NORTHERN TERRITORY REVIEW

of

THE FINANCIAL ASSISTANCE GRANTS METHODOLOGY IN THE NORTHERN TERRITORY

Discussion Paper

FINALISATION OF THE REVISED METHODOLOGY

Northern Territory Grants Commission
&
Department of Local Government
Policy and Planning Program
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1. BACKGROUND

Following a request from the former Minister, the Hon Tim Baldwin, MLA in 1999 the Northern Territory Grants Commission (NTGC, or the Commission) has been undertaking a comprehensive and detailed review of the methodology used to distribute Commonwealth Financial Assistance Grants (FAG).

The last comprehensive review of the Commission's FAG methodology was conducted in 1991, with a partial review undertaken in 1996.

2. 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 (standard 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.

3. ROLE AND FUNCTION OF THE GRANTS COMMISSION

On July 1986 the *Local Government (Financial Assistance) Act* came into force. A subsequent review of this legislation led to the enactment of the *Local Government (Financial Assistance) Act 1995*.

Under this act each State and the Northern Territory is required to establish a Local Government Grants Commission (LGGC) to make recommendations to their respective governments on the distribution of financial assistance.

The Northern Territory Grants Commission has two primary functions:

- To make recommendations to the Federal Minister in respect of the amounts of money to be allocated to local governing bodies from the money provided to the Northern Territory by the Commonwealth under the *Local Government (Financial Assistance) Act 1995*; and
- To make recommendations on such other matters relating to finances of local governing bodies as the Northern Territory Minister for Local Government, from time to time, refers to the Commission.

The primary objectives of the Commission are:

- To develop and implement policies which ensure the equitable distribution of Commonwealth funding to Northern Territory local governing bodies;

- To continuously review the distribution processes for Commonwealth funding to Northern Territory local governing bodies in the interests of funding equity;
- To assess the relative difficulties each local governing body encounters in the provision of local government services;
- To visit and consult with all local governing bodies included in the grants programs, over a three year period; and
- To develop improved mechanisms for the collection, storage and analysis of information and comparative data for community needs assessment.

4. REVIEW PROCESS

The review has been undertaken over an 18-month period and utilised the expertise in the Department Local Government, LGANT, individual councils and key stakeholders.

The review to date has only examined issues relation to the distribution of the Commonwealth Financial Assistance Grants so accordingly this report does not address issues referred to in the Terms of Reference relating to the roads component.

The following consultations have been undertaken during the review period:

- Presentation of discussion paper to LGANT meeting February 1999;
- Regional workshops in Darwin, Alice Springs, Katherine and Nhulunbuy held from April to May 1999;
- Discussion paper circulated concerning cross cultural issues in March 1999;
- Draft discussion paper circulated analysing consultative process and draft recommendations in September 1999;
- Workshops held in Darwin and Alice Springs to discuss draft discussion paper in October/November;
- Discussions held with the NTGC re 2000 data collections to allow comprehensive modelling to be undertaken in May 2000;
- Discussions held with the Australian Bureau of Statistics in August/September to obtain additional data required for financial modelling; and
- Discussions with the respective State and Commonwealth Grants Commissions regarding current interstate practices, and options for grant distribution within the Northern Territory.

The financial modelling over the past three months has been done with due cognisance of the draft recommendations relating to the FAG methodology outlined in the September 1999 discussion paper 'Review of the Financial Assistance Grants Methodology in the Northern Territory – Analysis of Consultations and Recommendations' at **(Attachment A)**. It also conforms to the National Principles that are embodied within the Commonwealth's *Local Government (Financial Assistance) Act 1995*.

5. NATIONAL PRINCIPLES

The National Principles relating to the allocation of general purpose grants payable under section 6 of the *Local Government (Financial Assistance) Act 1995* (the Act) among local governing bodies are as follows:

Horizontal Equalisation

General purpose grants will be allocated to all local governing bodies, as far as practicable, on a full horizontal equalisation basis as defined by the Act. This is a basis that ensures that each local governing body in the State/Territory is able to function, by reasonable effort, at a standard not lower than the average standard of other local governing bodies in the State. It takes account of differences in the expenditure required by those local governing bodies in the performance of their functions and in the capacity of those local governing bodies to raise revenue.

> This principle of full horizontal fiscal equalisation is one of two that are also embodied in the Commonwealth *Local Government (Financial Assistance) Act 1995*.
>
> In essence, this principle ensures that each local governing body is able to function, by reasonable effort, at a standard not lower than the average standard of other local governing bodies within the Territory. In doing this the methodology must take into account the 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.
>
> Horizontal equalisation distribution of grants is determined by estimating the cost each council would incur in providing a normal range and standard of services, and by also estimating the revenue each council could obtain through the normal range and standard of rates and charges. The grant is then allocated to compensate for these variations in expenditure and revenue and (ideally) bring all councils up the same level of financial capacity.
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> This in effect means that councils that would incur higher costs in providing normal services, eg in remote areas (where transport costs are higher) or areas with high resident population that speak English as a second language (where there is greater demand for specific services) will receive additional grant monies. Conversely, councils with a strong rate base (highly valued residential properties, high proportion of industrial/commercial properties) will tend to receive less grant monies.
>
> This principle is also the mainstay of the Commonwealth Grants Commission in its deliberations in providing consolidated revenue to

the State and Territory governments. This principle is the primary reason that the Northern Territory gets allocated funding a rate approximately four times greater that the per capita allowance. The Northern Territory is assessed as having the greatest need (largest disability) in providing services to its constituents of all the States.

In the local government context, there are councils that have high expenditure requirement and little revenue raising capacity (eg isolated Aboriginal communities) that will receive a higher per capita grant in recognition of this fact. Conversely, there will be other councils with relatively low expenditure requirements and high revenue raising capacity (eg major cities) that will receive a significantly lower per capita grant in recognition of their minimal need.

Some of the councils may be assessed as having minimal or no financial need. Such councils are then only eligible for the legislative minimum grant provision that provides these councils with 30% of the Territory per capita entitlement.

As the proposed methodology assesses all councils around a Territory average, not a National average, there will be significant variance in the per capita allocations to councils. In fact, current modelling indicates that two municipal councils (Darwin and Litchfield) will receive the per capita minimum grant. The main reason for this being that they have the highest land valuations in the Northern Territory and comparatively low expenditure assessments when compared with the remaining councils with the Territory.

Effort Neutrality

An effort or policy neutral approach will be used in assessing expenditure requirements and revenue raising capacity of each local governing body. This means as far as possible, policies of individual local governing bodies in terms of expenditure and revenue effort will not affect the grant determination.

This is a concept that requires a council's grant assessment to be independent of its policies. This means the grant to a particular council is not influenced by that council's actual rates levied, its actual expenditure on particular functions or the extent of its reserves or debt. This process allows the council to decide its own spending priorities and revenue raising policies without affecting its grant entitlement.

The intent of this principle is to ensure that councils are neither rewarded, nor penalised for its policies and operations and in recognising this it ensures that the grant allocations are made solely in line with demonstrated need (ie horizontal equalisation).

The application of this principle may be perceived by some councils to be inequitable particularly if those councils believe that they are operating more efficiently than most. However, the issue is problematic because is an effort positive principle was applied it may very well disadvantage councils like Litchfield that levy a minimum rate and provide a minimal level of services. As the intent of the funding is to provide every council with equal capacity to provide an adequate level of services clearly the adoption of an effort positive approach would not achieve this outcome.

Minimum Grant

The minimum general purpose grant allocation for a local governing body in a year will not be less than the amount to which the local governing body would be eligible to receive if 30% of the total amount of general purpose grants to which the State/Territory is entitled under section 9 of the Act in respect of the year were allocated among local governing bodies in the State/Territory on a per capita basis.

This is the second of the principles that is embodied within the Commonwealth legislation. Section 6(2)(b) of the Act requires the Minister to ensure that:

> 'No local governing body in a State will be allocated an amount under section 9 (the general purpose component of the grant) in a year that is less than the amount that would be allocated to the body if 30% of the amount to which the State is entitled under that section in respect of the year were allocated among local governing bodies in the State on a per capita basis'.

The primary reason for the provision of the minimum grant entitlement stems from the origin of the Commonwealth funds. These funds are essentially a redistribution of Commonwealth taxes and as contributors to the tax base are resident in all local government areas it is appropriate that a portion of this money should be returned to residents. This is done through the provision of funding to councils, regardless of any council's individual assessment of need, that in turn provide local government services to their constituents.

Other reasons for the application of the minimum grant include:

- The fact that no methodology can be regarded as 'pure' and therefore cannot be guaranteed to deliver totally accurate grant outcomes. In each methodology there is an element of judgement made by the Commission and data quality that is used to calculate the grant can at times be questionable. In this light an argument could always be mounted that a council's assessment of need had some inherent inaccuracies. The 30% per capita minimum grant entitlement while being directly opposed to the principle of horizontal equalisation could be looked at as a 'safety net' for such events.

- As councils provide a widely divergent range of services not all of which are captured in the data to develop standards there is again a capacity for some variance in individual grant assessments. The most notable example would be the fact that the majority of Commissions do not recognise capital expenditure. However, there is an undeniable need for the maintenance of such infrastructure that varies greatly from council to council. A council may have no demonstrated need on a assessment of current expenditure but may have a sizeable infrastructure deficit. As the Commonwealth funding is untied is gives these councils some capacity to address this non assessed element of need which would otherwise not be available if the minimum entitlement provision was removed. It could be argued that both Litchfield and to a lesser degree Darwin are in a situation similar to this, where there capacity to raise revenue is significant leading to a minimum grant situation, however, there are still infrastructure issues that need to be addressed.

Other Grant Support

Other relevant grant support provided to local governing bodies to meet any of the expenditure needs assessed should be taken into account using an inclusion approach.

This principle ensures that any assessment of need made through the methodology reflects the actual circumstances of each particular council, and takes into account specific funds it may receive for service provision.

What the Commission methodology attempts to do is determine the expenditure that is likely to be incurred by a council over a twelve month period taking into account the relevant disabilities that impact on the cost of service delivery. What this principle is then ensuring is that once this assessment has been made any specific purpose grants provided directly to a council for that purpose should be deducted from the assessment. This then provides a more accurate assessment of what the actual expenditure requirement for that council is relative to other councils.

In the Territory context the only grants recognised by the Commission for the purpose of inclusion are the local road grants and the library operational and developmental grants.

Aboriginal and Torres Strait Islanders

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

> The principle here is designed to ensure that Aboriginal communities whether discreet, as in the majority of cases within the Northern Territory or incorporated within a shire structure (eg Western Australia) receive an equitable level of funding for the provision of local government services.
>
> The Commission has always prided itself on ensuring the financial interests of the Aboriginal councils are being met to the extent that the limited Commonwealth funds will allow. In the current methodology cost adjusters such as isolation, Aboriginality and dispersion all ensured that the disabilities of these remote communities were recognised. While the nature of the adjusters may have changed a little in the proposed methodology the intent has not and they continue to recognise the difficulty in providing local government services in remote areas.
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> A table at **Attachment C** highlights this recognition through the comparison of the per capita allowances provided to all local governing bodies in the Territory. The table highlights the fact that as councils become more isolated and dispersed their per capita allocation increases as a general rule in recognition of service delivery difficulties. There are some anomalies to this trend however they are generally caused through councils being assessed as having medium revenue raising capacity.

6. FINANCIAL MODELLING

With the provision of the most recent financial and demographic data from the NTGC returns and the Australian Bureau of Statistics (ABS), it has now been possible to develop an operational spreadsheet incorporating the majority of the review recommendations. A small number of the recommendations were either not able to be implemented or required modification to allow them to function appropriately in the grant calculation process. Reasons for these changes or omissions will be provided in the body of the report.

A spreadsheet has been prepared for consideration at **(Attachment B)** that incorporates the following:

- Single figure population figure as opposed to the previous three-year average;
- Seven cost adjusters (four expenditure adjusters and three revenue adjusters). All adjusters have been averaged around one;
- Three expenditure functions (administration, services and roads) as opposed to the previous six;
- All specific purpose grants are treated by the inclusion method;

- Incorporation of a $150,000 fixed administrative component in recognition of diseconomy of scale issues; and
- Revenue raising capacity assessed on a council's residential rating capacity, commercial rating capacity and service charge capacity.

It should be noted that incorporation of a diseconomy of scale component does not result in a minimum grant of $150,000 being calculated. Its function is to load a council's expenditure in recognition of scale issues, which ultimately increases the council's assessment of need. This increased assessment of need subsequently results in a higher grant allocation.

This principle of recognising diseconomy of scale is recognised by the Commonwealth Grants Commission (1999, p42) as indicated in its report 'General Revenue Grants Relativities 1999, Volume II, Methods, Assessments and Analysis' which states:

> *'Disabilities generally reflect differences in the social, physical and economic structure of the States. Disabilities assessed during this review include…..administrative scale, which allows for the differences in the extent to which States can achieve economies of scale…'*

The report goes on to state:

> *'There are large differences between the States in the size of their populations. Nevertheless, each State provides a full range of State-like services to its populations and each has established basic structures…..In undertaking these activities, the more populous States may be able to achieve savings by taking advantage of economies of scale. At the same time there are many areas where smaller States can neither achieve those cost savings nor step back from providing services.'*

This situation is analogous to the local government situation in the Northern Territory and hence the incorporation of the diseconomy of scale component. It also closely complements the fifth National principle which provides:

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

7. ACHIEVEMENT AGAINST RECOMMENDATIONS

Transparency

Recommended to move towards a direct assessment approach and investigate:

- *the definition of local government services to be taken into account;*

- *the definition of relevant "populations" for each category; and*
- *the disability factors to be recognised for each category.*

The direct assessment approach to grant calculations involves the separate estimation of a component revenue grant and a component expenditure grant for each council, which are subsequently aggregated to determine each council's overall equalisation need. Available funds are then distributed in accordance with the relativities established through this process with adjustments being made as required to ensure the 30% per capita minimum entitlements prescribed by the Act are met for each council.

Both the revenue and expenditure calculations are calculated by determining the difference for each council between the State average and the individual councils. It is therefore essential that both aggregated local government financial statistics together with individual council data must be accurate to give a credible grant calculation. Currently there is some doubt as to whether this is the case given the current diversity in accounting practices and the variation in chart of accounts used by councils. This is highlighted when looking at council administration costs between Kardu Numida and Maningrida. While both communities have similar populations (approx 2,100) the administrative costs were $9.6m and $1.9m respectively. Clearly these would produce significantly different assessments against the State average which would not be sensible in view of the similarities between the communities.

In the balanced budget approach each council's grant entitlement is determined according to the difference between the expenditure 'required' to provide a common range of services given its unique cost conditions (standardised expenditure). Standardised revenues are also calculated for each council in a similar manner taking into account any unique revenue raising conditions. The difference between these two figures for each council is an assessment of a council's need relative to all other councils. It is this figure that determines the council's final grant once it is scaled back to the funds available.

The balanced budget method uses aggregated local government financial data rather than individual council data to determine these standards and is therefore more tolerant to data inaccuracies than the direct assessment method. It is primarily for this reason that the review has opted to retain the balanced budget method for the revised methodology.

Of the seven jurisdictions, currently five use a balanced budget approach with only New South Wales and South Australia using the direct assessment technique. It is also significant that these two States have highly refined data collection systems that allow the respective Commissions to use direct assessment as opposed to balanced budget.

Recognition of Services

Recommended that the methodology maintain an emphasis on "traditional" local government services as reflected in the ABS Government Finance Statistics.

The current methodology makes expenditure calculations in six categories being:

- General Administration;
- Amenity;
- Human Services;
- Libraries;
- Recreation; and
- Transport.

In the interests of simplicity and transparency it is proposed to reduce these to three (administration, services and roads) which reflects in broad terms an amalgam of the 'traditional' local government services as reflected in the Australian Bureau of Statistics Government Financial Statistics. This reduction in expenditure categories will be dealt with in greater detail when looking at Recommendation relating to 'Expenditure Categories' in the report. The reduction in expenditure categories in not dissimilar to trends exhibited by the Grants Commissions in other jurisdictions with Queensland making assessments in non-road services and roads.

Relevant 'Populations'

Averaging of population - proposed that the effect of using the actual population figures and dropping the population growth disability factor be investigated. Loss assist would be used to provide the cushioning of funding fluctuations currently provided by the averaging of populations.

Service populations - recommended that inclusion of a "regional service centre" adjuster be investigated to replace the attempts to measure service populations.

Aboriginal residents and visitors - recommended that indigenous residents with English as a second language be counted twice in the assessment of the relevant population for administration categories.

The relevant 'population' or more precisely multiplier in each expenditure category is a major driver of the funding outcome. It is therefore important that the correct multipliers are chosen and that they are able to be accurately and consistently measured for all councils. Of the three expenditure categories the administrative and services assessments are determined using population with the roads assessment determined using the weighted road factor.

To address the issue of operating in a cross cultural environment the population figure used is the total community population figure with a double counting of those people who have English as a second language. The rationale behind this is that those people who do not speak English as their first language generally have a significant impact on the human resources within a council that are reflected through higher administration costs. This is particularly evident within councils located on Aboriginal communities where often additional staff must be employed to assist these people in banking, social security and other day to day tasks undertaken through the council.

This treatment of the administration function is not dissimilar to the manner in which the Commonwealth Grants Commission treats similar issues in relation to the determination of the interstate financial distributions outlined earlier in this report.

The population used for the calculation of the services assessment is the community population as determined by the Commission through annual data returns. These returns may be in some instances be cross-checked with population data from the Australian Bureau of Statistics. The Commission is of the belief that population collection techniques are now accurate enough for the practice of averaging the population to be ceased. The primary aim of the averaging process was to reduce the effect on grants of the volatility in population estimates from year to year.

Roads expenditure assessments utilise what is known as a weighted road factor which represents the sum of the total road lengths by category weighted in line with their ‘whole of life’ maintenance costs.

The weightings and road categories will remain the same in the revised methodology.

• Sealed and kerbed	10.0
• Sealed	8.0
• Formed and gravel	4.0
• Formed	1.0
• Flat bladed track	0.4
• Cycle paths	2.0

The way the weightings are applied effectively means that for every kilometre of kerbed and guttered road a council has they will receive credit for having ten. This escalation takes into account the fact that the road requires routine maintenance and resealing approximately every ten years. As this is a costly exercise some capacity has to be factored in to allow councils to do this work.

The key multipliers for revenue assessments are the numbers of lots in both the residential and commercial categories that enable a residential and commercial rating capacity to be determined. The number of residents over the age of 18 determining the capacity for a council to generate income through the levying of service charges. These mutipliers are again in line with those used by the Grants Commissions in other jurisdictions with the exception of that used to determine a service charge assessment. The service charges assessment is unique to the Territory and Queensland and is implemented to ensure an appropriate assessment is made for those councils that have no capacity to charge rates. This is due to either their legal status and/or tenure of land, much of which is held in trust through an Aboriginal LandTrust.

Cost Adjusters

Recommended that the cost adjusters be investigated, using feedback from councils at the forthcoming workshops.

In the current methodology there are four cost adjusters (disability factors) that are used to adjust each council's standardised expenditure assessments in line with factors peculiar to each community that effect the cost of service delivery. The factors are isolation works, isolation administration, dispersion and Aboriginality. These factors were scaled from 1.0 to 1.5 with the exception of Aboriginality that was scaled from 1.0 to 2.0.

Cost adjusters are applied by all Grants Commissions throughout Australia but may differ in nature depending on particular circumstances that need to be recognised within each jurisdiction.

The proposed methodology has incorporated seven cost adjusters with four being applied on the expenditure side and three applied on the revenue assessments.

Expenditure

- Isolation Works –cost adjuster is based in the existing index however the index is now averaged around 1.0 as opposed to the previous index that ranged from 1.0 to 1.5.
- Isolation Administration –Is calculated on the same basis as the Isolation Works index.
- Distributed Service Delivery (DSD) Index Administration –index is mathematically calculated using a distance/population formulae determined by the number of population centres being serviced from the central service point. The Commission would retain the discretion for highly dispersed councils to determine the maximum DSD factor to be applied.

- Distributed Service Delivery Index Services – calculated on the same basis as the DSD Administration, however, also takes into account total road lengths being maintained by councils.

Revenue

- Residential Cost Adjuster – based on the average unimproved capital residential land values for all municipal centres and open towns where it is deemed by the Commission that a land value rating capacity exists. These adjusters are again averaged around1.0.
- Commercial Cost Adjuster – calculated on the same basis as the residential adjuster, however, average unimproved capital commercial land values are used.
- Personal Income Cost Adjuster – determined using the average personal income statistics provided through the Australian Bureau of Statistics. Again the index is averaged around 1.0.

The matrix below indicates which adjusters are applied to which expenditure and revenue assessments.

	Admin	Services	Roads	Residential	Commercial	Service Charge
Isolation Works						
Isolation Admin						
DSD Admin						
DSD Works						
Resident Cost Adj						
C'mercial Cost Adj						
Personal Income Cost Adj						

The major changes in the application of these revised adjusters are that they are all averaged around1.0. Therefore they will identify those councils that have above average expenditure and revenue assessments and adjust their grant accordingly. Likewise, they will identify those councils that have below average expenditure and revenue assessments and make appropriate adjustments.

The review also considered the introduction of two further adjusters being a socio economic and regional centre index. It has however come to the conclusion that neither is appropriate for introduction for the following reasons:

Socio Economic Adjuster

Essentially, the introduction of such an adjuster is designed to determine the level of disadvantage of various population groups that are currently in receipt of local government services. While there are valid arguments for its introduction it was considered that the recognition of 'English as a second language' and the double counting of the population together with the application of a personal income adjuster gave adequate recognition of this factor.

Regional Centre Adjuster

The application of such an adjuster has for a long time been a bone of contention and has been considered and rejected in previous reviews. The two major areas of concern are:

- How do you quantify a community's importance as a regional centre; and

- Does the cost benefits of being a regional centre (higher commercial rating capacity) out-weigh or at least equal the costs incurred in expenditure areas such as litter collection, road maintenance, sport and recreation etc.

The Commission also considered that the task of data collection of non-resident usage would be far to onerous on both the councils and the Commission for the limited impact it would have on grant outcome. These sentiments were shared at a number of forums facilitated by the Commission inviting councils to comment on the draft review recommendations in November 2000.

Expenditure Categories

The following categories are recommended to reflect general municipal services:

- *Administration;*
- *Service delivery; and*
- *Roads.*

The determination of expenditure categories is closely linked to the issue of what local government services should be recognised for the purpose of grant calculations.

At the beginning of the review process a great deal of discussion went into the issue of which local government services should be the focus of the methodology for the purpose of calculating expenditure and revenue assessments.

Fundamental to the correct application of a number of the National Principles is the definition of the services that the Grants Commission recognises for the purpose of funding provision.

Given the great disparity between the local government services provided by the municipal and remote councils, the review generated considerable discussion as to what services the Commonwealth funding is provided for.

The fundamental question is, are local government services those that are traditionally provided by the municipal councils, or are they the services actually provided by local governments?

Additional services identified through discussions and submissions provided by the remote councils fall into three broad categories:

- Provision of services on behalf of other government agencies both Commonwealth and Northern Territory;

- Provision of higher level general administrative services to help counteract the poor language, literacy and numeracy skills of many of the residents;
- Administrative services to raise the level of understanding of the 'rules and responsibilities' of living in an urban environment and operating with a western governance paradigm.

Most submissions were generally supportive of allowance being made to account for additional services to reflect the cost of operating in a cross cultural environment, but not supportive of the assessment of the cost of supporting other government agencies through agency agreements. As the funds are supplied on the basis of increasing the capacity of council's to provide local government services it is felt that it is inappropriate to assess agency agreement based services in any assessment of need. It was primarily on this basis recognition was given for those residents with English as a second language in the assessment of the administrative costs. However, the methodology will maintain an emphasis on the traditional local government services reflected in the Australian Bureau of Statistics financial information.

The methodology has maintained an emphasis on local government services, however has collapsed the categories to three expenditure areas in the interests of simplicity and transparency. This approach is not dissimilar to that adopted in the 1991 review when the expenditure categories were reduced from 14 to 5. The Queensland Grants Commission effectively has two categories being roads and non-roads and all other Commissions have recently reduced their expenditure categories for the primary objective of simplicity and transparency. It is proposed that the categories for expenditure assessment in the Northern Territory be reduced to administration, services and roads.

The data for assessing the 'standard budget' or Territory-wide expenditure on these local government services is provided by the ABS in a publication *Local Government Finance (5502.7).* A summary of the expenditure by local governing authorities in 1995/96 is at Table 1

Table 1 – Northern Territory Local Government Current Outlays by Purpose 1995-96, $'000s

	Municipal	CGC's	Assoc's	Total
General Public Services	9,053	12,534	11,842	33,429
Public Order & Safety	729	651	126	1,569
Health	560	1,980	3,740	6,280
Social Security & Welfare	1,756	269	761	2,786
Housing & Community Amenities	9,919	8,431	9,128	27,478
Recreation & Culture	14,225	3,356	1,813	19,394
Fuel & Energy	0	938	752	1,690
Agriculture, Forestry & Fishing	0	2	9	11
Transport & Communications	10,671	3,579	1,526	15,776
Other Economic Affairs	1,897	15,862	13683	31,442

Other Purposes	11,207	8,233	20,656	40,096
Total	60,080	55,654	64,035	179,769

Source: ABS 5502.7, Table 10

As can be seen from the Table, the expenditure is roughly split across the three categories of council, meaning that use of the municipal budget alone will not necessarily give an accurate picture of the Territory average expenditure. Also, the expenditure for the two categories 'Fuel & Energy' and 'Agriculture, Forestry and Fishing' is minimal so these categories have been incorporated into the 'Other Purposes' categories.

Most of the Community Development Employment Program (CDEP) expenditure is recorded under the 'Other Economic Affairs' category, so this should be excluded from the formation of the Territory total. Also, depreciation of $19,965 should also be excluded from the total expenditure. If this is done, the standard expenditure budget as detailed in Table 2 is achieved.

Category	$'s Millions	Percentage
Administration	33	38
Services	39	44
Roads	16	18
Total	108	100

Revenue was initially worked out using the same source data, however, this was later substituted for information received directly from councils through the Grants Commission data returns. It is considered that this information will be more detailed and provide the general rate information in two categories being residential and commercial. It will also be more up to date.

The information provided is outlined in Table 3.

Table 3 – Local Government Rates and Service Charges Revenues

Category	$'s Millions	Percentage
Residential Rates	29	58
Commercial Rates	8.5	17
Service Charges	12.5	25
Total	50	100

Tables 2 & 3 provide the relevant data for the methodology to produce an assessment of need for each council using the balanced budget approach. This methodology does not take into account specific expenditures or revenues of councils, but determines what a councils expected expenditures and revenues are likely to be given reasonable effort by the council to provide services and fund these services. This is the principle of 'Effort Neutrality'.

Supplementation of Funds

Recommended that the NTGC request the Northern Territory Government to investigate options for the extension of Operational Subsidy funding to all councils, based on relative need.

This option was considered and canvassed through the preparation of a discussion paper titled 'Local Government Funding Strategy'. While the municipal councils were obviously in favour of the extension of the Operational Subsidy they did express concern that the Operational Subsidy was provided as a result of current government policy and could therefore be removed at any time. This effectively meant that their Commonwealth funding which is enshrined in legislation could be reduced and the supplementary funding that would be used to 'top up' the municipal councils, while currently available is subject to annual Government budgetary processes and may be removed.

There was also concern expressed by smaller councils that it was inappropriate to expand the eligibility criteria for receipt of this funding given its origins. The funding was originally Commonwealth Town Management and Public Utilities (TMPU) Program funds for providing local government and essential services on Aboriginal communities. This funding program was subsequently transferred to the Northern Territory Government after the granting of self-government.

The Operational Subsidy funding has alleviated the effect of the lack of any land based rating capacity in Aboriginal communities given the nature of land tenure. It also recognises a diminished capacity for raising rates in the remaining small 'open towns' throughout the Northern Territory.

Given these issues it is concluded that a recommendation regarding the expansion of the Operational Subsidy is inappropriate.

Capital needs

Recommended that the methodology continue to concentrate on current expenditure only.

Various councils have contended that the methodology should both reflect the need for capital works related to rapid growth councils and those required in newly formed and consequently developing communities. A number of well established councils have also argued that there are expenditure needs for the preservation of existing assets.

Advice sought from a number of Grants Commissions interstate has indicated that the inclusion of any assessment of capital needs would be very problematic. In addition, while the funds are untied there has always been a line of thought throughout the Grants Commissions that it is recurrent funding provided to meet recurrent needs of council, hence the focus on recurrent and not capital expenditure in the determination of expenditure standards.

Two further points are noted:

- As the Commonwealth funding is allocated on a per capita basis, realising the Northern Territory approximately $9.0m per annum there appears to be little point in looking at capital requirements for councils. It is noted that the majority of councils are in receipt of grant funding that would barely cover the cost of employing a Council Clerk.
- Many of the councils who are in receipt of this funding also have a variety of other funding sources available to them to address the capital infrastructure deficit issue. These include; IHANT funding, CDEP, NAHS and HIPP funds, Northern Territory Government capital works programming, ATSIC funds and special purpose grants from both the Northern Territory and Commonwealth Governments.

The revised methodology will therefore continue to recognise current expenditure, with recognition that the capital requirements of councils are being met to some degree through alternative government funding sources and/or council own source funding.

Depreciation

Recommended that the consideration of depreciation be deferred until such time as competitive tendering becomes a significant percentage of total council expenditure.

Consideration of the inclusion of a depreciation category has been deferred in line with the recommendation.

The two primary reasons for taking this course of action are:

- A number of Grants Commissions including the Commonwealth are currently investigating the inclusion of an additional expenditure category to ensure consistent treatment of the depreciation factor. No decision has been arrived at to date.
- Perhaps more importantly, the extent of out-sourcing as a percentage of outlays has not yet significantly impacted in the Northern Territory.

Revenue Considerations

Residential rates - recommended that councils able to charge rates are assessed for their rating capacity (using average residential rate charged adjusted according to assessed factors) and other councils assessed on their capacity to levy service charges (adjusted according to assessed factors).

In the current methodology the rates assessment was determined solely on an ABS data identifying average community personal income. The primary reason for this was due to the fact that many of the Northern Territory councils are located on Aboriginal land and therefore are unable to generate rate-based income due to the complex land ownership issues. It was therefore deemed appropriate that application of a personal income based assessment was both fair and equitable.

The review process has indicated that there is support for use of variety of assessments where appropriate based on both a residential and commercial rate assessments these assessments in keeping with the principle of 'Effort Neutrality' together with an assessment on service charges. It should be remembered that have no bearing on what a council may actually raise in revenue but what it can potentially raise in revenue.

The proposed methodology makes an assessment on the residential and commercial rating capacity of each council based on the average unimproved capital valuation of land multiplied by the number of lots within the council area. This is then adjusted depending on where a particular council's average block is positioned against the Northern

Territory average valuation. Those councils with valuations above the average will have their assessments raised. Conversely those below the average will have assessments lowered. Unimproved capital land valuations are only available for the municipal council areas and 'open towns'. It is not possible to make a rates based assessment for the remaining councils which do not cover land held under an individual title.

The third assessment is based on a council's capacity to generate income through the levying of service charges. Again there is a Northern Territory average established using the financial data collected from the Grants Commission returns divided by the resident population over the age of 18. As with the rates assessments not all councils are in a position to raise the average, so the personal income adjuster identifies those councils above and below the average and adjusts the final assessment accordingly.

A council's total revenue assessment is the sum of the three components.

This method of assessing revenue is not significantly different in principle to that employed by other Commissions, with the exception that most don't make an assessment on service charges. Queensland is the most notable exception because of its requirement to provide funding directly to 33 remote Aboriginal communities. Its assessment process substantially mirrors that proposed for the Northern Territory.

Operational Subsidy - recommended that the effect of the exclusion of the Operational Subsidy in the assessment of grant entitlement be investigated as well as the effect of adding an adjuster factor.

The Operational Subsidy, as mentioned earlier in this report had its origins in Commonwealth funding that was subsequently transferred shortly after self-government. The primary purpose of this funding was to assist predominantly Aboriginal communities in providing local government type services. The Operational Subsidy is provided as untied funding to all councils except the municipal councils and Jabiru.

In the current methodology 50% of a council's previous year's Operational Subsidy was recognised in the assessment of revenue that gave a significant loading to the revenue side of the assessment. The net result of this was a substantial reduction in the assessment of a council's need that in turn led to a reduction in the final grant. This in turn indirectly favoured the municipal councils, as they had no assessment in these areas, as they were not recipients of the subsidy.

This too is an issue that has been canvassed over the last two reviews however, the status quo has remained largely because of the shifts in funding its removal would have generated towards the remote councils.

Given the proposed revenue assessments in the proposed new methodology that will take into account both rates assessments, where appropriate, and an across the board assessment of service charges it would be difficult to justify the continued inclusion of the Operational Subsidy in future assessments.

CDEP - recommended that the use of CDEP funding to employ staff to provide local government services not be included in the assessment of FAG entitlements.

The possibility that Community Development Employment Program (CDEP) funding be included in the assessment of grant entitlement generated widely varying responses during the course of the review. Not surprisingly, those councils that do not have access to CDEP funding feel that they face a disadvantage in the delivery of local government services because the full cost of staff must be borne by councils. However, those that receive CDEP argue that it can only be used to provide additional employment and therefore they must still employ, at full cost, the same number of staff to provide the basic level of services. In other words, CDEP only provides councils with the capacity to provide a higher level of service.

CDEP expenditures are included in the ABS total Territory assessment of expenditure on local government services and would so contribute to the definition of the average level of local government services provided. Under this scenario there is little doubt that councils which do not receive CDEP would face a cost disadvantage in respect of other councils to provide that average level.

Under the proposed methodology, however, that is not the case as it is proposed that CDEP funding which is categorised under ‘Other Economic Affairs’ has been ‘netted out’ of the financial statements that determine total Territory expenditure in the three proposed expenditure categories. Therefore, recognition of this funding on a council by council basis would be inappropriate.

8. OVERVIEW OF THE PROPOSED GRANT OUTCOMES

A ‘broad brush’ view on the effects the proposed methodology will have on the existing allocations indicates that there will be significant losses for the majority of the municipal councils with Litchfield and Darwin receiving the per capita minimum grant entitlement. This entitlement is provided through the *Commonwealth Local Government (Financial Assistance) Act* and provides those councils assessed as having a minimal or negative need with an allocation of approximately $14.50 per person. The losses sustained by the majority of municipal councils primarily benefit the larger, more remote community councils within the Northern Territory.

Table 4 compares the existing and proposed grant outcomes for the municipal councils including Jabiru.

Table 4- Municipal Grant Comparisons

	CURRENT GRANT	PROPOSED GRANT	DIFFRENCE
DARWIN	1,434,182	1,048,843	-385,339
ALICE SPRINGS	924,818	663,100	-261,718
PALMERSTON	798,691	579,937	-21-8,754
LITCHFIELD	618,320	218,121	-400,199
JABIRU	99,132	85,057	-14,075
TENNANT CREEK	293,709	310,401	16,692
KATHERINE	497,776	570,548	72,772
TOTAL	**4,666,628**	**3,476,007**	**1,190,621**

It can be clearly seen from Table 4 that the revised methodology has a considerable impact on the municipal councils, particularly those in the Darwin area and Alice Springs. The reason for this is that the revised methodology compares all councils around the Northern Territory average and it has assessed Darwin, Litchfield, Palmerston Jabiru and Alice Springs as being above the average. In essence this means that these councils have below average expenditures and higher than average revenue raising capacity. This is mainly due to the high personal incomes, high rate revenue capability and relatively low expenditures due to their geographical location and size.

Darwin and Litchfield councils have in-fact been assessed as having such a minimal need that their grant is provided through the ‘minimum grant provisions’ within the Commonwealth legislation. This outcome is largely brought about by the unimproved value of the residential and commercial lots which is considerable higher than the Northern Territory average, therefore leading to a high revenue assessment.

While the Northern Territory has never assessed any council on the per capita minimum previously they are a common occurrence in all other jurisdictions. Many of these councils are metropolitan or inner metropolitan together with some regional centres that encompass valuable agricultural, commercial and residential land. This scenario is not dissimilar to the outcomes that the proposed Northern Territory methodology is generating and is in line with the principle of horizontal fiscal equalisation.

It can be seen that the two municipal councils that are most remote and have the lowest land values are both receiving increased grant allocations. This again indicates that the principle of horizontal fiscal equalisation is being applied – that is essentially those councils with the larger need assessment get a proportionally larger grant to assist them in providing local government services.

It can also be noted that a large proportion of the remote communities receive increased grants commensurate with the assessed needs. Of the remote councils that do suffer a funding decrease the vast majority are of a size that would question their very viability to provide an adequate level of services in a cost-effective manner. While the 'diseconomy of scale' factor does assist these councils their small population does not allow them to be insulated from a funding reduction.

In summary:

- Five of the seven municipal councils will receive funding decreases totalling approximately $1.2m;
- Five of the 54 Aboriginal communities will receive a decrease in funding with the largest being 30%. All of these communities, with the exception of one have populations below 220;
- Two of the seven 'open towns' receive grant decreases directly associated with the high land values and comparatively high average personal incomes; and
- In total of the 68 existing councils within the Northern Territory a total of 12 receive funding cuts with the balance (56) receiving funding increases.

9. STABILITY OF GRANT FUNDING

The Commission in the past has utilised two techniques to ensure that manageable stability has been maintained in grant recommendations. These are:

- Loss Assist – this is a mechanism at the end of the grant determination process that limits the loss to any council to a set percentage. Previous Commission's have set this loss at 5% so every council is then guaranteed a minimum 95% of its previous year's allocation. This is effective, but by its very nature also reduces the gains to the remaining councils in making the adjustment.

- Phasing-in of Grant Outcomes – this is where the methodology is phased in over a pre-determined number of years, normally three or five depending on the magnitude of grant variations. In a five-year phase-in process the grant initially paid to council's comprises 80% of the previous years grant (the base) and 20% of the newly calculated grant. The following year 60% of the base and 40% of the calculated grant is used, until in the fifth year the grant is solely the calculated grant for that year.

The general rule is that where there are significant shifts in funding as a result in a change of methodology then a phase-in arrangement is usually adopted to ensure councils move to their revised funding level in a reasonable time-frame. The Queensland Grants Commission a number of years ago phased-in their revised grant allocations over a period of ten years.

The loss assist factor is more generally deployed as a matter of course within a methodology to allow council's the peace of mind regarding 'worst case scenario' funding allocations as well as allowing the councils greater accuracy in budgetary processes.

Given the magnitude of losses to be sustained by a number of the municipal councils it would appear more appropriate to implement a phase-in arrangement possibly over a period of five years.

THE END

REFERENCES

Commonwealth Grants Commission (1999) '*Report on the General Revenue Grants Relativities 1999, Volume II, Methods, Assessments and Analysis*'. CanPrint Communications Pty Ltd, Canberra.

RECOMMENDATIONS

Transparency - recommended to move towards a direct assessment approach and investigate:

- the definition of local government services to be taken into account;
- the definition of relevant "populations" for each category; and
- the disability factors to be recognised for each category.

Definition of services - recommended that the methodology maintain an emphasis on "traditional" local government services as reflected in the ABS Government Finance Statistics.

Expenditure

Expenditure categories - the following categories are recommended to reflect general municipal services:

- Administration;
- Service delivery; and
- Roads.

Supplementation of funds - recommended that the NTGC request the Northern Territory Government to investigate options for the extension of Operational Subsidy funding to all councils, based on relative need.

Capital needs - recommended that the methodology continue to concentrate on current expenditure only.

Depreciation - recommended that the consideration of depreciation be deferred until such time as competitive tendering becomes a significant percentage of total council expenditure.

Revenue

Residential rates - recommended that councils able to charge rates are assessed for their rating capacity (using average residential rate charged adjusted according to assessed factors) and other councils assessed on their capacity to levy service charges (adjusted according to assessed factors).

Operational Subsidy - recommended that the effect of the exclusion of the Operational Subsidy in the assessment of grant entitlement be investigated as well as the effect of adding an adjuster factor.

Commercial rates - recommended that the inclusion of commercial rates (for all councils) be investigated.

CDEP - recommended that the use of CDEP funding to employ staff to provide local government services not be included in the assessment of FAG entitlements.

Population
Averaging of population - proposed that the effect of using the actual population figures and dropping the population growth disability factor be investigated. Loss assist would be used to provide the cushioning of funding fluctuations currently provided by the averaging of populations.

Service populations - recommended that inclusion of a "regional service centre" adjuster be investigated to replace the attempts to measure service populations.

Aboriginal residents and visitors - recommended that indigenous residents with English as a second language be counted twice in the assessment of the relevant population for administration categories.

Factors used to reflect additional costs
Recommended that the cost adjusters as detailed in the tables below be investigated, using feedback from councils at the forthcoming workshops.

Expenditure category	Relevant population	Cost adjusters
Administration	Resident population with Aboriginal residents with ESL counted twice	• Isolation • Distributed service delivery
Service delivery	Residents	• Isolation • Socio-economic disadvantage • Regional centre • Distributed service delivery
Roads	Weighted road length	• Isolation • Distributed service delivery

Revenue category	Revenue base	Adjuster
Residential rates and charges	Rateable residential properties	• Valuation - residential • Operational Subsidy
Service charges	Population over 18	• income of residents • socio economic disadvantage
Commercial and industrial rates	Commercial and industrial properties	• valuation - commercial

ATTACHMENT B

SUMMARY OF FUNDING OUTCOMES

NAME	FINAL GRANT 2000-01	CURRENT 2000-01 GRANTS	PERCENT DIFF	PER CAPITA
Aherrenge	66,366	73,480	-11	170
Alice Springs	663,100	924,818	-39	23
Amoonguna	48,165	37,410	22	175
Anmatjere	228,187	154,949	32	158
Aputula	52,604	48,993	7	306
Areyonga	57,380	51,608	10	222
Arltarlpilta	52,825	57,188	-8	218
Ikuntji	53,148	65,987	-24	332
Imanpa	50,312	47,184	6	312
Kaltukatjara	75,967	75,107	1	217
Ltyentye Purte	76,726	62,137	19	134
Ntaria	86,890	69,687	20	145
Nyirripi	70,612	69,309	2	232
Papunya	64,711	60,660	6	197
Tapatjatjaka	52,187	41,663	20	211
Urapuntja	138,084	118,541	14	157
Wallace Rockhole	47,724	40,221	16	298
Walungurru	87,991	85,928	2	196
Watiyawanu	54,482	48,730	11	218
Willowra	78,646	68,402	13	175
Yuelamu	58,433	58,018	1	296
Yuendumu	159,177	123,762	22	159
Ali Curung	70,847	58,409	18	157
Alpurrurulam	90,735	67,227	26	130
Elliott	58,777	36,767	37	98
Tennant Ck	310,401	293,709	5	79
Belyuen	53,142	39,303	26	213
Coomalie	54,055	84,953	-57	35
Cox Peninsula	13,476	13,644	-1	55
Darwin	1,048,843	1,434,182	-37	14
Jabiru	85,057	99,132	-17	45
Kardu Numida	299,128	223,982	25	139
Kunbarllanjaja	204,550	156,494	23	186
Litchfield	218,121	618,320	-183	14
Maningrida	269,001	189,952	29	130
Milikapiti	77,044	60,604	21	161
Minjilang	63,304	55,620	12	253
Nauiyu Nambiyu	79,120	57,743	27	167
Nganmarriyanga	67,671	59,805	12	182
Nguiu	195,749	118,543	39	130
Palmerston	579,937	798,691	-38	27
Peppimenarti	68,263	88,682	-30	310
Pirlangimpi	62,550	49,051	22	187
Warruwi	73,528	64,488	12	196
Angurugu	128,859	80,046	38	136
Galiwinku	245,556	183,431	25	144
Gapuwiyak	157,371	117,014	26	150
Marngarr	52,754	36,193	31	173
Milingimbi	105,391	74,366	29	128
Milyakburra	62,527	66,413	-6	298

Numbulwar	198,707	127,071	36	165
Ramingining	106,274	104,725	1	154
Umbakumba	68,047	66,744	2	138
Yirrkala	115,384	73,345	36	124
Barunga/Manyallaluk	75,352	62,624	17	144
Binjari	50,253	36,439	27	188
Borroloola	90,852	53,810	41	105
Daguragu/Kalkaringi	109,261	70,660	35	149
Gulin Gulin/Weemol	61,533	55,643	10	174
Jilkminggan	47,901	38,664	19	237
Katherine	570,548	497,776	13	51
Lajamanu	152,813	100,743	34	141
Mataranka	50,392	22,316	56	179
Pine Creek	67,747	28,497	58	109
Timber Creek	65,874	47,528	28	269
Walangeri Ngumpinku	74,151	69,094	7	153
Wugularr	70,456	50,421	28	149
Yugul Mangi	220,721	199,094	10	141
TOTALS	9,315,739	9,315,739		

Municipal councils have been highlighted to emphasis per capita allocations. In essence, the municipal council's per capita allocations increase in line with their remoteness, declining land valuation and reduced average personal incomes. This would appear to be a very defensible outcome.

ATTACHMENT C

COMMUNITY PER CAPITA COMPARISONS

COMMUNITY NAME	PER CAPITA ALLOCATION
Litchfield	14
Darwin	14
Alice Springs	23
Palmerston	27
Coomalie	35
Jabiru	45
Katherine	51
Cox Peninsula	55
Tennant Ck	79
Elliott	98
Borroloola	105
Pine Creek	109
Yirrkala	124
Milingimbi	128
Alpurrurulam	130
Maningrida	130
Nguiu	130
Ltyentye Purte	134
Angurugu	136
Umbakumba	138
Kardu Numida	139
Lajamanu	141
Yugul Mangi	141
Barunga/Manyallaluk	144
Galiwinku	144
Ntaria	145
Daguragu/Kalkaringi	149
Wugularr	149
Gapuwiyak	150
Walangeri Ngumpinku	153
Ramingining	154
Urapuntja	157
Ali Curung	157
Anmatjere	158
Yuendumu	159
Milikapiti	161
Numbulwar	165
Nauiyu Nambiyu	167
Aherrenge	170
Marngarr	173

Gulin Gulin/Weemol	174
Willowra	175
Amoonguna	175
Mataranka	179
Nganmarriyanga	182
Kunbarllanjaja	186
Pirlangimpi	187
Binjari	188
Walungurru	196
Warruwi	196
Papunya	197
Tapatjatjaka	211
Belyuen	213
Kaltukatjara	217
Watiyawanu	218
Arltarlpilta	218
Areyonga	222
Nyirripi	232
Jilkminggan	237
Minjilang	253
Timber Creek	269
Yuelamu	296
Milyakburra	298
Wallace Rockhole	298
Aputula	306
Peppimenarti	310
Imanpa	312
Ikuntji	332