Date Introduced: 14 May 1985
House: House of Representatives
Presented by: Hon. Tom Uren, M.P., Minister for Local Government and Administrative Services

Short Digest of Bill

Purpose

To alter the means of calculating the amount to be made available to local government through general purpose grants for the 1985/86 financial year.

Background

As part of the then Liberal/National Party Government's Federalism policy, tax sharing with the States and local government was introduced in 1976. This was achieved for local government through the Local Government (Personal Income Tax Sharing) Act 1976 (the Principal Act). Local government bodies received a fixed share of the previous years net personal income tax receipts, fixed at 1.52% by the Principal Act, which was divided amongst the States for forwarding to local government. The share each State receives is specified in the Principal Act and follows recommendations made by the Commonwealth Grants Commission. The States distribute the funds as untied, general purpose grants. The Principal Act requires that at least 30% of funds be distributed on a per capita or area adjusted per capita basis, the remainder being allocated to achieve an equal standard of local government services. There is a Local Government Grants Commission in each State to recommend how the funds be distributed.

The share of net personal income taxes allocated to local government was increased to 1.75% in 1979 and further increased to 2% in 1980. The increases fulfilled an undertaking given in the Liberal Party's policy speech for the 1977 elections that local government's share would be increased to 2% by 1980/81.

The distribution of funds between the States was altered by the Local Government (Personal Income Tax Sharing) Amendment Act 1977 as a result of further
recommendations of the Commonwealth Grants Commission. The distribution between States was discussed at the June 1982 Premiers Conference but was not altered. As a result, the 1977 distribution remains in force today. A table showing each State's share is attached.

The proportion of net personal income taxes made available to local government has remained at 2% since 1981, and assistance to local government has increased in real terms each year since then. A table showing annual, percentage increases is attached.

On 10 May 1984, the Minister announced the establishment of a National Inquiry into Local Government Finance which is expected to report this year. Pending the Inquiry's report, this Bill establishes interim assistance for the 1985/86 year in line with the Government's economic policies announced by the Treasurer on 14 May 1985. In the Ministerial Statement on Government Expenditure Savings, the Treasurer stated:

"For 1985/86, general purpose assistance to local government is to be limited to a 2% increase in real terms over 1984/85 levels. This increase exceeds that provided in the previous two years but still represents a saving of around $62m from the 1985/86 Forward Estimates".[1]

It should be noted that this Bill, and the Principal Act do not deal with assistance to local governments in the Northern Territory. The Government makes general purpose grants to Northern Territory local government and, though not tied by legislation to personal income tax receipts, these grants have operated in the same way as grants to local government in the States. $2.3m was appropriated for such grants in 1984/85.[2]

Outline

The Bill will alter the method of calculating grants to local government for the 1985/86 year. Instead of a fixed percentage of the previous years net personal income tax receipts, local governments will receive an amount equal to a 2% real increase over 1984/85 funds. This will be achieved by adjusting the 1984/85 grants for rises in the Consumer Price Index (CPI) and adding 2%. The grants are initially to be calculated on the Treasurer's estimate of CPI growth in 1985, though there is provision for adjustments once the actual CPI figure becomes available.
Main Provisions

The 2% real increase in funds for 1985/86 is contained in clause 3 which amends the definition section (s.3) of the Principal Act.

The determination of the actual CPI increase and provisions for adjustments are contained in clauses 5 and 6 of the Bill which insert new sections 4B, 4C and 5A in the Principal Act.

For a detailed explanation of the provisions of the Bill, refer to the Explanatory Memorandum.

Remarks

The 1984 Australian Labor Party Platform, Constitution and Rules states, at point 51, that the Party will:

'Provide financial assistance for local governments, including -

(a) an annual allocation of at least 2 per cent of Federal personal income tax receipts as a general revenue grant ...'

For further information, if required, contact:

22 May 1985

Economics and Commerce Group
LEGISLATIVE RESEARCH SERVICE

References

2. 1984/85 Budget paper No. 1, p.263.
### Tax Sharing Funds for Local Government - 
Distribution between States

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<tr>
<th>State</th>
<th>Percent</th>
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<td>New South Wales</td>
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<tr>
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<td>25.4513</td>
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<tr>
<td>Tasmania</td>
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<tr>
<td><strong>Total</strong></td>
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### Annual Increase in General Purpose Assistance 
for Local Government

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<thead>
<tr>
<th>Year</th>
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<tbody>
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<tr>
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<td>8.2</td>
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