

R E V I E W

OF THE FINANCIAL ASSISTANCE GRANTS METHODOLOGY IN THE NORTHERN TERRITORY

Cross Cultural Issues
Discussion Paper

Northern Territory Grants Commission
and
Department of Local Government
Policy and Planning
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Context

Following a request from the Minister, the Northern Territory Grants Commission (NTGC) is undertaking a comprehensive and detailed review of the methodology used to distribute Commonwealth general purpose and identified roads financial assistance grants, and of the processes of the Commission.

A discussion paper was distributed in February 1999 to stimulate debate on key issues. The purpose of this discussion paper is to further examine the issues relating to the cross cultural environment in which we operate.



Background

The Commonwealth Government provides Financial Assistance Grants to State and Territory governments for distribution to local governing bodies within their jurisdictions. The purpose of the funding, according to the Commonwealth legislation, is to improve:

- the financial capacity of local governing bodies;
- the capacity of local governing bodies to provide their residents with an equitable level of services;
- the certainty of funding for local governing bodies;
- the efficiency and effectiveness of local governing bodies; and
- the provision, by local governing bodies, of services to Aboriginal and Torres Strait Islander communities.

The rules for distributing the funds within their jurisdictions are determined by the State and Northern Territory Grants Commissions, but they must conform to a series of general guidelines, known as the *National Principles*. For the purpose of this discussion paper, the relevant principle relates to Aboriginal and Torres Strait Islanders, namely:

Financial assistance shall be allocated to councils in a way which recognises the needs of Aboriginal peoples and Torres Strait Islanders within their boundaries.

The correct application of this principle is extremely important in the Territory, where Aboriginal councils are a large proportion of the total.

One feature that is common to the Commonwealth and all State and Territory funding methodologies is that they attempt to reflect the special circumstances of councils. These factors are reflected in the methodology through cost adjuster indexes, which basically inflate the population share of funding to reflect the additional costs incurred by council due to any of these "special" factors. In the Northern Territory, the factors recognised include isolation, dispersion, population growth and a factor called "Aboriginality," which is supposed to reflect additional costs which are only incurred when providing services to Aboriginal people.

It is very important to be able to accurately reflect any additional costs in the funding formula. The NTGC and some of its interstate counterparts, as well as the Commonwealth Grants Commission (CGC), have used the number of Aboriginal residents to quantify the relative costs of government service delivery. Recent changes to the enumeration of the indigenous population nationally has led to the CGC questioning the validity of using the size of the indigenous population as an accurate measure for additional government service delivery costs.

There is no doubt that there are additional costs involved with delivering local government services in remote communities. Some of the factors, such as isolation and dispersion, are already captured in the current method. Other factors that may be relevant include the need to provide a wider range of services (for example banking, social security, post office etc) than in an urban environment and operating in a cross cultural environment.

In the municipal or urban context in the Territory, councils argue that there are also additional costs due to the residence of Aboriginal people and Torres Strait Islanders in the area. The costs may be directly related to indigenous residents, or may be due to visitors and temporary residents.

In both contexts, it is important to determine exactly what the additional costs are and how they can be quantified. This will allow the NTGC to develop methods of reflecting the costs in the methodology.

This discussion paper examines some of the issues involved. There are four sections:

- examination of methods used by other State Grants Commissions and the Commonwealth Grants Commission
- discussion of the costs of operating in a cross cultural environment
- discussion of other additional costs that may be relevant
- some proposals for reflecting the additional costs.



Current methods

Northern Territory

Currently, the NTGC seeks to capture the additional costs of providing services to Aboriginal people, whatever they may be, through the inclusion of the proportion of the population which is Aboriginal. This is called the Aboriginality factor, and it is applied to the General Administration, Human Services and Libraries components, but not the Amenity, Recreation and Transport categories.

According to Manning (1991), the aim of the inclusion of an Aboriginality disability factor is to reflect the additional costs due to ethnicity and in particular the requirement to provide materials in languages other than English and additional time spent in communication and translation. However, it has also been used in the methodology to reflect any additional costs incurred in providing services to Aboriginal residents, costs due to visitors to municipal areas and other factors not related to its original intent.

The index is constructed which from the proportion of the population which is Aboriginal and varies between 1 and 2. The index currently varies between 1.08 for Darwin and 1.98 for Walungurru and Binjari.

One of the criticisms of this approach is that Aboriginal people living in Darwin are assessed as making the same call on local government services as those in remote communities. Also, it implies that Binjari has an extra 4% cost disadvantage than Peppimenarti, entirely due to the higher proportion of Aboriginal people. Another criticism is that it is only applied to certain expenditure categories. Finally, it is the only disability that ranges up to 2 (the others have a maximum value of 1.5), and so has a disproportionate influence on the funding outcomes, especially given the imprecise additional costs that it is designed to measure.

In assessing expenditure needs, allowances are also made for factors more directly related to identified costs including an allowance for remoteness/isolation. In assessing revenue raising capacity, the relative socio-economic status is assessed, which is clearly different for Aboriginal people, but not just due to the fact that they are Aboriginal.

The other factor which is sometimes used to incorporate additional costs due to Aboriginal people is the out station factor which has been used to

count visitors to some communities, where there is a seasonal and regular pattern of visits.

Western Australia

The Western Australia Grants Commission does not make any explicit allowance for additional costs attributable to Aboriginal people in their methodology. They do identify three related factors:

- Aboriginal communities are included in the population dispersion factor;
- a separate factor is included for Aboriginal Environmental Health the recognise the additional costs of employing environmental health officers to maintain environmental health standards on Aboriginal communities; and
- the socio-economic disadvantage index, which is based on the ABS Socio-Economic Index for Areas (SEIFA), which incorporates weightings for Aboriginal communities, is used for general administration, amenities, recreation and culture.

According to the WA Grants Commission, the only issue that has been raised specifically in relation to Aboriginal people is that of under-counting of residents in Aboriginal communities by the Australian Bureau of Statistics (ABS), in particular at Ngaanyatjarraku. The NTGC has experienced similar problems.

South Australia

South Australia has two main approaches to quantifying costs associated with Aboriginal people.

In funding their five Aboriginal communities and the Outback Areas Community Development Trust, a per capita entitlement is used to determine funding. The funding entitlement is based on a report prepared for the South Australian Grants Commission (SAGC) by Alan Morton, which compared funding levels for councils in other states providing similar levels of services. In 1998/99, the general purpose funding level was \$200.00 for the Aboriginal councils and \$102.92 for the Outback Areas Community Development Trust. One of the main reasons for this approach is the lack of accurate compatible data for the community councils as well as an inability to accurately reflect the situation of those communities in a general methodology.

In funding the mainstream councils the methodology attempts to reflect additional costs under a special expenditure category which consists of a

number of factors that are not readily quantifiable and/or comparable across all councils. This category could include allowances for isolation, resident Aboriginal population and non-resident Aboriginal visitors. While the basis of the assessment is the proportion of the population which is Aboriginal or Torres Strait Islander, the assessment of non-residents etc relies on SAGC judgement and is the only category based on subjective assessment as consistent and measurable data is not available.

One of the reasons this approach was adopted was because, during the last methodology review, councils overall were unable to quantify the costs that were due to Aboriginal residents and visitors. The approach allows flexibility to reflect special circumstances of particular councils, but does put the responsibility on the councils to justify, identify and quantify any additional costs incurred.

Queensland

Queensland also adopts different methods for assessing Aboriginal councils.

For expenditure, a different formula is used to assess the required expenditure on services and for revenue, 67% of State and Commonwealth Aboriginal and Torres Strait Islander operating grants are included, but rating capacity is not included. Also, as part of the phase-in of new arrangements, no reduction in grants to Aboriginal and Torres Strait Islander councils will occur as a result of the new methodology.

For non-Aboriginal councils, there are no explicit allowances for Aboriginal residents and visitors.

New South Wales

NSW adopts a similar approach to the NTGC, in that it calculates a disability factor, based on the proportion of the population which is Aboriginal or Torres Strait Islander, which is applied to the General Administration and Community Services expenditure categories. The NSW approach is different because the disability factor only applies where the council has an above average proportion of Aboriginal people, otherwise no disability is allowed.

Tasmania

In 1996, the Tasmanian Grants Commission requested comments from councils on whether their methodology should include an independent expenditure calculation, or a disability factor, to reflect the additional costs of Aboriginal and Torres Strait Islanders. Based on council responses, no changes were made to the methodology to explicitly reflect any costs.

Victoria

In terms of General Purpose Grants, Victoria makes no specific allowance for Aboriginal residents. Indirect allowance is made in the aged services, family services and health and welfare expenditure categories through the use of the ABS Socio-Economic Index.

For roads, special funding is quarantined for access and internal roads to Aboriginal communities.

Commonwealth

The Commonwealth Grants Commission (CGC 1999) make direct allowances for higher unit costs of services provided to Aboriginal clients that can be attributed directly to their Aboriginality; and for the additional services they require. Other allowances are made for the Aboriginal population which are not directly related to their Aboriginality. They are:

- dispersion - because there are large numbers of Aboriginal people living in remote areas in Western Australia and the Northern Territory;
- service delivery scale - because services still need to be provided in remote areas, even when it is not economically viable;
- age-sex composition - which is quite different to the non-Aboriginal population and which can result in extra demand for services; and
- land rights and sacred sites - an allowance made to the NT due to special costs incurred.

At the moment, costs relating to Aboriginality are recognised for 18 out of 40 of the CGCs expenditure categories. They are either counted as relevant population or as socio-economic or age/sex composition factors. Table 1 summarises where each of the factors is used in the CGC assessments.

Recent changes to the enumeration of the indigenous population nationally has led to the CGC to investigate the proposition that sub-groups of the indigenous population exist, which should be reflected in the assessment of cost of service delivery.

In particular, the Northern Territory Treasury has long argued that the cost of providing services to indigenous people varies according to remote location and the degree of socio-economic disadvantage and traditional affiliation. SA has argued that the distinction should be made on the basis of language spoken at home, rather than on the basis of location. While arguing against the existence of sub-groups, ATSIIC supported the use of location if distinction of groups was necessary, a position supported by Victoria.

On the basis of submissions received, and taking into account availability of data to enable measurement, the CGC has recommended that sub-groupings be adopted, and that the distinction be made on the basis of remote location. The reasons given for this decision were that:

- they found clear evidence of additional socio-economic disadvantage in Indigenous people living in remote areas;
- using remoteness provides a simple and clear marker, which is readily measurable using 1996 ABS Census data; and
- the measure can be incorporated into their model in a meaningful way.

Table 1 : Commonwealth Grants Commission : Use of factors relating to additional costs in providing services to Aboriginal people

Factor	Relevant Categories
Relevant population	Pre-school education
Socio-economic composition	Pre-school education Government primary education Non-government primary education Technical and further education Nursing home services Mental health services Community health services Police Administration of justice Corrective services Family and child welfare Other welfare services Culture and recreation Planning and environment Aboriginal Community Services Other transport Other services Housing
Age/sex factor	Hospital services Nursing home services Mental health services Community health services Corrective services
Land rights	Administration of justice National parks and wildlife services Planning and environment Other general public services Agriculture and fisheries Mining, fuel and energy Road maintenance Country water supply and sewerage
Sacred sites	National parks and wildlife services
Stage of development	Planning and environment
No factors explicitly relating to Aboriginal people	Aged and disabled welfare Debt charges nec Non-urban transport-freight Non-urban transport - passengers Other services to industry Other trading enterprises Public safety and emergency services Secondary government education Soil conservation Superannuation Tourism Urban Transit

Source : Searle 1998.



Cost of operating in a cross cultural environment

The following are general comments on some of the factors that may impact on local government services of operating in a cross-cultural environment.

For clarity, in the following discussion the impact of the cross cultural environment on service delivery is articulated under two themes:

- the lack of a shared understanding of the principles and processes that are the foundation of systems of governance; and
- the role of past decisions of governments and organisations in the creation of an environment where there is substantial confusion or disagreement about fundamental rights and responsibilities of individuals and groups in the society.

The lack of a shared understanding of the processes of government

The lack of a shared understanding of the processes of government is a basic problem of operating in a cross-cultural environment where there is no common or agreed view of the general rules and principles that apply in the operation of wider society. The following are examples as they apply to local government in the Territory.

Conflict between entrenched practice and accountability

There is a strong school of thought that the system of financial and physical accountability that the Northern Territory Government is attempting to introduce and traditional cultural practices are mutually exclusive, given the propensity for the sharing of resources, family/clan obligations etc.

In remote areas, as part of their community management and leadership function, many councils have had to play a significant role in the resolution of family disputes and in dealing with a wide range of community issues. These activities, such as arranging for funerals, ceremonies etc., have little to do with 'more normal' local government services, as defined under the *Local Government Act* or the relevant Community Government Scheme.

In particular, there has always been a strong demand for financial and 'in kind' contributions by councils towards activities related to traditional obligations. There can be quite severe reactions to Local Government staff

when they try to remain within established legislative and financial accountability practices. Inevitably, conflicts occur and burnout is a common result.

The additional costs that are incurred due to such disputes include recruitment costs due to the high turnover of clerks, costs of a training program for elected members, as well as the additional costs associated with lack of productivity and the associated reduction in services and attendant environmental health problems.

Confusion about rights and responsibilities of local employees

There is also a lack of shared understanding regarding the rights and responsibilities of local council employees. Many of the problems arise due to the conflict between traditional practices and the so-called Protestant work ethic. The following are some illustrations of the problems that can arise.

Roles are a significant part of Aboriginal culture - each person has a role designated for them under the traditional structure. In the council situation, this can result in people being told to work at council regardless of whether they are suited to the position or whether they want to take on the position, with obvious implications for efficiency and effectiveness.

Ceremonies, or traditional meetings to perform various functions including rites of passage from childhood to adulthood, as well as funerals, can play a significant role in some regions. The need to attend ceremonies, or to learn the dances and songs, can result in staff and elected member down time for councils. In the East Arnhem region, it is estimated that each council is affected at least once each year for periods ranging from one or two work days up to two or three weeks.

It is customary on many communities for a close down at least for the day of a funeral, although in some places it is also acceptable for the administration staff (non local Aboriginal) to discretely work away behind closed doors. The impact therefore on the administration is somewhat reduced although outside core services are obviously affected. Where a death has a close effect on a councillor or clerk, that person may spend a significant period in "sorry camp," thus removing the person from daily council activity.

This impacts on the government's dealings with councils as well as the operations of the councils themselves. The Department's Community Development Officers conservatively estimate that due to funerals, council

capacity for decision making, through inability to contact key people is affected for approximately 6 to 8 days a year per community.

A series of deaths can have a severe effect with the morale of the community being reduced to the point where decision making capacity is practically non-existent. A series of deaths, such as occurred at Ngukurr in 1998, can have the effect of rendering dysfunctional a council and community that was previously operating in a very effective way.

Traditional culture also revolves in a series of cycles that relate to the seasons of life. It is best illustrated by the movement of people to areas where bush foods are found at certain parts of the year. Costs to councils due to this activity include access roads to remote areas that otherwise might not be built and use of council vehicles.

Another factor is that the time taken to achieve even simple negotiations can be prolonged. Part of the reason for this is 'avoidance' where certain people can not communicate in any way with others, giving rise to the need for an intermediary and the consequent inefficiencies. Decision making processes are also affected.

Sorcery can also play a significant role in traditional culture, resulting in fear of the dark and fear of being alone. Councils therefore incur additional costs to provide extra street lighting and to allow staff to double up on trips to town to avoid being alone, as well as lost productivity due to tiredness from lack of sleep.

Curses can also affect council activity when, out of frustration with the workings of government or other organisations, a person with traditional authority places a curse on the council building or on other sites of council activity (such as occurred at Numbulwar store in 1998). Local staff are expected to honour the curse which can have a significant impact on council operations as well as leading to the need to provide extra office equipment to allow local non Aboriginal staff to work off-site.

Role of past decisions influencing costs of service delivery

Decisions by government and organisations have led to concentrations of Aboriginal populations in a few centres with little or no account taken of tribal differences (eg Port Keats) or traditional affiliations. This, as well as other decisions, has led to the creation of an environment where there is substantial confusion or disagreement about fundamental rights and responsibilities of individuals and groups in the society.

Conflict between different tribal and family groups

The Clerk often carries the burden of conflict resolution between different tribal and family groups. One town clerk's experience at Ngukurr where there are 7 major language groups and several other minor clans was that conflict resolution occupied about 30% of the working week. The lack of a rate base and other revenue deficiencies does not allow the employment of appropriate staff such as Community Development Officers to address problems at the local level.

The lesson of communities which have encompassed historical enemies has, in part, led to the proliferation of councils and a consequent inefficient use of resources (eg the refusal to share equipment between rival councils).

Association with the land

The self-determination and out-station movements are in large part a reaction to the relocation of populations by external organisations. These movements have resulted in a huge increase in the number of dispersed population centres as people have moved back to locations with traditional associations, which results in increased costs to provide services to small, dispersed communities.

In practice, many local government bodies based at a central community provide services to out stations, despite the existence in many cases of parallel ATSIC funded organisations. Also, there are strong cultural imperatives at work which force the hand of many councils, such as the commonality of membership and close family ties. It should be recognised that whilst out stations are a federal government responsibility, some are now petitioning for inclusion within community government schemes out of frustration arising from the inability of resource centres to provide a decent standard of servicing. Many out stations are already included within existing council boundaries, eg Yugul Mangi, but require a level of servicing which is more costly to deliver.

Reliance on the council for all economic activity

Much of the traditional economic system has been displaced by mainstream Western systems which are poorly understood in some of the remote communities. For example, the system of commerce and trade with Indonesia that existed in East Arnhem was outlawed by the Australian Government.

One aspect of the traditional tax system that still remains and causes some conflicts is the "right of access," which was a formal process to allow passage of clans across other land. Some elders still expect others to pay a tax as compensation for the upheaval of having people live on their land, which can result in a refusal to pay rent for houses and taking over houses allocated to others.

Also, fundamental confusion about how Western economic systems work can result in pressure on the council to organise, and in many cases undertake, all the economic activities and economic development in a community. Some of the calls on council include working out ways to manage community enterprises, involvement with running the store, providing Board members for various enterprises and helping out with bank accounts.

Conclusion

The above discussion suggests that there are a number of calls on councils in remote areas that could be attributed to the cross cultural environment in which they operate and which are not readily attributable to the usual factors of socio-economic disadvantage, isolation and dispersion.

In order to reflect these factors in the estimation of local government service delivery it would be necessary to identify those situations where a cross cultural environment exists. The conclusions drawn by the Commonwealth Grants Commission may be relevant in this case, that is the sub-group could be identified as those living in remote areas.

Issues relating to the cross cultural environment:

Are the above factors relevant in the majority of remote communities?

Are there significant factors other than those mentioned above?

Are the attempts made to quantify some of the costs accurate?

Is it possible to quantify the other additional costs?

Does a cross cultural environment only exist in remote communities?

Are there some areas of council operations which are not affected (eg recreation)?



Additional costs related to Aboriginal residents and visitors

Some of the additional factors related to Aboriginality on the expenditure side that have been raised with the NTGC include:

- visitors and itinerants, which are not counted under the tourism or population numbers, but access services, at times for extended periods;
- the existence within incorporated urban areas of Aboriginal Urban Living Areas and Incorporated Associations which are exempt from rates, but still access local services;
- additional costs in remote communities of capital works, recruitment costs, need to provide additional services that occurs because of distance from major centres;
- the need to provide services to a number of points with small local populations (dispersed service delivery);
- socio-economic disadvantage, which in some other states is used to reflect an additional call on some services such as general administration, amenities and recreation and culture;
- additional costs due to dealing with clients who have English as second language and limited literacy skills; and
- there may be other factors of which councils are aware.

In terms of revenue raising capacity some of the factors that may be relevant include:

- socio-economic disadvantage leaving little additional income available for payments to the council; and
- problems in levying land based rates for Aboriginal free-hold land.

Issues relating to additional costs:

For those factors identified above, and for any other factors that councils would like to bring to the attention of the NTGC:

- which expenditure categories are affected by the factor;
- is it possible to estimate of the additional costs incurred; and
- which councils are affected by the factor?



Issues relating to possible methods for reflecting additional costs

Population

Measuring visitors/tourists

One of the issues that concerns the NTGC is the measurement of relevant populations. In particular, it is very difficult to measure intrastate tourists, and yet they can have a significant call on council services, both in remote communities and in municipalities.

The NTGC would be particularly interested to hear submissions on how these populations can be measured with some degree of certainty and so included in the methodology. Without a fairly accurate and consistent method of measuring this factor, the NTGC will be unable to incorporate it into the methodology in any systematic way.

Reflecting cross cultural costs

The approach adopted by the Commonwealth Grants Commission seems to have merit for the Territory situation. The CGC applies weights to subgroups of population to reflect additional costs. For example, if remote Aboriginals can be demonstrated to require twice the level of local government services as people in urban areas, they are counted as two people in the population figures for that council.

This approach appears to be a better way of reflecting the costs of Aboriginality. It would rely on being able to identify the correct value for the multiplier and the correct part of the population to which it should apply.

The NTGC would be interested to hear council views on whether this approach should be adopted.

Expenditure measurement

Additional category

The South Australian approach, which allows for an additional expenditure category to reflect costs that cannot be incorporated into the methodology or which are only applicable to some councils appears to have some merit in the Territory situation.

The advantages of this approach are that it allows for flexibility in assessing expenditure needs and can reflect additional costs incurred by only some councils.

The disadvantages are that it would rely on NTGC judgement on the validity of the additional costs and that councils would have to identify and quantify any additional costs incurred. This may work to the disadvantage of the less well resourced councils.

Disabilities / Cost adjusters

The above discussion raises the possibility of the need to develop a number of new cost adjusters to reflect additional costs more accurately than the current Aboriginality cost adjuster.

The advantage of incorporating additional multipliers is that they allow relative costs can be more accurately reflected. The disadvantages are that they must be defined and measured in an accurate and comparable way, which can be expensive. Therefore, before introducing any new factors, or updating any existing factors, the NTGC would need to be convinced that the benefits would outweigh any additional costs.

Revenue measurement

The capacity to raise revenue may also be affected by cross cultural issues. Certainly, the capacity to raise land based rates is limited in most remote communities, both due to land tenure issues and to the low incomes of residents.

Queensland recognises the particular circumstances of Aboriginal Communities and adopt a different method for assessing their revenue raising capacity, basically using only the government grants available to the communities.

The NTGC would be interested to hear council views on the validity of using a different method to assess revenue raising capacity on Aboriginal communities and if so, ideas what should be included.

Issues relating to measurement:

Is there an accurate way to measure intra-state tourists and visitors?

Is applying a weight to the population figure an appropriate way of reflecting cross cultural costs and for which populations should it apply?

Should the NTGC introduce a new expenditure category to reflect additional costs incurred by particular councils only?

Is the extra cost in updating the cost differentials justified?

Should the NTGC use a different method for assessing revenue raising capacity in Aboriginal communities?



Making a submission

If you have comments on any of the issues identified in this discussion paper, please provide a written submission before 21 May to

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There will also be opportunities for discussion of the issues at regional forums during March and April.

APPENDIX 1 - TERMS OF REFERENCE

1. To examine the implications of the principle of **horizontal equalisation** as it applies to the methodology, with particular reference to:
 - the most appropriate method of assessment (std budget vs direct assessment);
 - the definitions of relevant expenditure and (own source) revenue categories;
 - the definition and application of 'disabilities' or cost adjusters';
 - definition of relevant populations; and
 - the methods used for scaling back final grants and phase in of changes.

2. To examine the implications of the principle of **effort neutrality** as it applies to the methodology, with particular reference to:
 - methods for measuring expenditure; and
 - methods for measuring revenue.

3. To examine the implications of the principle of the **minimum grant** with particular reference to:
 - methods for determining those councils to receive the minimum grant; and
 - implications of the application of minimum grants for equalisation.

4. To determine what **grant support** should be included as "relevant," with particular reference to:
 - NT Government Operational Subsidies; and
 - other grants, including CDEP .

5. To examine methods of capturing the additional costs of local government service delivery in a **cross cultural environment**.

6. To examine the methodology for distribution of the **identified roads component** with particular reference to:
 - examination of asset preservation models;
 - consideration of total roads funding needs; and
 - incorporation of roads usage / strategic roads factors.

7. To examine relevant issues relating to **economic reform** including
 - methods of allowing for the additional costs of distributed service delivery;
 - ensuring equitable distribution of funds within amalgamated councils;
 - implications of the proposed Goods and Services Tax; and
 - implications of other Commonwealth tax policies.

8. To examine the **processes of the NTGC** with particular reference to:
 - methods for consulting with stakeholders;
 - methods for collecting information; and
 - methods for methodology review.



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