



COMMONWEALTH GRANTS COMMISSION

DISCUSSION PAPER CGC 2000/1

**REVIEW OF THE LOCAL GOVERNMENT
(FINANCIAL ASSISTANCE) ACT 1995**

JUNE 2000

**REVIEW OF THE LOCAL GOVERNMENT
(FINANCIAL ASSISTANCE) ACT 1995**

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Introduction

1. The Commonwealth Grants Commission¹ has been asked by the Minister for Finance and Administrative Services to review certain aspects of the *Local Government (Financial Assistance) Act 1995*². A copy of the terms of reference for the inquiry is at Attachment A.

2. This paper provides:

- (i) background information on the Commission;
- (ii) guidance on some of the more important issues that might be covered during the inquiry; and
- (iii) information for interested organisations taking part in the inquiry.

The Commonwealth Grants Commission

3. The Commission is a statutory authority and was established in 1933. Its major role is to give independent advice to the Commonwealth on how the general revenue assistance provided to the States³ should be distributed so that each of them has the capacity to provide a standard level of State-type services to their populations.

4. The Commission has also conducted inquiries into the financial arrangements of the Indian Ocean Territories and Norfolk Island. It is currently conducting an inquiry into the needs of indigenous people in different regions for key services.

5. This inquiry will be conducted by the Chairman of the Commission and three part-time Commissioners.

Alan Morris (Chairman)

Alan was appointed full-time Chairman of the Commission on 1 July 1999 after having been a part-time member since 1997. He has been an Executive Director of the European Bank in London, Secretary of the Chief Minister's Department in the Northern Territory, Secretary of the Premier's Department in Tasmania and has worked in three Commonwealth Departments as well as in Papua New Guinea.

Ken Wiltshire

Ken has been a member of the Commission since March 1995. He is Professor of Public Administration at the University of Queensland and

¹ Referred to as 'the Commission' in this Paper.

² Referred to as 'the Act' in this Paper.

³ The word State(s) includes the Australian Capital Territory and the Northern Territory unless the context indicates otherwise.

Chairman of the Australian National Commission for UNESCO. Ken's qualifications are in economics, governance and public administration.

Len Early

Len joined the Commission in May 1999, his appointment coming at the end of a long career in the Commonwealth Public Service, culminating in a position of Deputy Secretary with the Department of Finance and Administration. Len has qualifications in economics and mathematical statistics and is currently the principal of a consultancy company which provides advice on public sector policy and management, both in Australia and internationally.

Hylde Rolfe

Hylde was appointed to the Commission in November 1999 and has qualifications in economics and town planning. She holds a number of directorships in private companies and public utilities. Hylde has been active in local government for many years and was Mayor of Woollahra on two occasions.

The Task

6. The Commission has been asked to provide the Commonwealth Government with advice on several aspects of the *Local Government (Financial Assistance) Act 1995*. They are:

- (i) the effectiveness of the current arrangements to achieve the purpose of the Act and the Commonwealth's goals in providing the grants;
- (ii) the appropriateness of the current National Principles (the guidelines governing the distribution of grants). In particular, the Commission has been asked to consider the retention or variation of the minimum grant for the general purpose component; and
- (iii) the consistency with the National Principles of the methods and policies used by each of the State Grants Commissions in distributing funds to councils.

7. The Commission is also required to examine and report on specific requirements under section 17 of the Act. They are:

- (i) the effectiveness of the arrangements in ensuring that the allocation of funds for local government purposes is made on a full horizontal equalisation basis;
- (ii) the impact of the Act on the raising of revenue by local governing bodies and on the assistance provided by the States to local governing bodies;

- (iii) the implications of any changes in the functions or responsibilities of local governing bodies; and
- (iv) the eligibility for assistance under the Act of bodies declared by the Minister under Section 4 to be local governing bodies.

8. The review will not inquire into either the interstate funding distribution or the quantum of funds available for distribution under the Act.

9. The Commission will report to the government by 22 June 2001.

10. The *Local Government (Financial Assistance) Act 1995* can be obtained from Commonwealth Government Bookshops. A copy of the Act and the National Principles can be downloaded from the Commission's web site (www.cgc.gov.au).

Our Approach

11. The inquiry will include extensive contact with Commonwealth, State and local government agencies that are involved in the funding or provision of local government services and facilities. It will include:

- (i) initial written submissions;
- (ii) meetings with Commonwealth, State and local government agencies responsible for funding or providing local government services and facilities, and Local Government Associations;
- (iii) visits to capital cities and regional centres to discuss issues with representatives of local government;
- (iv) research and analysis using information provided in submissions and obtained from other sources;
- (v) a draft report containing the Commission's preliminary conclusions;
- (vi) a public conference to obtain feedback on the draft report;
- (vii) final written submissions; and
- (viii) a final report.

Submissions

12. The participation of Commonwealth, State and local government agencies that are directly involved with the funding or provision of local government services and facilities is an important component of the inquiry. These agencies are encouraged to make written submissions. Local Government Associations, and Aboriginal and Torres Strait Islander bodies responsible for providing local government services, are also invited to

make written submissions. Submissions should cover as many of the issues raised by the terms of reference as you consider necessary.

13. Submissions are normally treated as public documents. The Commission will make them available to Commonwealth and State Government agencies, Local Government Grants Commissions and Local Government Associations.

14. Initial written submissions should be provided by 10 July 2000. Wherever possible, submissions should be provided in electronic format (specifications for electronic documents are in Attachment B). Those received electronically will be posted on the Commission's web site. Submissions can be sent by e-mail to:

Secretary@cgc.gov.au

15. Alternatively, they can be sent to:

**The Secretary
Commonwealth Grants Commission
5 Torrens Street
Canberra ACT 2612**

The Process

16. At the beginning of the inquiry, Commission staff will visit each State Local Government Grants Commission to collect information and discuss the methods used to distribute funds. After receiving submissions, the Commission will visit each State and discuss the issues raised in the submissions with relevant State departments, Local Government Grants Commission and Local Government Associations. The Commission will also visit the capital city and regional centre(s) in each State to discuss issues with representatives of local government.

17. The Commission will distribute a draft Report in December 2000 for discussion at a conference in March 2001. The final report will be provided to the Minister of Finance and Administration, Commonwealth, State and local government agencies responsible for funding or providing local government services and facilities, and Local Government Associations. A copy will also be posted on the Commission's web site.

18. Table 1 sets out the proposed timetable for the inquiry.

Table 1 Timetable for the 2000 Local Government Inquiry

Dates	Steps in the Inquiry
June 2000	Discussion Paper distributed
10 July 2000	Initial submissions due
July to October	Commission meetings with each State's Treasury, department responsible for local government affairs, Local Government Grants Commission, Local Government Association(s) and representatives of local government
17-18 July	Hobart and Launceston
2-4 August	Brisbane, Townsville and Longreach
17-18 August	Darwin and Alice Springs
29-30 August	Adelaide and Barossa
10-11 October	Perth and Albany
17-18 October	Melbourne and Bendigo
25-27 October	Sydney, Coffs Harbour and Dubbo
21 December 2000	Draft report distributed
29-30 March 2001	Conference to discuss the draft Report (in Canberra)
20 April 2001	Submissions on draft report due
22 June 2001	Report submitted to Minister for Finance and Administration

What You Can Do to Help Us

19. You can help the Commission by giving your views and information on any aspect covered by the terms of reference. Questions on which we are specifically seeking views include the following.

- (i) Are the objectives⁴ of the Commonwealth in providing assistance to local government fulfilled through the operations of the Local Government Grants Commission in your State? Are there other objectives that should be considered?
- (ii) Are the National Principles (the guidelines for the distribution of Commonwealth financial assistance to local government) fulfilled through the operations of the Local Government Grants Commission in your State? Are there other principles that should be considered?

⁴ Refer to Section 3 of the Act.

- (iii) Is equalisation still a relevant objective of the Commonwealth in relation to financial assistance for local government, and why?
- (iv) What is the purpose of the minimum grant? Is the concept of a minimum grant still relevant to the distribution of funds, and why? What would happen if it were changed?
- (v) Are the current arrangements surrounding the allocation of Commonwealth assistance sufficiently transparent? Are the National Principles sufficiently understood?
- (vi) Do you understand how grants are calculated by your State Grants Commission? What do you consider are the shortcomings/strengths of your State Grants Commission's allocation method? What additional information should your State Grants Commission provide?
- (vii) How important is stability in the size of grant funding for councils as an attribute of the grant distribution system?
- (viii) To what extent do the methods of your State's Local Government Grants Commission take account of the special circumstances of indigenous communities?
- (ix) Should consideration be given to combining the general purpose and roads funding pools?
- (x) What has been the impact of the Commonwealth assistance on the level of State assistance to local government?
- (xi) What has been the impact of the Commonwealth assistance on the efforts made by local government to raise revenue from its own sources?
- (xii) What Commonwealth and State assistance for specific purposes is provided for local governments? Is the assistance based on an assessment of individual submissions or a broad assessment of the needs of local governments in a field?
- (xiii) What limitations are imposed on local government revenue bases, eg rate-capping and other (limiting) State legislation?
- (xiv) What major changes have there been since the Act was passed in 1995 in the distribution of service provision responsibilities or revenue capacities between the Commonwealth, State and local spheres of government? Are any other changes under active consideration?
- (xv) To what extent do the administrative arrangements imposed by the Act need re-examination or amendment?

ATTACHMENT A

TERMS OF REFERENCE FOR THE REVIEW OF THE LOCAL GOVERNMENT (FINANCIAL ASSISTANCE) ACT 1995

1 June 2000

Mr Alan Morris
Chairman
Commonwealth Grants Commission
Cypress Court
5 Torrens Street
CANBERRA ACT 2612

Dear Mr Morris

I refer to letter from Senator the Hon Ian Macdonald dated 30 May 2000 which I have received in relation to the proposed review of the *Local Government (Financial Assistance) Act 1995*.

Senator Macdonald has asked that I formally convey these terms of reference to you so as to facilitate the commencement of the review of the *Local Government (Financial Assistance) Act 1995*.

Yours sincerely

JOHN FAHEY

TERMS OF REFERENCE FOR THE REVIEW OF THE
LOCAL GOVERNMENT (FINANCIAL ASSISTANCE) ACT 1995

The review under Section 17 of the *Local Government (Financial Assistance) Act 1995* will examine and report on:

- a) the effectiveness of the current arrangements under the Act to achieve the purposes of the Act and the goals in providing the grants that are referred to in Section 3 of the Act;
- b) the appropriateness of the current National Principles and, in particular, the retention of or variations of the minimum grant for the general purpose component in Section 6 of the Act;
- c) the consistency with the National Principles of the methodology and policies used by each of the State and Territory Grants Commissions in distributing funds to councils;
- d) As required by Section 17 of the Act, the review shall also examine and report on:
 - (i) the effectiveness of the arrangements under this Act in relation to ensuring that the allocation of funds for local government purposes is made on a full horizontal equalisation basis as mentioned in paragraph 6(2)(a); and
 - (ii) the impact of the Act on the raising of revenue by local governing bodies and on the assistance provided by the States to local governing bodies; and
 - (iii) the implications of any changes in the functions or responsibilities of local government bodies; and
 - (iv) the eligibility for assistance under this Act of bodies declared by the Minister under Section 4 to be local government bodies.

The Review will not address the interstate distribution of the general purpose and local road grants or the quantum of funds available under the Act.

ATTACHMENT B

SPECIFICATIONS FOR ELECTRONIC SUBMISSIONS

1. Submissions in electronic form may be provided through E-mail or on disc. Submissions that are sent by e-mail should be addressed to:

Secretary@cgc.gov.au

2. The Commission is presently using Microsoft Word 97 and Excel 97. If possible, we would like electronic material to be in these formats. We are, however, able to accept documents in:

- earlier versions of Microsoft Word,
- rich text format,
- Microsoft Works 3.0 and 4.0 for Windows, and
- Wordperfect 5.x and 6.x

and spreadsheets in:

- earlier versions of Excel,
- Lotus 1-2-3,
- Quattro Pro/DOS,
- Microsoft Works 2.0,
- Quattro Pro 1.0/5.0 for Windows, and
- DBase.