



Review of Financial Assistance Grants Methodology in the Northern Territory

Issues paper for setting the terms of
reference for the review

Local Government Policy and Planning
September 1998

The review of Financial Assistance Grants methodology

The last comprehensive review of the Northern Territory Grants Commission (NTGC) methodology was conducted in 1991, with a partial review undertaken in 1996. As part of the 1998/99 distribution, 1996 Census data was used to refresh a number of the data items which have not been updated since the 1986 Census.

Following a request from the Minister, the NTGC has decided to undertake a comprehensive and detailed review of the methodology used to distribute funds, and of the processes of the Commission. It is proposed that the review be undertaken over an 18 month period and utilise the expertise in the Department of Housing and Local Government and consultants where necessary. Extensive consultation with stakeholders and the wider community will be a fundamental part of the review.

The proposed timetable for the review is as follows:

	Due Date
Issues paper for determining terms of reference	11 September 1998
Consultation on terms of reference	
- presentation to LGANT meeting	14 September 1998
- submissions from councils	16 October 1998
Finalisation of terms of reference	end October 1998
Prepare paper addressing the terms of reference	early February 1999
Consultation on issues	
- regional workshops to coincide with LGANT meeting	March 1999
- written submissions from councils	mid April 1999
Draft report	mid-October 1999
Consultation on draft report	end November 1999
Final report	February 2000

This paper is an important part of the first stage - the determination of the terms of reference of the review. The NT Grants Commission has identified a number of issues of concern in relation to the methodology and it is considered that there may be other issues which councils would like included.

For this reason, the Commission is seeking input from councils prior to the determination of the terms of reference for the review. To assist councils to make a submission to the Commission, a paper explaining the methodology currently used has been prepared.

A list of the issues considered in the last Western Australian and recent South Australian review of their methodologies, as well as some of the issues that the NTGC has identified have also been prepared to assist councils.

WA 1993-94 Methodology Review

Terms of reference:

- to review the principles applying to the distribution of the equalisation component of general purpose grants to local government; and
- to review and simplify the balanced budget methodology used for calculating equalisation grants including:
 - ⇒ reviewing Commission policies which impact on the content of the balanced budget; and
 - ⇒ ensuring that the simplified methodology reflects the local government accounting principles resulting from the introduction of AAS27 and potential changes in the functions of local government arising from the proposed new Local Government Act.

Process:

- August 1993 - release of general discussion paper, asking for public comment to bring to the Commission's attention matters of general concern, one month allowed for comments;
- September 1993 - release of Issues Paper No 1 on Principles, for discussion to provide the framework for the rest of the review, two months for comments;
- October 1993 - release of Issues Paper No 2, two months for comments;
- February 1994 - release of Options Paper - Key Issues, one month for comments; and
- April 1994 - final paper on Principles and Methodology.

Issues:

- Basic principles underlying the methodology relating to
 - ⇒ horizontal equalisation;
 - ⇒ effort neutrality;
 - ⇒ minimum grant;
 - ⇒ balanced budget;
 - ⇒ specific purpose grants;
 - ⇒ calculation of standards;
 - ⇒ disability factors; and
 - ⇒ possible inclusion of additional principles.
- Issues relating to the balanced budget including:
 - ⇒ revenue : review of the method for measuring revenue capacity, inclusion of profit making activities;
 - ⇒ expenditure : review categories used, retention of capital expenditure needs assessment, improvements to way general administration costs are assessed;
 - ⇒ disabilities : review of what disabilities are included and how they are incorporated; and
 - ⇒ policies : adjustments to final grants, improvements to the format of the balanced budget.
- Processes of the Commission, including possible changes to the public hearings and inspections processes.

SA 1997-98 Methodology Review

Process:

- Circulation of discussion paper
- Meetings at 4 locations with council representatives
- Another central meeting
- Reference Group of 9 consisting of
consultants (4), LGA (1), councils (2), SAGC (1) and SA Treasury rep.
- Written submissions
- Liaison with other parties (eg NOLG)
- Conducted over 9 months

Issues:

- Basic structure of methodology
- Treatment of other revenues - extending beyond property rates
- Consideration of capital expenditure needs, including need for capital works as an expenditure category
- Annual fluctuations - how they are managed (use of “loss assist” vs “phase-
back”)
- Scaling back method, should the scaling back favour the more disadvantaged councils?
- Measurement of rateable capacity
- Assessment of relative expenditures
 - examination of expenditure categories
 - treatment of economies of scale
 - other influencing factors on roads expenditure
 - review of cost adjusters
- Treatment of other Commonwealth and State grants
- Quarantine of Aboriginal and Outback Areas Community Development Trust funds, using a separate methodology for these communities
- Reporting, procedures and review processes
 - review of annual cycle (data collection, visits, distribution)
 - is the schedule for methodology reviews appropriate
 - is the liaison with councils appropriate

Some issues for the Northern Territory

The method currently used is detailed in the Grants Commission Annual Reports, and explained in *How Financial Assistance Grants are worked out in the Northern Territory*. The following are some of the issues identified by the Commission as in need of review, however it is not necessarily considered an exhaustive list at this stage.

- Revisit the principles underlying the distribution
- Definition of relevant populations
 - what is the relevant population to consider in grant determination -
 - how do we account for tourists, visitors, commuters etc?
- Relevance of expenditure categories
 - in particular ensuring compatibility with the new ABS classification
 - is the standard budget applicable across the Territory
- Definition and application of disabilities/cost adjusters
 - relevance of current cost adjusters
 - need for other cost adjusters
 - should “Aboriginality” be incorporated and how (an issue currently before the Commonwealth Grants Commission)
 - improved methods for collecting cost adjuster information
 - the way they are incorporated into the calculations
- Measuring the revenue raising capacity
 - what should be included (eg Operational Subsidy, commercial and other rates)
 - how is it measured
 - treatment of government grants
- Final adjustments
 - how scaling back is applied
 - how changes are implemented - “loss assist” vs “phase in”
- Roads
 - definitions of roads
 - review of weighting factors
 - improvements to audit process
- Grants Commission processes
 - for consulting with stakeholders
 - for collecting information
 - for review of the methodology

Making a submission

At this stage, the NTGC is still determining the terms of reference for the full review of the methodology. If you have identified an issue that you feel the NTGC should consider in the full review, please provide a written submission detailing

- the issue of concern
- why it should be reviewed
- contact details for further discussion of the issue

to

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