

Mr Russell Chafer  
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
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*Russell*

Dear Mr Chafer

I refer to a letter from Mr Trevor Rowe of 30 January 2003 seeking information on the possible allocation of Commonwealth financial assistance grants to local government based on a socio-economic status (SES) model.

The attached Departmental paper provides a brief description of the SES concept and an assessment of its applicability in determining "need" of local government areas. Utilising a SES model would provide a simpler methodology compared with the current methods used by Local Government Grants Commissions to allocate grants to councils. However, our view is that existing SES indicators provide a different measure of "need" to that which is currently required to allocate financial assistance grants to local government.

In a horizontal fiscal equalisation context, assessments are required of both the revenues a council could raise and the expenditures a council would face in delivering services. An SES model could measure just a few of the factors that may influence a council's capacity to raise revenue through rates and user charges as the SES model is likely to only capture the capacity of a community to pay for certain services. While this is valuable for determining 'need' for some services, it would not fully capture the range of costs faced by councils to provide the range of services they currently deliver.

On the basis of the available evidence, the Department has concluded that a SES model's usefulness for allocating financial assistance grants to local government on the basis of a horizontal equalisation measure of 'need' is limited.

Furthermore, the Commonwealth Grants Commission (CGC) in its final report for the review of the operations of the *Local Government (Financial Assistance) Act 1995* said that "[i]n broad terms, the current arrangements have led to a distribution of funds in line with [the Commonwealth's] intentions".

I understand that the Committee will be speaking to Stephen Farish of the University of Melbourne to obtain further information in relation to the SES model. Given that the CGC is the Commonwealth's 'expert' when it comes to allocating funding to another level of government on the basis of need, and its familiarity with local government issues following the review of the financial assistance grant legislation, the Department would also encourage the Committee to discuss this issue with the CGC.

Yours sincerely



Mike Mrdak  
First Assistant Secretary  
Territories and Local Government Division

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