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Fiscal Equalisation: Financial Assistance Grants to Local Government in Australia

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Local government financial assistance grants are general purpose grants that are paid to local councils under the provisions of the *Commonwealth Local Government (Financial Assistance) Act 1995*.

Financial Assistance Grants are distributed on the basis of horizontal fiscal equalisation, or relative need. That is, local governing bodies receive a grant to assist them to function at the average standard for the state. Differences in expenses for performance of functions and the capacity to raise revenue are taken into account to establish the average level of performance in revenue capacity and expenditure need.

A range of factors, such as isolation, dispersion, Aboriginality, population and projected growth are used to reflect differences in the costs faced by councils. The difference between the expenditure and revenue is then used to work out how to distribute the grant money.

The allocation of Commonwealth funds between States and Territories for the Financial Assistance Grant is increased annually in real per capita terms and includes a Consumer Price Index (CPI) adjustment based on the difference between the estimated and actual CPI from the previous year's grant, as well as a population adjustment.

Each State and Territory is required to establish a Grants Commission to gather information from a number of sources such as the Australian Bureau of Statistics, council visits, submissions and hearings when formulating the final grant assessment for each council.

Funding by the Commonwealth to Local Government is provided in two components:

- fiscal equalisation component – general purpose untied grants that are distributed between the States and Territories according to population (i.e., on a per capita basis);
- a road component – identified local road grants are distributed between the States and Territories on the basis of the relative needs of each local governing body for road expenditure and to preserve its road assets.

Both grants are untied, which means that there are no conditions on how the money is spent, but it must be included in the annual audited financial statements. Grant money is provided to ensure that each council has the same capacity to deliver the same level of service as all other councils in each State and Territory. Payments are made on a quarterly instalment basis.

General Purpose Grant

The methodology used for allocating this component must comply with five National Principles. The National Principles are as follows:

1) *Horizontal Equalisation*

General purpose grants will be allocated to all local governing bodies, as far as practicable, on a full horizontal equalisation basis as defined by the Act. This is a basis that ensures that each local governing body in the State/Territory is able to function, by reasonable effort, at a standard not lower than the average standard of other local governing bodies in the State. 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 expenditure requirements and revenue raising capacity of each local governing body. This means that as far as possible, policies of individual local governing bodies in terms of expenditure and revenue effort will not affect the grant determination.

3) *Minimum Grant*

The minimum general purpose grant allocation for a local governing body in a year will not be less than the amount to which the local governing body would be eligible to receive if 30% of the total amount of general purpose grants to which the State/Territory is entitled under the Act in respect of the year were allocated among local governing bodies in the State/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 and Torres Strait Islanders*

Financial assistance shall be allocated to councils in a way which recognises the needs of Aboriginal and Torres Strait Islanders within their boundaries.

The general purpose pool is distributed under these Principles as:

- 30% Minimum Grant; and
- 70% Relative Need

Every local governing body throughout the country is entitled to a Minimum Grant. This grant is equivalent to 30% of the general purpose pool distributed on a per capita basis. In 2004-05, the amount was \$16.27 per capita.

To determine relative need, the Commission develops averages for revenue raising and expenditure on services to be applied equally to all local governments within the State.

Identified Road Grant (IRG)

The Identified Road Grant is allocated as far as practicable on the basis of relative need for each local governing body for roads expenditure and to preserve its road assets. The National Principle states that two aspects are to be considered when allocating the Local Roads grants, they are, relative needs and preservation of assets. There is no requirement for horizontal equalization.

The formula used to distribute the Identified Road Grant among councils is set on the basis of road length and population. The Commission currently applies the following formula:

- 62.85% according to the road length; and

- 37.15% according to population

For 2004-05 the amount per kilometre of road was \$372.51 and \$8.64 per capita.

Financial Assistance Grant Estimated Allocations 2004-2005

The 2004-05 estimated allocation for all States and Territories is \$1,547,583,188 and is based on an estimated CPI index for the quarter ended 30 June 2004. This is an increase of \$26 million over actual cash payments in 2003-04. Financial assistance grants are untied in the hands of Local Government.

Around two thirds or around \$1 billion of the financial assistance grants go to councils in rural and regional Australia.

New South Wales

NSW receives about 33.6% of all general purpose grants (NSW has 33.6% of Australia's population). On current estimates the final figure for grants for 2004/05 for NSW is anticipated to be \$359 million for general purposes, and \$138 million for roads (29% of the national funds).

The combined grants represent approximately 8% of all NSW councils' total revenue.

Victoria

On current estimates the final figure for grants for 2004/05 for Victoria is anticipated to be \$265 million for general purposes, and \$98 million for roads.

Queensland

On current estimates the final figure for grants for 2004/05 for Queensland is anticipated to be \$205 million for general purposes, and \$89 million for roads.

Western Australia

On current estimates the final figure for grants for 2004/05 for WA is anticipated to be \$105 million for general purposes, and \$72 million for roads.

South Australia

On current estimates the final figure for grants for 2004/05 for SA is anticipated to be \$82 million for general purposes, and \$26 million for roads.

Tasmania

On current estimates the final figure for grants for 2004/05 for Tasmania is anticipated to be \$25 million for general purposes, and \$25 million for roads.

Northern Territory

On current estimates the final figure for grants for 2004/05 for the NT is anticipated to be \$10 million for general purposes, and \$11 million for roads.

State and Territory Systems

A local Government Grants Commission exists in each State and the Northern Territory to determine the level of funding to distribute to Local Government authorities in line with Commonwealth Legislation and on the basis of agreed National Principles. Each state and the Northern Territory must have a Local Government Grants Commission for it to receive funding. It is the responsibility of each Grants Commission to make recommendations on the allocation of grants in their state.

New South Wales

The NSW Grants Commission makes recommendations to the NSW Minister for Local Government. If accepted the recommendations are referred to the Commonwealth Minister for Local Government, Territories and Roads for final approval.

The Commission consists of four members appointed for terms of up to five years and eligible for reappointment. The members consist of three members nominated by the Minister, one of whom is the Chairperson, and the Deputy Chairperson, who is an officer of the Department of Local Government. Of the members, at least two must be persons who are or have been associated with local government in New South Wales.

The members of the Commission are part-time other than the Deputy Chairperson who is a full-time officer of the Department of Local Government. The Commission's support staff consists of two full-time officers of the Department of Local Government:

Victoria

The Victoria Grants Commission is an independent statutory body operating under the *Victoria Grants Commission Act 1976*. The Commission can only provide funding to local governing bodies (councils) in Victoria. The Commission falls within the portfolio responsibilities of the Minister for Local Government.

All funds allocated by the Commonwealth are distributed to councils. All of the Commission's costs are met by the Victorian Government through the Department for Victorian Communities.

The members consist of a Chairman and two members appointed by the Governor in Council. Of the members, at least two must be persons who have had a previous association with the local government sector. All members undertake their responsibilities on a part-time basis. The Commission is staffed by employees of Local Government Victoria, Department for Victorian Communities. The Commission's Executive Officer leads a team of three core staff members.

Queensland

The Queensland Local Government Grants Commission is an independent statutory body, which makes recommendations to the Minister for Local Government and Planning on the distribution of the Commonwealth's Financial Assistance Grant to 157 local governing bodies (councils).

Western Australia

The Western Australian Local Government Grants Commission is a statutory body established by State legislation, the *Local Government Grants Act 1978*.

Its principle function is the making of recommendations to the State Minister on the allocations of "general grants" among 142 local governments in WA. These general purpose grants are the State's cash entitlement for financial assistance from the Federal Government, paid in equal quarterly instalments for a financial year, under the Australian law, *Local Government (Financial Assistance) Act 1995*.

There are five members of the Western Australian Local Government Grants Commission, a chairperson, a deputy chairperson and three elected members from local government. The Commission is supported by staff employed by the Department of Local Government and

In determining the local road funding for local governments, the Commission has established the Asset Preservation Model. This model is used to assess the cost of maintaining a local government's road network and takes into account annual and recurrent maintenance costs and the costs of reconstruction at the end of a road's useful life.

South Australia

The South Australian Local Government Grants Commission makes recommendations to the Minister of Local Government on the distribution of untied Commonwealth Financial Assistance Grants to South Australian Local Government authorities in accordance with State and Federal legislative requirements

Tasmania

The State Grants Commission was established under the *State Grants Commission Act 1976*. It is responsible for making recommendations to the Treasurer concerning the distribution of Commonwealth financial assistance grants and identified local road funds to local government.

Northern Territory

The Northern Territory Grants Commission was established under the *Local Government Grants Commission Act 1986*. The Commission makes recommendations to the Federal Minister in respect of the amounts of money to be allocated to local governing bodies from the money provided to the Territory by the Commonwealth under the *Local Government (Financial Assistance) Act 1995*. The Commission also makes recommendations on such other matters relating to the finances of local governing bodies as the Northern Territory Minister for Local Government, from time to time, refers to the Commission.

The *Local Government Grants Commission Act 1986* provides for a Commission of four members, consisting of a Chairman appointed by the Minister, the Chief Executive Officer of the Agency primarily responsible to the Minister for the administration of the Act, or his delegate; and two members appointed by the Minister; one representing the interests of municipal councils and the other representing the interests of community government councils and approved local governing bodies.

Two senior officers from the Department of Community Development, Sport and Cultural Affairs coordinate the visitation programs and assist with the Commission's activities by providing executive support to the Commission.

REFERENCES

For further information from the respective State Grants Commissions, refer to:

- <http://www.dotars.gov.au/localgovt/fags/index.aspx>.

The Cabinet Office, New South Wales, Australia
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