

South Australian Local Government Grants Commission



Government
of South Australia

The South Australian Local Government Grants Commission's main function is to make recommendations to the Minister for State/Local Government Relations on the distribution of untied Commonwealth financial assistance grants to local governing authorities in South Australia in accordance with the National Principles for the Allocation of General Purpose and Local Road Grants (which were established pursuant to the Commonwealth Local Government (Financial Assistance) Act 1995).



THE COMMISSION

The South Australian Local Government Grants Commission is an independent statutory authority established under the South Australian Local Government Grants Commission Act 1992, which provides for three members who are appointed in a part-time capacity by the Governor. The current Members are:

- Malcolm Germein, Chairperson, joint nominee of the Local Government Association and Minister for State/Local Government Relations;
- Mary Patetsos, Commissioner, nominee of the Minister for State/Local Government Relations; and
- John Ross, Commissioner, nominee of the Local Government Association

All Funds allocated by the Commonwealth are distributed to councils. All of the Commission's costs are met by the State Government.

COMMONWEALTH FINANCIAL ASSISTANCE GRANTS

For 2005-06, the Commonwealth Government distributed a total of \$1.62 billion to the States. South Australia received \$112 million, which includes both the general financial assistance and identified local road grants.

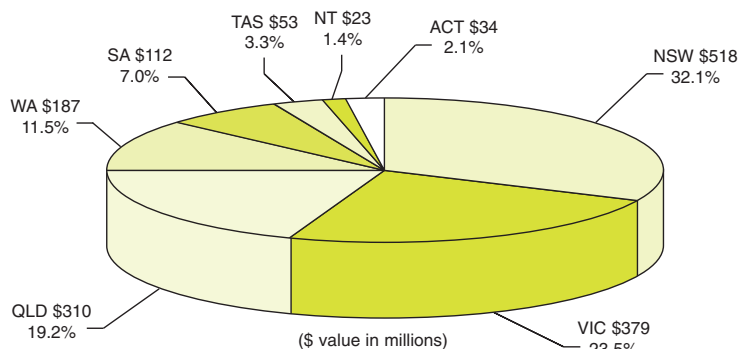
The general financial assistance component for South Australia was \$85.2 million. Distribution of the general financial assistance component to States is on a per capita basis. South Australia's share has been reducing as its population as a proportion of the Australian population declines.

Local Road Component

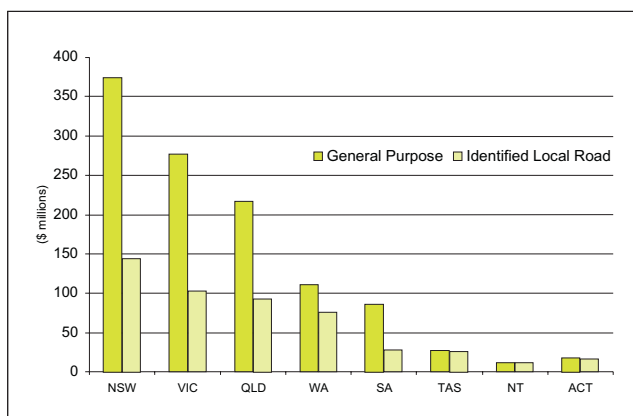
The identified local road component for South Australia was \$27.3 million, which includes a special local road component of \$4.1 million. State shares of identified local road funding are based on those existing prior to 1991-92, and South Australia receives less than a per capita share.

For the 2005-06 allocations there were 68 Councils, the Outback Areas Community Development Trust and five Aboriginal communities eligible for grants.

Commonwealth General Revenue Assistance for Local Government: State Entitlements 2005-2006



Commonwealth General Purpose and Identified Local Roads Grants: State Entitlements 2005-2006



LEGISLATIVE FRAMEWORK

The Commission is established under the South Australian Local Government Grants Commission Act 1992. The Commonwealth Local Government (Financial Assistance) Act 1995 governs the way in which the grants are to be distributed and sets out the 5 national principles to be adhered to in the allocation process. The Act provides for:

- a per capita distribution (to the States) for the general financial assistance component;
- the continued separate identification of local road funding and maintenance of existing state shares for that funding;
- a national report on the operation of the Act, specifically the achievement of horizontal equalisation, the methods used by the Commissions, the performance of Councils including their efficiency, and the provision of services to Aboriginal & Torres Strait Islander communities; and
- a set of national principles governing the distribution of grants between Councils replacing the previous state by state principles. The principles, which provide for a distribution based on horizontal fiscal equalisation (subject to the minimum grant entitlement), are discussed in detail below.

NATIONAL PRINCIPLES FOR DISTRIBUTION OF GRANTS

Horizontal Equalisation

The general financial assistance component is distributed using a horizontal equalisation or needs based approach, which aims to compensate Councils with below average revenue raising capacity and above average costs of service provision.

Effort Neutrality

In assessing grant levels for individual Councils, the Commission takes no account of the policies and practices of those Councils. Thus individual policy on rate setting, service provision and standards, and levels of debt and reserves have no impact on the grant outcomes.

Minimum Grant

The minimum grant entitlement is the amount that Councils would be entitled to if 30 per cent of the general financial assistance component was distributed between Councils on a per capita basis.

Other Grant Support

Other relevant grant support provided to Councils to meet any of the expenditure needs assessed is taken into account using the inclusion approach.

Aboriginal and Torres Strait Islanders

Financial assistance is allocated to Councils in a way, which recognises the needs of Aboriginal and Torres Strait Islander people within their boundaries.

Grants distributed should compensate Councils for differences in the costs of providing services and in differences in their revenue raising capacity.

Equalisation refers to the financial capacity of the Council, it does not mean that the services must be equal.

Councils may choose to have higher or lower levels of service according to their own priorities.

The Commission aims to equalise their financial capacity to provide a similar level of service to their communities.



Jane Gascoigne
Executive Officer



Lyn Skouborg
Project Officer



Alex Sgro
Project Officer

THE COMMISSION'S METHODOLOGY

The methodology used to assess the general purpose component of the Local Government Financial Assistance Grants is intended to achieve an allocation of grants to local governing bodies in the State consistent with the National Principles. The over-riding principle is one of Horizontal Fiscal Equalisation, which is constrained by a requirement that each local governing body must receive a minimum entitlement per head of population as prescribed in the Commonwealth legislation.

The South Australian Local Government Grants Commission uses a direct assessment approach to the calculations. This involves the separate estimation of a component revenue grant and a component expenditure grant for each Council, which are aggregated to determine each Council's overall equalisation need. A standard formula is used as a basis for both the revenue and expenditure component grants.

Available funds are distributed in accordance with the relativities established through this process and adjustments are made as necessary to ensure the per capita minimum entitlement is met for each Council.

For local governing bodies outside the incorporated areas (the Outback Areas Community Development Trust and five Aboriginal Communities), allocations are made on a per capita basis. The per capita allocation was determined by an independent consultancy.

Revenue Component

The revenue component estimates a grant component, which depends on whether the standardised revenue raising capacity of the Council per capita is greater or less than the state per capita. Component revenue grants can be positive or negative. Councils, which have a capacity to raise revenue greater than that of a standard Council, will receive a negative assessment and vice versa.

The Commission estimates each Council's component revenue grant by applying the State average rate in the dollar to the difference between the Council's improved capital values per capita (weighted by the Councils SEIFA Index of Economic Resources) and those for the State as a whole, and multiplying this back by the Council's population.

The State average rate in the dollar is the ratio of total rate revenue to total improved capital values of rateable property. The State average SEIFA Index (Economic Resources) is 1.

The result shows how much less (or more) rate revenue a Council would be able to raise than the average for the State as a whole if it applied the State average rate in the dollar to the capital values of its rateable properties. This calculation is repeated for each of five land use categories, namely residential, commercial, industrial, rural and other.

The SEIFA Index of Economic Resources is applied to the capital valuations for residential and rural property only.

To overcome fluctuations in the base data, valuations, rate revenue and population are averaged over three years. Subsidies, which are of the type that most Councils receive and are not dependent upon their own special effort, i.e., they are effort neutral, are treated by the "inclusion approach". That is, subsidies such as those for public bus and library services, and roads are included as a revenue function.

Expenditure Component

The calculation for the expenditure component is based on the assessment of specific expenditure functions typically undertaken by Councils. It estimates a grant component, which depends on whether the standardised expenditure of the Council per capita is greater or less than the state average per capita and takes account of relative cost advantages and disadvantages between Councils.

Expenditure components can be positive or negative. Councils whose standardised expenditure per capita is more than the state average per capita, in the cost of providing services or performing functions, will receive a positive assessment and vice versa.

The Commission assesses expenditure needs and a component expenditure grant for each of a range of functions and these are aggregated to give a total component expenditure grant for each Council. The methodology compares each Council per capita against the State per capita for each function.

Each function is identified by a main driver or unit of measure. This is divided into the total expenditure on the function for the State as a whole to determine the average or standard cost for the particular function.

Cost Relativity Index

CRIs (Cost Relativity Indexes) are a measure of a Councils relative advantage or disadvantage to other Councils in providing similar services or functions. They measure the degree to which a Council's costs for each function might be expected to exceed (or be less) than the average or standard cost because of factors outside the Council's control. The Average Council = 1.0 and consequently they are centred around 1.0. In the case of roads, CRIs measure relative costs of factors such as material haulage, soil type, rainfall and drainage.

CRIs are used as a multiplier in the expenditure calculation. To overcome fluctuations in the base data, inputs into the expenditure assessments (with the exception of the newly revised road lengths) are averaged over three years.

The Commission will be seeking additional data from Councils in 2005-06 in relation to traffic volume.

Expenditure Grants Functions

Aged Care, Animal & Plant Control, Emergency Services, Garbage, Health Inspection, Libraries, Planning & Building Control, Public Buses, Other Needs Assessment, Roads, Services to Families and Children, Sport Recreation & Culture, Stormwater Drainage Construction & Maintenance.

Aggregated Revenue and Expenditure Grants

Component grants for all revenue categories and expenditure functions, calculated for each Council using the method outlined above, are aggregated to give each Council's total raw grant figure. Where the raw grant calculation per head of population for a Council is less than the per capita minimum entitlement as set out in the Act, (\$16.65 for 2005-06), the grant is adjusted to bring it up to the per capita minimum entitlement. The balance of the allocated amount, less allocation to other local governing bodies outside the incorporated areas, is then apportioned to the remaining Councils based on their calculated proportion of the raw grant.

Commission determined limits may then be applied to minimise the impact on Council's budgetary processes. In the calculation of the 2005-06 grants, changes in grant for all councils range from an increase of 19% to a reduction of 9%.

Information Paper

2005–2006



CEO Martin McCarthy, Commission Executive Officer Jane Gascoigne, Cr John Legoe, Commissioner Mary Patetsos, Commission Chairman Malcolm Germein and Commissioner Keith Adams during a Grants Commission visit to Kingston District Council, April 2005.

IDENTIFIED ROAD COMPONENT & ADDITIONAL LOCAL ROAD FUNDING

The formula component is divided between metropolitan and non-metropolitan Councils on the basis of an equal weighting of road length and population. In the metropolitan area, allocations to individual Councils are determined again by an equal weighting of population and road length. In the non-metropolitan area, allocations are made on an equal weighting of population, road length, and area of Council.

Identified Road Component = 85% Formula Grants + 15% Special Local Roads Grants

Distribution of the special local road grants is based on recommendations from the Local Government Transport Advisory Panel. This Committee is responsible for assessing submissions from regional associations on local road projects of regional significance.

The Additional local road funding is calculated on the same basis.

The Commission is keen to remain informed and up-to-date on Local Government issues.

If your Council has any queries or specific issues that it believes the Commission needs to know about, please contact the Grants Commission.

COUNCIL VISITING PROGRAM

The Commission undertakes regular visits to Councils to provide information and the opportunity for discussion about the grant allocation process. The Commission has four main objectives in visiting Councils, these are:

- to explain the background and method of operation of the Commission;
- to enable the Commission to raise queries with Councils about information submitted by way of annual financial statements, general information returns and submissions;
- to provide a forum for discussion with regard to both the grant calculation procedures and any particular problems experienced by Council, which might not be covered by the above process; and
- if necessary, to inspect particular physical features or structures of the area which are considered relevant to the distribution of funds.

The Commission greatly values these occasions because of the contribution they make to improving the relevance of the granting process.

KEY DATES FOR 2005-06

15 Aug 2005	Earliest date for First quarterly instalment of 2004-05 grants paid
19 – 20 Oct 2005	National Conference of Local Government Grants Commissions (Western Australia)
15 Nov 2005	Second quarterly instalment of 2005-06 grants paid
30 Nov 2005	General Information Return, Supplementary Return and Audited Financial Statements due
31 Dec 2005	Annual Report due
13 Feb 2006	Third quarterly instalment of 2005-06 grants paid
15 May 2006	Fourth quarterly instalment of 2005-06 grants paid



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