

Victoria Grants Commission

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

Submission No: 389.....

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Secretary:

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

23 May 2003

Dear Mr Hawker

LOCAL GOVERNMENT AND COST SHIFTING INQUIRY

Thank-you for the opportunity to respond to the discussion paper At the Crossroads.

Attached is our submission with two copies of the Victoria Grants Commission Annual Report 2001-02.

If additional information on this matter is required, please contact the Commission's Executive Officer, Colin Morrison, on (03) 9655 6857.

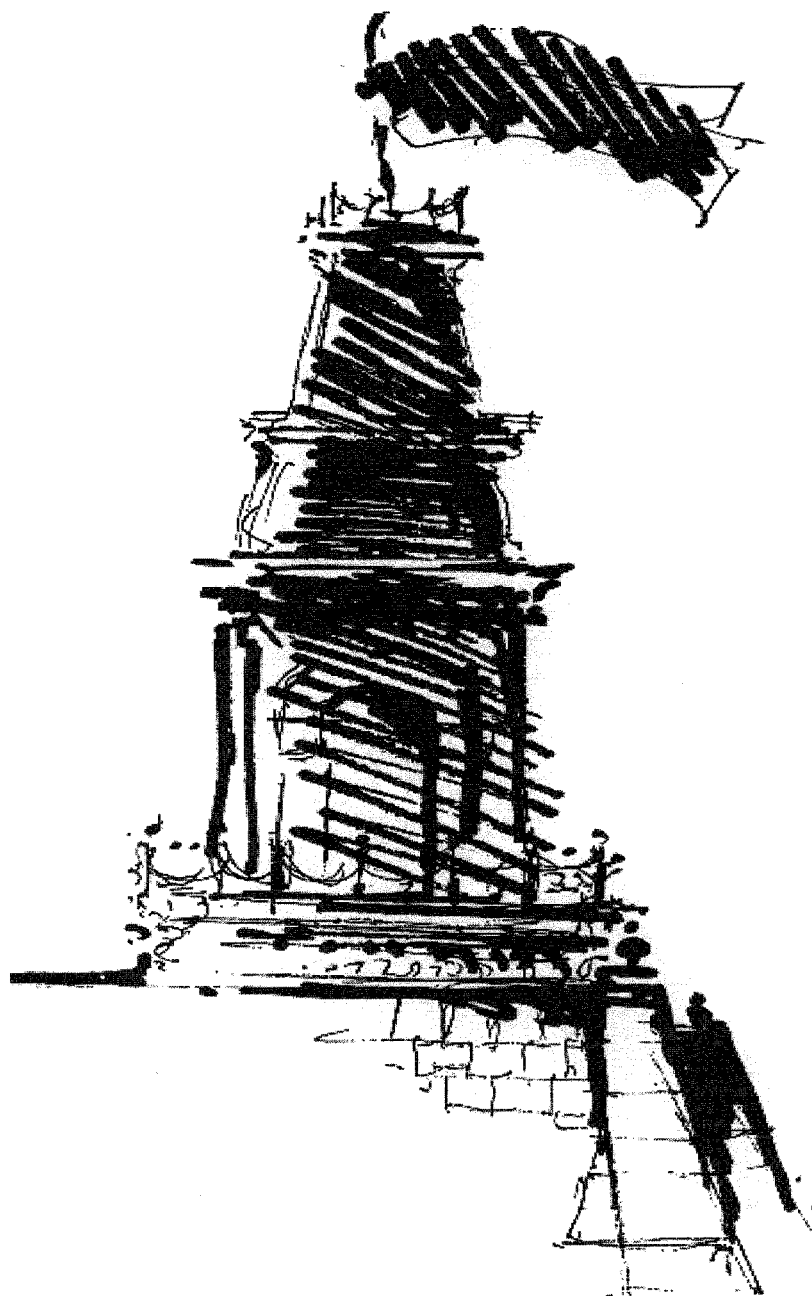
Yours sincerely


John Lester
Chairman
Victoria Grants Commission

Victoria Grants Commission

Response to:

At the Crossroads
Inquiry into Local Government and Cost Shifting –
Discussion Paper



May 2003

Summary

The Victoria Grants Commission strongly opposes the suggestion made in the Discussion Paper *At the Crossroads* that financial assistance grants to local government should be allocated directly by the Commonwealth Government. The Commission believes that this would necessitate the adoption of a single national allocation methodology that, together with a centralised administrative structure, would be unable to respond adequately to the differing needs of local governing bodies across Australia.

The Commission is unable to remain silent on the issues and options raised in the Discussion Paper. We believe that the options put forward are not in the best interests of local government in Victoria or, for that matter, all States and Territories of Australia. Of fundamental concern is that the Discussion Paper highlights a lack of understanding of the role of the Local Government Grants Commissions and the way in which funds are currently allocated between councils on the basis of their relative needs.

The Local Government Grants Commissions operating in each State and the Northern Territory have developed and implemented allocation methodologies which take account of the widely differing needs of councils across their jurisdictions, within the broad framework provided by the *Local Government (Financial Assistance) Act 1995* and the national distribution principles.

All of the seven Local Government Grant Commissions:

- take account of the particular characteristics of local government in their jurisdictions;
- support and recognise differences between individual councils;
- consult regularly with all of their individual councils;
- draw on substantial experience and knowledge; and
- operate at no cost to the Commonwealth.

The Victoria Grants Commission argues in this submission that a centralised approach to the allocation of Commonwealth financial assistance should not be implemented. We do not believe that a single methodology could adequately accommodate the many differences that exist in the size and scope of the 722 local governing bodies across Australia, a view supported by the Commonwealth Grants Commission. In addition, we submit that a centralised system would inevitably be more costly to the Commonwealth, and less responsive to the needs of local government across the country.

While this submission does not address in detail the options canvassed in the Discussion Paper, we have taken the opportunity to make specific comment on aspects of several options where it is apparent that their implementation would be to the clear detriment of local government. For example, in relation to the proposed extension to local government of the SES formula currently used to allocate funds to non-government schools, we are particularly concerned that this would not address the relative needs of councils nearly as comprehensively as the methodologies currently used by the Victoria Grants Commission and our interstate counterparts.

Finally, we wish to express our concern that the Discussion Paper does not address the real issues for local government relevant to this Inquiry – the quantum of funding available and the achievement of greater balance in the relative functional responsibilities of the three tiers of government. In the absence of evidence that the current allocation arrangements are not working, and contrary to the recommendations of the Commonwealth Grants Commission, it would appear that the focus of *At the Crossroads* on alternative distribution mechanisms is driven by a desire to by-pass the States in the allocation and distribution of these funds, or to receive greater recognition of the Commonwealth's funding effort. If that is the case, it should be explicitly acknowledged and addressed.

Why the Victoria Grants Commission is Responding

The House of Representatives Standing Committee on Economics, Finance and Public Administration commenced its Inquiry into Local Government and Cost Shifting in May 2002.

At that time, the Victoria Grants Commission took a deliberate decision not to make a submission to the Inquiry. The Commission has long held the view that its role is to allocate the funds provided by the Commonwealth to local government in Victoria, and that it should not take a stance on issues such as the level of funding provided or enter into the debate over the relative roles and responsibilities of different levels of government.

However, with the release of the Discussion Paper *At the Crossroads* in February 2003, it became clear that the primary focus of the Inquiry had shifted significantly from issues of cost shifting and funding responsibilities to an examination of the manner in which Commonwealth funds are provided to local government. The direct allocation of these funds by the Commonwealth under a simplified, centralised distribution system, and the possible tying of these grants to specific purposes, is now very clearly on the agenda.

As a principal player in the allocation of Commonwealth funds to councils, the Victoria Grants Commission is unable to remain silent on the issues and options raised in *At the Crossroads*. We believe that a number of the options put forward are not in the best interests of local government in Victoria and, through this submission, we wish to demonstrate this to the Committee.

Even more fundamentally, we are concerned that the Discussion Paper highlights a lack of understanding of the role of the Victoria Grants Commission (and those of our interstate counterparts) and the way in which we allocate funds between councils on the basis of their relative needs.

How the Victoria Grants Commission Addresses Relative Needs

The Victoria Grants Commission is an independent statutory body operating under the *Victoria Grants Commission Act 1976*. The Commission's primary function is to allocate financial assistance grants provided by the Commonwealth Government to municipal councils in Victoria in accordance with the *Local Government (Financial Assistance) Act 1995* and the approved national distribution principles.

In July 2002, the Commission finalised recommendations to the Commonwealth Government for the allocation of \$340.4 million in financial assistance grants to Victorian councils for 2002/03, comprising general purpose grants of \$248.6 million and separately identified local roads grants of \$91.8 million.

General Purpose Grants

The Commission allocates general purpose grants to Victorian councils on the basis of horizontal equalisation or relative needs. In assessing relative needs, the Commission calculates each council's relative expenditure needs (standardised expenditure) and their relative revenue raising capacity (standardised revenue).

For each council, standardised expenditure takes account of grant support received from other areas of government, the population served, the average cost of service provision across all Victorian councils and local characteristics which influence the relative cost of providing services (cost adjusters).

In 2002/03, the Commission used a series of 13 cost adjusters which enabled us to take account of the circumstances of councils that impact on the cost of service provision on comparable basis. The cost adjusters used were:

- Aged Pensioners
- English Proficiency
- Indigenous Population
- Kerbed Roads
- Population Density
- Population Dispersion
- Population Growth
- Population Less Than 5 Years
- Regional Significance
- Remoteness
- Scale
- Socio-Economic
- Tourism

Revenue raising capacity, or standardised revenue, is calculated on the basis of each council's relative level of valuations. The difference between standardised expenditure and standardised revenue for each council is then used to allocate the available general purpose grants.

The Commission believes that the allocation of general purpose grants across Victoria reflects the relative needs of councils. In 2002/03, against a State average grant of \$51.50 per capita, grant outcomes ranged from \$15.40 for six inner metropolitan councils that received a minimum grant of 30% of the State average (as required by the national principles) to grants of more than \$200 per capita for four relatively remote rural councils, with low population levels.

It is important to note that the Commission modifies its general purpose grant methodology annually to take account of input received from councils and to ensure that it remains relevant and equitable. In recent years, for example, English proficiency and tourism have been included in the formula as a result of submissions made by councils. In 2000/01, the Commission undertook a major review of the methodology, again in close consultation with councils. This resulted in a number of significant improvements being made to the allocation formula.

Local Roads Grants

Following a lengthy review and consultation process, the Victoria Grants Commission implemented a new funding formula for the 2001/02 local roads grant allocations which is based on an asset preservation model and takes accounts of various characteristics of each council's local roads network, including traffic volumes, freight and climate.

The specific objective of the methodology, in line with the relevant national principle, is to ensure that these funds are allocated on the basis of the relative needs of each council for roads expenditure and to preserve its road assets.

As with the general purpose grants model, the local roads model continues to be fine-tuned annually. Several elements of the model, including the underlying asset preservation costs, have recently been reviewed.

In 2002/03, local roads grant outcomes tended to be higher in total dollar terms for rural councils, which maintain longer local road networks, but higher on a grant per kilometre basis for metropolitan and regional centre councils, which have relatively higher traffic volumes over comparatively shorter road networks. Again, these outcomes indicate that the relative needs of councils are being addressed through the Commission's methodology.

Full details of the Commission's methodology can be found in our Annual Report for 2001/02, copies of which have been provided to the Committee.

The Value of State-Based Grants Commissions

We believe that the current structure of State and Northern Territory Local Government Grants Commissions serves local government in Australia well.

Local Government Grants Commissions were established in each State in the mid 1970s (and later in the Northern Territory) to make recommendations on the allocation of financial assistance grants provided to local governing bodies by the Commonwealth Government.

The existence of separate Local Government Grants Commissions in each jurisdiction has allowed the development and implementation of allocation methodologies which take account of the widely differing needs of councils across Australia, within the broad framework provided by the *Local Government (Financial Assistance) Act 1995* and the national distribution principles.

All of the seven Local Government Grants Commissions:

- take account of the particular characteristics of local government in their jurisdictions;
- support and recognise differences between individual councils;
- consult regularly with all of their individual councils;
- draw on substantial experience and knowledge; and
- operate at no cost to the Commonwealth.

We will elaborate further on each of these points below:

(a) Taking Account of the Characteristics of Local Government in Each Jurisdiction

Each of the Local Government Grants Commissions reflects the unique characteristics of local government within their own jurisdiction. This is evidenced by the differing methodologies that are applied by each Commission, within the broad framework established by the *Local Government (Financial Assistance) Act* and the national distribution principles.

The Commonwealth Grants Commission in its review of the operation of the Commonwealth legislation in 2001, strongly supported individual state methodologies stating:

There are many differences between LGGCs in the areas of expenditure and revenue covered by their assessments, the range of influences on expenditure and revenue levels assessed and the methods of measurement. Such differences are to be expected given the differences in the circumstances of LGBs both between and with the States. LGGCs require the flexibility to adopt methods that best reflect their circumstances.

Commonwealth Grants Commission
Review of the Operation of Local Government
(Financial Assistance) Act 1995, June 2001, pxii

With regard to local roads funding, the Commonwealth Grants Commission argued that:

The Act should provide LGGCs with the flexibility to develop a roads assessment method that reflects the influences on the cost of maintaining local roads in their State. Flexibility is required because the influences that affect costs in one State are not necessarily relevant in another or, if they are, the size of their effect can be different.

Commonwealth Grants Commission
Review of the Operation of Local Government
(Financial Assistance) Act 1995, June 2001, p39

The Commonwealth Grants Commission concluded that a "one size fits all" approach would not be appropriate:

We think that how the limited assistance is to be distributed should be left to the judgement of individual LGGCs because the diversity of LGBs' circumstances suggest that it would be not be sensible to mandate a single approach for every LGGC...

Commonwealth Grants Commission
Review of the Operation of Local Government
(Financial Assistance) Act 1995, June 2001, p41

The Commonwealth Grants Commission findings were discussed in detail by the State and Territory Commissions and there was general agreement that the present State and Territory-based allocation methodologies provide the best way of reflecting the relative needs of councils.

The Municipal Association of Victoria also supports the continuing operation of the Local Government Grants Commissions and has stated:

The current system enables each state based LGGC to ensure the distribution of FAGs to councils in a way that reflects the individual character of that state's local government sector

Submission to the House of Representatives Standing
Committee on Economics, Finance and Public
Administration Inquiry into Local Government and Cost
Shifting Inquiry. Municipal Association of Victoria,
September 2002, p37

The Discussion Paper *At the Crossroads*, in referring to the findings of the Review, states:

Submissions to the Inquiry have generally supported the CGC's proposals.

Discussion Paper *At the Crossroads*, Inquiry into Local
Government and Cost Shifting, House of Representatives
Standing Committee on Economics, Finance and Public
Administration, February, 2003, p18.

Local government in Australia is not homogenous. The functions and services provided by councils vary widely between States and these councils serve areas and communities with widely differing characteristics. The factors taken into account by a Local Government Grants Commission in one State in measuring relative needs simply may not be appropriate or applicable to another.

(b) Supporting and Recognising Differences Between Individual Councils

As outlined above, the Victoria Grants Commission has spent considerable time reviewing and consulting with all Victorian councils to develop and maintain a methodology that can appropriately reflect differences between councils.

The Commission now uses a series of 13 cost adjusters in the formula for the allocation of general purpose grants. These cost adjusters allow the Commission to take account of the particular characteristics of individual councils which impact on the cost of service provision. A similar methodology is applied to the local road grants with the use of cost modifiers. They are designed to take account of difference between councils that may make local road maintenance more or less costly than the State average.

As the Commission's methodology has been designed specifically for local government in Victoria, the individual differences between the 79 councils can be recognised. We do not believe that this would be possible if one methodology was applied Australia wide.

(c) Consultation

All of the seven Local Government Grants Commissions travel to, and meet with, each of the local governing bodies in their jurisdictions on a regular basis, as well as accepting written submissions which influence their allocation methodologies. Each of the Local Government Grants Commissions has built up, over time, a detailed understanding of the issues relating to local government in their individual jurisdictions, which it is unlikely could be replicated by a single central body.

The Victoria Grants Commission makes an extended visit to each council at least once every three years and also conducts additional meetings with councils at their request. This program provides both Councillors and council officers with an opportunity to gain an understanding of the way in which their grant outcome was determined, and provides the Commission with an in-depth understanding of the current issues confronting local government, which in turn informs our decision-making processes.

We believe that the greatest strength of our methodology is its ability to address the differing needs of councils on an equitable basis, and that this is due in large part to our regular contact with councils.

(d) Experience and Knowledge

The seven Commissions comprise individuals who have skills and experience relevant to the task which has been enhanced by an understanding of differing council needs. This knowledge is extremely important for informed decision making and greatly improves the quality of the decisions made.

The Victoria Grants Commission's three Commissioners have close to 20 years of Commission experience and, in addition, have detailed practical experience of the Victorian local government sector.

The seven Commissions do not work in isolation. There are regular exchanges of ideas and information between the Commissions to ensure that each is aware of what others are doing and can learn from this. The annual conferences for the Commissions and the Executive Officers are valuable formal forums which promote the sharing of experiences and knowledge.

We are deeply concerned that a change to the current arrangements would see the experience and knowledge that has been built up over many years lost.

(e) Cost of Operation

The individual Local Government Grants Commissions operate at no cost to the Commonwealth Government. The State and Northern Territory Governments meet the cost of allocating and administering financial assistance grants, ensuring that every dollar of the available grants allocated by the Commonwealth Government flows through to local government.

The estimated cost of operating the Victoria Grants Commission is approximately \$300,000 per annum – which is equivalent to less than 0.1% of the grants allocated by the Commission. However, this cost is borne in its entirety by the Victorian Government.

Why a Centralised Approach Should Not Be Adopted

(a) Relevance of Methodology

The centralised allocation of financial assistance grants by the Commonwealth Government would inevitably be accompanied by a single distribution methodology. The Victoria Grants Commission does not believe that a single methodology could adequately accommodate the many differences that exist in the size and scope of the 722 local governing bodies across Australia.

As noted above, the Commonwealth Grants Commission, in its review of the operation of the Commonwealth legislation in 2001, observed that the individual State and Territory-based Local Government Grants Commissions are best placed to develop methodologies that reflect the differences of councils between and within the various jurisdictions.

The Commission went on to conclude that the current arrangements “have led to a distribution of funds which is generally in line with the Commonwealth’s intentions” (p.11). While consistency of methods was seen as desirable, the CGC argued that:

“the focus of consistency should be consistency of a LGGC’s methods with the National Principles rather than conformity with the assessment methods of other LGGCs...Greater consistency with the National Principles in these areas (where the Principles are not being consistently applied) can be achieved without detracting from the ability of each LGGC to assess needs in ways that reflect the circumstances of LGBs in their State.”

Commonwealth Grants Commission
Review of the Operation of the *Local Government
(Financial Assistance) Act 1995*, June 2001, pp 30-1

The Victoria Grants Commission strongly endorses this view.

(b) Cost

As outlined above, the seven Local Government Grants Commissions operate at no cost to the Commonwealth Government. The State and Northern Territory Governments meet the cost of allocating and administering financial assistance grants, ensuring that all of the grants allocated by the Commonwealth Government flow through to local government. The direct payment of financial assistance grants by the Commonwealth Government would necessitate the establishment of a large and costly centralised administrative structure.

Centralisation of the allocation of the grants would actually increase costs to the Commonwealth or decrease grants to local government.

(c) Responsiveness

It is unlikely that a centralised allocation body could be responsive to the needs of individual local governing bodies across Australia. All of the LGGCs travel to, and meet with, each of the local governing bodies in their jurisdictions on a regular basis, as well as accepting written submissions which influence their allocation methodologies. Each of the LGGCs has built up over time a detailed understanding of the issues relating to local government in their individual jurisdictions, which it is unlikely could be replicated by a single central body. Such a body would, by definition, be more remote from the 722 local governing bodies than the seven current Commissions.

The Discussion Paper Options

The Victoria Grants Commission does not wish to comment in detail on each of the options put forward in the Discussion Paper, as we believe that these are narrowly focussed and do not address the real issues of funding and functional responsibilities currently facing local government in Australia.

However, we do feel compelled to make specific comment on aspects of the options where it is apparent that the implications are to the clear detriment of local government:

Option 1a: "Negotiate an umbrella intergovernment agreement on FAGs."

Reduction of the minimum grant is identified as an element that could be incorporated into such an agreement. We refer the Committee to the Commonwealth's Review of the Financial Assistance Grants which stated:

We have concluded that a change in the rate of the Minimum Grant is not warranted.

Commonwealth Grants Commission
Review of the Operation of the *Local Government
(Financial Assistance) Act* 1995, June 2001, p 15

The Discussion Paper acknowledges the strong support that exists for the retention of the minimum grant and we know from our own dealings with Victorian councils that retention of the minimum grant is generally supported.

Option 1b: "A Simplified Distribution System and Formula, Administered Nationally"

The Commission does not support this option. We believe that the methodology we have developed in consultation with Victorian councils best assesses relative needs and meets the requirements of local government. We also are unaware of any 'perceived problems with the FAG's system' which is given as justification for this option in the Discussion Paper (p30). The recent review of the Financial Assistance Grants by the Commonwealth noted a number of changes were necessary, but supported the ongoing operation of the system and concluded:

Overall, we think the intentions of the Commonwealth in providing financial assistance for local government are being achieved.

Commonwealth Grants Commission
Review of the Operation of the *Local Government
(Financial Assistance) Act* 1995, June 2001, p 32.1

A simple system would be easy to apply, but it is questionable whether it could meet the national principles and it would not be able to acknowledge the many differences that exist in the size and scope of the 722 local governing bodies across Australia.

A detailed assessment of relative needs, such as is undertaken by the Victoria Grants Commission and our counterparts, is required to implement horizontal fiscal equalisation and to ensure that councils that have below average revenue raising capacities or above average expenditure needs can function without undue penalty. It is unlikely that a simple transfer system would achieve this.

With simplicity, fairness is lost. Few would agree that a simple distribution system - one which ignores differences of need or resources - is a fair outcome. Yet, the more adjustments are made to include factors that will assist fairness and equity, the more complex the system becomes. As the UK Local Government Association argued:

...a simple formula should provide fair and reasonable results to all local authorities, which reflects their relative needs. It is recognised that there may be a trade-off between fairness and simplicity, and the Opinion Survey clearly demonstrated that fairness is considered to be much more important than clarity or transparency in its impact on the overall degree of satisfaction with the system. If there is a trade-off between fairness and simplicity, the former should be preferred

Local Government Association, UK, *A Simplified Formula for Grant Distribution, Review of Revenue Grant Distribution 1999*, p2.

When the Victoria Grants Commission reviewed its general purpose grant methodology in 2000, councils also resoundingly indicated that the principles of fairness and equity were of far greater importance in the development of a new formula than the achievement of simplicity.

It concerns us that this option is justified on the basis that it would reduce administration costs. As noted above, the States and Northern Territory incur all costs associated with the State Grants Commission, which are minimal compare to the funds allocated. It therefore follows that, rather than reducing costs, additional costs would be incurred by the Commonwealth in nationally administering the individual allocation to councils.

In addition, we believe that the introduction of a centralised distribution system, overriding the existing population shares of general purpose grants allocated to each state, has the potential to result in a significant net transfer of local government funding from Victoria to other States and Territories.

Option 1c: *“Deliver FAGs through a model of broad-banded programs to facilitate local government’s role in key national initiatives such as regional development, transport, environment etc.”*

FAGs have been allocated as untied grants for 25 years. In Victoria they form 9% of all local government revenue. The actual proportion varies between councils and, for one small rural council, FAGs represents 34% of their total revenue.

Councils rely on these funds being untied. The tying of funds would significantly restrict budget flexibility for all councils and would dramatically increase administrative costs through the imposition of acquittal requirements.

Option 1d: "FAGs to be delivered as tied grants."

This option is similar to option 1c as it is about tying grants, and accordingly the same comments apply to this option as were made above for option 1c.

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"

The Commission does not support this option as the issues in local government are demonstrably not the same as those that exist in the non-government school sector. Horizontal equalisation can not be achieved in local government without taking into account the complexity and diversity of services provided to meet the needs of a non-homogenous population.

When considering the SES formula, we believe it is important to understand why this formula was introduced for the non-government school sector, and consider whether such conditions apply in local government.

We understand that this allocation system has been introduced to allocate funds to non-government schools due to the perceived failure of the previous system, which used an Education Resources Index (ERI) with a twelve point scale. Schools were assigned a rate according to an assessment of resources available to each school based on information provided annually by the school.

A facts sheet on the funding arrangement on the changes provided a number of reasons for the change in the formula and noted:

...changes to the formula over time had distorted the ERI and made it unworkable; manipulable - schools could be relatively advantaged or disadvantaged depending on their familiarity with the ERI

DETYA, SES Funding Arrangements for Non-Government Schools, Facts Sheet, p1.

Over recent years, the Commission has completely reviewed its data requirements and now relies primarily on independent, third-party data from bodies such as the Australian Bureau of Statistics and Centrelink. Where data is sourced from councils, mechanisms are in place to ensure its accuracy. Manipulation of data provided to the Commission cannot be used by individual councils to produce favourable grant outcomes.

It is understood that one key driver for the change in funding to non-government schools was the "stepped" funding scale used, which meant that two very similar schools could receive substantially different funding as they were classified differently in terms of the twelve point scale. This does not apply for the financial assistance grants to local councils as the total pool is not divided into smaller pools for allocation.

We do not believe that the SES model now used to allocate funding to non-government schools would recognise the real differences in the needs of councils and deliver horizontal equalisation.

Horizontal equalisation aims to ensure that each council is able to function, by reasonable effort, at a standard not lower than the average standard of other councils in the state. However, as the National Office of Local Government (Department of Transport and Regional Services) has noted in a submission to the Inquiry, the SES model does not take into account the capacity of councils to deliver services. Rather, it simply measures the socio-economic status of the community and their capacity to pay for services.

Our central concern is that the use of the SES model to allocate funding to local government is being promoted on the basis that this would allow account to be taken of the relative needs of councils. This ignores the fact that the Victoria Grants Commission (along with its interstate counterparts) already does this through our existing methodology. Moreover, we believe that we do this in a more equitable way than could be achieved by implementing a model solely based on the socio-economic status of communities served by councils.

We do not deny that socio-economic status is an important measure of need in the community, and this is why the Commission includes it in our general purpose grants model as a cost adjustor. However, socio-economic status is included alongside 12 other cost adjustors, such as remoteness, population dispersion and population growth, which are as important - and arguably more important - measures of the relative needs of councils.

Option 1f: “Deliver FAGs Through the Roads to Recovery Model”

The Discussion Paper states that this option would not require funding to be channelled through the Local Government Grants Commissions in each State. However, it is unclear whether this option envisages only the centralised allocation of grants, based on the continuation of individual Local Government Grants Commission methodologies, or whether it also entails the implementation of a single, centralised methodology.

Roads to Recovery funds are paid directly by the Commonwealth to individual councils. However, the allocation between councils was determined by the Commonwealth using shares of local roads funding in 1999/2000 determined by individual Local Government Grants Commission methodologies. Victorian councils therefore receive *Roads to Recovery* funds based on a methodology developed by the Victoria Grants Commission. *At the Crossroads* does not acknowledge this fact which we believe demonstrates the value of individual state methodologies.

It is important to note that the methodology still being used by the Commonwealth to allocate *Roads to Recovery* funds in Victoria is no longer used by the Victoria Grants Commission to allocate local roads grants. This formula was superseded in 2001/02 by what the Commission and Victorian councils believe is a more appropriate and equitable methodology. This new formula is subject to periodic finetuning to ensure its ongoing relevance.

However, it may be that this option is simply proposing the central administrative processing of the grants to councils, based on individual methodologies that would continue to be developed by the Local Government Grants Commissions in consultation with their relevant councils.

If that is the case, it needs to be recognised that the actual processing and transfer of funds to councils is only a small part of the operation of Local Government Grants Commissions. Indeed, this is insignificant when compared to the main part of our work which is the development, maintenance and application of appropriate allocation methodologies, in close consultation with councils.

Addressing the Real Issues

The Victoria Grants Commission does not believe that a case can be made that the current arrangements for allocating Commonwealth financial assistance to local government through the seven Local Government Grants Commissions are not in the best interests of Australian councils. We are therefore surprised by the focus of the Discussion Paper *At the Crossroads* on options that are based on these arrangements being either discarded or fundamentally altered.

We believe that the major issues for local government relevant to this Inquiry lie elsewhere – in the quantum of funding available and in achieving greater balance in the relative functional responsibilities of the three tiers of government. *At the Crossroads* acknowledges this and states:

The major concerns regarding FAGs expressed in submissions related to the total funding available and the inter-state distribution.

Discussion Paper *At the Crossroads*, Inquiry into Local Government and Cost Shifting, House of Representatives Standing Committee on Economics, Finance and Public Administration, February, 2003, p19.

In the absence of evidence that the current allocation arrangements are not working, it would appear that the focus of *At the Crossroads* on alternative distribution models is driven either by a desire to exercise greater Commonwealth control over the allocation and distribution of these funds through by-passing the current State-based arrangements, or by a wish to receive greater recognition for the Commonwealth's funding contribution. If that is the case, this should be explicitly acknowledged and addressed.

If the issue is one of achieving greater acknowledgment of the \$1.5 billion annual funding contribution made by the Commonwealth to local government, there are ways of doing this that do not require the dismantling of the present arrangements. The *Roads to Recovery* program is clearly seen as being a Commonwealth program. However, this is due to the fact each *Roads to Recovery* project can be clearly signed, with the contribution of the Commonwealth to the project made apparent to all. It is not because the funds are not channelled through Local Government Grants Commissions.

The badging of untied funds is, of course, more problematic than tied funding for roads projects, but an improvement in the degree of recognition of the Commonwealth's role could be achieved while retaining the current allocation arrangements. A simple mechanism would be to transfer the funds directly from the Commonwealth to individual councils, rather than through the States, while retaining the present role of the individual Local Government Grants Commissions in making recommendations on the allocation of these funds.

If there is a more fundamental desire to by-pass the States and Territories entirely in the grants allocation process, this could be achieved without centralising the allocation and distribution processes. Separate State and Territory Commissions, appointed by the Commonwealth and reporting directly to the Commonwealth could accomplish this objective. While we stress that the Victoria Grants Commission does not believe that such a change is necessary, given the high degree of independence we already have from the State Government, this option would at least ensure that allocation methodologies remain responsive to local conditions and needs.

Conclusion

In summary, the Victoria Grants Commission strongly opposes any suggestion that financial assistance grants should be allocated directly by the Commonwealth Government. The Commission believes that this would necessitate the adoption of a single allocation methodology that, together with a centralised administrative structure, would be unable to respond adequately to the differing needs of local governing bodies across Australia.

The Victoria Grants Commission does, however, fully support the findings and recommendations of the Commonwealth Grants Commission Review of the Operation of the *Local Government (Financial Assistance) Act 1995*. We would therefore ask that the recommendations made in the Commission's report be implemented immediately as outlined.

Victoria Grants Commission
May 2003