

Contact: Ted Clark
(08) 8999 8405
ted.clark@nt.gov.au

Ms Susan Cardell
Inquiry Secretary
Standing Committee on Economics, Finance
and Public Administration
House of Representatives
Parliament House
CANBERRA ACT 2001

Dear Ms Cardell

I refer your your letter of 7 July 2003 regarding the Inquiry into Local Government and Cost Shifting.

Please find attached my responses to the additional questions raised by the Committee.

Yours sincerely



BOB BEADMAN
Chairman

18 July 2003

**HOUSE OF REPRESENTATIVE ECONOMICS COMMITTEE
LOCAL GOVERNMENT AND COST SHIFTING INQUIRY**

QUESTIONS TO THE LOCAL GOVERNMENT GRANTS COMMISSIONS

Cost shifting

1. As bodies independent of State governments with expertise in local government, are you satisfied that local government is getting a fair deal from your respective State/Territory governments? What are the areas most in need of attention? Where is cost shifting most apparent?

NTGC Response

Local government in the Northern Territory, in many respects, does not have the same functions that could be considered the “norm” interstate. It is relatively new and continues to evolve necessitating consideration of new structures and the introduction of reforms where necessary. In this context the Commission is unable to identify significant cost shifting from the Northern Territory Government to local governments.

Due to the disparate nature of local government in the Northern Territory the Commission has been unable to get up to date and relevant financial information from councils. It has only just recently begun a process for the direct sourcing from each council, the financial information from the council's statements of account. The Commission therefore does not know the extent to which expenditure is related to cost shifting or councils' policy and the varying accounting practices.

Structural reform

2. DOTARS highlights areas which have the potential to undertake major structural reform including:
 - Inner Perth and councils in the sheep/wheatbelt
 - The semi-circle west of Brisbane from Warwick to Bundaberg
 - Inner Sydney doughnut councils and the Northern Tablelands.
 - What progress has been made or is planned in these areas?

NTGC Response

This question is not relevant to the Northern Territory Grants Commission.

- What role do Local Government Grants Commissions have in facilitating amalgamations?

NTGC Response

None. The National principles require that "an effort or policy neutral approach will used in assessing expenditure requirements and revenue raising capacity of each local governing body".

However, in addition to developing a methodology for the distribution of the financial assistance grants, the Commission has developed a methodology for the allocation of the Northern Territory Operational Grant to remote councils. This methodology contains a driver (a distribution service delivery index) that rewards councils for providing local government services over a large area. This index provides an impetus for the small remote councils to consider amalgamations.

Monitoring performance

3. Can you report to the Committee on which councils in your State are struggling to be viable?

NTGC Response

No. It is not the role of the Commission to assess the financial viability of councils.

4. Rather than simply distributing funds on behalf of the Commonwealth, would you support a stronger role of the LGGCs in monitoring performance and viability of councils, and reporting on the state of infrastructure?

NTGC Response

The first part of this question is ambiguous and is not fully understood.

If the question was simply, "would the Commission support a stronger role of the LGGCs in policing and checking the viability of councils?" then the answer would have to be no. That is the role of the NT Local Government & Regional Development Division of the Department of Community Development, Sport & Cultural Affairs who have developed procedures for evaluating and monitoring compliance of councils.

However, if the question was, "would the Commission support a stronger role of the LGGCs in the appraisal of the performance of councils in providing service delivery to its constituents?" then the answer would be a tentative yes provided that proper guidelines are developed for this purpose and provided that there is recognition that the Commission would not be able to report on all councils annually.

As far as the reporting on the state of infrastructure is concerned, the Commission does not currently have the expertise or the resources to undertake such an enormous project. The Commission would be amenable to the concept of facilitating the specific technical and engineering expertise required for this purpose but, again, provided that proper roles and guidelines can be developed and funding sources identified.

Calculating grant allocations

5. What factors do you use to calculate grant distribution? Please provide a list.

NTGC Response

*In relation to the assessment of **Revenue Raising Capacity** the Commission uses:*

- the per capita income of residents of a council*
- the percentage of the council's population over 15*

*In relation to the assessment of **Expenditure Needs** the Commission uses six expenditure categories and applies the cost adjustors shown for each category*

- Amenity

- Cost adjustors - Population*
- Isolation – Administration
- Dispersion

- Administration

- Cost adjustors - Population*
- Isolation- Works
- Dispersion
- Aboriginal and Torres Strait Islander

- Human Services

- Cost adjustors - Population*
- Isolation Works
- Aboriginal and Torres Strait Islander

- Libraries

- Cost Adjustors - Population*
- Isolation Works
- Aboriginal and Torres Strait Islander

- Recreation

Cost Adjustors - Population
- Isolation – Administration

- Roads

Cost Adjustors - Isolation – Administration
- Roads

6. At the public hearing Vic, SA, Qld and NT all claimed that capacity to pay is very difficult to estimate. “In assessing capacity to pay, it takes some account of differences in family income but, simply because of the lack of data, I personally think it is the hardest and most vexatious question the grants commission has had to answer”. (Woolley, QLD, page 872).
- o In an increasingly ageing population, if the capacity to pay could be estimated, what weighting would you give it in your formula?

NTGC Response

*As most councils in the Northern Territory do not have a rates base, the Commission uses the average per capita income per council in its methodology for assessing **Revenue Raising Capacity** purposes. The average per capita income in itself is influenced by the earnings of relevant aged groups.*

It is difficult to include age factors in the capacity to pay equation. The Commission is cognisant of the fact that an ageing population does impose additional cost on a council.

- o If you have attempted to estimate capacity to pay, what factors have you used?

NTGC Response

As mentioned in our previous response, most councils in the Northern Territory do not have a rates base. The Commission has been grappling with this question for quite some time. A review of our methodology is currently underway and particular attention is being paid to this vexing issue.

7. If an SES model proved to be more accurate and fair (and included relevant factors currently used by LGGCs), would you consider incorporating it in your own methodology?

NTGC Response

The Committee seems to have a fixation with this approach. This is a flawed approach because the index lacks the capacity to accommodate a range of data to produce equitable outcomes. As mentioned in our submission paper the SES model does not measure need based on the horizontal equalisation principle.

The SES index could be incorporated into our methodology but not as the sole cost adjustor. The Commission is currently reviewing its methodology and in particular the cost adjustors used. In this context, however, it would need to be tested against other factors and in particular the Griffith Service Access Frame (GSAF) in order to assess its suitability for this purpose.