



Department of Local Government and Regional Development  
Government of Western Australia  
WA Local Government Grants Commission

Our Ref: 994-02

Your Ref:

House of representatives Standing Committee on  
Economics, Finance and Public Administration

Submission No: ..... 388 .....

Date Received: ..... 26/5/03 .....

Secretary: .....

Mr David Hawker MP  
Chair  
Standing Committee on Economics, Finance and Public Administration  
House of Representatives  
Parliament House  
CANBERRA ACT 2601

Dear Mr Hawker

**COMMONWEALTH INQUIRY INTO LOCAL GOVERNMENT AND  
COST SHIFTING**

I refer to the recently released Discussion Paper for the above inquiry. This submission specifically addresses the following Options flagged in the Discussion Paper:-

*Option 1b: "Treat FAGs simply as a tax transfer with a simplified distribution system and formula, administered nationally ...this would reduce administration and compliance costs ..."*

*Option 1e: "Consider other horizontal equalisation formulas for local government funding such as the SES formula used by DEST for funding the non-government school sector."*

*Option 1f: "Deliver FAGs through the Roads to Recovery model."*

As the recent Commonwealth Grants Commission (CGC) Review of the *Local Government (Financial Assistance) Act 1995* found that the Commonwealth's objectives in providing funding to local government were largely being achieved, I am surprised at the extent of restructuring of the financial assistance grant (FAG) arrangements contemplated in the Discussion Paper.

Horizontal fiscal equalisation is the primary objective for the distribution of Commonwealth general purpose funds to local government, which involves an annual assessment of the relative needs of each local government. It is being achieved to a high degree in Western Australia, within the constraints of the size of the pool and the minimum grant requirement.

The vital role in the process of determining annual grant allocations played by the state based Local Government Grants Commissions seems to have been overlooked by the Committee.

The Western Australian Local Government Grants Commission's (WA LGGC) processes for allocating grants are well documented in the respective annual reports and the Local Government National Report, as well as other publications including the Balanced Budget Detailed Calculations (published every year) and Principles and Methods book (published every few years). Operating at a state level, with members drawn from across the State, the Commission has the expertise and scope to be flexible to the changing local government context within the State. It can be responsive both to the changing role of local government and to requests from local governments for methodology refinements.

The Commission visits every local government in the State on a four to five year cycle. This accessibility is augmented by the Commission conducting special hearings with councils at their request. The Commission has the additional advantage to the Commonwealth of being funded entirely by the State Government. Many of the advantages and strengths of the current system would be lost if the grant allocation process was centralised.

There is a diversity of local government circumstances within the States with which Grants Commissions currently deal. There is an even greater diversity between the States, and it is difficult to visualise how one national formula could properly take account of these differences. I believe this would result in greater inequities than under the current arrangements and local government dissatisfaction with the processes and outcomes.

There are low compliance costs for local governments with the current allocation procedures. As un-tied funds, local governments are not required to acquit or report back on how the funds have been spent. The system of accountability back through the community (through the budgeting and annual report process) has been successful for more than twenty years. The only direct cost to local government is any cost incurred in providing the financial information required by the Grants Commission for calculating grant entitlements. The information provision burden on local government is now less onerous given that the Australian Bureau of Statistics has cost shifted their local government financial data collection to the Grants Commissions.

Over the past twelve months the WA LGGC has been undertaking a methodology review, and in doing so, has taken on board the technical advice available in the 2001 CGC review, to improve and refine the WA equalisation model. The Commission has consulted widely with local governments in the State in the course of its methodology review, and a high degree of support for the current WA methodology has been evident:

- *"generally satisfied with the current methodology and processes"*  
(Shire of Derby-West Kimberley)
- *"current methodology represents a fair and equitable process for distribution of funding"* (Shire of Trayning)
- *"council has no criticism of the existing methodology and sees no benefit in tampering around the edges with the object of fine tuning the methodology"*  
(Shire of Murchison)
- *"council is quite comfortable with, and believes that, the balanced budget is a fair methodology despite not identifying every expenditure or income"*  
(Shire of Three Springs)

It would be a retrograde step to discard a well accepted system of allocating funding for a simplified and untested formula. The current formula is necessarily complex in order to accommodate the varying circumstances of local governments. Simplifying the methodology has superficial attraction but is very unlikely to produce fairness if the funds are still to be allocated on a needs basis.

I note the Committee's interest in a socio-economic status (SES) formula as an alternative to the current horizontal equalisation formulas. I do not believe that this is a viable alternative, given the variety in local government circumstances, in revenue capacity and expenditure needs, which are unrelated to SES. This is but one of many factors used in WA to assess the relative needs of local government. Seven revenue categories are assessed, together with 8 expenditure categories, which in turn are modified by 20 disability factors (such as socio-economic disadvantage, climate and location).

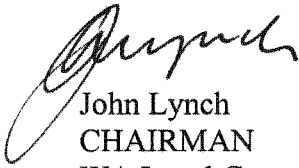
The Roads to Recovery program has been widely welcomed by local governments because of the additional funding it has made available to them to address infrastructure shortfalls. The allocation of Roads to Recovery monies within the States was based on the methodologies/formulae developed and applied by the state based Grants Commissions for allocating the identified local road grant component. The basis of the formula was therefore already accepted by local governments within the state, and this was a significant reason for the success of the Roads to Recovery program. It is not clear in the Discussion Paper how the Roads to Recovery model could be used as a basis to distribute FAGs - does the committee mean the basis for distribution (between and/or within states), the process for councils to report back on their expenditure, or the fact that the approval of State Ministers was not required? The arrangements for Roads to Recovery could not simply be substituted for the current arrangements for FAGs. It is likely that there would be significant implications for the total allocations received by individual local governments.

In conclusion, I consider that the Discussion Paper does not present sufficient justification for making radical changes to the current FAGs arrangements and the Western Australian Local Government Grants Commission supports the current framework for allocating FAGs to local government, although the scope for debate on some facets of these arrangements is noted.

Given the strong local government support in Western Australia for the current arrangements, it is considered that local governments would resist a centrally based system where their level of access to the decision makers is reduced and the distance from the local context is increased.

Thank you for the opportunity to comment. I have enclosed a copy of the WA Local Government Grants Commission's 2002 Annual Report for your information.

Yours sincerely



John Lynch  
CHAIRMAN  
WA Local Government Grants Commission

22 May 2003

Enc.