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LOCAL GOVERNMENT SERVICES

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FACSIMILE MESSAGE

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Attached please find the Queensland Local Government Grants Commission response to the discussion paper – At the Crossroads.

Regards

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House of representatives Standing Committee on Economics, Finance and Public Administration	
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Secretary:



Local Government
Grants Commission
Queensland Government

30 May 2003

Mr David Hawker MP
Chair
Standing Committee on Economics, Finance and Public Administration
House of Representatives
Parliament House
CANBERRA ACT 2601

Dear Mr Hawker

Queensland Local Government Grants Commission response to the discussion paper – *At the Crossroads*.

I refer to the recently released discussion paper on the Cost Shifting Inquiry – “At the Crossroads”.

I note that in the options provided at the end of the document, there are references to the distribution of the Commonwealth Financial Assistance Grant to local governing bodies.

Before I provide comment on the options presented, I would like to briefly describe the activities of the Queensland Local Government Grants Commission.

The Queensland Local Government Grants Commission (Commission) is an independent body established under the *Local Government Act (1993)*. Its mandate is to recommend distribution of the Financial Assistance Grant within Queensland according to the National Principles set by the Commonwealth, including the principle of horizontal fiscal equalisation.

The Commission is comprised of six members, with a mix of members from urban, mid-sized, rural and indigenous councils. The knowledge and experience of these members of the Commission is applied when determining what factors influence the ability of a council to raise revenue and to provide services.

The Commission is supported by three staff, an Executive Officer and two research officers. These officers provide administrative support to the Commission as well as collecting all relevant information, liaising with councils, performing the distribution calculations and keeping up to date with issues that are affecting local government within Queensland. All resourcing is provided at the expense of the Queensland Department of Local Government and Planning.

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For 2003/04, the Commission will be using a revised methodology to recommend the distribution of the Financial Assistance Grant within the State. While the previous methodology met the National Principles, some of the data used are no longer available, adding to the necessity for a review of the methodology. The Commission also took the opportunity to consider and incorporate recommendations made in the Commonwealth Grants Commission review of the *Local Government (Financial Assistance) Act 1995*. The new methodology meets the National Principles.

To increase councils' understanding of the National Principles and the Commission's methodology, the Commission held three rounds of regional seminars (17 seminars in total) as part of the review of the methodology. The earlier seminars enabled councils to be in a better position to make submissions on the methodology review. The overwhelming response from councils was the seminars had significantly raised councils' understanding from their previous generally low level of understanding.

Now the review is completed, the Commission intends to recommence a program of rotational visits to individual councils. Discussions are to be held with the Aboriginal and Island Co-ordinating Councils about the best way to assist their member councils make submissions and provide data to the Commission. This gives councils an opportunity to discuss issues relevant to their own circumstances and the calculation of the grant entitlement. The Commission also meets council delegations on request.

I turn now to addressing some of the comments in the discussion paper.

One of the options presented concerned the possible application of a simple formula for the distribution of the grant. While this option may have appeal in terms of transparency and simplicity, simplicity does not generally equate to equity and fairness if the objective is fiscal equalisation.

Local government is not homogenous, either between the States and Territories or within the States themselves. In Queensland the grant is distributed both to traditional local governments and indigenous community councils. Councils within this State vary widely in size – both in population and area. Factors impacting on their abilities to provide services also vary greatly.

The Commission considers the ability of councils to provide services in its application of the principle of horizontal fiscal equalisation. In its methodology it includes cost adjusters such as

- Scale
- Location (geographic location)
- Growth
- Regional role
- Tourism
- Dispersion
- Demography
- Urban Density

And for roads

Terrain

Climate

Soil Subgrade

Traffic Volumes

Location (both in terms of scale and geographic location)

On the revenue side of the methodology, the Commission assesses the relative ability of councils to raise rates, garbage charges and other fees and charges. Other grants and subsidies received by a council are also included in the revenue assessment.

Feedback the Commission has received from local government is that these adjustors are the minimum set of factors that affect the council's ability to provide services for their community.

I note the reference to using a model similar to the socio-economic status (SES) model used to distribute funding to non-government schools. My understanding of this model is that it relates to socio-economic indicators representing the capacity to pay for education. In the application of the principle of horizontal fiscal equalisation, the capacity of residents to pay is but one part in determining a council's ability to raise revenue and provide services.

As noted above, there are factors that significantly impact on the ability of a council to provide services that are unrelated to the socio-economic status of residents. Also while the SES model may indicate the capacity of residents to pay rates on residential properties, it would not seem to provide an indication of the relative capacity of other sectors such as commercial, industrial and agricultural, particularly where these enterprises are companies rather than individuals.

I am unsure what is meant by the option referring to the distribution of the grant in a way similar to the distribution of the Roads to Recovery funding. The distribution of these funds was on the basis of the Identified Road Grant methodologies developed by the State Grants Commissions. Given these methodologies are only a part of an equalisation model, I assume you are referring to the mechanism of payments direct from the Commonwealth to the local governments and not to a possible fiscal equalisation distribution model.

The Queensland Commission is supportive of the continuation of the Minimum Grant as recommended by Commonwealth Grants Commission in its review. Quite apart from the argument of vertical fiscal imbalance, in simple practical reality, the per capita minimum is a safeguard against possible shortcomings in distribution models and data available for use in the grant methodologies.

This is not a criticism of any Commission. The Commonwealth Grants Commission has been around far longer than any State Commission yet is still finding ways to fine tune its methodology.

The problem of precision is also more pronounced at the local government level than at the State level because of the significantly diverse nature of local government.

Finally, I would like to make some observations regarding a central body being responsible for the calculation and distribution of the Financial Assistance Grant. Each State Grants Commission has developed methodologies that respond to the needs of local governments in their State.


Three of the six members of the Queensland Local Government Grants Commission are nominated by the Local Government Association of Queensland and the nominees backgrounds cover urban, mid-sized and rural councils. More recently, a fourth member has been nominated by indigenous councils. This gives local governments within the State confidence their issues are being considered and the Commission is responsive to their needs.

The Commission has a significant rotational visit program as well as accepting deputations from councils. The Commission finds that regular visits and deputations are invaluable as these provide real opportunities for Commission members to experience factors that affect the ability of councils to provide services. Councils gain from this accessibility, as the grant calculations are explained and that circumstances affecting the council can be explored.

The risk with one central body performing this role, is that local governments will feel distanced from the allocation process and become dissatisfied. It may also be less responsive to the changing needs of local governments. It is difficult to see a central body having an in-depth knowledge of the factors affecting 722 councils across all States and Territories.

I would like to thank you for the opportunity to respond to the discussion paper. I have also included a copy of our Final Report on the review of the Queensland methodology for the distribution of the Commonwealth Financial Assistance Grant, January 2003. This report details how this Commission applies the National Principles, the calculation of the grant and issues raised during our review process. At the back of the report are a number of tables concerning the calculation and the data used.

Yours sincerely,



Denis Byrnes
Chair
Queensland Local Government Grants Commission.