



Australian Government


Commonwealth Grants Commission

**REVIEW INTO IMPROVING THE IMPACT OF
FINANCIAL ASSISTANCE GRANTS ON LOCAL
GOVERNMENT FINANCIAL SUSTAINABILITY**

ISSUES PAPER

CGC 2012-03

November 2012

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Commission contact officer	Catherine Hull catherine.hull@cgc.gov.au 02 6299 8813
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LETTER OF TRANSMITTAL AND TERMS OF REFERENCE



**DEPUTY PRIME MINISTER
TREASURER**

PO BOX 6022
PARLIAMENT HOUSE
CANBERRA ACT 2600

Telephone: 02 6277 7340
Facsimile: 02 6273 3420

www.treasurer.gov.au

Mr Alan Henderson AM
Chairperson
Commonwealth Grants Commission
First Floor
Phoenix House
86-88 Northbourne Ave
BRADDON ACT 2612

9 NOV 2012

Dear Mr Henderson *Alan*

I am writing to convey to you the terms of reference for a Review on Improving the Impact of the Financial Assistance Grants on Local Government Financial Sustainability (the Review).

The terms of reference require the Commission to provide a report to the Australian Government by 31 December 2013, noting that the Commission will also be required to produce the 2013 Update of the GST Revenue Sharing Relativities and potentially consider issues arising from the Government's response to the final report of the GST Distribution Review. A draft (interim) report is not required to be prepared for this Review.

For the avoidance of doubt, references to the current funding envelope and to the relative need of local governments in the terms of reference relate to funding for each state provided through Financial Assistance Grants, exclusive of the South Australian supplementary roads funding.

Yours sincerely

WAYNE SWAN

Terms of Reference for Review into Improving the Impact of Financial Assistance Grants on Local Government Financial Sustainability

COMMONWEALTH GRANTS COMMISSION ACT 1973

I, Wayne Maxwell Swan, Deputy Prime Minister and Treasurer, pursuant to section 17 of the *Commonwealth Grants Commission Act 1973*, refer to the Commission for inquiry into and report upon, by 31 December 2013, the intrastate distribution of Financial Assistance Grants (FAGs) paid under sections 9 and 12 of the *Local Government (Financial Assistance) Act 1995*.

2. The objective of the Review is to identify tangible measures for improving the impact of the Local Government FAGs on the effectiveness of local governments and their ability to provide services to their residents within the current funding envelope.

3. The Commission should examine the impacts of FAGs on local government bodies and its appropriateness by focusing on:

- (a) examining in the intrastate context whether the National Principles that guide the allocation of the general purpose grants remain valid and are conceptually consistent with each other;
- (b) evaluating the economic and financial benefits of untied vs tied funding for enhancing the effectiveness of local governments and their ability to ensure effective services for their residents;
- (c) identifying the impact of the Minimum Grants principle on the intra-state distribution of FAGs; and
- (d) assessing the relative need of local governments in each State and Territory with a particular focus on those that service regional and remote communities.

SUMMARY

- The commission has been asked to identify tangible measures for improving the impact of the Local Government Financial Assistance Grants (FAGs) on the effectiveness of local governments and their ability to provide services to their residents within the current funding envelope. It is to report by December 2013.
- This paper sets out how the commission has interpreted what it has been asked to do, and identifies some issues on which it seeks views, analysis and data that would allow it to respond to its terms of reference.
- The commission will not be undertaking its own assessment of the needs of all local government bodies but will rely on assessments undertaken by Local Government Grants Commissions (LGGCs). Nor will it seek to determine the cost effectiveness of local government service delivery. It will focus on how the design of the FAGs system might be changed to increase the financial sustainability and effectiveness of local governments and their ability to provide services.
- At this time, the commission seeks submissions from interested parties on:
 - how the objective of the inquiry should be interpreted, in particular how the effectiveness of local governments and their ability to provide services should be judged
 - whether the commission’s interpretation of the requirements of its terms of reference should be modified
 - any views relating to individual clauses
 - any suggestions on how, within the current funding envelope for each State, the FAGs distribution process might be changed to improve the effectiveness of local governments, their ability to provide services and their financial sustainability
 - any research, analysis or data that would assist the commission in responding to the requirements of the terms of reference, including on the cost of administering the current system and of existing tied grants.
- Submissions should be sent to secretary@cgc.gov.au by 1 March 2013.

INTRODUCTION

- 1 On 14 November 2012, the commission received terms of reference (see letter at front) from the Treasurer asking it to report by December 2013 on a review into improving the impact of Financial Assistance Grants (FAGs) on local government financial sustainability.

- 2 The terms of reference state the objective of the review is to identify tangible ways of improving the impact of FAGs on the effectiveness of local governments and their ability to provide services to their residents within the current funding envelope.
- 3 This paper:
 - explains the commission’s current understanding of the requirements of its terms of reference
 - sets out how the commission proposes to run the review, including consultation with interested parties
 - provides background information on the current arrangements relating to the distribution of FAGs to local governments, the financial position of the local government sector in each State and the findings of a range of inquiries into local government — see Attachments A, B, C and D.

**PART A:
REQUIREMENTS OF THE TERMS OF REFERENCE**

- 4 The review is ‘to identify tangible measures for improving the impact of the Local Government FAGs on the effectiveness of local governments and their ability to provide services to their residents within the current funding envelope’.
- 5 Specifically we are asked to examine the impacts of FAGs on local governments and its appropriateness by:
 - examining in the intrastate context whether the National Principles that guide the allocation of the general purpose grants remain valid and are conceptually consistent with each other
 - evaluating the economic and financial benefits of untied vs tied funding for enhancing the effectiveness of local governments and their ability to ensure effective services for their residents
 - identifying the impact of the Minimum Grant principle on the intrastate distribution of FAGs
 - assessing the relative need of local governments in each State and Territory with a particular focus on those that service regional and remote communities.
- 6 In responding we will report our findings relating to each point and, where appropriate, identify changes to the FAGs distribution process which would enhance the effectiveness of local governments and their ability to provide services.

The meaning of some important terms

- 7 **The ‘current funding envelope’.** The letter from the Treasurer forwarding the terms of reference indicates the ‘current funding envelope’ should be taken to mean the total financial assistance (Commonwealth general purpose and untied local roads

grants) paid to each State for local government. The current funding envelope excludes the supplementary funding paid to South Australian local government bodies for local roads, other Commonwealth payments to each State for local government and payments made by each State government to local governments.

- 8 We consider the terms of reference clearly indicate that issues relating to the totality of FAGs and how it is derived in future years are beyond the scope of this inquiry. The commission will not consider or report arguments relating to these issues.
- 9 While we understand there have been changes in the timing of payments made to local government, we intend to base our analysis on the amounts actually paid to local government in a financial year. This will better reflect the financial circumstances of local governments in each year and will simplify the analysis.
- 10 **Effectiveness of local governments.** The review aims at improving the impact of FAGs on the financial sustainability and effectiveness of local governments and their ability to provide services.
- 11 We consider this relates to how well the services local governments deliver are aligned to the services residents seek, having regard to the cost of those services and the revenues residents contribute.
- 12 We believe we are asked to consider the service delivery effectiveness of the local government sector as a whole, with a focus on local governments serving regional and remote communities. We are not asked to consider the effectiveness of every individual local government. As a result, an improvement in the effectiveness and sustainability of local government need not require improvement in all local governments.
- 13 While concepts like cost effectiveness and 'value for money' are implicit in this broader view of effectiveness, and options which improve cost effectiveness might be identified in the review, we do not seek to undertake an audit of the cost effectiveness of local government. We consider that task beyond the terms of reference and doubt the data exists to undertake such a task.
- 14 Further, consistent with the funding envelope direction, we will not consider options which improve effectiveness by increasing the funds available from the Commonwealth or the States, or which change the interstate distribution. However, a different intrastate distribution of funding, or a different grant design, might improve effectiveness or encourage greater effectiveness over time.
- 15 We consider our terms of reference do not extend to considering options to improve service delivery by increasing the overall revenues raised by local governments themselves, for example through rates. However, there is a nexus between the revenue raising effort of individual local governments, the grants they receive, the effectiveness of the services they deliver and their financial sustainability.

- 16 We are interested to hear views on:
- how ‘improving the effectiveness of local governments and their ability to provide services’ should be interpreted and measured. To what extent should the interpretation relate to concepts such as aligning services with the requirements of residents, equity of service provision across the sector, sustainability of local governments and accountability for outcomes
 - whether there are options which would improve the effectiveness of the local government sector through changes in how revenue raising efforts and the receipt of grants interact.

SPECIFIC PARTS OF THE TERMS OF REFERENCE

Validity of the National Principles

- 17 The terms of reference ask the commission:
- to examine in the intrastate context whether the National Principles that guide the allocation of the general purpose grants remain valid and are conceptually consistent with each other.
- 18 This clause of the terms of reference requires analysis similar to that in the commission’s 2001 report¹, when it was asked to consider the appropriateness of the National Principles (which are set out in Attachment A). In that report, the commission considered whether the National Principles helped in achieving the purposes of FAGs set out in the Local Government (Financial Assistance) Act 1995 (the Act). At that time, the then commission concluded they did but that some (such as the horizontal fiscal equalisation principle and the minimum grant principle) were inconsistent with each other. Further details of the commission’s findings are in Attachment B.
- 19 Since the commission’s last inquiry there have been changes in the financial circumstances of local government. These include increased infrastructure spending which has moved the sector from a net lending position to a net borrowing position, an increase in the importance of revenue from sources other than rates, user charges and grants and a decline in the importance of roads and transport services (some details are in Attachment C). Concerns about the financial sustainability of local government and underspending on infrastructure have been raised in other inquiries (see Attachment D).
- 20 In our view, the request to assess the continuing validity and consistency of the national principles requires us to consider whether the principles are consistent with the objective of the Act governing the payments and whether the principles should

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

be adapted to better reflect the changing circumstances facing local government. This will include considering the following matters.

- Do the commission's previous interpretations of the objects of the Act, the national principles and the underlying intentions of the Commonwealth in providing assistance remain appropriate?
- Do current local government circumstances and any issues currently facing the Commonwealth, the States or local government in the FAGs distribution process suggest some of the principles should be changed or new ones introduced? For example:
 - How would changing the minimum grant principle affect the effectiveness of local governments and their ability to provide services?
 - Are infrastructure needs adequately recognised in the distribution of the FAGs and, if not, how might this be done?
 - Is there a need to vary the principles to facilitate improved accountability to the Commonwealth or the States?
 - Are there circumstances in which the Commonwealth or the States should have the ability to withhold or defer grants to individual local governments?
- The implications of any inconsistencies in the principles, and how they might be resolved so as to improve the effectiveness of local government.

21 We seek views on:

- what changes have occurred in local government circumstances in the last 10 years
- whether there are inconsistencies in the national principles and which national principles remain valid
- whether changes might be made to the national principles to make them more relevant to the objectives of the Act and current circumstances, and
- whether inconsistencies in the national principles requiring trade-offs are appropriate.

Untied vs tied funding

22 The terms of reference ask the commission:

to evaluate the economic and financial benefits of untied vs tied funding for enhancing the effectiveness of local governments and their ability to ensure effective services for their residents.

23 There are real differences between providing financial assistance through untied or tied funds.

- Untied (or unconditional) funding is usually provided to facilitate local decision making and outcomes which better reflect the preferences of the local

community, taking account of local circumstances. Untied funding usually has low transaction costs.

- Tied (or conditional) funding is usually provided to achieve particular purposes where the receiver of the funding is accountable to the provider and may be used if a provider considered the receiver may not otherwise provide certain services. Transaction costs are usually higher.

24 We note the Hawker report², while recommending that FAGs remain untied and collapsed into one pool, indicated some tied grant programs, such as the Roads to Recovery program, have been well received by local governments. It also reported that some local government bodies considered there was already too much 'form filling' required for the FAGs and tied grants.

25 This clause of the reference requires us:

- to explain the theoretical justification for each type of funding
- to outline how they currently work in the local government context - their costs and benefits and how they influence service delivery
- to examine how a tied funding approach to the distribution of FAGs might work and the impact it would have on the effectiveness of local government.

26 We also note the Act requires the Minister to prepare a report on the operation of the Act as soon as practicable after 30 June in each year. We think our review should examine the impact of that report and if there are options to change this reporting which would increase the effectiveness of local governments and their ability to improve services.

27 To help our analysis, we would like information on the following matters.

- What it currently costs to distribute untied FAGS (including details of the costs incurred by Commonwealth and State departments, LGGCs in distributing the funds and fulfilling the annual reporting requirements of the Act and details of costs incurred by local governments in making submissions, providing data and fulfilling reporting requirements).
- The tied funding provided to local governments by the Commonwealth and the States (including details of the purposes of each program, the performance/reporting requirements and how much tied funding is provided).
- The costs incurred by Commonwealth and State departments and LGGCs in distributing and fulfilling reporting requirements for each tied funding program and the costs incurred by local governments in making applying for and fulfilling reporting requirements for tied funds, by program.

² The Parliament of the Commonwealth of Australia (Oct 2003), *Rates and Taxes: A Fair Share for Responsible Local Government*, House of Representatives Standing Committee on Economics, Finance and Public Administration, Canberra (also known as The Hawker Report on Cost Shifting), p 65 and 132.

- Whether there are deficiencies in service delivery and accountability that arise under the untied grant approach that might be overcome through tied funding and vice versa.
- For which local council services are local councils best placed to decide service provision levels, for which are State governments best placed and for which is the Commonwealth best placed.
- If FAGs were to be tied, how might the funding process work:
 - would the Commonwealth or the States be responsible for developing tied grant arrangements with local government bodies, agreeing objectives/purposes, amounts, reporting arrangements (including how to measure whether the purposes had been achieved) and sanctions
 - how broadly or narrowly might the funding be tied — for example, would the Commonwealth, States or LGGCs tie proportions of the grants recommended by each LGGC for each council (say 30% for general public services, 50% for roads, 20% discretionary)
 - would State departments, LGGCs or local government bodies be responsible for reporting to the Commonwealth on the use of the grants?
- What are the likely compliance costs of a tied funding process and the impact on the current ‘funding envelope’?

The impact of the minimum grant principle on the intrastate distribution of FAGs

- 28 The terms of reference ask the commission:
- to identify the impact of the Minimum Grant principle on the intrastate distribution of FAGs.
- 29 Table 1 shows the number of local government bodies receiving the minimum grant has increased substantially between 2000-01 and 2010-11. It also shows the proportion of the total general purpose grants received by minimum grant councils and the proportion of the population living in them have increased by almost 20%. That is, more local government bodies are being assessed as having an equalisation need of less than the minimum grant. The increase has come about for a range of reasons: local government bodies are becoming more diverse in their assessed fiscal capacities; councils in developing areas have experienced faster than average increases in revenue capacity; and some disadvantaged councils have amalgamated with minimum grant councils. We propose to investigate the causes of these trends.

Table 1 Minimum grant local government bodies in 2000-01 and 2010-11

	2000-01	2010-11
Number of minimum grant councils	71	97
Proportion of councils receiving the minimum grant (%)	9.90	17.17
General purpose grant (\$m)	896.87	1 406.66
Amount paid to minimum grant councils (\$m)	76.03	155.47
Proportion of grants paid to minimum grant councils (%)	9.37	11.05
Proportion of population living in minimum grant councils (%)	29.07	34.34

Source: Department of Regional Australia, Local Government, Arts and Sport. The data were collated from the FAG database prepared for the Local Government National Reports.

- 30 The commission's 2001 report concluded minimum grants should be retained and should remain as 30% of each local government's population share of the general purpose funds. The commission said they were a means by which each local government received a share of the general purpose funds. On the other hand, the Hawker report concluded minimum grants should be abolished because they are a constraint on the distribution of the FAGs on an equalisation basis.
- 31 Given the methods the LGGCs use to identify the minimum grant local governments in each State, those local governments have fiscal capacities which exceed those of non-minimum grant local governments - they generally have higher revenue raising capacities and often have lower costs of providing services. After the distribution of FAGs, minimum grant local governments are over equalised and non-minimum grants local governments are under equalised.
- 32 We think this task requires us to identify whether having the minimum grant principle means the distribution of FAGs **within a State** results in local governments with different capacities to deliver services and whether this reduces the effectiveness of local government service delivery.
- 33 We seek views and analysis of how the minimum grant impacts the effectiveness of local government and its ability to deliver services, and what, if any, changes to the minimum grant would increase local government effectiveness.

Assessing the relative need of local governments in each State

- 34 The terms of reference ask the commission:
to assess the relative need of local governments in each State and Territory with a particular focus on those that service regional and remote communities.
- 35 The explanations of the current funding envelope and the relative need of local governments in the Treasurer's letter clearly focus this requirement on the relative needs of local governments within each State. It requires a consideration of what the needs are, what causes them and how they vary across local governments (especially

the regional and remote ones) within each State. This work would be informed by an examination of the assessments of each LGGC.

- 36 We do not propose to calculate the relative need of each local government in every State (over 500) for FAGs using the commission's own methods and data.
- 37 We envisage responding to this aspect of the terms of reference by comparing the services provided, average spending and revenue, and assessed fiscal capacities of groups of local governments in each State. The differences within, and across, groups will be examined. The groups may be based on features such as location, population, urban/rural, Indigenous status, or size of grant.
- 38 We seek information and views on:
- the services delivered by, the spending of, and the revenue raised by different groups of local governments in each State, with those groups based on the Australian Local Government classification
 - the factors which affect the sustainability, effectiveness and ability to deliver services of local governments
 - how these factors differ across groups of local governments, including those in regional and remote areas, within a State
 - how changes to the FAG arrangements and principles would affect differences in the sustainability, effectiveness and ability to deliver services of local governments.

PART B: THE INQUIRY

The commission

- 39 The commission operates under the *Commonwealth Grants Commission Act 1973*. It is a Commonwealth statutory authority whose role is to provide advice to the Australian Government in response to terms of reference from the Treasurer.
- 40 The Commission has reviewed local government matters before (Attachment B provides some further information).
- 41 This inquiry will be conducted by the chairperson of the commission (Alan Henderson AM) and three commissioners (Greg Smith, Patricia Faulkner AO and Glenn Appleyard). Brief details about them are in Attachment E.

Timetable for the inquiry

- 42 The commission will follow the timetable below in preparing its report.

When	What
End November 2012	Issues paper seeking submissions from the department and other interested parties
End January 2013	Date for advising if you wish to talk to the commission on 10 April
1 March 2013	Due date for submissions
10 April 2013	Hearing on submissions of interested parties in Canberra
Late April - May	Regional meetings
17-20 June	Possible further consultation on initial submissions in conjunction with National General Assembly of local governments, Canberra
September - October 2013	Possible second round of consultation on major issues
December 2013	Report

- 43 The commission aims to base its report on a firm understanding of the challenges and operations of local government and taking account of the views and suggestions interested parties have on how current arrangements could be changed to enhance their effectiveness.
- 44 We are aware of a wide range of reports into local government and its finances (Attachment D), and propose to draw on those reports and their analysis where they have a bearing on our terms of reference.
- 45 We have built our approach around consultation and the gathering of data which would allow us to analyse the current situation and, where possible, model the impact of proposed changes.

Consultation

- 46 We are proposing to seek the views of interested parties on several occasions.
- We seek submissions in response to this issues paper.
 - We will then hold public hearings in Canberra which could be attended by any party interested in putting their views to the commission in person. We may be able to consult further during the national general assembly of local governments to be held in Canberra in June 2013 if that is considered appropriate. Having regard to the request to focus on the relative need of local governments serving regional and remote areas, we will also hold some meetings in regional centres.
 - A further potential opportunity to provide written input on major issues may be provided before the report is finalised.

- 47 At this time, the commission seeks submissions from interested parties. Those submissions should address the terms of reference and provide views and information on:
- how the objective of the inquiry should be interpreted, in particular how the effectiveness of local government and their ability to provide services should be judged
 - whether the commission’s interpretation of the requirements of its terms of reference should be modified
 - any views relating to individual clauses, including on the specific questions raised above
 - any suggestions on how, within the current funding envelope, the FAGs distribution process might be changed to improve the effectiveness of local governments, their ability to provide services and their financial sustainability
 - any research, analysis or data that would assist the commission in responding to the requirements of the terms of reference, including on the cost of administering the current system and of existing tied grants.
- 48 Submissions should contain sufficient information to demonstrate the points they seek to make.
- 49 The commission will not respond to submissions, or parts of submissions, which are directed to issues outside its terms of reference, such as the size of the FAGs, their interstate distribution and the annual escalation processes.
- 50 Submissions should be provided to secretary@cgc.gov.au in word and PDF formats to satisfy accessibility requirements. They will be placed on the commission’s website unless confidentiality is requested.
- 51 Alternatively, submissions can be sent to:
- The Secretary
Commonwealth Grants Commission
1st Floor Phoenix House
86-88 Northbourne Avenue
Braddon, ACT, 2612

These will be scanned and placed on the website unless confidentiality is requested.

Data

- 52 The commission is collecting a range of basic information from the relevant agencies, such as the Department for Regional Australia, Regional Development and Local Government, the Australian Bureau of Statistics and LGGCs.
- 53 Information being collected includes:
- the actual revenues and expenditures of local government bodies

- the grants paid to each local government and the assessments the LGGCs made of the fiscal capacities of their local governments (revenue raising capacity and expense needs) — we will not be undertaking our own assessment of the needs of all local government bodies but will rely on those undertaken by LGGCs
- population and other demographic features for each local government area
- information on the costs of administering local government grants programs.

54 Other information and views requested throughout this paper should be included in submissions.

ATTACHMENT A

THE CURRENT ARRANGEMENTS FOR FINANCIAL ASSISTANCE GRANTS

- 1 The Australian Government provides financial assistance grants to local government under the *Local Government (Financial Assistance) Act 1995* (the Act). The objectives of the Act are set out in Box A1.

Box A1 **Objectives of The *Local Government (Financial Assistance) Act 1995*, amended 2012**

3 Objects of Act

- (1) This section explains the objects of the Parliament in enacting this Act.
- (2) The Parliament wishes to provide financial assistance to the States for the purposes of improving:
 - (a) the financial capacity of local governing bodies; and
 - (b) the capacity of local governing bodies to provide their residents with an equitable level of services; and
 - (c) the certainty of funding for local governing bodies; and
 - (d) the efficiency and effectiveness of local governing bodies; and
 - (e) the provision by local governing bodies of services to Aboriginal and Torres Strait Islander communities.
- (3) The financial assistance is to be provided by the making to the States, for local government purposes, of general grants under section 9 and additional funding under section 12.
- (4) In providing this financial assistance the Parliament's goals are to:
 - (a) increase the transparency and accountability of the States in respect of the allocation of funds under this Act to local governing bodies; and
 - (b) promote consistency in the methods by which grants are allocated to achieve equitable levels of services by local governing bodies.

The assistance and its interstate distribution

- 2 The total grant paid increases annually in line with changes in population and the Consumer Price Index, to maintain its real per capita value. The total amount paid in 2010-11 was \$2 104.4 million. Its interstate allocation is shown in Table A1.

Table A1 Commonwealth untied grants for local government, 2010-11, all States

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Financial assistance grants									
General purpose	469.3	359.3	292.2	148.3	106.8	33.0	23.2	14.9	1 446.9
Local roads	186.3	132.4	120.3	98.2	35.3	34.0	20.6	15.0	642.0
Supplementary payment for SA for local roads	--	--	--	--	15.6	--	--	--	15.6
Total	655.6	491.6	412.5	246.4	157.6	67.0	43.8	29.9	2 104.4

Note: Total financial assistance grants are the actual cash payment each State receives on behalf of local government. Since 2008-09, the Commonwealth has brought forward the first quarter payment from the next financial year to assist in local government's cash management. The payment in 2010-11 includes the last three quarters of the 2010-11 payments and the first quarter of the 2011-12 payments.

Source: Commonwealth Final Budget Outcome 2010-11

- 3 Financial Assistance Grants (FAGs) have two components:
- a general purpose component which is distributed between the States and Territories according to population shares and
 - an identified local road component which is distributed between the States and Territories according to fixed historical shares.
- 4 Both components of the grants are untied in the hands of local government, allowing local governments to spend the grants according to local priorities.
- 5 The table also shows the Supplementary funding to South Australian local government bodies for local roads, which is also untied.

Intrastate distribution

- 6 Local government grants commissions (LGGCs) in each State and the Northern Territory recommend the distribution of both components of the grants to local governing bodies. Their recommendations must be prepared in accordance with the Act and a set of National Principles for allocating grants (Box A2). The ACT does not have a local government grants commission because the Territory Government provides both State and local government type services.

Box A2 National Principles

In recommending Financial Assistance Grant allocations to local governing bodies, the local government grants commissions in each jurisdiction (other than the ACT) are required to make their recommendations in line with the National Principles formulated under the *Local Government (Financial Assistance) Act 1995*.

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 Australian Government minister responsible for local government to formulate National Principles after consulting with jurisdictions and local government.

General Purpose Grants

The National Principles relating to allocation of general purpose grants payable under section 9 of 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 each local governing body in the State or 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 or 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.

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 or Territory is entitled under section 9 of the Act in respect of the year were allocated among local governing bodies in the State or Territory on a per capita basis.

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.

5. Aboriginal peoples and Torres Strait Islanders

Financial assistance shall be allocated to local government bodies in a way, which recognises the needs of Aboriginal peoples and Torres Strait Islanders within their boundaries.

6. Council Amalgamation

Where two or more local governing bodies are amalgamated into a single body, the general purpose grant provided to the new body for each of the four years following amalgamation should be the total of the amounts that would have been provided to the former bodies in each of those years if they had remained separate entities.

Local Road Grants

The National Principle relating to 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:

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.

Tied funding

- 7 As well as the FAGs, local governments received tied funding from the Commonwealth and assistance from State governments. Table A2 summarises the total payments made by the Commonwealth and the States to local government. In 2010-11, FAGs funded only 7% of total local government expenses and all financial support from the Commonwealth and the States funded some 20% of local government expenses (excluding the ACT).

Table A2 Commonwealth and State financial support for local government, 2010-11

	NSW	Vic	Qld	WA	SA(a)	Tas	ACT(b)	NT	Aust
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Recurrent assistance									
Financial Assistance Grants									
- General purpose assistance(c)	64.63	64.39	64.34	64.07	64.72	64.86	64.06	64.91	64.46
- Untied local road funding	25.65	23.72	26.49	42.42	30.82	66.84	56.87	65.55	29.30
Commonwealth tied payments	0.23	0.27	0.33	0.48	0.50	0.81	0.76	2.40	0.35
State recurrent support	64.75	55.17	43.16	101.98	35.72	68.52	91.93	399.82	63.65
Total recurrent assistance	155.26	143.55	134.32	208.95	131.76	201.03	213.62	532.68	157.76
Capital assistance									
Commonwealth tied payments	23.26	25.14	38.11	38.51	32.39	46.57	5.01	44.18	29.42
State capital support	29.36	19.22	270.90	24.32	5.84	0	0	40.95	72.43
Total capital assistance	52.62	44.36	309.01	62.83	38.23	46.57	5.01	85.13	101.85
TOTAL ASSISTANCE	207.88	187.91	443.33	271.78	169.99	247.60	218.63	617.81	259.61

(a) Untied local road funding for SA includes Supplementary funding to SA local government bodies for local roads.

(b) State support is estimated because GFS does not have a local government sector for the ACT.

(c) These are distributed EPC but population estimates have changed since the original distribution.

Source: Commonwealth Final Budget Outcome 2010-11, other data from Treasury and ABS; CGC analysis.

Accountability requirements

- 8 The Act requires the Minister to prepare an annual report relating to the operation of the grant processes and addressing a range of other matters such as the efficiency of local government, as soon as practicable, after 30 June each year. The reporting requirements are listed in Box A3.
- 9 However, it appears the 2008-09 report is the last, publicly available one.
- 10 Various specific accountability requirements apply to each tied payment, such as the Roads to Recovery and Regional and Local Community Infrastructure programs.

Box A3 Reporting requirements of the Act

16 Reports

- (1) The Minister must, as soon as practicable after 30 June in each year, cause a report or reports to be prepared about the operation of this Act in respect of the year.
- (2) The Minister must ensure that relevant State Ministers and a body or bodies representative of local government are consulted in connection with the preparation of a report under subsection (1).
- (3) The report or one of the reports must include an assessment by the Minister (based on comparable national data), in relation to the year, of:
 - (a) the extent (if any) to which the allocation of funds for local government purposes has been made on a full horizontal equalisation basis as mentioned in paragraph 6(2)(a); and
 - (b) the methods used by the Local Government Grants Commissions in making their recommendations; and
 - (c) the performance by local governing bodies of their functions including:
 - (i) their efficiency; and
 - (ii) services provided by them to Aboriginal and Torres Strait Islander communities.

ATTACHMENT B

THE COMMISSION AND LOCAL GOVERNMENT GRANTS

- 1 The *Commonwealth Grants Commission Act 1973*, Section 17 provides for the commission to report on assistance to States for local government purposes:
 - (1) The Commission shall inquire into and report to the Minister upon any matters:
 - (a) being matters relating to the making of a grant of assistance to a State, under section 96 of the Constitution, for local government purposes; or
 - (b) being matters relating to a grant of assistance made to a State, under section 96 of the Constitution, for local government purposes;that are referred to the Commission by the Minister.
- 2 Under this section, the commission has provided advice to the Commonwealth on the basis of 'the principal of fiscal equalisation expressed in the *Grants Commission Act 1973*^{1 2}, on:
 - the appropriate distribution among the States of personal income tax collections allocated to local government (1976, 1977 and 1979)
 - the principles and methods the commission had used for assessing assistance for individual local government bodies in 1974 and 1975 and the method it used in 1976 for distributing assistance between the States which was to aggregate the assessed grants of individual local government bodies (1976)
 - the interstate distribution of general purpose grants (1991)
 - the operation of the Local Government (Financial Assistance) Act 1995 (2001)
 - the interstate distribution of local road grants (2006).

¹ The Act says that 'References in this Act to the grant of special assistance to a State shall be read as references to the grant of financial assistance to a State for the purpose of making it possible for the State, by reasonable effort, to function at a standard not appreciably below the standards of other States.'

² The principle was not always applied purely as that was not always considered appropriate for local government purposes (1975 report, p 5).

- 3 From 1977-78 to 1985-86, local government funds were shared between the States using the percentage distribution recommended by the commission in its 1977 report.
- 4 Between 1986-87 and 1989-90, the interstate distribution was gradually moved to an equal per capita (EPC) distribution following the Self inquiry into the operation of the 1976 Local Government Act. This was despite the inquiry's 'first preference' being for reviews of the interstate distribution of funds for local government to be conducted in conjunction with reviews of general revenue assistance to the States undertaken by the Commonwealth Grants Commission.
- 5 The distribution remains EPC today. The terms of reference for the commission's 2001 Inquiry into the Operations of the Local Government Act specifically said 'The Review will not address the interstate distribution of the general purpose and local roads grants or the quantum of funds available under the Act.'

The 2001 inquiry

- 6 In that inquiry, the commission was asked to consider whether the arrangements for the FAGs achieved the Commonwealth's purposes and goals as set out in the Act, the appropriateness of the National Principles and whether the methods and policies of the LGGCs are consistent with the National Principles.
- 7 At that time it concluded:

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.
- 8 Its more detailed conclusions on the main requirements of its reference were as follows.
 - The effectiveness of the current arrangements in achieving the purposes of the Act and the goals in providing the grants.
 - The current arrangements have broadly achieved the Commonwealth's purposes and goals.

- Some of the existing purposes and goals are not clear. Their language needs to be improved so they are better understood and more effectively achieved.
- The Financial Capacity and Certainty of Funding purposes have been achieved.
- The underlying intention of the Equitable Level of Services purpose is broadly being achieved.
- The Efficiency and Effectiveness purpose is not being achieved. This is not a relevant purpose for an Act that provides for the distribution of untied assistance.
- The Aboriginal Peoples and Torres Strait Islanders purpose is not being achieved. This is not a relevant purpose for an Act that provides for the distribution of untied assistance.
- Transparency of and accountability in the grant distribution process can and should be improved.
- The methods of Local Government Grants Commissions (LGGCs) are not consistent with the intentions underlying the purposes and Principles in all respects, and changes are required.
- The appropriateness of the current National Principles and, in particular, the retention or variations of the minimum grant for the general purpose component in Section 6 of the Act.
 - The underlying intention of the Horizontal Equalisation Principle is being implemented but horizontal equalisation is not being achieved. The language of the Horizontal Equalisation National Principle should be revised. The term horizontal equalisation should be replaced with relative need based on equalisation principles.
 - The provision of a minimum level of financial assistance to all local governing bodies (LGBs) should be retained. The Minimum Grant Principle should be replaced by a Per Capita Principle which would provide a universal grant to all LGBs. The universal grants would be funded by what is now 30 per cent of the General Purpose pool.
 - The Effort Neutrality, Other Grant Support and Identified Road Component are appropriate Principles and should be retained but their language should be improved to make them easier for LGGCs and LGBs to understand.
 - The Aboriginal Peoples and Torres Strait Islanders Principle has not been consistently addressed by LGGCs. The Principle should be retained and strengthened to make explicit that the needs of Indigenous people must be recognised in equalisation assessments.

- The consistency with the National Principles of the methods and policies used by each of the State Grants Commissions in distributing funds to local government bodies.
 - While the underlying intention of the Horizontal Equalisation Principle is being implemented some changes are needed in LGGCs' methods to promote more effective implementation of equalisation.
- 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.
 - While horizontal equalisation cannot be achieved, the current arrangements have, in broad terms, ensured that funds have been distributed in way that is consistent with the Commonwealth's intentions.

9 However, it also noted some of the national principles (such as the Horizontal Fiscal Equalisation principle and the minimum grant principle) were inconsistent with each other.

10 It said the following changes would clarify the Commonwealth's intentions in providing assistance and the relationships between the purposes of the Act and the funds provided.

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

11 The commission considered 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.

The 2006 Inquiry into the interstate distribution of local roads grants

12 This inquiry concluded:

- the existing interstate distribution of the local road grants did not reflect current local road expenditure needs — it had not changed since 1995-96 and in most cases reflected funding received prior to 1991-92
- data deficiencies prevented the use of a conceptually appropriate approach based on the relative lengths of different road types, relative use of those roads and their maintenance costs.

- 13 It recommended deriving State shares by applying the average per person spend in urban, rural and remote areas to each State's population in those areas.
- This approach recognised the different maintenance tasks in urban, rural and remote areas, but assumed those areas were similar in all States so the same per person expenditure would provide the same maintenance service.
- 14 It said, if governments want the grants to be allocated in a more rigorous way, resources will need to be committed to ensuring consistent and comparable national data are available on road lengths, use and maintenance expenses.

Commission Local Government Reports

- CGC, *First (1974), Second (1975), Third (1976) and Special (1977, 1978, 1979) Reports on Financial Assistance for Local Government.*
- CGC (1991), *Report on the Interstate Distribution of General Purpose Grants for Local Government.*
- CGC (2001), *Review of the Operation of the Local Government (Financial Assistance) Act 1995.*
- CGC (2006), *Report on the review of the interstate distribution of local roads grants.*

ATTACHMENT C

THE FINANCIAL POSITION OF STATE LOCAL GOVERNMENT SECTORS

The current financial situation of State local government sectors

- 1 Table C1 shows all State local government sectors, apart from those of New South Wales and Victoria, were net borrowers in 2010-11. On a per person basis, Tasmania's local government sector borrowed the most.
- 2 Most local government revenue comes from rates and the main spending priorities are transport and communications (roads), housing and community amenities (water and sewerage).
- 3 On the revenue side of the budget, Queensland and the Northern Territory had the highest total revenue per person, while South Australia and Tasmania had the lowest. Again, the composition of the revenue differed across States:
 - South Australia's taxation revenue (mostly rate revenue) per person was 17% above the average. It was about 9% above average in Queensland, Western Australia and Victoria and 33% below the average in the Northern Territory.
 - Revenue per person from the sales of goods and services was well above the average in Queensland, New South Wales and the Northern Territory, reflecting the roles in providing urban transport, water and sewerage services. Revenue per person from sales of goods and services in South Australia was less than half the average mainly because it was not responsible for water supply.
- 4 In 2010-11, expenses per person were highest in Queensland and the Northern Territory and lowest in South Australia. The differences were partly because local government sectors in different States perform different functions. For example, Queensland and Northern Territory local government bodies spend more per person than average largely because they provide water and sewerage services.

Table C1 Local government operating statement, 2010-11 (a)

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
GFS Revenue									
Taxation revenue	457	611	615	614	658	585		375	562
Current grants and subsidies	155	144	135	166	137	208		501	153
Sales of goods and services	445	244	569	334	179	240		427	383
Other income	324	433	711	336	172	138		549	419
Total	1 381	1 432	2 031	1 450	1 146	1 171		1 852	1 517
Less									
GFS expenses									
General public services	229	154	483	162	153	198		724	254
Public order and safety	42	26	36	45	19	12		74	35
Education	7	14	1	1	0	0		13	7
Health	12	15	11	21	26	24		13	15
Social security and welfare	47	179	14	60	57	47		105	76
Housing and community amenities	324	253	350	220	230	248		375	292
Recreation and culture	162	209	194	285	198	196		214	197
Fuel and energy	0	0	1	0	5	0		4	1
Agriculture, forestry and fishing	0	1	3	0	5	0		0	1
Mining, manufacturing and construction	27	0	22	13	18	0		0	16
Transport and communications	239	215	529	320	207	350		196	301
Other economic affairs	40	60	37	38	41	61		166	46
Public debt transactions	29	9	55	12	21	8		4	26
Other	92	38	25	73	84	41		70	60
Total	1 252	1 173	1 761	1 249	1 062	1 185		1 957	1 328
Equals									
GFS Net Operating Balance	129	259	270	201	84	- 12		- 105	189
Less									
Net acquisition of non-financial assets	107	198	407	219	139	191		- 35	206
Equals									
GFS Net Lending(+)/Borrowing(-)	22	61	- 137	- 17	- 56	- 202		- 70	- 17

(a) The ACT does not have a separate local government sector in GFS.

Source: Commission analysis of ABS GFS (5512.0) and Australian Demographic Statistics (3101.0).

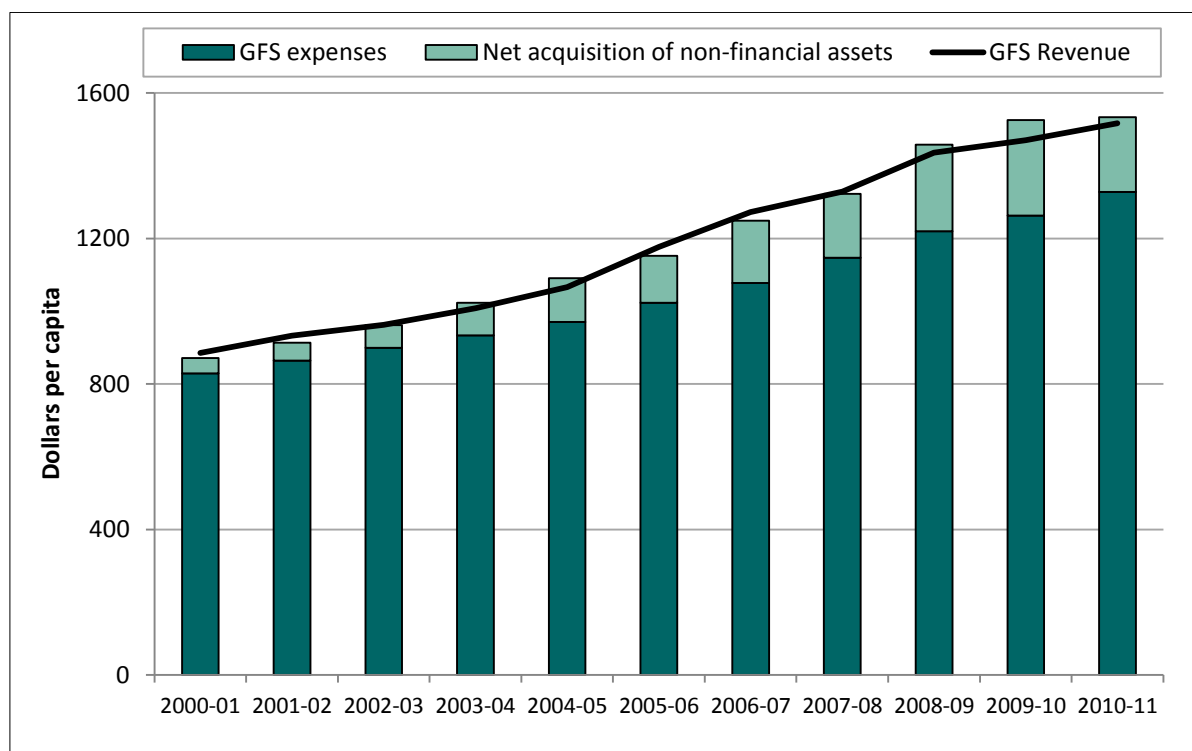
Changes in Local government financial circumstances over time

5 Figure C1 shows the local government sector's total revenues have been approximately equal to its outgoings for the last decade. The sector moved from having small net lending of \$14 per person in 2000-01 to small net borrowings of \$17 per person in 2010-11. This change reflects increased infrastructure investment (it increased from \$42 per person in 2000-01 to \$206 in 2010-11) rather than deteriorating operating results. The average operating result increased from a surplus of \$56 per person in 2000-01 to \$189 per person in 2010-11. The improvement in

operating outcomes is partly due to increases in capital assistance from the States and the Commonwealth.

- 6 More importantly, the average operating surplus in 2000-01 arose because the surpluses in New South Wales (\$96 per person) and Queensland (\$184 per person) outweighed the deficits incurred in all other States. The operating results improved in all States in 2010-11. The improvement was greatest in Victoria which moved from an average operating deficit of \$6 per person in 2000-01 to an average surplus of \$259 in 2010-11. Tasmania and the Northern Territory still had operating deficits, but they were lower than those in 2000-01.

Figure C1 Local government budget position, all States, 2000-01 to 2010-11



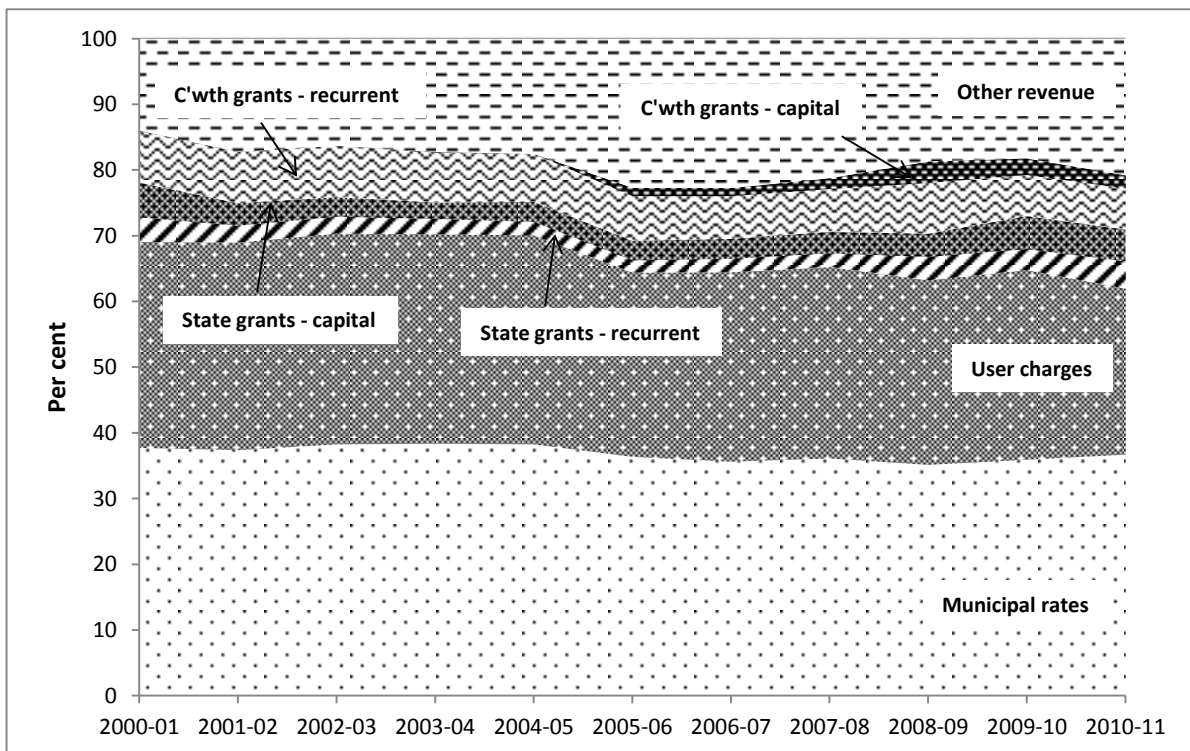
Source: Commission analysis of ABS GFS (5512.0) and Australian Demographic Statistics (3101.0).

- 7 The composition of revenues has remained relatively steady since 2000-1. Figure C2 shows:
- rates remain the largest single source of local government revenue, but their importance declined slightly from 38% of revenue in 2000-01 to 37% in 2010-11
 - user charges have declined as a proportion of total revenue from 31% in 2000-01 to 25% in 2010-11
 - support from Commonwealth recurrent financial assistance grants has declined from 8% in 2000-01 to 6% in 2010-11
 - Commonwealth capital and specific purpose grants rose from almost zero in 2000-01 to about 2% in 2010-11. Thus aggregate Commonwealth assistance has

remained steady, although it did increase in 2008-09 when capital grants increased and some recurrent grants were pre-paid

- support from State governments has also remained steady at 9% in 2000-01 and 2010-11
- the biggest change in recent years is in other revenue which includes revenue from interest earnings, contributions from trading activities, developer contributions. This revenue increased from 14% of the total in 2000-01 to 21% in 2010-11, but reached almost 23% in 2005-06 and 2006-07.

Figure C2 Local government revenue by type, all States, 2000-01 to 2010-11



Notes: 1. Other revenue includes interest income, Commonwealth grants direct to local government (recurrent), and other revenue. 2. Commonwealth grants – recurrent includes general purpose assistance funding and untied local road funding. 3. Data used in this chart don't include the ACT because the ACT does not have a separate local government sector in GFS.

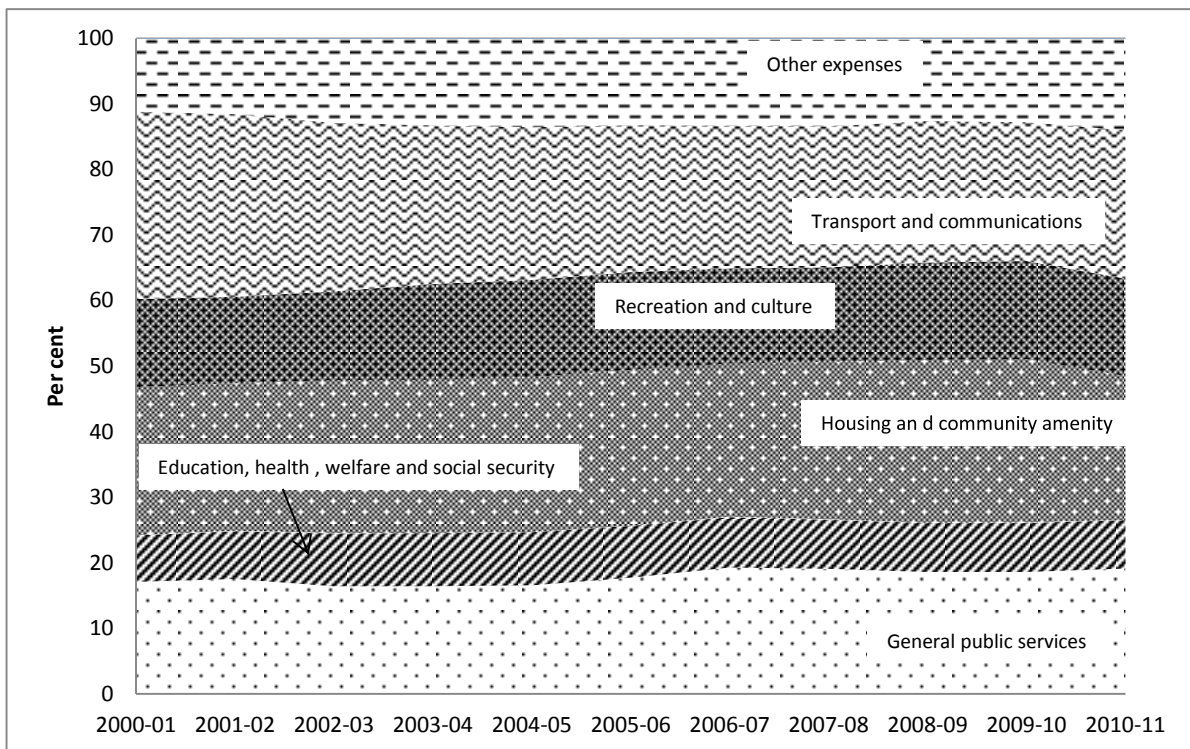
Source: Commission analysis of ABS GFS and Commonwealth Final Budget Outcome.

8 On the spending side, there has been a shift in the priorities for the services provided, with roads, transport and communications being replaced as the largest function by housing and community amenities in most years since 2005-06. Figure C3 shows:

- Roads and other transport services have fallen from 29% of expenses in 2000-01 to 23% in 2010-11

- Housing and community amenities have declined slightly from 23% of total expenses in 2000-01 to 22% in 2010-11, but they reached 25% of expenses in 2008-09 and 2009-10
- Recreation and culture has increased from 13% in 2000-01 to 15% in 2010-11
- People services (education, health, welfare and social security) have remained steady at 7% of expenses in 2000-01 and 2010-11
- General public services have increased from 17% in 2000-01 to 19% in 2010-11

Figure C3 Local government expenses by purpose, all States, 2000-01 to 2010-11



Note: Other expenses include local government spending on Public safety and order, Fuel and energy, Agriculture, forestry and fishing, Mining, manufacturing and construction, Other economic affairs, Public debt transactions and other expenses.

Source: Commission analysis of ABS GFS and Commonwealth Final Budget Outcome.

ATTACHMENT D

FINDINGS OF OTHER INQUIRIES RELATING TO LOCAL GOVERNMENT FINANCIAL CIRCUMSTANCES

- 1 Aspects of the financial position of local government have been examined in a number of national and State inquiries since 2001. These included State-based inquiries into the sustainability of local government in New South Wales, Western Australia, South Australia and Tasmania and an Australian Local Government Association sponsored overview inquiry into the sustainability of local governments. Those inquiries noted the meaning of ‘financial sustainability’ was contested, but they used a definition that had much in common with the following one from the New South Wales study.

A council’s finances should be considered sustainable in the long term only if its financial capacity is sufficient – for the foreseeable future – to allow the council to meet its expected financial requirements over time without having to introduce substantial or disruptive revenue (and expenditure) adjustments⁵.

- 2 Common themes to emerge from the conclusions of those inquiries which may have some relevance to the commission’s inquiry include the following⁶.
 - Local government’s role and functions have expanded considerably over recent decades. There is now a mismatch between expenditure demands and current levels of revenue, especially own-source revenues, which is often seen in inadequate infrastructure maintenance and renewal.
 - Many local government’s finances are unsustainable. For example, the study commissioned by the Australian Local Government Association⁷ collated the

⁵ Independent Inquiry into the Financial Sustainability of NSW Local Government, 2006, *Are Councils Sustainable? Final Report: Findings and Recommendations*, NSW Local Government and Shires Associations, Sydney.

⁶ The preparation of these themes has drawn on a September 2011 paper by the Australian Centre of Excellence for Local Government ‘*Unfinished business? A Decade of Inquiries into Australian Local Government*’, Working Paper No 4, University of Technology Sydney and the Productivity Commission’s 2008 Research Report, *Assessing Local Government Revenue Raising Capacity*, Canberra.

results of separate studies in New South Wales, Victoria, Western Australia and South Australia. It concluded around 35% of councils in those States are not financially sustainable, although the proportion varied from State to State. Other financial ratio analysis of a sample of 100 local governments across all States suggested that up to 30% of councils could have sustainability issues. On the basis of data for 2004-05, this analysis suggested:

- some 16% of councils had an operating deficit of over 10% of revenue
 - 21% of councils had a current assets to current liabilities ratio of less than 1 implying they could have liquidity issues, with 12 to 50% of the urban fringe, urban development, rural remote and rural agricultural groups⁸ of councils being in this position
 - while nationally council rate revenue covered a median of 48% of their costs, in 87% of rural remote and 54% of rural agricultural councils rates covered less than 40% of costs
 - the majority of larger metropolitan councils are generally viable or have the ability to self-effect an improvement in financial sustainability
 - rural remote and rural agricultural councils generally have more pronounced viability problems and typically have relatively larger scope for internal reforms, although they often face scale issues.
- More could be done by local government bodies themselves to increase own source revenues, although the extent they could do so varies across local government bodies and depends on their circumstances. It may also be affected by State constraints on changes in the level of rates. The Productivity Commission concluded:
 - Local governments are on average raising about 88% of their hypothetical benchmarks — based on the total after-tax income of their communities.
 - Local governments in urban areas are predominantly funded from their own sources of revenue, particularly rates, fees and charges, but urban developed local government bodies tend to draw relatively lightly on their fiscal capacities⁹. Some urban local government bodies could increase their revenue raising effort and become financially independent – able to fund their current level of expenses without grants.
 - Grants are a substantial source of revenue for rural and remote local government bodies. However, they tend to draw more heavily on their

⁷ PriceWaterhouseCoopers, *National Financial Sustainability Study of Local Government*, November 2006.

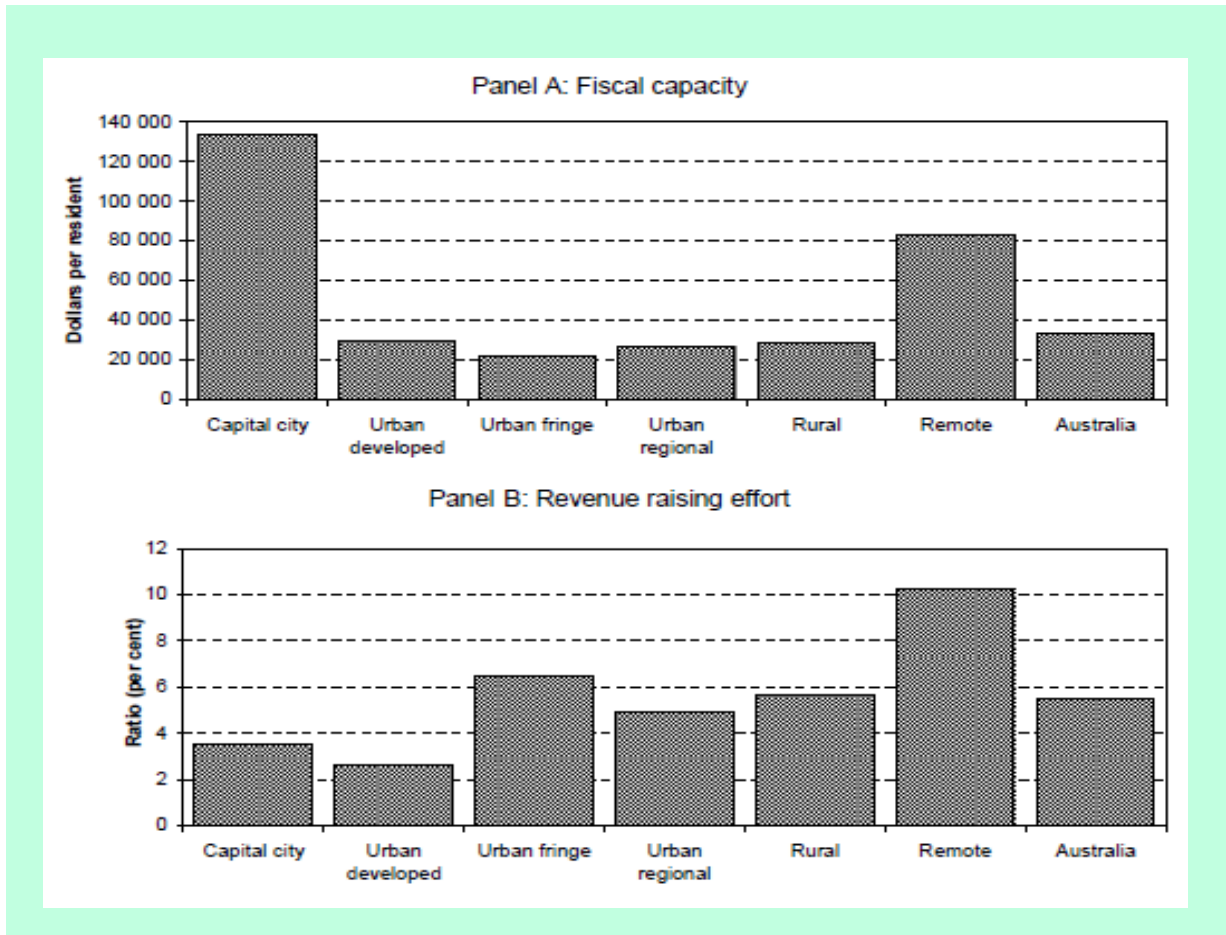
⁸ These groups are based on the Australian Classification of Local Governments established by the Department of Transport and Regional Services.

⁹ The Productivity Commission measured the fiscal capacity of a council in terms of the aggregate after-tax income of its community.

fiscal capacities and a significant number of them will remain highly dependent on grants, despite high levels of revenue-raising effort.

- Box D1, which is taken from the Productivity Commission report, illustrates its conclusions on the revenue capacities and revenue efforts of different groups of local government bodies.
- Financial sustainability issues are often manifested in the deferral or underspending on infrastructure, particularly community infrastructure.
- Many local government bodies could also help themselves by improving their financial governance and asset and financial management.
- Many smaller local governments struggle with a lack of scale in their operations. However, neither amalgamation nor resource sharing will ensure the sustainability of thinly populated and often geographically very large rural and remote local government. Increased external support appears essential.

Box D1 Productivity Commission conclusions on fiscal capacity and revenue effort



Note: The Productivity Commission measured the fiscal capacity of a local government as the total after tax community income, which covered personal incomes (excluding social security payments) plus gross operating surplus of unincorporated businesses per resident. It measured revenue effort as a local government’s own-source revenue per resident divided by its fiscal capacity.

Source: Productivity Commission, 2008 Research Report, *Assessing Local Government Revenue Raising Capacity*, Canberra, Figure 3, page xxvi.

- 3 Many reports have concluded there is a case to review the provision of Australian Government general purpose grants to local government.
- After drawing many of those views together, the Australian Centre for Excellence in Local Government (ACELG) said such a review should consider giving more weight to the differing fiscal capacities and revenue raising efforts of local government bodies, recognise that the quantum of assistance is unlikely to reach a level sufficient to achieve full equalisation and review the annual escalation factor.
 - The Hawker Report¹⁰ called for a new method for distributing FAGs to local governments which, among other things, included a national needs based distribution to local governments which reduced or abolished the minimum grants.
 - The study commissioned by the ALGA suggested changes to intergovernmental funding for improved financial sustainability to primarily assist the types of local governments with sustainability challenges, although many of the specific suggestions involve an increased Commonwealth funding envelope.

¹⁰ The Parliament of the Commonwealth of Australia (Oct 2003), *Rates and Taxes: A Fair Share for Responsible Local Government*, House of Representatives Standing Committee on Economics, Finance and Public Administration, Canberra (also known as The Hawker Report on Cost Shifting).

ATTACHMENT E

COMMISSION MEMBERS CONDUCTING THE INQUIRY

- 1 This inquiry will be conducted by the chairperson of the commission (Alan Henderson AM) and three commissioners (Greg Smith, Patricia Faulkner AO and Glenn Appleyard).
 - Alan Henderson AM (chairperson) has held a range of senior positions in the departments of the Prime Minister and Cabinet, Treasury and Defence and has significant experience in Commonwealth-State relations. In recent years, Alan has worked as a public sector consultant and is an Adjunct Professor, Centre for Governance and Public Policy, Griffith University, Queensland.
 - Greg Smith is a former Executive Director of the Australian Treasury and was a member of the Henry Tax Review. Greg is now an Adjunct Professor in Economic and Social Policy at the Australian Catholic University and a consultant in public policy.
 - Patricia Faulkner AO recently retired as chair of the Prime Minister's Social Inclusion Board and currently chairs Superpartners Pty Ltd, the National Health Performance Authority and Jesuit Social Services. She is a member of the COAG Reform Council and a Board member of St Vincent's Health Australia. Patricia was a Partner and Global Leader for Healthcare at KPMG and prior to that, the Secretary of the Victorian Department of Human Services.
 - Glenn Appleyard has been a Deputy Secretary in the Tasmanian and Victorian Departments of Treasury and Finance, Regional Director for the Australian Bureau of Statistics in Tasmania, Chair of Tasmania Medicare Local and a member of the Australian Accounting Standards Board. Glenn is currently an economic consultant, Chair of the Tasmanian Economic Regulator, Chairman of PSMA Australia Limited and a member of the Independent Hospital Pricing Authority.