Local government, fiscal equalisation, population ageing and the growing importance of the Census

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Abstract

Population ageing is unfolding at different rates across Australia’s states, territories, and local government areas. Current disparities in the demographic composition of these regions (at least as they are currently determined) will now open up. Between now and 2019, half of all Australia’s local government areas are projected to either decline in size or not to grow, much of this change coming from regionally-differentiated shifts in age structures that in some areas are already beginning to deliver more elderly (and soon deaths) than children (and births). This changing demography has significant implications for the basis upon which local governments currently receive population-oriented financial assistance from the State. The paper argues that the use of ‘own state’ comparisons as the basis of this assistance is inequitable; that while this methodology may have accommodated population differentials in the past, it will become ever-more problematic as population ageing proceeds, causing some local governments to be under- or over-compensated by contrast with their similarly-aged counterparts in other states. Such an outcome would seem antithetical to the intended objectives of ‘horizontal equalization’, the main principle underlying fiscal transfers to local governments, which is basically to level the playing field between them, albeit currently within-state. Resolution to ‘the problem’ is simple: shift to the national comparison that is readily available from the Census.

Introduction

Currently, seven Local Government Grants Commissions (LGCCs) oversee the distribution of federal funding from the Australian Government to the nation’s 722 local governing bodies, or local government councils as they are generally known. At the centre of the distribution process is an important principle known as fiscal horizontal equalisation, via which ‘each local governing body in a State is able to function, by reasonable effort, at a standard not lower than the average standard of other local governing bodies in the State’ (DOTRS 2001: 31). This arrangement takes account of differences in the expenditure required to be incurred by local governing bodies in the performance of their functions and in their capacity to raise revenue. In short, fiscal equalisation is a laudable attempt to level the playing field between local governments within each state, so that none are unduly advantaged or disadvantaged vis-à-vis their ability to fund and provide equivalent services (see Appendix A for a more detailed overview).

However, in the context of population ageing, the ‘own state comparison’ method is inequitable (Jackson 2004). While it may level the playing field between councils within each state, it actually contributes to inequality between councils (and thus states) at the national level. There are three main reasons for this. The first is that
fiscal equalisation monies are apportioned on the basis of ‘disability factors’ (or ‘per capita relativities’) — relative use and cost disadvantages such as age profile and geographic dispersion that affect the respective capacities of councils to provide approximately equivalent services. The second is that population ageing is unfolding at markedly different rates across Australia’s states and territories, with the average proportion over the age of 65 years ranging from less than five per cent in Northern Territory to above 15 per cent in South Australia. At local government level the disparities are substantially greater, with six per cent of local government areas already having greater than 20 per cent aged 65+ years (see Table 1 below). The third is that, as a result of these demographic disparities, the own state comparison methodology is akin to each state having its own poverty line, whereupon some local government areas ‘under the line’ (e.g. below the average percentage aged 65+ years) in demographically ‘older’ states would be unable to claim an adjustment for an ageing disability factor, while in reality they may be substantially older than many of those above the line (and able to claim an ageing disability factor) in ‘younger’ states. This methodology will also become increasingly problematic as population ageing proceeds, causing some local governments to be systematically under- or over-compensated by contrast with their similarly-aged counterparts in other states.

I do not illustrate the economic effects of the problem here, but rather, focus on the emerging problem itself, from a demographic perspective. I will argue that, in the context of regionally-disparate population ageing, there is only one fair comparative basis for local government funding, and that is a national standard, whether it be the proportion aged 65+ years or any other population-related characteristic; and that national standard can only be drawn from one internally consistent data collection: the Census. This is not to say that the Census and its inter-censal estimations are not already the basis on which local government funding is based, but rather, that this premier of collections could and should be being used in a more effective manner.

There is a related matter which warrants mention, but will not be further developed here, and that is that the current approach of basing local government funding on the previous year’s estimated resident population (ERP) rather than projected population is also problematic, in that the speed with which certain age groups—for example numbers aged 80+ years—will grow in many local government areas will make it very difficult for those councils to respond to the associated challenges in a timely manner. Population ageing will be played out at the level of local government; it is there where services and facilities must be provided, and where local revenue is collected. To adequately prepare for ageing it will be necessary for local governments (and indeed states) to be funded ahead of demand, rather than after the fact. The idea may sound outlandish, but much consolation can be gained from the fact that a massive numerical ageing of the population is both inevitable and inexorable (this is the increase in the numbers of elderly caused by increased life expectancy and soon to be exacerbated by the arrival of the baby boomers at retirement and eventually old age); and it is numerical ageing that will drive age-related demands. It is only the extent to which structural ageing (the increase in the proportion of the population that is old, primarily due to falling fertility) will also continue to occur that is unknown; a sustained stabilizing of Australia’s birth rate would of course slow the rate of structural ageing. Population projections are regularly updated and could be readily incorporated into the funding methodology without compromising the long-term.
Regionally-disparate population ageing

Due to its macro-economic implications, population ageing is an issue that is primarily conceptualised at the national level. Yet, across Australia, and within the states and territories, the phenomenon is unfolding at markedly different rates—as it is across Europe (Eding 1999; van der Gaag 1999) and indeed the surface of the globe.

Demographically speaking, the cause of this regionality of ageing is simply regional differences in births, deaths and migration. Their combined manifestation in terms of current age structures is shown for a selection of states/territories in Figure 1, and as projected trends in proportions aged 65+ years in Figure 2 (assuming the ‘high’ Series A assumptions). According to these data, the Northern Territory and ACT are currently Australia’s youngest and second-youngest regions, and Tasmania and South Australia are its second-oldest and oldest. The projections indicate slight changes in the line up of the remaining regions over the next few decades, but these four continue to claim the roles of Australia’s oldest and youngest across the projection period—at least when measured in terms of proportions aged 65+ years, a point that is returned to below. (Note that the ACT is not—currently—included in LGGC funding arrangements because it is directly funded by the ACT government. However it is included here because the arguments remain pertinent.)

Figure 1: Age-Sex Structures and Median Ages of Selected States and Territories, 2005

![Age-Sex Structures and Median Ages of Selected States and Territories, 2005](source: ABS Estimated Resident Population (2006))
Using data that are now slightly dated, Table 1 gives an indication of the disparities at local government level over the next decade only. Forty-one per cent of Australia’s local government areas already have fewer people at labour market entry than exit age (measured here quite broadly as the ratio of people aged 15-24 years to people aged 55-64 years). However this index ranges from zero in the youthful Northern Territory to 51-53 per cent in ‘older’ New South Wales, Tasmania and South Australia. Similarly while 14 per cent of local government areas already have more elderly than children (people aged 65+ years to those aged 0-14 years), this ranges from zero in the Northern Territory to 26-29 per cent in the ACT, Victoria and South Australia. By 2016 not only are these proportions projected to be greatly increased, but so too is the disparity between them.

Notably, Australia’s second-oldest state, Tasmania, does not feature as one of the oldest states on the index ‘more elderly than children’, while the relatively youthful ACT does. In Tasmania’s case this is because the structural ageing occurring there is not (primarily) caused by its conventional harbinger, low/falling fertility, but rather by high net migration losses at the young adult ages (and with them, their children), and gains at the older ages (Jackson and Kippen 2001; Jackson 2005). By contrast to this ‘premature ageing’, the ACT’s very low fertility rate largely explains that region’s higher than average proportion of local government areas with more elderly than children, although the ACT too experiences net migration losses that disproportionately trim the middle-aged population. These diverse experiences are echoed throughout approximately half of all Australia’s local government areas; in them, migration is a significant contributor to population ageing, in many cases hollowing out the age structure across the young adult and middle age groups so that—ironically—it resembles an hour-glass.
### Table 1: Projected Structural Changes at Local Government Level by State/Territory

<table>
<thead>
<tr>
<th>State (n LGAs)</th>
<th>More Labour Market Exits than Entrants</th>
<th>More Elderly than Children</th>
<th>Percentage Aged 65+ Years Greater than 20%</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Australia (68)</td>
<td>36</td>
<td>58</td>
<td>53</td>
</tr>
<tr>
<td>Tasmania (29)</td>
<td>15</td>
<td>27</td>
<td>52</td>
</tr>
<tr>
<td>Victoria (78)</td>
<td>33</td>
<td>56</td>
<td>42</td>
</tr>
<tr>
<td>New South Wales (176)</td>
<td>90</td>
<td>130</td>
<td>51</td>
</tr>
<tr>
<td>Queensland (125)</td>
<td>51</td>
<td>83</td>
<td>41</td>
</tr>
<tr>
<td>Western Australia (141)</td>
<td>44</td>
<td>73</td>
<td>31</td>
</tr>
<tr>
<td>ACT (88)</td>
<td>27</td>
<td>48</td>
<td>31</td>
</tr>
<tr>
<td>Northern Territory (9)</td>
<td>0</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>TOTAL (714)</td>
<td>296</td>
<td>476</td>
<td>41</td>
</tr>
</tbody>
</table>


Notes: These 'medium case' projections have a 1996 population base (data on a more recent base not available for all states at the time of writing).

ABS data for SLAs have been aggregated to approximate local government area and/or local government body classifications, according to the 2001 LGA (ASGC) classifications.

ACT Treated differently under the LGGC arrangements. ACT data are included here for comparative purposes, based on 88 SLAs. (Of the ACTs 106 SLAs, 18 account for a total of less than 1 per cent of the ACT population. These SLAs have been excluded from the analysis.)
Relatedly, over the next decade almost half Australia’s local government areas (as they are currently delineated) are projected to either decline in size, or not to grow (Jackson 2004). The proportions range from 11 per cent in the Northern Territory to 62 per cent in Tasmania and 68 per cent in the ACT. The point is critically important to this paper: population growth tends to be better rewarded than population decline.

A growing literature details these demographic disparities, so this section will conclude with a brief summary of how the trends are anticipated to unfold in the future. Assuming fertility remains around its current level and migration is high (ABS Series A), the gap in the percentage age 65+ years in the oldest and youngest states/territories is projected to open up from its present 10 percentage points, to around 20 percentage points by 2051. Even if the disproportionately youthful Northern Territory is excluded, the gap will open from less than six to more than nine percentage points. Irrespective of what happens with fertility, numbers aged 65+ will increase dramatically in all local government areas, although in many they will peak in the 2030s and 2040s. In the interim, a sizeable proportion of local government populations will decline in size, in most cases as elderly exceed children and deaths exceed births, while others will continue to grow (primarily because of net migration gains). At the same time there is no direct correspondence between the ‘age’ of each state/territory, and the ‘age’ of its local governments—as the cases of Tasmania and the ACT indicate. As noted above, around two-thirds of the local government areas of both the ACT and Tasmania are projected to decline in size over the next decade.

In short, disparities in the speed and causation of ageing will pose particular inequities for many ‘middle aged’ local governments across all of Australia, because their ability to receive funding on an ageing disability factor (or any population-oriented factor) depends on the average age of the state/territory to which they belong.

**The problem of disparate ageing:**

The problem can be illustrated quite simply with reference to the ‘age profile disability factor’ ‘percentage aged 65+ years’. Attention is drawn to the standard caveat that population projections are not predictions or forecasts, but indications of what future population size and composition will be if the underlying assumptions regarding births, deaths and migration actually prevail. Further, the projections utilised below are indicative only because they have a 1996 base that included an annual net migration gain for Australia of only 70,000 per year, which is substantially lower than the future targets assumed in the state level data presented above. Realisation of different migration, fertility or life expectancy outcomes would affect the resulting trends and patterns; however over the period covered (here to 2019) that impact would be relatively small. Kippen (1999) for example indicates that even an increase of net migration to 160,000 (with fertility and life expectancy approximately the same as in these local government projections) would reduce the national proportion aged 65+ years in 2019 by less than 1 percentage point (see also Kippen and McDonald 2004).

**Age profile disability factor: 65+ years**

Table 2 shows the percentage of each state/territory’s local government areas with percentages of population aged 65+ years above their own state/territory average. As
indicated above their correlation with the state/territory to which they belong is highly inconsistent. For example, as Australia’s structurally oldest state, South Australia in 2001 had around 14.6 per cent of its population over the age of 65, but only the third highest proportion of its local government areas (59 per cent, n= 40) above that average. The highest and second-highest percentages were to be found in Victoria (68 per cent) and New South Wales (64 per cent), while Tasmania, the nation’s second-oldest region, had only 48 per cent of its local government areas with proportions aged 65+ years above its own state average.

<table>
<thead>
<tr>
<th>State (n LGAs)</th>
<th>2001</th>
<th>2006</th>
<th>2011</th>
<th>2016</th>
<th>2019</th>
<th>Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Australia (68)</td>
<td>59</td>
<td>57</td>
<td>60</td>
<td>59</td>
<td>57</td>
<td>-3</td>
</tr>
<tr>
<td>Tasmania (29)</td>
<td>48</td>
<td>52</td>
<td>55</td>
<td>48</td>
<td>45</td>
<td>-7</td>
</tr>
<tr>
<td>Victoria (78)</td>
<td>68</td>
<td>74</td>
<td>72</td>
<td>71</td>
<td>71</td>
<td>4</td>
</tr>
<tr>
<td>New South Wales (176)</td>
<td>64</td>
<td>64</td>
<td>62</td>
<td>61</td>
<td>61</td>
<td>-4</td>
</tr>
<tr>
<td>Queensland (125)</td>
<td>48</td>
<td>54</td>
<td>52</td>
<td>53</td>
<td>52</td>
<td>5</td>
</tr>
<tr>
<td>Western Australia (141)</td>
<td>48</td>
<td>46</td>
<td>43</td>
<td>41</td>
<td>36</td>
<td>-25</td>
</tr>
<tr>
<td>ACT (68)</td>
<td>50</td>
<td>50</td>
<td>56</td>
<td>63</td>
<td>64</td>
<td>27</td>
</tr>
<tr>
<td>Northern Territory (9)</td>
<td>33</td>
<td>22</td>
<td>22</td>
<td>33</td>
<td>44</td>
<td>33</td>
</tr>
</tbody>
</table>


Notes: These 'medium case' projections have a 1996 population base (data on a more recent base not available at the time of writing). ABS data for SLAs have been aggregated to approximate local government area and/or local government body classifications, according to the 2001 LGA (ASSC) classifications. ~ACT Treated differently under the LGGC arrangements, ACT data are included here for comparative purposes, based on 88 SLAs. (Of the ACTs 106 SLAs, 18 account for a total of less than 1 per cent of the ACT population. These SLAs have been excluded from the analysis.)

When we shift to a comparison based on the national average (Table 3), the picture changes markedly. Where, in 2001, South Australia had only 59 per cent (40) of its local government areas with percentages aged 65+ years above its state average, that increases to 75 per cent (or 51) when compared against the national average. Moreover, where, under the within-state measure (Table 2), these proportions decrease over the next two decades (by 3 per cent), under the national situation (Table 3) they increase, by 20 per cent. The situation means that currently around 16% (11) of South Australia’s local government areas that may arguably be eligible for funding on an age disability factor (if it were measured nationally) are unlikely to be receiving that funding. By 2019 this would increase to 22 local government areas or 33 per cent—one-third of South Australia’s local government areas.

<table>
<thead>
<tr>
<th>State (n LGAs)</th>
<th>2001</th>
<th>2006</th>
<th>2011</th>
<th>2016</th>
<th>2019</th>
<th>Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Australia (68)</td>
<td>75</td>
<td>82</td>
<td>85</td>
<td>90</td>
<td>90</td>
<td>20</td>
</tr>
<tr>
<td>Tasmania (29)</td>
<td>62</td>
<td>66</td>
<td>66</td>
<td>72</td>
<td>72</td>
<td>17</td>
</tr>
<tr>
<td>Victoria (78)</td>
<td>73</td>
<td>76</td>
<td>77</td>
<td>76</td>
<td>77</td>
<td>5</td>
</tr>
<tr>
<td>New South Wales (176)</td>
<td>69</td>
<td>70</td>
<td>66</td>
<td>64</td>
<td>64</td>
<td>-7</td>
</tr>
<tr>
<td>Queensland (125)</td>
<td>40</td>
<td>41</td>
<td>42</td>
<td>46</td>
<td>46</td>
<td>16</td>
</tr>
<tr>
<td>Western Australia (141)</td>
<td>29</td>
<td>29</td>
<td>29</td>
<td>28</td>
<td>28</td>
<td>-2</td>
</tr>
<tr>
<td>ACT (68)</td>
<td>32</td>
<td>35</td>
<td>44</td>
<td>57</td>
<td>57</td>
<td>79</td>
</tr>
<tr>
<td>Northern Territory (9)</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: Same as Table 2

Notes: Same as Table 2

The situation is similar (if slightly more complex) for prematurely ageing Tasmania, which in 2001 (then with 13.7 per cent aged 65+ years and the second oldest state in
the nation) had only 48 per cent (14) of its 29 local government areas above the state average (Table 2), but 62 per cent (18) above the national average. The disparity means that four (14 per cent) of Tasmania’s local government areas were then dealing with above national levels of elderly but were unable to claim compensation for them. By 2019 this would rise to around 8 local government areas, or 28 per cent.

Table 4 elaborates the argument by comparing Tasmania and Western Australia as examples of older and younger regions. When compared on the ‘own state’ methodology (Column 1), both in 2001 had 48 per cent of their local government areas with higher than own-state average proportions aged 65+ years. However, when compared against the national average, Tasmania had 62 per cent, while Western Australia had only 29 per cent. Assuming both states were using the ‘higher than average proportion aged 65+ years’ disability factor, the difference in methodology would mean that Tasmania would have four (or 14 per cent) of its local government areas that arguably ‘should’ be being financially assisted, but would not be, while Western Australia would have 27 (19 per cent) that would (or could) be being assisted, but probably ‘shouldn’t’ be.

Table 4: Local Government: Higher than Average Percentage Aged 65+ Years, 2001

<table>
<thead>
<tr>
<th>State/Percentage Aged 65+ Years</th>
<th>Per Cent of State's LG's Above State's Own Average</th>
<th>Per Cent of State's LG's Above National Average (12.2%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tasmania (13.7%)</td>
<td>48% (n14)</td>
<td>62% (n18)</td>
</tr>
<tr>
<td>Western Australia (10.7%)</td>
<td>48% (n68)</td>
<td>29% (n41)</td>
</tr>
</tbody>
</table>

Source Same as Table 2
Notes Same as Table 2

Finally the situation is perhaps best illustrated in the example of the Northern Territory. Currently Australia’s structurally ‘youngest’ region (in 2006, 4.75 per cent aged 65+ years), the Northern Territory in 2001 had no local government areas with proportions of elderly above the national average, but 33 per cent when compared against its own average, increasing to 44 per cent by 2019. In reality none of the Northern Territory’s local government areas in 2001 exceeded six per cent aged 65+ years (none were thus ‘officially old’, denoted as 10 per cent aged 65+), while by 2019 only one is projected to have passed the 10 per cent mark. Yet, all of those above the state average could conceivably be/have been being compensated.

Conclusion

Australia’s disparate demography has significant implications for the current system of population-related financial assistance to local governments via the Local Government Grants Commissions. Specifically, this paper has outlined the case against the continued use of ‘own state’ comparisons as the basis of assistance to local governments, and urges a shift to the use of national-level comparisons based on the readily available Census (and intercensal) collection.
The argument follows two main themes. First, while no connection with poverty per se is intended, own-state comparisons can be compared with each state having their own (but different) poverty line. In some states/territories, local governments or other bodies could be being assisted for having higher than state/territory average proportions ‘in poverty’ (read ‘above age 65’), when in fact that region’s ‘average income’ (read ‘percentage above age 65’) may be well below that of other regions in which equivalently aged and even older local government bodies would not be being so assisted. The message that emerges is that while the primary objective of horizontal equalisation is to level the playing field between local government costs and/or abilities to deliver similar services within each individual state, it is probably having the effect of increasing inequalities between the local governments of each state and thus between each state as a whole.

Second, the differing dynamics (drivers) of population ageing unfolding across Australia’s states, territories and local government areas foreshadow different sorts of challenges for their governing bodies. As the comparison of ‘old’ Tasmania and the ‘youthful’ ACT illustrated, a population that is ageing primarily because of the net migration loss of young people and/or gain at older ages will have different resource needs and/or revenue-generating capacities to one that is ageing primarily from low fertility. While these dynamics are of course part of the underlying rationale for fiscal equalisation (and the ACT is specifically excluded from the LGGC arrangements), the effect is surely negated when they are linked back to the state in which they are occurring.

Changing something as important as a funding methodology that has ‘worked’ for many years is not something that should be entered into lightly, and I would be the first to encourage more comprehensive research into the issue than is presented here. However I draw attention to the United Nations Population Division (2000:4) argument that the emerging situation (in which population ageing is not only disparate by region but cannot be resolved by migration) requires ‘objective and comprehensive reassessments of many long established economic, social and political policies and programs’. The good news is that should a decision to consider a revision of the LGGC funding methodology be made, it is not as if Australia has to create yet another data collection. The 2006 Census is on our doorstep and will provide a solid and timely base for such deliberation.
References


Appendix A: The principle of regional fiscal transfers in Australia

Note that large excerpts of following are taken from Jackson and Felmingham (2002) and Jackson (2004).

A unique aspect of Australia’s highly democratic system of government is its three interacting tiers of responsibility at federal (Commonwealth), state/territory, and local government level. The distribution of powers and responsibilities in this arrangement are complex (see for example www.cgc.gov.au and www.dotrs.gov.au) but many, such as key aspects of community health and social services for the elderly, the determining and levying of rates, and the responsibility to provide and maintain large portions of the local infrastructure, lie with local government (DOTRS 2003: 1-2).

Contributing to the effective running of this arrangement are two separate advisory bodies that recommend the appropriate distribution of two ostensibly unconnected pools of revenue, funds made available by the Commonwealth for the equalisation of state and local government capacities to provide services. At state level this concept of equalisation—by which is meant ‘fiscal equalisation’—is enshrined in the following statute (Commonwealth Grants Commission 2004: x):

"State governments should receive funding from the pool of goods and services tax revenue and health care grants such that, if each made the same effort to raise revenue from its own sources and operated at the same level of efficiency, each would have the capacity to provide services at the same standard."

Almost identical principles are reflected in the statute that governs fiscal equalisation at local government level. This arrangement reflects the Local Government (Financial Assistance) Act 1995 requirement that, via the allocation of this pool of funds:

"Each local governing body in a State is able to function, by reasonable effort, at a standard not lower than the average standard of other local governing bodies in the State; [this arrangement] takes account of differences in the expenditure required to be incurred by local governing bodies in the performance of their functions and in their capacity to raise revenue (DOTRS 2001: 31)."

Significantly, fiscal equalization is not about equalizing the circumstances of individuals, households or communities within states/local governments, nor the performance of states/local governments or the outcomes they are able to achieve. These are all affected by local policies and choices about how the funds are spent; that is, with the exception of the ‘local roads grants’ to local governments, the funds are ‘untied’ and can be spent according to local priorities. Rather, the principle is directed solely at the ability of states and local governments to provide a similar range and quality of services (Commonwealth Grants Commission 2004: 4-5; DOTRS 2003: 29-30).

Overseeing the distribution of funds to the states/territories for state-level services is the Commonwealth Grants Commission (CGC). Through their respective Treasuries,
states make representations to the CGC on the basis of a range of ‘disability factors’—relative use and cost disadvantages such as age profile and geographic dispersion that affect their respective capacities to provide approximately equivalent services. A state has a disability for example if the proportion of its population in a particular age group that uses state services is above or below the national proportion (Commonwealth Grants Commission 2004: 8). The CGC deliberates on these issues and makes its recommendations to the Commonwealth on the basis of ‘per capita relativities’—a complex indexed formula via which the Commonwealth attempts to distribute the pool of funds to the states in an equitable manner (Commonwealth Grants Commission 2004: 12-15). For the 2003-04 year the funds distributed under these arrangements amounted to $38.3 billion. Over the previous five years these funds were equivalent to 34 per cent of the gross operating expenses of the states in total, ranging from 30 per cent in Western Australia to 62 per cent in the Northern Territory (Commonwealth Grants Commission 2004: 5).

Similarly overseeing the distribution of funds to local governments for the local equivalents of these and other services are seven Local Government Grants Commissions (LGGCs). At the beginning of each financial year, the Australian Government determines the quantum of revenue available for local government assistance (DOTRS 2003: 30). The allocation for each state is calculated according to Australian Government legislation, and the states are advised. Utilising a similar range of ‘disability factors’ to those at state-level, the LGGCs of each state determine the allocation for each of their local governing bodies, and advise their Minister who passes on their recommendations to the Commonwealth. Once approved, the Australian Government makes quarterly payments to the states, which in turn pass these on directly to the local governing bodies. For the 2002-03 year the national pool for distribution to the nation’s 722 local governing bodies (operational in that year) was approximately $1.45 billion, comprised of $1 billion in general purpose (‘untied’) grants and $445 million in local roads grants.

Overall, these arrangements mean that the smaller states and territories (such as Tasmania and the Northern Territory) and smaller local governing bodies receive disproportionately larger shares of Australian Government financial assistance than their larger counterparts, on account of their lack of scale economies and narrower tax bases (DOTRS 2001:25-52). The approach is admirable, and much effort is made to ensure that the arrangements are equitable and transparent (e.g., Commonwealth Grants Commission 2001a, 2001b, 2002, 2004; DOTRS 2001, 2003). However one important anomaly exists. At state level, the per capita relativities are calculated vis-à-vis each other state, while at local government level they are calculated by comparing each local governing body’s demand or supply disadvantage with its own state average (e.g. State Grants Commission 2001-02:8). In practice this is like each state having its own ‘poverty line’, whereupon some local government areas ‘under the line’ in demographically ‘older’ states (and thus unable to claim an ‘ageing’ disability) will in reality be older than many of those above the line (and able to claim an ageing disability) in ‘younger’ states. The CGC funding to older states on the basis of their age profile cannot be assumed to resolve this problem for local governments because the two pools are unconnected, and, as implied above, spent according to the priorities of the state per se.
In considering how these arrangements will fare in the context of population ageing, two other aspects of the CGC and LGGC funding methodologies are important. These are first, that while some common use of the various disability factors exists at local government level, there is no common pool from which they are drawn like there is at state level (DOTRS 2001). Rather, the LGGCs of each state are responsible for determining and developing their own set of disability factors, based on the national principles and local circumstances. This means that differing interpretations of what population ageing will entail could result in advantages or disadvantages for some local governments. Second, the base populations on which the various relativities are calculated are those of the previous year; there is no inclusion of population projections. The different speeds at which population ageing will unfold across the states, territories and local government areas will cause this aspect of the methodology to become increasingly problematic as government bodies experiencing (for example) rapid increases in their ‘old-old’ populations will struggle to respond vis-à-vis funds made available on the previous year’s numbers.

1 The local governments of the Australian Capital Territory (ACT) are excluded from these arrangements as they are directly funded by the ACT Government (but see also Commonwealth Grants Commission 2004: xvi and Chapter 6).
2 This figure relates to the number of local government bodies that were operational in the 2002-03 year, and differs from the number (714) used in the main analysis drawn on for this paper, which pertains to the 2001-02 year. In both cases the number includes approximately 100 Indigenous and other community bodies (e.g. DOTRS 2001: 5).
3 Because ‘matching’ data are not available at local government level
4 Although in the NT’s case this equates to only one local government area
5 Based on Series B assumptions and in need of updating, as explained below.
6 Note that it can be just as easily illustrated with other indices, such as percentage at 15-24 years, or the ratio of elderly to children (Jackson 2004).
7 The following analysis is based on 714 local government areas and/or bodies. Classification disparities between local government areas and local government bodies mean that these numbers do not correlate exactly with those referred to in the 2001 Local Government National Report (DOTRS 2001), which is based on local government bodies only. For example, according to that report, Queensland has 157 local government bodies, while equivalent ABS data are available for only 127 local government areas. The report similarly identifies 70 local government bodies for the Northern Territory, while equivalent ABS data could be aggregated into 9 local government areas only. Other disparities are much smaller, the report indicating, for example, 74 local government bodies in South Australia, against available ABS data for 68 local government areas.
8 Equally it would appear to have implications for Commonwealth Grants Commission assistance to states and territories, and for interactions between the two separate pools of revenue.
9 See Jackson 2004 for the related argument that population projections should be included in the funding methodology.
10 Only the Federal and state/territory levels are formally recognised within the Australian Constitution. Local Government Bodies are created by legislation at state/territory level.
11 Local government expenditures extend across a broad array of functions such as the provision of water and sewerage services, the reconstruction and maintenance of roads and bridges, many social services for the elderly, community health, and health inspections, family and child welfare, sanitation and environmental protection such as storm water drainage and street cleaning, and the planning and building of amenities like street lighting, shopping malls and cemeteries. However, these responsibilities differ according to the state/territory’s policies.
12 See footnote 1.
13 Disability Factors include items such as diseconomies of scale, degree of isolation, daily/weekly worker influx and ‘day tripper’ effects (which place additional demands on locally-provided facilities), unemployment levels, tourism, climate, and specific regional responsibilities (see for example DOTRS 2001 Appendix B).