
Tasmania

State Grants Commission

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

October 2000

TASMANIAN STATE GRANTS COMMISSION

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1. INTRODUCTION

The Tasmanian Commission wishes to provide a supplementary submission to the review of the *Local Government (Financial Assistance) Act 1995*. The Commission requests that the views expressed herein be considered in the compilation of the CGC's Draft Report on the Review.

In this submission, the Commission will elaborate on issues discussed in its original submission and during its meeting with the CGC of 17 July 2000. In addition, it would like to respond to the recommendations made by the National Office of Local Government (NOLG) in its submission to the Review.

2. LOCAL ROADS FUNDING

The major issue which the Commission will address is the question of whether tile equalisation and road grant pools should be merged into one general purpose grant pool. Although this matter was dealt with at some length both in its original submission and at the Hobart hearing on 17 July, the Commission believes that this is such a serious issue that further arguments demand consideration.

The Commission maintains the view that the equalisation and road grant pools should remain separate and distinct entities. It notes that the majority of submissions made to the Review thus far also support the existing arrangements.

2.1 *The relative importance of roads as a local government function*

The relative level of expenditure on roads is far higher for local government than it is for State government.

In 1992 the Commonwealth announced that from January 1994, it would untie specific purpose payments (SPPs) for State arterial roads, and provide the equivalent amount as a general purpose payment (known as the Identified Road Grant, IRG). Over a three-year phase-in period, the inter-State distribution of these payments as recommended by the CGC was converted from the basis of historic SPP shares to the CGC's per capita relativity factors. Once the distribution was based entirely on the latter factors in 1997-98, the funds were no longer separately identified and were thus totally absorbed into the FAG.

The absorption of State (IRGs) into the pool of State general purpose payments may be seen as establishing a precedent for a similar exercise for local government funding. However, some important qualifications to the relevance of this precedent

need to be made. The relative significance of roads as a function is very much greater for local government. ABS figures for 1997-98 show that nation-wide, road transport accounted for 24.9% of total local government outlays, compared to only 6.1% for State government¹. For Tasmania, the corresponding figures were 31.8% and 5.7%, respectively. This clearly illustrates that relative responsibility for roads is far higher for local government than it is for State government.

The total amount of State road SPPs absorbed was \$350 million, which was equivalent to only 2.5% of the total base grant pool for 1993-94. Therefore, it was relatively unimportant, and changes in State shares could be readily accommodated. Nevertheless, the absorption was phased-in over three years. In striking contrast, for local government the total ILRF pool is equivalent to 44% of the total base grant pool in 2000-01. This indicates that the absorption of the ILRF grant would be a major task requiring a protracted phasing-in period.

For Tasmania, the situation is even more serious because in 2000-01 its ILRF grant will be 95% of the base grant. The vulnerability of Tasmania's position is compounded because the prevailing inter-State distribution of the equalisation grant pool is based on equal per capita shares, not by population weighted by expenditure relativities (ie. disabilities). By virtue of its relatively large share of the ILRF pool, Tasmania would stand to receive a greatly diminished share of total grants if absorption led to an equal per capita distribution of the entire pool.

2.2 Disruption to funding of individual councils

The merging of the two pools and /or abolition of the ILRF National Principle would cause major shifts in the grants to councils.

The Commission understands that in conjunction with the question of merging the equalisation and road grant pools, the CGC is considering whether the allocation of ILRFs should continue to be subject to different National Principles.

The Commission has modelled the impact on the entitlements of individual councils. If the ILRF grants were to be completely absorbed into the equalisation grants, and the latter's existing National Principles applied universally, in effect the entire grant pool would be distributed as the equalisation grant is at present. This would have a marked impact (in excess of 20%) on council grant receipts because the relative importance of road expenditure needs in the grant determination is greatly reduced. Councils which presently receive a larger share of ILRFs than of the equalisation grant will experience large reductions in total grants. Conversely, councils with relatively small ILRF grants will gain significantly.

Since the introduction of the current National Principle for distributing the ILRFs, the Commission has undertaken a great deal of consultation and research in order to implement a methodology which is consistent with that Principle. The new methodology was not completely phased-in until 1998-99, and has recently been subject to a comprehensive update and review process. As a consequence the road grants paid to individual councils have undergone several significant realignments

¹ The State figure includes the payment of the ILRF grant to local government.

over the past four years. In light of this, the Commission would not support a new round of significant change which would create further volatility in the payments to individual councils.

2.3 Another Commonwealth identified grant - the Health Care Grant

The validity of the ILRF as a separately identified grant is supported by the existence of the Commonwealth Health Care Grant.

The Commonwealth Health Care Grant (HCG) is paid annually to the States. The HCG (specifically, the base component which is 99% of the total) is provided by the Commonwealth under the Australian Health Care Agreement (AHCA) to assist States in providing the full range of hospital services and to assist with public hospital improvement and palliative care.

The basis of the AHCA is that the Commonwealth accepts a fundamental responsibility for improving the health of the Australian population. However, it recognises that the provision of public hospital services is the policy domain of the States. The AHCA commits both levels of government to the improvement of these services and the allocation of joint funding necessary to achieve this goal.

Although the base HCG is described as a specific purpose payment (SPP) by the Commonwealth, it forms part of the total pool of funds distributed as general revenue assistance by the CGC, and is treated as a general purpose payment in the Tasmanian budgetary context. Unlike typical SPPs, the HCG is not earmarked for specific expenditure, and there are no matching funding obligations. However, receipt of the grant is conditional on States continuing to provide free public hospital services under the AHCA.

It is clear that there are a number of parallels between the ILRF and HCG. As in the case of public health, the Commonwealth has a broad responsibility to ensure that all citizens have access to adequate road infrastructure. While the ILRF program does not involve the Commonwealth imposing any constraints on local government's use of the funds, it is nevertheless a broad recognition that local government does have a responsibility for the upkeep of a proportion of the nation's total road network. If this remains the view of the Commonwealth, then the identified subsidisation of local government roads would continue to be a logical policy.

2.4 Relative costs of road works in Tasmania

Tasmanian councils face a higher per unit cost for road works

In its original submission the Commission argued that Tasmania's existing 5% share of the total ILRF pool is justified by the higher per unit costs of road works in the State. This is attributable to various factors such as topography (highly undulating terrain), climate (areas of heavy rainfall, snow and ice) and the proliferation of waterways which require a large number of bridges. Although the question of inter-State distributions is excluded from the CGC's terms of reference, the Commission is very concerned that any proposal to merge the equalisation and road grant pools will have consequences for the inter-State distribution of grants. As suggested in 2. 1,

Tasmania would lose a significant share of total grants if absorption of the ILRF grant led to an equal per capita distribution of the entire pool.

3. RECOMMENDATIONS OF THE NATIONAL OFFICE OF LOCAL GOVERNMENT

The National Office of Local Government (NOLG) is clearly a major stake-holder in the Review and consequently its submission was given considerable attention by the Commission. The Commission acknowledges the vital role played by the NOLG as the central authority administering the Act, and the responsibility which it bears for ensuring that the Act meets its stated objectives. The NOLG made a total of fourteen recommendations to the CGC, and in the main these are endorsed by the Commission. However, the Commission would like to take the opportunity to convey its views on several recommendations before the Review's Draft Report is compiled by the CGC. The key recommendations are listed below:

Recommendation 5.1

The Commonwealth Grants Commission assess the feasibility of developing, in consultation with State and Territory Local Grants Commissions, a standard framework that could be adopted by all State and Territory Grants commissions to guide them in their application of the National Principles and their general purpose and local road grant methodologies. This standard framework would seek to promote, as far as is practical, greater consistency in methodologies between State and Territory Grants Commissions and greater consistency in the application of the National Principles.

The Commission believes that, in principle, it is desirable that the grant allocation methods followed by Commissions in each State should be as consistent as possible. However, it must be recognised that in practice, legislative and institutional arrangements determine that uniformity in all aspects of the grant distribution task is not a reasonable expectation. Further, it is important that Commissioners in each State retain a degree of flexibility in exercising judgement on particular issues which may arise. In many cases a knowledge of local circumstances is vital and this necessity cannot readily be accommodated by a detailed and prescriptive framework.

The Commission believes that it is appropriate to adopt fairly broad, over-arching guidelines for the distribution of grants (eg. the current National Principles). However, such guidelines must be clearly and unambiguously stated in order to maximise the likelihood that all Commissions will interpret them in a consistent manner. In addition, any potential conflicts between the guidelines and the Objectives of the Act must be addressed and resolved.

Recommendation 5.2

The Commonwealth Grants Commission identify appropriate data that individual State and Territory Grants Commissions should use in their grant distribution methodologies. Where practicable, this data should be consistent among State and Territory Grants Commissions.

The Commission would view the advice of the CGC in this regard as valuable, as it would enable the suitability of current practices to be verified and adjusted where necessary. It is assumed that prescriptions for data usage would be made only for the core or basic elements of the grant allocation process, and that Commissions would be free to use other statistics as required to address more specific issues.

The Commission notes the qualification of 'where practicable', and believes that practicality is indeed a potentially serious obstacle to achieving uniformity in data usage. This is particularly the case in regard to the assessment of revenue-raising capacity, as there is little consistency between States in the type of valuation statistics available.

Recommendation 5.3

State and Territory Grants Commission methodologies and grant outcomes should be subject to a regular public review and audit. An independent body should carry out the review in consultation with the Commonwealth Grants Commissions.

The Commission objects to this proposal as giving rise to unnecessary duplication of effort. It believes that a five-yearly review of methodologies (as currently occurs) is more than adequate in terms of a "check" on the practices of Grants Commissions.

The Commonwealth has the capacity to review methodologies and practices in the context of its annual consideration of grant recommendations.

Recommendation 5.5

The Act provide for the Commonwealth and the States and Territories in consultation with Local Government, to enter into bilateral agreements to allow for a proportion of the local road grant to be used for priority local road infrastructure either within a council boundary or within a region.

The Commission considers that this proposal seriously conflicts with the current arrangements for roads funding, under which general revenue assistance is allocated to all councils using a uniform approach. The proposed system would be subject to a range of influences and would very likely produce biased and unpredictable outcomes. The Commission suggests that if Commonwealth funds are to be dedicated to new and specific road projects, then a separate and additional pool of funds should be established for this purpose.

Recommendation 5.7

In an effort to enhance the equity outcome of the financial assistance grant arrangements, the minimum grant requirement should be removed. These changes should be phased in over three years. In the absence of general support for the removal of the minimum grant, State and Territory Governments should be required to recommend to the Minister a minimum grant level up to a maximum of 30 per cent, to apply in their State or Territory for a five year period. State and Territory

Governments would need to demonstrate a case for the minimum grant and its impact on individual councils funding.

Due to a lack of information the Commission does not necessarily regard the existing 30% rule as being correct, but nevertheless would argue against the complete abolition of the minimum grant.

The proposal to institute State-determined minimum grant arrangements is of some concern, as it would appear likely to exacerbate the prevailing lack of consistency in grant outcomes between States. This proposal is somewhat surprising given that enhancing the consistency of grant outcomes nation-wide is a central theme of the NOLG submission.

Clarification

The Commission would also like to clarify the assertion made several times within the NOLG submission that:

"In at least one State, no attempt is made to recognise the needs of Indigenous people."

The Commission has made it clear that its grant allocation methodologies (for both the equalisation and road grants) do not directly recognise the impact of indigenous citizens on the expenditure requirements of councils. Therefore the Commission assumes that Tasmania is the State being alluded to in the above statement.

The statement is open to the misinterpretation that the Commission *has not considered* the need to abide by the National Principle relating to Aboriginal and Torres Strait Islanders. As reported to, and discussed with, the CGC, the Commission investigated this matter in 1996 following the introduction of the *Local Government (Financial Assistance) Act 1995*. No Tasmanian councils reported that they provide services specifically targeted at Indigenous communities, nor did councils experience expenditure disabilities solely as a result of the Indigenous nature of any service populations. In light of this situation, and the lack of any contrary information received since that time, the Commission has determined that the explicit recognition of Aboriginality in the distribution of grants to Tasmanian councils is not required at this time.