

NORTHERN TERRITORY GRANTS COMMISSION

Submission to
Inquiry into Local Government and Cost Shifting –
Relating to the Discussion Paper
At the Crossroads

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

Summary

The Northern Territory Grants Commission is of the view that the suggestion made in the Discussion Paper *At the Crossroads* that financial assistance grants to local government should be allocated directly by the Commonwealth Government would be detrimental to the continued development of local government in the Northern Territory generally and the more remote Aboriginal councils in particular. The Commission believes that centralisation would necessitate the adoption of a single national allocation methodology that, together with a centralised administrative structure, would be unable to respond adequately to the differing needs of local governing bodies across Australia.

The Commission is, reluctantly, unable to remain silent on the issues and options raised in the Discussion Paper. In our opinion, the options put forward are not in the best interests of local government in the Northern Territory nor, for that matter, local government in other jurisdictions. One of our main concerns is that the Discussion Paper highlights a lack of understanding of the role of the Local Government Grants Commissions and the way in which funds are currently allocated between councils on the basis of their relative needs.

The Local Government Grants Commissions operating in each State and the Northern Territory have developed and implemented allocation methodologies which take account of the widely differing needs of councils across their jurisdictions, within the broad framework provided by the *Local Government (Financial Assistance) Act 1995* and the national distribution principles.

All of the seven Local Government Grant Commissions:

- take account of the particular characteristics of local government in their jurisdictions;
- support and recognise differences between individual councils;
- consult regularly with all of their individual councils;
- draw on substantial experience and knowledge; and
- operate at no cost to the Commonwealth.

The Northern Territory Grants Commission argues in this submission that a centralised approach to the allocation of Commonwealth financial assistance should not be implemented. We do not believe that a single methodology could adequately accommodate the many differences that exist in the size and scope of the 722 local governing bodies across Australia, a view supported by the Commonwealth Grants Commission. In addition, we submit that a centralised system would inevitably be more costly to the Commonwealth and less responsive to the needs of local government across the country.

This submission does not address all of the options canvassed in the Discussion Paper. It does, however, address the peculiar nature of local government in the Northern Territory in an attempt to show the affect that the options would have on many Territory councils.

We also wish to express our concern that the Discussion Paper does not address the real issues for local government relevant to this Inquiry – the quantum of funding available and the achievement of greater balance in the relative functional responsibilities of the three tiers of government.

In the absence of evidence that the current allocation arrangements are not working, and contrary to the recommendations of the Commonwealth Grants Commission, it would appear that the focus of *At the Crossroads* on alternative distribution mechanisms is driven by a desire to by-pass the States in the allocation and distribution of these funds, or to receive greater recognition of the Commonwealth's funding effort. If that is the case, it should be explicitly acknowledged and addressed.

Why the Northern Territory Grants Commission is Responding

The House of Representatives Standing Committee on Economics, Finance and Public Administration commenced its Inquiry into Local Government and Cost Shifting in May 2002.

At that time, the Northern Territory Grants Commission took a deliberate decision not to make a submission to the Inquiry on the basis that by doing so it would involve the Commission in what was considered to be largely a political issue.

The Commission has long held the view that its role is to allocate the funds provided by the Commonwealth to local government in the Northern Territory, and that it should not take a stance on issues such as the level of funding provided or enter into the debate over the relative roles and responsibilities of different levels of government.

However, with the release of the Discussion Paper *At the Crossroads* in February 2003, it became clear that the primary focus of the Inquiry had shifted significantly from issues of cost shifting and funding responsibilities to an examination of the manner in which Commonwealth funds are provided to local government. The direct allocation of these funds by the Commonwealth under a simplified, centralised distribution system, and the possible tying of these grants to specific purposes, appears to be now very clearly on the agenda.

As a principal player in the allocation of Commonwealth funds to councils, the Northern Territory Grants Commission is no longer able to remain silent on the issues and options raised in *At the Crossroads*. We believe that a number of the options put forward are not in the best interests of local government in the Northern Territory. We limit our response to only one of those options but raise several other issues relevant local government from a purely Territory perspective.

Even more fundamentally, we are concerned that the Discussion Paper highlights a lack of understanding of the role of the Northern Territory Grants Commission (and those of our interstate counterparts) and the way in which we allocate funds between councils on the basis of their relative needs.

How the Northern Territory Grants Commission Addresses Relative Needs

The Northern Territory Grants Commission is an independent statutory body operating under the Northern Territory *Local Government Grants Commission Act*. The Commission's primary function is to allocate financial assistance grants provided by the Commonwealth Government to local governing bodies in the Northern Territory in accordance with the Commonwealth *Local Government (Financial Assistance) Act 1995* and the approved national distribution principles.

In July 2002, the Commission finalised recommendations to the Commonwealth Government for the allocation of \$21.012 million in financial assistance grants to Northern Territory councils for 2002-03, comprising general-purpose grants of \$10.439 million and separately identified local roads grants of \$10.573 million.

General Purpose Grants

The Commission allocates general-purpose grants to Northern Territory councils on the basis of horizontal equalisation or relative needs. In assessing relative needs, the Commission calculates each council's relative expenditure needs (standardised expenditure) and their relative revenue raising capacity (standardised revenue).

For each council, standardised expenditure takes account of grant support received from other areas of government, the population served, the average cost of service provision across all Northern Territory councils and local characteristics which influence the relative cost of providing services (cost adjusters).

In 2002-03, the Commission used a series of 6 cost adjustors, which enabled us to take account of the circumstances of councils that impact on the cost of service provision on a comparable basis.

As the ownership of the land on which many communities are located is vested in Land Trusts established pursuant to the *Commonwealth Aboriginal Lands Rights (Northern Territory) Act 1976*, it is not feasible to use a land valuation system to assess revenue raising capacity. Instead, the method of calculating revenue-raising capacity is achieved through the use of personal income statistics, obtained from the Australian Bureau of Statistics.

The difference between standardised expenditure and standardised revenue for each council is then used to allocate the available general-purpose grants.

The Commission believes that its method of allocating general-purpose grants across Northern Territory councils reflects the relative needs of those Northern Territory councils.

Local Roads Grants

The specific objective of the methodology, in line with the relevant national principle, is to ensure that these funds are allocated on the basis of the relative needs of each council for roads expenditure and to preserve its road assets.

Full details of the Commission's methodology can be found in our Annual Report for 2001/02, copies of which have been provided to the Committee.

The Value of State-Based Grants Commissions

We believe that the current structure of State and Northern Territory Local Government Grants Commissions serves local government in Australia well, but not only that, they are unique in the world and are the envy of a number of developing countries.

Local Government Grants Commissions were established in each State in the mid 1970s (and later in the Northern Territory in 1986 although a quasi body existed prior to the enactment of specific legislation) to make recommendations on the allocation of financial assistance grants provided to local governing bodies by the Commonwealth Government.

The existence of separate Local Government Grants Commissions in each jurisdiction has allowed the development and implementation of allocation methodologies which take account of the widely differing needs of councils across Australia, within the broad framework provided by the *Local Government (Financial Assistance) Act 1995* and the national distribution principles.

All of the seven Local Government Grants Commissions:

- take account of the particular characteristics of local government in their jurisdictions;
- support and recognise differences between individual councils;
- consult regularly with all of their individual councils;
- draw on substantial experience and knowledge; and
- operate at no cost to the Commonwealth.

We will elaborate further on each of these points below:

(a) Taking Account of the Characteristics of Local Government in Each Jurisdiction

Each of the Local Government Grants Commissions reflects the unique characteristics of local government within their own jurisdiction. This is evidenced by the differing methodologies that are applied by each Commission, within the broad framework established by the *Local Government (Financial Assistance) Act* and the national distribution principles.

The Commonwealth Grants Commission in its review of the operation of the Commonwealth legislation in 2001 strongly supported individual state methodologies.

The Commonwealth Grants Commission concluded that a "one size fits all" approach would not be appropriate. The State and Territory Commissions discussed its findings in detail and there was general agreement that the present State and Territory based allocation methodologies provide the best way of reflecting the relative needs of councils.

The Discussion Paper *At the Crossroads*, in referring to the findings of the Review, stated that submissions to the Inquiry generally supported the CGC's proposals.

Local government in Australia is not homogenous. The functions and services provided by councils vary widely between States, and these councils serve areas and communities with widely differing characteristics. The factors taken into account by a Local Government Grants Commission in one State in measuring relative needs simply may not be appropriate or applicable to another.

(b) Supporting and Recognising Differences Between Individual Councils

The Northern Territory Grants Commission has spent considerable time reviewing and consulting with all Northern Territory councils to develop and maintain a methodology that can appropriately reflect differences between councils.

The Commission now uses a series of six cost adjustors in the formula for the allocation of general-purpose grants. These cost adjustors allow the Commission to take account of the particular characteristics of individual councils, which impact on the cost of service provision.

As the Commission's methodology has been designed specifically for local government in the Northern Territory, the individual differences between the sixty-three councils can be recognised. We do not believe that this would be possible if one methodology was applied Australia wide.

(c) Consultation

All of the seven Local Government Grants Commissions travel to, and meet with, each of the local governing bodies in their jurisdictions on a regular basis, as well as accepting written submissions, which influence their allocation methodologies. Each of the Local Government Grants Commissions has built up, over time, a detailed understanding of the issues relating to local government in their individual jurisdictions, which it is unlikely could be replicated by a single central body.

The Northern Territory Grants Commission devotes approximately eight days per quarter to visiting councils. It aims to visit each council at least once every three years. It also conducts public hearings at several locations around the Northern Territory during the course of the year as well additional meetings with councils at their request. This program provides both Councillors and council officers with an opportunity to gain an understanding of the way in which their grant outcome was determined. More importantly it provides the Commission with an in-depth understanding of the current

issues confronting local government and other relevant information that facilitates the deliberations of the Commission.

We believe that the greatest strength of our methodology is its ability to address the differing needs of councils on an equitable basis, and that this is due in large part to our regular contact with councils.

(d) *Experience and Knowledge*

The seven Commissions comprise individuals who have skills and experience relevant to the task, which has been enhanced by an understanding of differing council needs. This knowledge is extremely important for informed decision-making and greatly improves the quality of the decisions made.

The Northern Territory Grants Commission's four Commissioners have demonstrated practical experience and knowledge of the Northern Territory local government sector.

The seven Commissions do not work in isolation. There are regular exchanges of ideas and information between the Commissions to ensure that each is aware of what others are doing and can learn from this. The annual conferences for the Commissions and the Executive Officers are valuable formal forums, which promote the sharing of experiences and knowledge.

We are deeply concerned that a change to the current arrangements would see the experience and knowledge that has been built up over many years lost.

(e) *Cost of Operation*

The individual Local Government Grants Commissions operate at no cost to the Commonwealth Government. The State and Northern Territory Governments meet the cost of allocating and administering financial assistance grants, ensuring that every dollar of the available grants allocated by the Commonwealth Government flows through to local government.

The estimated cost of operating the Northern Territory Grants Commission is approximately \$120,000 per annum – which is equivalent to less than 1.0% of the grants allocated by the Commission. However, this cost is borne in its entirety by the Northern Territory Government.

Why a Centralised Approach Should Not Be Adopted

(a) *Relevance of Methodology*

The centralised allocation of financial assistance grants by the Commonwealth Government would inevitably be accompanied by a single distribution methodology. The Northern Territory Grants Commission shares the opinion of the other Commissions that a single methodology could not adequately accommodate the many differences that exist in the size and scope of the 722 local governing bodies across Australia.

As noted above, the Commonwealth Grants Commission, in its review of the operation of the Commonwealth legislation in 2001, observed that the individual State and Territory-based Local Government Grants Commissions are best placed to develop methodologies that reflect the differences of councils between and within the various jurisdictions.

The Commission went on to conclude that the current arrangements "have led to a distribution of funds which is generally in line with the Commonwealth's intentions"

(b) Cost

As outlined above, the seven Local Government Grants Commissions operate at no cost to the Commonwealth Government. The State and Northern Territory Governments meet the cost of allocating and administering financial assistance grants, ensuring that all of the grants allocated by the Commonwealth Government flow through to local government. The direct payment of financial assistance grants by the Commonwealth Government would necessitate the establishment of a large and costly centralised administrative structure.

Centralisation of the allocation of the grants would actually increase costs to the Commonwealth or decrease grants to local government.

(c) Responsiveness

It is unlikely that a centralised allocation body could be responsive to the needs of individual local governing bodies across Australia. All of the LGGCs travel to, and meet with, each of the local governing bodies in their jurisdictions on a regular basis, as well as accepting written submissions, which influence their allocation methodologies. Each of the LGGCs has built up over time a detailed understanding of the issues relating to local government in their individual jurisdictions, which it is unlikely, could be replicated by a single central body. Such a body would, by definition, be more remote from the 722 local governing bodies than the seven current Commissions.

The Discussion Paper Options

The Northern Territory Grants Commission does not wish to comment on each of the options put forward in the Discussion Paper, as we believe that these are narrowly focussed and do not address the real issues of funding and functional responsibilities currently facing local government in Australia. Further, we believe that submissions from the other local government grants commissions have adequately reflected the view of the Commissions. We have therefore identified Option 1e as being of particular concern.

Option 1e: "Consider other horizontal equalisation formulas for local government funding such as the SES formula used by DEST for funding the non-government school sector"

Horizontal equalisation aims to ensure that each council is able to function, by reasonable effort, at a standard not lower than the average standard of other councils in the state. However, as the National Office of Local Government (Department of Transport and Regional Services) has noted in a submission to the Inquiry, the SES model does not take into account the capacity of councils to deliver services. Rather, it simply measures the socio-economic status of the community and their capacity to pay for services.

When considering the SES formula, we believe it is important to understand why this formula was introduced for the non-government school sector, and consider whether such conditions apply in local government.

We understand that this allocation system has been introduced to allocate funds to non-government schools due to the perceived failure of the previous system, which used an Education Resources Index (ERI) with a twelve-point scale.

Schools were assigned a rate according to an assessment of resources available to each school based on information provided annually by the school.

It is understood that one key driver for the change in funding to non-government schools was the "stepped" funding scale used, which meant that two very similar schools could receive substantially different funding as they were classified differently in terms of the twelve point scale. This does not apply for the financial assistance grants to local councils, as the total pool is not divided into smaller pools for allocation.

We do not believe that the SES model now used to allocate funding to non-government schools would recognise the real differences in the needs of councils and deliver horizontal equalisation.

The Northern Territory Grants Commission, therefore, does not support this option, as the issues in local government are demonstrably not the same as those that exist in the non-government school sector. Horizontal equalisation cannot be achieved in local government without taking into account the complexity and diversity of services provided to meet the needs of a non-homogenous population.

Our central concern is that the use of the SES model to allocate funding to local government is being promoted on the basis that this would allow account to be taken of the relative needs of councils. This ignores the fact that the Northern Territory Grants Commission (along with its interstate counterparts) already does this through our existing methodology. Moreover, we believe that we do this in a more equitable way than could be achieved by implementing a model solely based on the socio-economic status of communities served by councils.

Of particular concern is the fact that there are very few non-government schools in the Northern Territory and none outside the main urban centres. Consequently, a SES formula has not been developed for the Northern Territory.

While a SES model is obviously, in our opinion, not suitable as a formula for horizontal equalisation, the Commission is cognisant of the fact that an argument could possibly be made that there are other models that might be used for this purpose. Two that spring to mind are the Australian Bureau of Statistics method known as the Accessibility/Remoteness Index of Australia (ARIA) and the *Griffith Service Access Frame (GSAF)*. The former uses distance from service centres and population as its measured factors. The latter according to Griffith, remains the only classification currently available that can meet the criteria of a good index, that being transparent, equitable and based on objective data. It is, however, complex and requires the collection and analysis of much data before it can be put to work.

Both of these models are essentially a measure of remoteness but both could be developed as substitutes for the SES formula. The calculations of ARIA include only distance measures whereas a major antecedent to isolated communities in the Northern Territory is the type of road surface and the susceptibility of the roads to seasonal restrictions and therefore inaccessibility which are overlooked in the ARIA methodology. For this reason alone the ARIA model would be of little or no use in the Northern Territory.

More importantly, neither ARIA nor GSAF would take in to account the capacity of a council to deliver services.

Addressing the Real Issues

The Northern Territory Grants Commission does not believe that a case can be made that the current arrangements for allocating Commonwealth financial assistance to local government through the seven Local Government Grants Commissions are not in the best interests of Australian councils. We are therefore surprised by the focus of the Discussion Paper *At the Crossroads* on options that are based on these arrangements being either discarded or fundamentally altered.

We believe that the major issues for local government relevant to this Inquiry lie elsewhere – in the quantum of funding available and in achieving greater balance in the relative functional responsibilities of the three tiers of government. *At the Crossroads* acknowledges this. In the absence of evidence that the current allocation arrangements are not working, it would appear that the focus of *At the Crossroads* on alternative distribution models is driven either by a desire to exercise greater Commonwealth control over the allocation and distribution of these funds through by-passing the current State-based arrangements, or by a wish to receive greater recognition for the Commonwealth's funding contribution. If that is the case, this should be explicitly acknowledged and addressed.

If the issue is one of achieving greater acknowledgment of the \$1.5 billion annual funding contribution made by the Commonwealth to local government, there are ways of doing this that do not require the dismantling of the present arrangements. The *Roads to Recovery* program is clearly seen as being a Commonwealth program. However, this is due to the fact each *Roads to Recovery* project can be clearly signed, with the contribution of the Commonwealth to the project made apparent to all. It is not because the funds are not channelled through Local Government Grants Commissions.

The badging of untied funds is, of course, more problematic than tied funding for roads projects, but an improvement in the degree of recognition of the Commonwealth's role could be achieved while retaining the current allocation arrangements. A simple mechanism would be to transfer the funds directly from the Commonwealth to individual councils, rather than through the States, while retaining the present role of the individual Local Government Grants Commissions in making recommendations on the allocation of these funds.

If there is a more fundamental desire to by-pass the States and Territories entirely in the grants allocation process, this could be achieved without centralising the allocation and distribution processes. Separate State and Territory Commissions, appointed by the Commonwealth and reporting directly to the Commonwealth could accomplish this objective. While we stress that the Northern Territory Grants Commission does not believe that such a change is necessary, given the high degree of independence we already have from the State Government, this option would at least ensure that allocation methodologies remain responsive to local conditions and needs.

Issues of concern to the Northern Territory Grants Commission

As mentioned earlier in this paper, local government in the Northern Territory differs to some extent from local governments in other jurisdictions. In addition, the Commission is faced with factors that are not an issue in other jurisdictions which would work against the remote local governments in the Northern Territory should the allocation of the financial assistance grants be centralised by the Commonwealth. These are:

Population

The Northern Territory Grants Commission believes that every Census since 1981 has under counted the aboriginal population on Aboriginal communities

throughout the Territory. Anecdotal evidence puts the undercount at between 7,000 and 10,000 Aboriginal people. In order to compensate for the undercount, the Commission instigated a system of annual returns whereby community populations are reported to it. These returns utilise a number of sources such as head counts, Health Clinic and housing need records to ascertain the population living within a community at a particular time. In order to negate the mobility of Aboriginal people the Commission averages the population shown in the returns over three years. The number of Northern Territory agencies that rely on this data for various purposes highlights the success of this annual count.

The 1996 Census produced a count that was close to what was shown in the Commission's database. Unfortunately, the 2001 Census has seen the discrepancy between the ABS enumeration and the data gathered by the Commission again blow out to between 7,000 and 10,000 people. ABS has admitted that there were flaws in some of their collection methods from remote communities.

In addition, the fact that the ABS has no mechanism other than the Census to adjust community populations between Censuses is another factor worthy of consideration.

It is difficult to see how a centralised allocation body could respond to the discrepancies in population counts on remote communities using ABS supplied data in a single national allocation methodology.

Nature of Incorporation

In the Northern Territory there are 6 municipal councils, 29 community government councils, 27 "association" councils and one special purpose town. All receive financial assistance grants under the *Local Government (Financial Assistance) Act 1995*.

Municipal and community government councils are gazetted under the *NT Local Government Act*, the only difference being that the latter operate under a constitution. Most community government councils are situated on Aboriginal land and a distinguishing characteristic is the fact there is no rate base. The Northern Territory Grants Commission has been able to counter this factor in its methodology to comply with the horizontal equalisation principle. It is difficult to see how a centralised allocation body could respond to this factor of a single national allocation methodology without compromising the integrity of that methodology for not to do so would disadvantage the Territory councils viz-a-viz interstate councils.

"Association" councils are a legacy inherited from the Commonwealth at self-government. Most of these councils are incorporated under the *NT Associations Incorporation Act* and have been gazetted as performing the functions of a community government council within the meaning of the *Local Government Act*. Most were gazetted as local governing bodies in 1986 within the meaning of the *Commonwealth Local Government (Financial Assistance) Act 1986* and the *NT Local Government Grants Commission Act*. Should the need for a State/Territory local government grants commission be removed, it is difficult to see how a centralised body could recognise these councils without usurping the powers of the Territory Minister for Local Government.

Conclusion

In summary, the Northern Territory Grants Commission strongly opposes any suggestion that financial assistance grants should be allocated directly by the Commonwealth Government. The Commission believes that this would necessitate the adoption of a single allocation methodology that, together with a centralised administrative structure, would be unable to respond adequately to the differing needs of local governing bodies across Australia generally and to the needs of community government councils in the Northern Territory in particular.

The Northern Territory Grants Commission does, however, fully support the findings and recommendations of the Commonwealth Grants Commission Review of the Operation of the *Local Government (Financial Assistance) Act 1995*. We would therefore ask that the recommendations made in the Commission's report be implemented immediately as outlined.

Northern Territory Grants Commission
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