

**NORTHERN TERRITORY GRANTS COMMISSION
SUMMARY OF SUBMISSION**

2.1 Population

Should the three- year average be retained?

Darwin

Council supports the retention of the three-year average. This smooths out fluctuations that may be caused by inaccurate data.

Council supports the use of the ABS population figures rather than individual Council estimates. The ABS is the universally recognised authority and if the NTGC or individual councils have some concern with the ABS estimates they should present their case to the ABS

Alice Springs

If there is increased emphasis on use of the Census population and less on local estimated adjustments, than the three-year average should not be necessary. The major population adjustment should be for annual growth. The growth factor should be estimated based on average annual growth rate per annum since the last Census, ie, 0.80% pa for Alice Springs.

Palmerston

Palmerston Council was seriously disadvantaged by the use of the three-year rolling average during its period of high growth in the 1990's. Averaging should be discontinued.

Objective methodology must be established to ensure the use of accurate population estimates. The NTGC should access this information from the ABS and not rely on data presented to it by individual Councils.

Katherine

Council Supports the retention of the three-year average population in line with the use of a five-year average model by the CGC. However, this support is qualified in relation to justifiable population figures used by the NTGC. ABS data should be used and not that provided by individual councils.

Having said that, NTGC must make allowance for “service population” figure which is vastly different from a solely population based figure. This is vitally important in Katherine’s case because the use of Katherine Town Council services by non-residents imposes additional costs on us, for which we are not fully compensated, by the NTGC assessments. Furthermore, use of these services does not contribute to our revenues, as non- residents do not contribute for the services used.

Litchfield

It is doubted whether any one Council is able to provide precise annual population figures for their Council area. In view of this, the use of the three year average population figure would seem an appropriate and reasonable figure to use in calculating the grant allocation as the average figure would have the effect of reducing the impact that either over or under estimating the population in any one year would have.

As population is the major driver in the grant allocation the use of a three year population average also assists in ensuring that variation to grants from year to year will not be as dramatic as if the yearly population figure is used. As advised previously Council regards minimum variation to the annual grant as being beneficial in being able to plan and budget more effectively.

On the question as to what should constitute the population figure there is no doubt that this should include all persons that receive a benefit from or make use of the services provided by the Council.

Having said that, the problem arises as to how this number of persons is enumerated. For example in Litchfield's case the numbers of tourists, fruit pickers and defence force personnel is extremely difficult to obtain. Numerous attempts over the years have been made to obtain tourist numbers from both the NT Tourist Commission and individual tourist facilities with very little success. Defence Force Personnel stationed at Robertson Barracks can vary drastically depending on whether there are exercises in progress. The horticultural industry is a major industry in the Shire that relies on transient fruit pickers. There appears to be no credible figures available for these groups of persons.

The difficulty that Litchfield experiences in arriving at an estimation for these "other groups" which should go into the population estimation leads one to believe that this is a problem experienced by most Councils and as such any credibility of these figures is doubted and probably best if not included in the population estimation for the calculation of the grant allocation. Provided the figures are omitted for all Councils then the effect should be minimal.

The Commission should consider using population figures derived only from the ABS, even though in the past these figures have proven to be understated.

Tennant Creek

Council supports the retention of the three-year average population in line with the use of a five-year average model by the CGC. However there is a requirement for the NTGC to substantiate the population figures used. It is agreed that the ABS data should be used to avoid confusion, but initially the ABS data must be substantiated. Currently the 2001 Census figures for Tennant Creek appear to have a number of inaccuracies related to Aboriginal population, in particular those not living within the Town Camps. The Council is currently seeking a review of the 2001 Census results.

The Aboriginal population is very mobile in centres such as Tennant Creek, especially during the wet season, football matches and other related activities, for which the Council

should be more fully compensated for. As previously discussed, the Council is required to provide services, in some cases at a higher level than it has the capability, for which it is not fully compensated, by the NTGC assessments.

Council supports the inclusion of all categories of tourists and visitors such as temporary residents and intrastate tourists and visitors, the service population of the Barkly, including transient Aborigines and pastoral station residents. These categories of people represent users of council services but make no contributions to the provision of services. It is accepted that these people provide a significant economic benefit to the town. The construction of the Alice Springs to Darwin railway is a recent example of temporary residents in Tennant Creek for which the town received an economic benefit, council services were utilised but there was little opportunity to recover any additional revenue. The NTGC needs to consider all categories of permanent and temporary population.

Coomalie

No comment.

Elliott

No comment

Kaltukatjara

At present population is the major determinant in the calculation and distribution to all Community Councils of the general-purpose component of the financial assistance grants.

This means that the Kaltukatjara Community Council (Aboriginal Corporation) competes with all levels of Councils. In simple terms, the Docker River Council competes with Darwin and Palmerston City Councils and Alice Springs Town Council and all other incorporated Councils within the Northern Territory regardless of the location and status of the Council.

The Kaltukatjara Community Council wish to table this letter outlining why they believe this community should be funded on a needs basis and not on population. The council strongly believes that this council is disadvantaged under the present system where funds are allocated on population averages over 3 to 5 year period.

2.2 Loss Assist Factor

Should the loss assist factor be retained?

Darwin

Council contends that a loss assist factor of not more than 5% should be maintained. All councils rely heavily on the Financial Assistance Grants and any major reduction in any one year would have an impact on service delivery.

Alice Springs

The loss assist factor should be retained, but not so as to offset increases warranted to growth councils at expense of phasing in reductions to those assessed for reduced

funding. Perhaps the factor should be increased from 5% to (say) 10%, and used as one of the final checks for the grant amount to be received by each Council.

Palmerston

Palmerston agrees with this principal and supports retention of a loss assist factor of not less than 5% and not more than 10%. A factor in excess of 10% would not provide the funding certainty required by Council.

Katherine

Council supports retention of the loss assist factor.

Council's General Purpose and Road Grant allocations represent approximately 30% of our revenue estimates and retention of the loss assist factor provides some measure of funding certainty for Council given that advice from the NTGC on funding allocations in any one year is provided well after Council is required to adopt its Business Plan (and Budget Estimates) for that year.

The NTGC in conjunction with the CGC must address this timing issue if all Councils are to have confidence in their budget estimates. To achieve stability and predicability for Councils, no Council's grant should be reduced by more than 5% from the previous year. This will overcome any "volatility" in the grant caused by data and / or methodology changes.

Litchfield

Council sees the 5% loss assist factor that the NTGC uses as being beneficial to local governing bodies in its preparation of its budget and planning service delivery in an efficient means as local governing bodies are assured of the minimum grant that they will receive. For this reason this Council supports the retention of the 5% loss assist factor.

Tennant Creek

Council supports retention of the loss assist factor.

The Council's Federal Assistance and Road Grant allocations represent approximately 27% of our revenue estimates and retention of the loss assist factor provides some measure of funding certainty for Council given that advice from the NTGC on funding allocations in any one year is provided well after Council is required to adopt its Business Plan (and Budget Estimates) for that year.

This timing issue must be addressed to improve Council's preparation of their budget estimates and hopefully in future the NTGC will be able to provide councils with their grant estimates in time for them to be included in their budget preparations. The retention of the loss assist factor at 5% provides stability and predicability for councils and eliminates any "volatility" caused by data and / or methodology changes.

Coomalie

This should be retained to give stability to the budgeting process. Council recognises "stability is the antitheses of equalisation" but believes stability over two or three years is more beneficial than achieving equalisation in a short time frame.

Elliott

No comment.

Kaltukatjara

No comment.

2.3 Equalisation Methodology**Should a particular methodology for assessing equalisation need be used?****Darwin**

Council agrees with your statement that as long as each council's share of the equalisation pool is not distorted the choice of model does not matter. If a change of model brings no additional benefit the model should not be changed.

Palmerston

Does the choice of a model matter? So long as the distribution model does not distort a local government's share of the equalisation pool the choice of model does not matter.

Katherine

Council supports retention of the Balanced Budget Approach Model currently used by NTGC. As stated in the issue paper, if done correctly, it should make no difference which model is used for assessing needs, as both models do not distort a LGB's share of the equalisation pool. It is noted however, that there is scope for improving the Balanced Budget Model.

Litchfield

It is asserted that of the two distribution models viz. the balanced budget and the direct assessment approach, it should make no difference which of the two models are used in assessing need. If that is the case then Council is not perturbed as to which model is used and is probably more in support of continuing with the use of the balanced budget approach as this concept is already generally understood.

However if the CGC is of the view that the use of this model should include an assessment of a Councils surplus/deficit then it may be preferable to use the direct assessment approach as a Councils surplus/deficit may not always be available when the NT Grants Commission is making the grant allocations and furthermore, it would appear that including a Councils deficit in the assessment would seem to be rewarding inefficiency and could lead to deliberate overspending by some Local government bodies so as to increase the grant allocation.

It has been reported that South Australia promotes the use of the direct assessment approach because that State believes that it is an easier concept to be understood. If that is the case and the CGC expects surplus/deficits to be incorporated in the assessment of overall levels of disadvantage in the balanced budget model then converting to the direct assessment model may be the preferred option and should be considered.

Tennant Creek

Council supports retention of the Balanced Budget Approach Model currently used by NTGC.

Coomalie

No comment

Elliott

No comment.

Kaltukatjara

No comment.

2.4 Scope of Equalisation

Is there a need for the NTGC to assess more revenue and expenditure streams than are currently assessed?

Darwin

There does not appear to be a well understood reason why only certain categories are currently included. Councils provide services and facilities in response to community demands and it makes sense to include all Council's income and expenditure (including capital) in its scope. One new responsibility for Council has been caused by the repeal of the Hawkers Act. There are also a number of Territory acts and regulations, which could see responsibility transferred to local government, eg. Public Health Act review and noise regulations. Additional costs in undertaking these responsibilities are not always offset by increased income. Additionally, fees set by NT Legislation for mandatory functions of local government do not reflect cost of service provision eg. Cost of licence is \$2 - \$4 compared to inspection costs of approximately \$60 per visit.

Alice Springs

- (i) Increasing the scope of equalization should recognize all functions of local government. The Alice Springs Town Council expends approximately 15.6% of its 2002/3 cash budget in capital items. This is legitimate expenditure, occurs every year, and is necessary to support infrastructure used for delivery of municipal services.

The above comment has been recognized, by deducting from the standardised revenue funds raised by the municipality. This approach also avoids necessity to make distinctions between capital and maintenance.

- (ii) It appears that the ABS figures for Total Local Government Income and Expenditure (ABS Publication 5502.7.55.001), is based on accrual accounting concepts and includes total revenues (excluding loans) and expenditures. Extending equalization to include all incomes and expenditures, would be consistent with the above approach, and recognizes all of the functions provided by local government.

(iii) Loans should be excluded from income because there is a liability to repay borrowed funds. Other financing transactions should be excluded because they are internal transactions; these include transfers to/from reserves.

The ABS figures referred to above are stated by NTGC as not containing depreciation. It is considered that if capital transactions are included in equalization, that depreciation should not. This would avoid potential double counting, and reliance on depreciation estimates made by individual councils. The level of capital expenditure is a public policy issue, and if capital replacement does not keep up with depreciation of assets, then that also is a public policy issue for the municipality. The exclusion of depreciation from equalization simplifies assessment.

Palmerston

It is not clear to Council why the "Balanced Budget" approach omits some functions. Surely the distinction between this approach and the direct assessment approach is that not all functions may be caught by direct assessment. Council would wish to ensure that the standard functions of municipal Councils such as

- storm-water drainage
- street lighting
- dog control
- waste management

are assessed from the perspective of expenditure needs.

Consideration should be given to a methodology based on the thirteen core functions of Councils mandated in the recently adopted Accounting Code.

Council does not support the addition of specific expenditure categories relating to combating literacy or providing education in citizenship for remote communities.

Katherine

Council believes that if the Balanced Budget Model is used in Equalisation Methodology, then all local government functions should be in the Model. If this were not the case, then the Direct Assessment Model may be better as an Equalisation Methodology. The 13 core functions of a local government body, as detailed in the new Accounting Code, may be appropriate for inclusion in the assessment model.

Litchfield

The Local Government Act sets out the functions that Local Government bodies can undertake. The expenditure and income associated with these functions should be that used by the NTGC. Expenditure and income that local government bodies make and receive from responsibilities that they take on that do not form part of the functions within the Local Government Act should not be used by the NTGC.

Tennant Creek

In supporting the retention of the Balanced Budget Model as part of the Equalisation Methodology, Council is of the view that all Local Government functions should be in the model.

Coomalie

Methodology should recognise any revenue stream relevant to any disability claimed including grant revenue from other sources for that disability.

Elliott

Expenditure – The provision of services on behalf of other government agencies increases operational costs, especially in the administrative area. Council provides a free accounting and audit service, and also absorbs many other costs. Council also provides administrative services to help residents with poor language and literacy skills.

Revenue – Without the introduction of a shire based local government system, the revenue base of councils will be increasingly difficult to sustain. This council is not able to charge rates to recoup the costs of providing community services. The subsidies provided by council to Parks and Gardens, garbage management and sport and recreational amounts to \$163k, which is 70% of its Operational subsidy. Council collects \$52k per annum in services charges. This council does not have any revenue raising options, other than those that are currently implemented.

Kaltukatjara

No comment

2.5 Revenue Raising Capacity

How should revenue capacity be assessed?

How many categories of revenue should be assessed?

Darwin

As there is a large variation in rating effort in the NT the use of personal income statistics appears to be the most appropriate method. It would appear warranted to use area/municipality specific data rather than Territory averages, to better acknowledge revenue raising capacity of the council. Council does not understand the reason why only 50% of the operational subsidy is included in the calculation rather than 100%.

As discussed in 2.4 it is considered that all categories of income and expenditure should be included in the assessment.

Alice Springs

The use of personal income from the Census is presently used to estimate the revenue earning capacity of the municipality, when multiplied by the population base over 15 years of age. It would appear warranted to use area/municipality specific data rather than Territory averages, to better acknowledge revenue raising capacity of the municipality. It

follows that a wealthier area should be assessed with a higher capacity to raise revenue, and therefore would have a lower standardized deficit.

The above method can be universally applied throughout the Territory, and supports the principal of horizontal equalization

Palmerston

Council disputes the validity of the current approach to assessing revenue raising capacity. Personal income statistics exclude income earned by corporations which contribute significantly to community wealth and overlook the existence of communities that are asset rich and income poor.

Poorer communities also tend to get additional support from the Federal and Territory Governments (eg Health programs and welfare services).

Non rate revenue are increasingly important source of revenue for local governments and should be included eg parking fees, airport charges.

Commercial rates should be excluded until such time as the revenue model across the Northern Territory can be based on rates (as against average earnings) as this would distort the current methodology. Garbage charges should be excluded from revenue consideration given the revenue neutral requirements of the recently introduced Accounting Code.

Katherine

The use of personal income statistics in the assessment of revenue capacity is as a result of the extremes of LGBs in the Territory and the fact that Community Councils mostly do not rate. ABS per capita income figures are not an “exact science” and are based purely on unaudited and unsubstantiated figures by respondents to ABS surveys. A revenue model based on rates (at least for Municipal Councils) should be an objective as this data is factual. Once again, a two-tiered approach to modelling based on Municipal Councils and Community Councils may be worthy of consideration. However, this has inherent problems, as it would require a direct link between the models to determine FAG allocations or, Municipal pool and Community pool within the total FAG Commonwealth allocation would need to be determined if this approach was followed. Division of the pools based on per capita figures may be an option.

Council is also of the view that current data does not adequately take into account the relative efficiency and effectiveness of revenue raised. This means there is no encouragement through the grant funding process to improve efficiency and effectiveness or indeed to demonstrate effective utilisation of grant funding.

In suggesting a revenue model based on rates for Municipal Councils, caution must be shown as this is a model not based on “ability to pay” because rate revenue is based on unimproved capital value of land and takes no account of the values of the improvements on the land (and by implication the ability of the ratepayer to pay rates).

A further issue is that because the current methodology is quite complex, transparency might not be achieved. In addition, there is an increased risk of inappropriate comparisons between disparate local authorities.

Litchfield

While the CGC has identified a number of methods of assessing revenue capacity not all these methods can be applied satisfactorily to all Councils throughout the Territory. The existing NTGC method of calculating revenue raising capacity by the use of personal income statistics and the application of the operational subsidy (where applicable) should continue to be used however an explanation of the quantum of the operational subsidy included is required.

While it is assumed that the inclusion of the Operational Subsidy is to some extent to replace the lack of personal income statistics for some Council areas the validity of the quantum used (50%) needs to be assessed and justified.

The CGC states that other revenue streams be assessed in arriving at Local Government's revenue raising capacity. They suggest that this could be assessed at the state level and then applied to each Local Governing Body.

Many of the revenue types outlined in the issues paper do not apply to all Councils, hence applying a method based upon this philosophy may not be seen to be fair to all Councils. The need to consider differences in capacities if this method of revenue capacity assessment is used may result in the use of subjective decisions on the part of the NTGC which would lead to loss of confidence in the methodology and the grant allocation.

Tennant Creek

Council considers that this is a complex issue requiring further in depth consideration and it recognises the need to develop an equitable system for the calculation of income for Community Councils who do not apply rates.

Council has no specific issues related to Municipal Councils and the use of rates as the basis for calculating revenue. An issue to be considered is the differing abilities of councils to raise income other than through rates. This applies specifically to a small council such as Tennant Creek, where the balance of income is from grants.

A major issue with rates for Tennant Creek is that they are the highest of all the Municipal Councils and the services offered are the basic requirements of the Local Government Act. This is compounded by the lack of growth in the town, the poor economic position and the high reliance on Social Security payments of the community and the need to meet increasing costs without reducing service levels.

In the development of alternative revenue assessment methodologies it is important that transparency is maintained and that the risk of inappropriate comparisons between disparate local authorities is minimised.

Coomalie

No comment

Elliott

No comment

Kaltukatjara

No comment.

2.6 Other Grant Support**Is there a need to include all grants and subsidies in the revenue assessment?****Darwin**

It has been noted above that all grant support should be included. This should occur in the context of recognising all incomes and expenditures.

Alice Springs

It has been noted above that all grant support should be acknowledged. This should occur in the context of recognizing all incomes and expenditures, and relating to the ABS figures for Territory local government income and expenditure. The ABS publication refers to financial outlays, revenue, financial assets and liabilities and to total revenue and total expenditure.

It has been assumed from these statements that capital transactions are included, and should be applied to this methodology, as noted above.

Palmerston

Other relevant grant support provided to local governments to meet any expenditure needs should be taken into account. Council understands that this principal established by the Commonwealth Grants Commission has not been consistently applied by the NTGC e.g. in relation to the Northern Territory Operational Subsidy. One hundred percent of these Operational Subsidies should be included. The road grant component of FAGs, allocated by the Commission is a general-purpose grant and should be excluded.

Special purpose grants that increase a Councils revenue to fund normal local government expenditure needs should be included. Subsidies should be included except in relation to Libraries and other functions undertaken by Councils for the Northern Territory Government and on agency basis.

Katherine

Council is of the view that other relevant grant support provided to LGBs to meet any of the expenditure needs assessed should be taken into account using an inclusion approach and this includes ATSI funding provided to Community Councils to undertake local government functions. Also, this is particularly so with NT operational subsidies provided to Community Councils only being assessed at 50%. The full amount of the subsidy (100%) should be included in the revenue model. However, Council would be concerned if FAG were to become a disincentive for LGBs to seek out alternative funding opportunities, particularly tied grants targeted to specific outcomes.

Litchfield

If the intent of the review is to accord with the stated principles within the Act then the NTGC should include all general-purpose grants including the minimum per capita grant. Special purpose and Capital Grants however, should not be included in the calculation as it would result in reduced FAGS grants, which in turn would lead local government bodies bidding for higher Special Purpose and Capital Grants to allow for the loss of the FAGS Grant and thereby negating the effect.

If the NT Operational subsidy is to continue to apply only to some local council bodies then the NTGC needs to research the justification of why only 50% of this subsidy should be included in the calculation. It may be that the inclusion of 100% of the subsidy may be the appropriate and fair amount to be included.

Tennant Creek

Council is of the view that other relevant grant support provided to LGBs to meet any of the expenditure needs assessed should be taken into account.

Coomalie

No comment

Elliott

No comment

Kaltukatjara

No comment.

2.7 Expenditure Standards

The use of State averages or regressions for assessing expenditure needs?

How many categories of expenditure should be assessed?

Darwin

Council would agree with using actual expenditures rather than state averages. This will then give a more realistic standard for each council.

As mentioned earlier all income and expenditure should be included. It should follow that all categories of expenditure should be assessed.

Alice Springs

- (i) Ignore categories for amenities, general administration, human services, and recreation, because for most councils they would all have the same distribution factor.
- (ii) Libraries and roads possess different distribution factors. Only three service categories are required – general services, libraries, and roads.

- (iii) The standardized expenditure is determined for each Council at the Territory level for each category, less all grants received. This is consistent with current practice.
- (iv) There should be no adjustment made to only deduct (say) 50% of some grants (ie- operational subsidy for community councils). There is also no need to apportion road grants between maintenance and capital.
- (v) The inclusion of both capital and operating transactions in the formula terms means that all service functions of the Council have been recognized. It also recognizes that relative income/expenditure is a function of service standards and public policy for each council.
- (vi) It is not necessary to consider depreciation in the Balanced Budget Approach, because income used to fund capital works has been recognised in the standardised revenue. The extent to which depreciation is recognised by raising funding for capital replacement, is a public policy issue for the Council.
- (vii) Grants should only be recognised when expended. Details of grants received, applied, and unexpended are reported by all councils in their annual financial statements.

Palmerston

The methodology adopted should avoid distortion.

Katherine

Council has no particular preference regarding approaches to assessing expenditure and any methodology adopted should not distort outcomes. Council believes the NTGC should focus on assessment categories in its methodology that contribute most significantly to the differences between the fiscal capacities of Councils.

Factors that:

- do not make a significant difference to the grant outcome;
- use data that is not readily available;
- further complicate the model and limit its transparency;

should not be used.

Litchfield

On the question of the number of expenditure categories that should be used, the NTGC presently uses 6. Previously NTGC used 14 and the incomplete review that was commenced in 1999 was suggesting 3, viz. Administration, Service Delivery and Roads. Obviously the fewer the categories the simpler the methodology will be to understand however the critical point would seem to be not so much the number of expenditure categories but what makes up each category. There needs to be a standardisation of the make up of each category so that all Councils expenses are categorised similarly.

The present NTGC methodology uses a predetermined share of expenditure against each category viz.

Amenity (20% of total expenditure)
General Administration (24%)
Human Services (11%)
Libraries (4%)
Recreational (21%)
Transport ie. roads (20%)

The percentage share of total expenditure attributed to each category needs to be reviewed to reflect more closely that of present day data.

Provided that overall expenditure can be adequately captured in fewer expenditure categories Council would support the reduction in categories to assist in the simplification of the methodology.

Tennant Creek

Council has no particular preference regarding approaches to assessing expenditure, although the Council is of the view that the Local Government functions provide a good basis for the assessment categories.

Coomalie

Additional expenditure categories could be included. However the increase in accuracy would not warrant the increase in complexity. Given that an increase in grant to one council means a decrease to another, the net benefit to local government should be assessed before expanding the data collection onus.

Elliott

No comment

Kaltukatjara

No comment.

2.8 Assessment of Capital Needs

How might the Commission assess the capital needs of local government?

Darwin

Taking into account all capital income and expenditure will go some way to assessing this need. Although this wouldn't acknowledge any backlog of needs at least an acknowledgment of yearly capital expenditure would occur.

Alice Springs

Refer notes 2, 3, 7, and 9.

Palmerston

Restricting needs assessment to recurrent needs is sensible given

- the difficulties of measuring capital need
- the finite quantum of funds available for equalisation purposes.

However, Councils such as Palmerston require new infrastructure and facilities to cope with the demands of a growing community. Increasing the value of the growth factor should be considered?

Katherine

Council is of the opinion that the existing methodology has the potential to leave the assessment model imbalance because capital outlays can vary from year to year both in purpose and between Councils and the fact that capital is financed from sources other than rates and charges.

Council believes the use of depreciation in the methodology will annualise the average capital expenditure by all Councils and assess each Council's "capital" need by applying the Territory average depreciation expense to each Council's circumstances.

Litchfield

Council concurs that there are difficulties in assessing the capital needs of individual local government bodies and as such at this stage in time, should not be included in the methodology.

Tennant Creek

Capital expenditure is generally for one off projects and there is an imbalance since capital outlays can vary from year to year both in purpose and between Councils and the fact that capital is financed from sources other than rates and charges. In the majority of cases capital needs are funded from other grants, unless a council has created a reserve for a project.

Council supports the principle that capital needs be excluded from the NTGC assessment. Council has no comment on the issue of depreciation.

Coomalie

Capital needs are important as operating needs, perhaps more so considering the aging status of assets in local government generally. However, given the pool of money is insufficient for operating expense equalisation, including capital would produce little benefit. For a specific exception to this refer historical subdivisions. (Many councils have subdivisions approved before the requirement for development contributions becomes legislation. These can be activated at short notice without reference to council and the council has to provide the services. There should be an expenditure category for this, only relevant when the subdivision is activated, not on an annual basis.)

If you assume capital needs are directly related to the size of the population, then the minimum grant, which is based on population, could be considered to be the capital

component. If capital needs are not to be included, then depreciation should be excluded from the expenditure calculation. Some states make capital grants for infrastructure, these vary from state to state but enable the state to encourage development in accordance with the state plan. Incorporating a capital component in Grants Commission methodology may interfere with the planning process at the state level.

Elliott

The Elliott District CG Council is heading towards a desperate situation in regards to the replacement of capital items. Council's assets are depreciating at rate of \$ over \$310k per annum, with capital grants averaging 50k per annum. As assets age R & M becomes an ever increasing cost.

2.9 Disability Factors

Are the commission's disability factors effective in recognising the different circumstances of each local government?

Should there be more or less disability factors?

Should the Commission use factors above and below one?

Darwin

Council considered that the disability factors should be expanded to give a more accurate picture. Issues such as capital cities and regional areas need to be taken into account. It is suggested that a project should be undertaken by the NTGC to look at broadening the disability factors.

Council approves of the disability factors being centred around 1.0.

Alice Springs

- (i) The NTC currently uses disability or cost adjusters for;
 - Isolation – administration (Seeks to measure the effects on administration costs due to isolation from [in effect] Darwin.)
 - Isolation – works (Seeks to measure the effects on works costs due to isolation from [in effect] Darwin.)
 - Dispersion (Seeks to measure the effects on costs due to population dispersion.)
 - Aboriginality (Seeks to measure the effects on costs due to indigenous population issues.)
 - Growth (Seeks to measure the effects on costs due to population growth in excess of 1.40% pa, otherwise the factor will always be 1.00)
- (ii) The need for disability factors is questioned. If a disability exists, it will be recognised by the council to the extent of actual expenditure incurred. If no expenditure was to occur in relation to a function, then no disability exists.
- (iii) Establishment of an isolation disability by reference to Darwin based service costs is difficult because of disparity between economic scale and distance from the capital city. The Commission should indicate how the disability factor is determined.

Use of the isolation factor is an illustration of the unique circumstances faced by the Northern Territory - it would be particularly unfair to exclude Councils such as Palmerston from benefiting from this factor on the grounds of its proximity to Darwin when - from a national perspective - Palmerston and Darwin would classify as remote communities (ie Communities disadvantaged by high transport costs and distances from major population centres).

Growth should be applied to all expenditure categories (current and proposed). In particular it should be applied to administration and reflect the additional burdens of strategic planning and community consultation in fast growing communities.

Katherine

Council believes that further consideration must be given to Councils that act as regional centres in calculating the disability factor. The solution in Council's view is to include specific disability factors recognising the additional burden regional centres have placed upon them in providing services for example, regional service provision, library access, traffic across boundaries, regional environmental impacts and population concentration.

Council has no specific comment on the use of factors above and below one.

Regarding the word "aboriginality" as a disability factor, Council is of the view that such a factor should be discontinued because it is not only offensive to aboriginal people, but also discriminative to non-aboriginal people.

Litchfield

The application of disability factors or cost adjustors in the grant calculation is one area where criticism can be levied against the NTGC because there appears to be inadequate explanation as to the value of the disability factors used. Disability factors can have a major impact on the quantum of the grant that a local body receives and hence the derivation of the disability factors needs to be adequately explained.

The Council is not perturbed as to whether the NTGC uses disability factors which are calculated around 1.0 or greater than 1.0 and nor whether the disability factors are added or multiplied together to obtain the final result. Although the application of disability factors centred around 1.0 would appear to disadvantage those Council which may have a relative need less than average. Council prefers the present system of disability factors where 1.0 is the neutral position and only disability factors greater than 1.0 results in an advantage.

The CGC implies that there should be a standardisation of how the disability factors are framed and applied through out the States and Territories and hence the NTGC should adopt a similar approach to that of the other states. This should be of little concern to the NTGC unless a standardised methodology to the grant allocation is applied Australia wide. As this is not the case, then the NTGC should not be deterred from framing and applying disability factors as it sees fit.

The NTGC should be more concerned about applying the disability factors in a consistent manner so that no one Council is disadvantaged by what in some cases appears to be purely subjective judgement in the derivation of the disability factors.

The NTGC presently uses five disability factors viz. Isolation (Admin), Isolation (Works), Dispersion, Aboriginality and Growth and this is seen as adequate to represent Councils disadvantages.

On the question of the Aboriginality disability factor, however it is doubted whether this should apply to Councils across the board purely because some component of the population is aboriginal. In the main, Councils which have a high aboriginal make up are isolated from the major urban areas and as such it may be possible to represent this disability within the isolation disability factor thereby also doing away with the need of using an aboriginality disability factor which has been reported to be offensive to some.

Tennant Creek

The Tennant Creek Town Council is the smallest and most remote of the Municipal Councils and it reflects the major aspects of a Community Council through its remoteness, high Aboriginal population, low economic position of the community, high reliance on Social Security for income and the lack of ability to raise alternative income other than through grants. As the revenue from rates and FAG is required to deliver the Council's service requirements, the Council is dependent upon Special Purpose Grants (SPG) to upgrade essential equipment to maintain service delivery.

The Council is also exposed to additional costs, an example of which is the high extra transport cost just from Alice Springs and the cost of recruiting, training and retaining qualified staff. A current example is the pressure the Council is under from the ASU to compare the remoteness of Tennant Creek with that of Jabiru.

When Council recently employed contractors to complete the Roads to Recovery work, there was a one off establishment fee to be paid due to isolation, both administratively and for the completion of the works.

Council considers that the Aboriginality factor must be retained, even though it may have an offensive connotation with Aboriginal people. As an example, the Council is required to utilise additional resources to maintain the cleanliness of the town due to the high level of broken glass and other litter, especially after ceremonies and royalty payments. In approaching Aborigines to follow Council By-laws, for example dog registrations, they do not see the need to comply and Council has to utilise additional resources to work with the relevant Aboriginal organisation. Their inherent culture and higher needs level places increased pressure on the Council's services, which must be allowed for.

In considering transient population, such that Tennant Creek is a regional centre for the Barkly, an alternative to consider would be the application of an additional disability factor.

Council is of the view that there is a need to review disability factors as a separate discussion and workshop with councils due to their sensitivity and differing impacts on

different councils. This is particularly so with their application to the different areas of local government expenditure and impact on councils.

Council has no specific comment on the use of factors above and below one.

Coomalie

No comment

Elliott

No comment

Kaltukatjara

No comment

2.10 The Balanced Budget

Should the Commission's methodology include a Budget Result Term

Darwin

Council supports the inclusion of a budget result as it is close to the reality of how Councils operate.

Alice Springs

Support continued use.

Standardised Deficit = Standardised Revenue less Standardised Expenditure.

Palmerston

A cautious approach needs to be adopted towards the 'balanced budget' approach given the use of reserve funds (which can distort the operating surplus/deficit).

Developer contributions would be a particular issue in the case of Palmerston and should be omitted if this approach is adopted.

Katherine

As this is a complex area of the methodology, Council supports the use of the Budget Result term if only for consistency of the model with other Local Government Grants Commissions and as recommended by the CGC.

Depreciation should be included in any assessment of operating surplus/deficit if this approach is adopted.

Litchfield

It has been reported that South Australia promotes the use of the direct assessment approach because that State believes that it is an easier concept to be understood. If that is the case and the CGC expects surplus/deficits to be incorporated in the assessment of overall levels of disadvantage in the balanced budget model then converting to the direct assessment model may be the preferred option and should be considered.

Tennant Creek

Council agrees that this is a complex area of the methodology and supports the use of the Budget Result term if only for consistency of the model

Coomalie

No comment

Elliott

No comment

Kaltukatjara

No comment

2.11 Factoring Back Method**When the assessed level of need is greater than the available funds how should the final distribution be made?****Darwin**

Council supports the current methodology of councils receiving the same percentage share of their equalisation requirement.

Alice Springs

No comment

Palmerston

Palmerston believes pro-rata allocation based on needs is appropriate.

Katherine

Council supports the current methodology of the NTGC that being a pro-rata allocation of their equalisation requirement.

Litchfield

Council accepts that unless the amount of funds available to the NTGC is increased, then the assessed level of need will be greater than the available funds.

The NTGC should continue to use its present system of factoring back the grant.

Tennant Creek

Council supports the current methodology of the NTGC that being a pro-rata allocation of their equalisation requirement.

Coomalie

No comment

Elliott

No comment

Kaltukatjara

No comment

2.12 Options to Provide Stability of Grant Outcomes
How important is the stability of grant allocations over time?

Darwin

If a loss assist factor of no greater than 5% is maintained, reasonable stability should be achieved.

Alice Springs

No comment

Palmerston

This is an important consideration for local government generally. Palmerston supports retention of a 5 - 10% loss assist factor notwithstanding the difficulty this causes in relation to the equalisation aspect.

Katherine

Council supports improved stability and predicability of grant outcomes from a budget and strategic planning perspective even though this principle is at odds with the principle of equalisation. Council is of the view that as long as the methodology does not become inflexible and unresponsive to changed grant funding needs then improvements in stability are to be encouraged. The simple fact is that where there is a reduction in Council FAG funding for whatever reason, there is a commensurate reduction in the level of service provided by the Council. Where Council is operating effectively and efficiently in delivery of outcomes to its community a reduction in FAG funding would seem inequitable.

Reduction in grants to Councils where grants represent a significant proportion of revenue can be a major problem. This is exacerbated by the timing of the announcement of the grants, immediately after Councils have finalised their budgets and the NTGC must ensure that preliminary advice on allocations is forthcoming.

The NTGC has introduced a range of methodological techniques to reduce volatility in grant allocations to individual Councils, such as data averaging and use of the Loss Assist factor, and Council supports the NTGC in these techniques. However, the grants should reflect long term movements rather than short term fluctuations.

Litchfield

While Council understands that stability of grant allocation works against the attainment of horizontal equalisation, it regards stability as being a very important aspect of the grant

allocation process and as such Council supports the retention of the 5% maximum grant loss in any one year.

Tennant Creek

Council supports improved stability and predicability of grant outcomes from a budget and strategic planning perspective even though this principle is at odds with the principle of equalisation. Retention of the Loss Assist Factor at 5% is an insurance to the maintenance of grant stability.

It is essential that the NTGC provide councils with preliminary advice on their grant allocations prior to councils finalising their budgets and that grants should reflect long term movements rather than short term fluctuations.

Coomalie, Elliott and Kaltukatjara

No comment

2.13 Implementation and Phase-in of Changes

If the implementation of changes in methodology arising from this review bring about significant changes in grant entitlement, how might these changes be phased in?

Darwin

Phase in should be over five years with a loss assist factor of 5%.

Alice Springs

No comment

Palmerston

Changes should be introduced as soon as a new methodology has been agreed and implemented having regard to a 5 - 10% loss assist factor except in exceptional circumstances in which case changes should be negotiated with the affected Council(s).

Katherine

As the grant allocation may change significantly for some Councils, the NTGC must phase in the new grant levels over a period of five (5) years. Such phasing in must be done in accordance with the Loss Assist factor of no more than 5% loss in grant allocation from the previous year. If after five (5) years, any particular Council has not reached its level of new grant funding by a maximum of 5% drop each year then the NTGC should negotiate any further changes with the affected Council(s). To assist with their forward planning, all Councils should be provided with an indicative estimate of their grant allocations on at least a rolling three year basis based on available current data. It is recognised that these estimates may be subject to change.

Litchfield

It is inevitable that some changes to the methodology will result from this review and it is expected that such changes will impact more severely on Municipal Councils. As mentioned previously, Council sees stability in the grant allocation as being of utmost

importance and as such any changes should be phased in such that loss of grant to Councils should be restricted to 5% per annum.

Tennant Creek

As the grant allocation may change significantly for some Councils, the NTGC must phase in the new grant levels over a period of five (5) years. Such phasing in must be done in accordance with the Loss Assist factor of no more than 5% loss in grant allocation from the previous year. If after five (5) years, any particular Council has not reached its level of new grant funding by a maximum of 5% drop each year then the NTGC should negotiate any further changes with the affected Council(s). To assist with their forward planning, all Councils should be provided with an indicative estimate of their grant allocations on at least a rolling three year basis based on available current data. It is recognised that these estimates may be subject to change.

Coomalie, Elliott & Kaltukatjara

No comment

2.14 Improving Accountability

What steps could the Commission take to increase its transparency and accountability?

Darwin

All assumptions, statistics and calculations should be given to Councils on announcement of their estimated entitlements.

Alice Springs

No comment

Palmerston

Transparency and accountability are important. Council accepts that no methodology is likely to address all of the issues and that there is a role for the Commissioners to use their judgement. However, the impact of any discretionary intervention should be made explicit by publication of the following:

Hypothetical Grant calculated in accord with methodology

1. Actual grant adjusted to reflect special circumstances
2. Variation

That is, the black box should be eliminated and the Commission should be accountable for its intervention.

Katherine

The operation of the NTGC, or for that matter, the CGC, are not well understood. The NTGC makes some effort to explain the basis of its methodology and to operate in a transparent way. Information is distributed and readily available however, the requirements of the Act and methodology involve a significant amount of technical

analysis and computation, which is difficult to communicate simply. In the absence of a completely revamped basis for grant determination, it is not obvious what more can be done to facilitate a greater understanding.

The general basis for the grant calculations are mostly understood by Councils. However, there is little understanding of the significance of various methodological alternatives, eg balanced budget versus direct assessment. Where there are attempts to canvas these matters with Councils, the usual response is that each Council wants to know how it will impact on their own grant.

There are times when the NTGC uses its discretion and judgement in determining the grant allocation because the methodology does not take account of “all things” in its assessment. Where such discretion is used by the Commissioners, they must account for such intervention.

Council believes that advice on its actual grant received and assessed grant based on need should be made available. This will allow Councils to see the variation because their needs cannot be fully funded from the available pool. Such advice would assist Council to lobby for a greater share of Commonwealth assistance as we are continually told by the NTGC that they have no influence over the size of the “pie”.

Litchfield

Transparency and accountability are important pre-requisites as it enables Councils to have confidence in the Commissions ability to allocate grants in a fair and equitable manner.

In order for the Commission to increased its transparency and accountability it should:-

- a) Continue to produce and make available to Councils an annual Report (which is improving every year).
- b) Undertake periodic workshops to assist Councils in understanding the methodology especially when changes are made, and
- c) Provide each Council with the calculation that shows how its Councils grant was arrived at, along with explanation for the Value of disability factors used.

When the Commission has finished the review Council would like the Commission to hold workshops to explain any changes to the methodology and provide a listing of all Councils grant allocations derived under the present and new methodologies. This would enable Councils to be aware of the likely impact they can expect once the new methodology comes into operation.

Tennant Creek

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Coomalie, Elliott & Kaltukatjara

No comment

Other Issues Raised in the Submissions

Capital Cities

Palmerston

Darwin as a Capital City is likely to have a much bigger impact on FAG’s equalisation grants than occurs in any other jurisdiction ie. the funds available to other Councils are much reduced.

Consideration should be given to an assessment of alternative treatment for the city of Darwin.

Audit Of Data

Palmerston

Concern is expressed at the quality of data supplied to the Commission.

Data should be verifiable. This is particularly so in relation to population data. The Commission should rely on ABS data for this purpose.

It appears from material presented by Commission staff that there has been double counting of some population groups by some Councils with potentially significant impact on the quantum of funds available for distribution. The Commission is asked to investigate this and take remedial action to ensure that Councils do not benefit unfairly from the use of incorrect data.

Failure to Submit Returns

Palmerston

Councils that fail to submit a required return on time should not be eligible for a grant for the appropriate financial year.

Treatment of Municipal Councils

Palmerston

Clearly the NTGC faces a difficult challenge in trying to balance the competing needs of the larger municipal councils (within whose boundaries reside most of the population of the Northern Territory) with those of the community councils (whose relative isolation and social needs are self evident).

Equally however it is clear that the municipal councils of the Northern Territory are grossly disadvantaged compared to councils interstate. For example if the per capita FAGs grants of three communities are compared:

Broome WA \$168.99 per capita

Blue Mountains NSW \$63.06 per capita

Palmerston NT \$41.06 per capita

It will be seen that the level of equalisation grants received by Palmerston falls well below that of the other two communities.

The reasons for this are well known to the Commission and this Council understands the Federal legislative framework, which dictates this process.

However because of the impact of the Federal framework it is important that the NTGC not follow slavishly the methodology adopted by other states but recognises the considerable disadvantage faced by the municipal Councils in the northern Territory compared to comparable communities interstate.

Joint Municipal Submission (other than Tennant Creek & Jabiru)

These are six principles which the Municipal Councils want adopted by the Commission:

Transparency : The methodology used by the Commission should be transparent. Any changes to grants made at the discretion of the Commissioners should be identifiable.

Comment : No methodology will be perfect and it is acknowledge that the Commissioners will need to exercise their discretion when special circumstances warrant. However the quantum of any changes to grants made as a result of the exercise of the Commission's discretionary powers should be made explicit.

Certainty : Preliminary advice of the likely quantum of grants should be made available to Council for use during budget preparation.

Comment : There has been a suggestion that this will not occur in future and the Commissioners are asked to ensure that the status quo is maintained.

Stability : A loss assist factor of not less than 5% and not more than 10% should be maintained.

Comment : Whilst retention of loss assist factor is contrary to the principle of equalisation stabilising of funding is important for all Councils.

Data : Data should be accessed from independent sources such as the ABS. Where this is not possible the Commission should verify data collection by way of periodic audits. The most upto date data should be used.

Comment : To maintain high levels of confidence in the Grants Commission data supplied by Councils should be independently verified on a periodic basis eg road length, population, aboriginality etc.

Territory Factor : The unique circumstances of the Northern Territory should be recognised.

Comment : The methodology should recognise the unique circumstances of the Northern Territory in that all NT Councils are remote and geographically disadvantaged. This is not the case in any other jurisdiction. Application of strict equalisation principles would significantly disadvantage a majority of Northern Territory residents by reducing funding for Councils which – whilst better off in a

Territory context – are seriously disadvantaged if viewed from a National perspective.

Given this Territory Factor there should be a greater proportion of available funds allocated on a per capita basis.

Consistency : The recognition of all income and expenditure, including capital grants, but excluding loans should be applied for the purpose of consistency.

Comment: The current method doesn't include all income and expenditure and accordingly there is the opportunity for inconsistency in the way in which Councils are dealt with.