative needs of local governing bodies will be measured through a comprehensive assessment of the expenditure they would incur in providing a standard level of services and the revenues they could access from a standard effort. Local governing bodies will be assessed to have greater relative need if, for reasons beyond their control, they face higher than average costs of providing services or a reduced capacity to raise revenue.

20. The Other Grants Support principle is an essential element of the equalisation principle and, therefore, is an appropriate principle for the Act's equity purpose. It is not being consistently implemented by LGGCs and that is impacting on equalisation outcomes. The language of this principle is not sufficiently clear and it should be improved to make the concept easier for LGBs to understand and for LGGCs to implement consistently. The proposed national principle would be:

The assessment of a local governing body's relative need based on equalisation principles is to include a recognition of any grants, including the Per Capita and Local Roads grants provided by this Act, received by local governing bodies and used to finance expenditure for which a relative needs assessment is made.

21. The Aboriginal Peoples and Torres Strait Islanders principle should be strengthened to make explicit that the needs of all Indigenous people must be reflected in the assessments of the

LGGCs. The proposed national principle would be:

The assessment of a local governing body's relative need based on equalisation principles is to include recognition of the needs of all Indigenous people within its boundaries. In this respect, local governing bodies will be assessed to have greater relative need if, for reasons beyond their control, they face a higher than average demand for services, higher than average costs of providing services or a reduced capacity to raise revenue, as a result of their Indigenous population.

22. The Effort Neutrality principle is appropriate and understood by LGGCs. The proposed national principle would be:

An effort or policy neutral approach will be used in assessing the full range of the expenditure local governing bodies would incur in providing a standard level of services and the revenues they could access from a standard effort. An individual local governing body's policies or choices in relation to the services it provides or the revenues it accesses should not influence the level of grant it receives.

## National Report

23. The National Report needs to 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
- the performance of LGBs in providing services to Indigenous people (performance measures should be developed for this purpose)
- the extent to which LGGCs' processes explain how individual grants have been calculated

and provide sufficient information to enable LGBs to calculate them if they wish

- the effectiveness of the proposed transitional arrangements.

## Announcing grant allocations

24. Final grant allocations to each LGB cannot be announced before the Commonwealth brings down its Budget in May, but it should be possible to announce them very shortly after that time.

To do so would require:

- LGGCs to have their grant recommendations completed before May (based on the previous year's national pool)
- a quicker approval process – the process by which the Commonwealth approves the LGGCs' recommendations; based on a study/assessment of their methods rather than their results
- final grant allocations to be determined using the level of funding announced in the Commonwealth budget.

There should be no adjustment in the following year for changes in these estimates. This would greatly simplify the process.

## Eligibility for assistance

25. At present, the Commonwealth Minister can declare an LGB only at the request of a State Minister. Either Minister should be able to initiate a proposal for a declaration but both Ministers should have to agree to that declaration. The current Act is not clear on whether an existing declaration can be revoked. There is no reason why the Commonwealth and State Ministers should not be able to agree to revoke an existing declaration.

## Transition arrangements

26. Acceptance of the recommendations would lead to changes in some of the assessment practices of LGGCs and these changes will in turn change the grant allocations of LGBs. A five year transitional period would be allowed to give:

- LGGCs time to change their assessment methods
- LGBs time to adjust to the change in their grant.