

Mr Trevor Rowe
Secretary
House of Representatives Standing
Committee on Economics, Finance and
Public Administration
Parliament House
CANBERRA ACT 2600

House of representatives Standing Committee on Economics, Finance and Public Administration
Submission No: <u>313</u>
Date Received: <u>28/10/02</u>
Secretary:

Trevor
Dear Mr Rowe

**House of Representatives Standing Committee on Economics, Finance and Public
Administration: Inquiry into Local Government and Cost Shifting**

I refer to your letter of 18 September 2002 seeking responses to questions following this Department's appearance before the House of Representatives Standing Committee on Economics, Finance and Public Administration (the Committee) at its public hearing on 4 September 2002, regarding its inquiry into Local Government and Cost Shifting.

During the hearing, I undertook to provide further information to the Committee. The Committee has now also sought answers to additional questions, which were not asked at the hearing. Initially, you asked for responses to these questions by 4 October 2002.

I understand you agreed to an extension to this deadline to 25 October 2002 on the understanding that interim answers would be provided as soon as available.

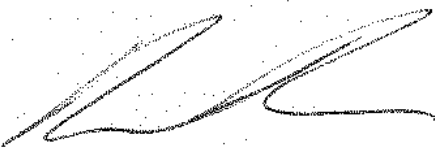
Enclosed for the Committee's consideration are answers to 17 of the 25 questions as follows:

- five in relation to Questions on Notice; and
- twelve in relation to the additional questions from the committee.

The remaining answers will be provided as soon as the information becomes available.

I do not have any editing corrections in relation to the proof transcript of my evidence at the hearing on 4 September 2002.

Yours sincerely



Mike Mrdak
First Assistant Secretary
Territories and Local Government
22 October 2002

**QUESTIONS TO THE DEPARTMENT OF TRANSPORT
AND REGIONAL SERVICES**

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON
ECONOMICS, FINANCE AND PUBLIC ADMINISTRATION:
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Question No. 1

Mr Hawker/ Mr Nairn asked Mr Mike Mrdak, the First Assistant Secretary, Territories and Local Government Division, upon notice, on 4 September 2002:

What effect has non-rateable land had on local government? Have any States provided compensation to local government for taking away rateable land? (pages 46-47)

Mr Mrdak - The answer to the committee's question is as follows:

We are unaware of any States providing compensation to local government for taking away rateable land.

In its input to the Local Government National Report 2001-2002, the Western Australian Local Government Association (WALGA) noted financial and physical impediments to service delivery on the part of local governments are often also compounded as a consequence of legislative arrangements according non-rateable status to sizeable proportions of landholdings attributed to indigenous communities. Such arrangements impact adversely upon efficiency and effectiveness by precluding local government access to important property-based revenues, notwithstanding the growing pressures for service delivery emanating from these communities.

As noted in section 4.4.5 of the Departmental Submission to the Inquiry, in South Australia loss of rateable income on land preserved as Conservation Parks has occurred, including zero valuation for land subject to Native Vegetation Heritage Agreements. An example is: The District Council of Elliston, which has assessed the annual additional cost and revenue impact in these areas to be nearly \$50,000, which is 6.5 per cent of the 1999/2000 rateable income of the council.

However, the level of non-rateable land is a factor in the allocation of Commonwealth financial assistance grants to Councils in some States. In NSW the State Grants Commission has advised that non-rateable properties are excluded from the Commission's calculations. This is because the calculations deal with relativities between councils, based in part on the theoretical revenue raising capacity of each rateable property. Accordingly, the impact on councils of non-rateable land is taken into account in some states when allocating Commonwealth financial assistance grants.

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Question No. 3

Mr King asked Mr Mike Mrdak, the First Assistant Secretary, Territories and Local Government Division, upon notice, on 4 September 2002:

Are States which undertake disability support schemes requiring local government to administer them? (page 56)

Mr Mrdak - The answer to the committee's question is as follows:

Under the Commonwealth State Disability Agreement (CSDA), the Commonwealth is responsible for providing disability employment services while the States and Territories have responsibility for managing accommodation and related services. Although the Commonwealth provides States and Territories with funding for their area of responsibility, once the Commonwealth has contributed its share of funds under the CSDA it is the States' responsibility to allocate this money. Therefore we are unable to advise whether or not local governments are required to administer any of these disability support schemes in their State.

With regard to disability employment services, local governments have not been asked to administer them.

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Question No. 4

Mr Hawker asked Mr Mike Mrdak, the First Assistant Secretary, Territories and Local Government Division, upon notice, on 4 September 2002:

Can the department provide an estimation of the increased costs to local government as a result of cost shifting from the States? (page 58)

Mr Mrdak - The answer to the committee's question is as follows:

We are unable to provide an estimate. Such an exercise is extremely difficult as there is no agreed definition of cost shifting and there is no agreed allocation of responsibilities of the different spheres of Government in Australia.

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Question No. 6

Mr Hawker asked Mr Mike Mrdak, the First Assistant Secretary, Territories and Local Government Division, upon notice, on 4 September 2002:

Which department would be most appropriate to do an audit of the powers, functions and responsibilities of each State and local governments? (page 62)

Mr Mrdak - The answer to the committee's question is as follows:

The Department does not see that an audit of the powers, functions and responsibilities of each State and local governments is a task that any Federal department or agency would be able to undertake by themselves. Also, it is likely that for any function, there will be overlapping responsibilities of the three spheres of Government.

In our view, the priority would be for the Commonwealth, States and local governments to establish agreed statements of respective responsibilities that could be regularly adjusted to reflect agreed changes in responsibility.

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Question No. 7

Ms Burke asked Mr Mike Mrdak, the First Assistant Secretary, Territories and Local Government Division, upon notice, on 4 September 2002:

How has the National Competition Policy impacted on funds to local governments? (page 64)

Mr Mrdak - The answer to the committee's question is as follows:

The Competition Principles Agreement (CPA) provides that local government, although not a signatory to the agreement is subject to its principles. Further, States are responsible for ensuring that these principles are applied to local governments.

The principles embodied in the CPA, such as legislation review and competitive neutrality, are required to be implemented only where the benefits of the course of action exceed the costs and it is cost effective to do so. Consequently, it is important to recognise that there is no obligation on the smaller councils unless there are net public benefits.

Under the Agreement to Implement the National Competition Policy and Related Reforms (the Implementation Agreement), the Commonwealth Government makes NCP payments to each State and Territory, subject to that State or Territory making satisfactory progress against their NCP and related reform obligations. This incorporates efforts by local government. These payments reflect a sharing of the additional revenue raised by the Commonwealth, due to the higher economic growth from the implementation of effective competition reform.

Under these agreements, NCP payments are general purpose payments. Therefore the use of these funds, including the distribution of a share of these payments to local government, is a matter for the States. However, the Commonwealth's response to the Senate Select Committee report on the socio-economic consequences of the NCP encourages States and Territories to share with local government, industry and community groups the benefits of competition policy through the payments they receive.

A number of State Governments (Queensland, Victoria and Western Australia) share NCP payments with local governments. For example, commencing in 1997-98 Queensland has distributed a Financial Incentive Package of \$150m to Local Government Authorities (LGAs) over a 5 year period. Payments have been made in recognition of the progress LGAs have made in applying these reforms. The larger councils who responded more vigorously to NCP reforms have dominated funding allocations from the Queensland Financial Assistance Package.

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Question No. 10

Additional to that asked of Mr Mike Mrdak, the First Assistant Secretary, Territories and Local Government Division, upon notice, on 4 September 2002:

Natural Resource Management

Do you think that in future, concerning a matter of national significance such as NRM, or any programme which involves the core business activity of local government, that tri-partite arrangements would be more effective rather than current bilateral agreements? If so, how could this approach be promoted?

Mr Mrdak - The answer to the committee's question is as follows:

The Department supports the positive engagement of local government wherever there are Commonwealth programmes that affect the core activities of local government. There are many ways in which this can be achieved and it would be unwise to be too prescriptive. For major national programmes there are three main options for delivery:

- dealing directly with Local Councils;
- bilateral agreements with States/Territories; and
- tri-partite agreements involving States/Territories and local governments

It is possible that each will be appropriate in different circumstances. The best approach is to ensure that whenever a major Commonwealth programme is being developed all possible delivery options are canvassed. This may also involve working with and/or through other regional based associations/committees (eg Regional Organisations of Councils and Area Consultative Committees (ACCs) etc) where these exist.

Whichever approach is followed it is important that local government be consulted and wherever possible, actively involved in the process.

If a delivery method has been determined that involves a tri-partite approach it is considered that the best forum for launching this would be at the COAG/Ministerial Council level. This would ensure that all levels of government are committed to the outcome from the start.

The Departmental submission provided some information on the partnership agreement approach being taken in some States between the State Government and local government (eg Tasmania). It is possible this model could be useful in looking at how the different levels of government might work together where State-wide and Australia-wide programmes are involved.

In any Australia-wide programme that impacts on local government it is important to recognise the differences between States/Territories in the role and responsibilities of Local Government, and that a one size fits all approach may not be applicable.

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Question No. 11

Additional to that asked of Mr Mike Mrdak, the First Assistant Secretary, Territories and Local Government Division, upon notice, on 4 September 2002:

Regional programmes

On page 38 of your submission you make a strong case for local government's role in delivering the Commonwealth's regional policy objectives. You note though that it must be resourced to do so.

- Should local government be paid to participate in regional policy development, which is outside its traditional responsibility to its community, to ensure other core business is not affected by additional demands imposed by other spheres of government?
- How could this be done?
- Could local government be allocated a percentage of all regional programmes to ensure its participation?

Mr Mrdak - The answer to the committee's question is as follows:

- While local government will often have valuable contributions to make in policy development, and is being invited to participate in policy development processes, this is usually considered an integral part of its role and responsibilities. Additional resourcing for this purpose would therefore seem unnecessary. This does not rule out the prospect that the Commonwealth government might consider the provision of additional resourcing appropriate in particular circumstances to address broader local government needs.
- For the reasons outlined in relation to Question 5, local government is an appreciated partner in delivering local projects. Where a programme offers opportunities that could benefit a particular community, local government involvement is welcomed. Subject to the guidelines for specific programmes and the Commonwealth's view that the various levels of Government should fund those activities for which they have primary responsibility, this involvement could be as an applicant for funding or in a supporting role.
- No. Resources associated with discretionary grant programmes by their very nature should be directed to where there is an identified need. In many cases this will involve allocations to local government, however, a 'one size fits all' approach to allocating such funds should be avoided.

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Question No. 12

Additional to that asked of Mr Mike Mrdak, the First Assistant Secretary, Territories and Local Government Division, upon notice, on 4 September 2002:

Regional programmes

You refer to South Australia and Western Australia in developing regional local road planning strategies. Are other States moving towards developing regional strategies on roads?

Mr Mrdak - The answer to the committee's question is as follows:

We are aware of regional local road planning strategies being developed in Queensland and under consideration in Victoria.

In August 2002, the Queensland Government and the Local Government Association signed an agreement to establish a 'Main Roads and Local Government Road Management and Investment Alliance'. Under the Alliance, ten to twelve regional road groups will be formed to determine regional priorities and guide decision making for investment and road management of Local Roads of Regional Significance across Queensland.

Victoria is considering a regional roads programme. VicRoads and the Municipal Association of Victoria are conducting a review of regional strategic transport planning arrangements for Victoria and officials of these organisations plus representatives of two councils recently visited WA and SA to examine their regional road planning arrangements.

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Question No. 13

Additional to that asked of Mr Mike Mrdak, the First Assistant Secretary, Territories and Local Government Division, upon notice, on 4 September 2002:

Regional programmes

While local government has responsibility for local roads, who has responsibility for roads that interlink different councils? Are the roads between councils being addressed in the Roads to Recovery Programme? What is the State Governments position on this problem? Could this be an opportunity for a Commonwealth/State/Local Government partnership?

Mr Mrdak - The answer to the committee's question is as follows:

The more important roads linking different councils are generally the responsibility of State Governments. However, inevitably many minor roads cross from one council area into the next and these are generally the responsibility of the local councils.

The Roads to Recovery Programme guidelines urge councils 'to cooperate to enable larger projects to be implemented on key interregional road links. Councils are also encouraged to work with the States and Territories to ensure a coordinated approach to the development of regional roads and the scope for leveraging each other's projects'.

We are unaware of the views of the States on these issues.

The possibility of a Commonwealth/State/Local Government partnership is being addressed in the context of AusLink.

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Question No. 17

Which is additional to that asked of Mr Mike Mrdak, the First Assistant Secretary, Territories and Local Government Division, upon notice, on 4 September 2002:

National Principles

Also, you note that the Other Grants Support Principle is an essential element of the equalisation principle but is not being consistently implemented by Local Government Grants Commissions and so has an impact on the equalisation outcomes. Can you explain this further and give examples where a Local Government Grants Commission has not implemented the principle?

Mr Mrdak - The answer to the committee's question is as follows:

Under the National Principle (iv):

"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".

Consistent with National Principles, when State Grants Commissions are calculating the general purpose grant for councils they should take into account all grants (Commonwealth and State) that are provided to fund local government services which are part of the equalisation process. They must also include the expenditure that these grants generate in the equalisation process.

The result of the inclusion approach is that where councils receive a relatively high amount of other grants, their FAGs grant will reduce. Those with a relatively low amount of other grants will have their FAGs grants increased. Accordingly, if the inclusion approach is not correctly adopted, then it will impact on the grant outcomes.

It should be noted that, for some grants, it may be appropriate for Commissions to exclude both the grants and the equivalent expenditure from the equalisation process. This could be where Councils have no choice in how they spend the grant or the purpose to which the grants is put is not considered to be part of local government.

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Question No. 18

Which is additional to that asked of Mr Mike Mrdak, the First Assistant Secretary, Territories and Local Government Division, upon notice, on 4 September 2002:

National Principles

Concerning the Effort Neutrality Principle, the definition includes the term 'standard level of services'. From the information we have received, it would appear that there is no standard level of service. In fact, the diversity of councils' business together with the difference in capacity and resources between say, rural and urban councils, leads us to think there could be no standard level of service. If that is the case, how can the adoption of such a principle be applied and evaluated?

Mr Mrdak - The answer to the committee's question is as follows:

The Effort Neutrality principle requires that the Local Government Grants Commissions not take into account the practices and policies of individual councils. For example, if a council chooses to provide a greater range of services than the average, it will be assessed as if it spends at the average, not at the expanded level it has chosen. The difference in the revenue capacity and expenditure should only be attributed to circumstances beyond a council's control. For example, those arising from isolation.

The task of the Grants Commission is to determine what is the standard level of services within the state.

In the methodology used by Grants Commissions, the standard level of service is a financial standard. There is no specification of what the standard service is apart from this financial measure.

For instance, if Councils in a State spend \$20 million on library services, then this is assumed to be the level of need for library services in the State. The average standard of service would be obtained by dividing the expenditure on libraries by the population across all councils. So if there were 2 million people in the State, then the average standard of service would be \$10.

Using this example, the task for the Grants Commission is to determine what it will cost each Council in the State to provide that average standard of service. In this example, the Commission may determine that it costs a metropolitan councils \$8.50 per person to provide the average standard of service and a remote rural council \$15 for the same service. Differences in the costs would reflect factors such as:

- economies in size;
- differences in the cost of providing the service (additional transport costs, different employee wages and entitlements etc); and
- differences in the demand for a service (councils with a larger proportion of the population that are likely to use the library, such as school aged children and the aged, would have higher costs).

Prior to determining standard levels of service, the LGGCs are first required to make an assessment of the scope of "core local government business". If a function is assessed as "core", or standard then an average cost of providing the service needs to be determined, followed by an assessment for individual councils, (following the process outlined above).

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Question No. 19

Which is additional to that asked of Mr Mike Mrdak, the First Assistant Secretary, Territories and Local Government Division, upon notice, on 4 September 2002:

Commonwealth Grants Commission Review – issues

On page 59 of your submission, you mention six issues raised following the release of the CGC Review. What is the Department's policy position on each of these points?

Mr Mrdak - The answer to the committee's question is as follows:

The Department's responsibility is to administer the financial assistance grants according to the current legislation and to advise the government on matters of policy. In our submission, we have provided some discussion on these points.

However, in relation to some of these points we note that:

- decisions to change the interstate distribution of the general purpose and local roads pools have in the past been made at high level meetings considering intergovernmental financial relations such as Premiers' Conferences. We are not aware of the Commonwealth acting unilaterally to change the distribution in the past;
- the proposal to use relative needs based on equalisation principles should not by itself lead to different grant outcomes for councils; and
- the proposal to split the general purpose grant pool into a relative needs pool and a per capita pool should not by itself have an impact on grants to councils. This is because each council currently receives a grant that is equal to or greater than the minimum grant given its population. For councils on the minimum grant under the proposed arrangement, they would receive an allocation from the per capita pool based on their population and no grant from the relative needs pool. For councils not on the minimum grant, they would receive an allocation from the per capita pool based on their population as well as a grant from the relative needs pool. The CGC's proposal seeks to improve the transparency of the allocation of grants to councils.

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Question No. 20

Which is additional to that asked of Mr Mike Mrdak, the First Assistant Secretary, Territories and Local Government Division, upon notice, on 4 September 2002:

Distribution of FAGs

Could you outline the practical difference between horizontal equalisation and the concept of relative need using equalisation principles?

Mr Mrdak - The answer to the committee's question is as follows:

For horizontal equalisation to be fully achieved, the minimum grant requirement would have to be removed and some higher capacity councils would have to receive negative grants (that is, they would have to contribute funds to the grants pool rather than receiving them).

This means that in all States, because some councils in each State are on minimum grants, as provided for in the Act, horizontal equalisation cannot be achieved.

It is for that reason that the Commonwealth Grants Commission proposed the concept of relative needs using equalisation principles to describe the objective (that councils with relatively greater need receive a relatively greater share of the funding) and the allocation process. However, in practice, the same basic philosophy and methodology for allocating the grants would be used for allocating grants from the relative needs pool.

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Question No. 21

Which is additional to that asked of Mr Mike Mrdak, the First Assistant Secretary, Territories and Local Government Division, upon notice, on 4 September 2002:

Distribution of FAGs

Does distributing FAGs on an equal per capita basis to the States mean there is less money going to local government in those States and Territories suffering the greatest disadvantage?

Mr Mrdak - The answer to the committee's question is as follows:

Only the general purpose grants are distributed on an equal per capita basis between States. Distributing these grants on this basis does mean that there is less funding going to the States with the greatest disadvantage. A difficulty in moving away from the equal per capita distribution has been to determine a 'better' distribution.

When the local roads grants are added to the general purpose grants, the resulting distribution is not equal per capita (see Table 6.1 in the Department's submission). The resulting distribution may address some of the needs of some of the disadvantaged States/Territories.

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Question No. 22

Which is additional to that asked of Mr Mike Mrdak, the First Assistant Secretary, Territories and Local Government Division, upon notice, on 4 September 2002:

Distribution of FAGs

It was estimated by the Local Government Association of South Australia (Submission No. 223) that distributing General Purpose Grants based on population rather than need is costing South Australian councils in the order of \$20m to \$30m per annum. Would you like to comment?

Mr Mrdak - The answer to the committee's question is as follows:

Distributing the general purpose grants on an equal per capita basis between States means there is less funding going to the States where councils may be more disadvantaged than councils in other States. However there is no agreed methodology for determining "need" across States. Therefore, DOTARS is unable to comment on the amount estimated by the Local Government Association of South Australia.

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Question No. 23

Which is additional to that asked of Mr Mike Mrdak, the First Assistant Secretary, Territories and Local Government Division, upon notice, on 4 September 2002:

Distribution of FAGs

Roads to Recovery will provide South Australia with \$34m more than it would have been allocated under the Identified Local Roads Grants formula had it been applied. How can the difference between the two funding models be explained?

Mr Mrdak - The answer to the committee's question is as follows:

The Government decided the State allocations for the *Roads to Recovery* Programme taking into account particular population and length of road under the control of local government. The state distributions calculated by using these factors were compared with each other and with the historical distribution that results from using the financial assistance grants Identified Local Roads component. Consideration was also given to the concern of South Australia that they receive a disproportionate level of funding under the financial assistance grants identified for roads. The Government weighed up all these factors and decided on the distribution announced as providing the most equitable distribution of funding.

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Question No. 25

Which is additional to that asked of Mr Mike Mrdak, the First Assistant Secretary, Territories and Local Government Division, upon notice, on 4 September 2002:

Alternatives to FAGs

How realistic is the prospect of a joint Commonwealth-State partnership for payment of financial assistance (page 68 of submission)? Has the Department explored this option?

Mr Mrdak - The answer to the committee's question is as follows:

The Department has not explored this option in any detail. However, we would point out that the current arrangements for the distribution of financial assistance grants already involves an allocation mechanism "partnership" between the Commonwealth and the States. States have enacted legislation to establish Local Government Grants Commissions. The Federal legislation requires the involvement of the State Minister in the approval process for the distribution of the grant. States are consulted on the National Principles and any changes to them. Under the current arrangements the Commonwealth provides the \$1.45 billion in grants for local government and the States fund the operation of the Local Government Grants Commissions.