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LOCAL GOVERNMENT (FINANCIAL ASSISTANCE) BILL 1986

Date introduced: 2 May 1986
House: House of Representatives
Presented by: Hon. Tom Uren, M.P.,
Minister for Local Government
and Administrative Services

DIGEST OF BILL

Purpose

To replace the Local Government (Personal Income Tax Sharing) Act 1976 and provide a new basis for continued Commonwealth assistance to local governments.

Background

The Australian Constitution effectively reserves tariffs, excises and sales tax for the Commonwealth. In addition, Commonwealth/State agreements have given the Commonwealth exclusive control over personal and corporate income taxes. As a result, the Commonwealth collects the majority of taxes levied in Australia.[1] However, as the Constitution allocates a number of major government spending areas to the States, the Commonwealth makes grants to State and local governments to supplement the revenue they raise from their own sources.

It is a characteristic of local government responsibilities that they are often carried out in partnership, most often with the State, and sometimes the Commonwealth government. Local government responsibilities include roads, garbage collection, water supply, sewerage, aerodromes, recreation, transport, libraries and some welfare services. The major sources of local government revenue are user charges for services and property rates. Due to Constitutional requirements the only way that the Commonwealth can provide assistance to local government is through specific purpose grants to the States.
Commonwealth general purpose revenue assistance to local government was introduced in 1973 upon the passing of the Grants Commission Act 1973. In this legislation the Commonwealth's stated purpose was to promote fiscal equalisation between regions. The aim was that all local governing bodies in a region would be able to function at a standard not appreciably below the standard of local governing bodies in other regions.

The Local Government (Personal Income Tax Sharing) Act 1976 altered the method of assistance to local government. The Act provides for the allocation of funds between councils on the basis of recommendations made by State local government grant commissions. The Commonwealth legislation sets out the general guidelines to be followed by the State local government grants commissions and ties local government grants to a percentage of personal income tax receipts.

Main Provisions

The Bill will come into operation on 1 July 1986 (clause 2).

Clause 4 deals with Local Government Grants Commissions. Where such bodies already exist, they will have to have at least two local government representatives by 1990. New bodies will have to have two such people from the outset.

The amount of financial assistance which will be granted to States for local government assistance will be determined by a base figure being multiplied by a 'factor'. The base figure is the level of 1985-86 assistance to all States. In the first two years of the Bill's operation the factor will be the percentage increase in the consumer price index over the last twelve months (sub-clause 6(4)) or the percentage increase in Commonwealth grants to States over the last twelve months (sub-clause 6(5)), whichever is the highest. In the year commencing 1 July 1988 and subsequent years, the factor to be used will be the percentage increase in Commonwealth grants to States over the last 12 months (sub-clause 6(2)).

In the year commencing 1 July 1989 Commonwealth financial assistance to States for the purposes of local government will be apportioned amongst the States (and the Northern Territory) on the basis of each State's population (sub-clause 7(4)). Subsequent years apportionments will
reflect the relative changes in population amongst the States. Sub-clause 7(1), 7(2) and 7(3) set out the apportionments applicable to the financial years 1986, 1987, 1988 and thereby allow a transition period from the apportionments applicable under the Local Government (Personal Income Tax Sharing) Act 1976.

Where the amount paid to the State is calculated on the estimated factor and at the end of the year the Treasurer calculates the actual or 'final' factor to be a higher amount, the Commonwealth will have to pay to the States the amount of the difference (sub-clause 8(1)). The converse applies where the estimated factor exceeds the final factor (sub-clause 8(2)).

The principles which will guide the States in dividing Commonwealth funds amongst the various local government bodies will be formulated by each State and submitted to the Minister (sub-clause 9(1)) for the Minister's approval (sub-clause 9(5)). In formulating the principles the States will have to consult with local governments and take into consideration the varying needs of the local government bodies in order to promote equality between the bodies (sub-clause 9(2)). Where the State fails to formulate a set of principles, or the Minister is not prepared to approve the principles formulated, the Minister will be able to formulate the principles (sub-clause 9(4)). Three years after approving the principles the Minister may choose to revoke or vary the principles (sub-clause 9(8)).

Clause 10 will ensure that the States meet a number of requirements before being eligible to receive Commonwealth assistance for local government purposes. Amongst these requirements will be the necessity for each State to have a Local Government Grants Commission which has held public meetings at which submissions were received from local government bodies. The Commissions will also be required to report to the Minister at least once every three years on the methods it uses to reach its recommendations. Another requirement will be that the Minister must be satisfied that the State has distributed the money in accordance with the principles formulated by the State for that purpose.

Payment by the States to the local government bodies will have to be made promptly and unconditionally (sub-clause 11(a)). A statement of these payments, certified by the State Auditor-General, will have to be supplied to the Treasurer (sub-clause 11(b)). Should a
State fail to meet these conditions it may be liable to pay the Commonwealth an amount determined by the Minister (clause 12).

Reports of recommendations of Local Government Grants Commissions will be laid before each House of Parliament (clause 13).

Clause 14 will provide for Ministerial review of the effectiveness and impact of the present Bill in 1992.


For further information, if required, contact the Law and Government Group.

30 May 1986

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References


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