

CITY OF JOONDALUP - REPORT FOR 12 JUNE 2001

WA LOCAL GOVERNMENT GRANTS COMMISSION - ALLOCATIONS
04468

WARD - All

SUMMARY

At a recent Briefing Session Cr Carlos requested a report on the process and methodology used by the WA Local Government Grants Commission for grant determination purposes.

This paper explains the background to the process used by the WA Local Government Grants Commission for allocation of financial assistance grants to the various local governments.

BACKGROUND

The WA Local Government Grants Commission is a statutory body established under the *Local Government Grants Act 1978*. The Commission comprises the Chairperson, nominated by the Minister for Local Government and the Deputy Chairperson, who is an officer of the Department of Local Government. The remaining three members are nominated by each of the three Associations of Local Government. They are appointed by the Minister for Local Government and are to have regard to the general interests of local government in the State.

The current members of the Commission are:-

Mr Humphery Park, OAM	Chairperson
Mr John Lynch	Executive Director, Department of Local Government
Cr Linton Reynolds	representing Local Government Association
Cr Rosanne Pimm	representing Country Urban Councils Association
Cr Christine Hardwick	representing Country Shire Councils Association

The purpose of the Grants Commission is to make recommendations to the State Minister for Local Government on the distribution of financial assistance grants to local governments. Once accepted by the State Minister, the recommendations are referred to the Federal Minister for Local Government for approval. Local governments are advised of their grant allocations in July each year, and the funds are paid in four quarterly payment since August, November, February and May.

The *Local Government (Financial Assistance) Act 1995* provides for the determination of the total national grant figure, the allocation of the funds to each State and the conditions governing the payment of money to the States for distribution to local governments.

Western Australia receives approximately 11.49% of the national grant allocation. This amount is divided into an *equalisation component* and a *local roads component*. The equalisation component is distributed to States according to population. Road funding is distributed on an historical basis.

The allocation of grants are required by the Commonwealth legislation to be made in accordance with the following **National Principles**:

- 1 **Horizontal Equalisation**
General purpose grants will be allocated to local governments, as far as practicable, on a full horizontal equalisation basis as defined by the Act.
- 2 **Effort Neutrality**
An effort or policy-neutral approach will be used in assessing expenditure requirements and revenue capacity of each local government. This means as far as practicable, policies of local governments will not affect the grant determination.
- 3 **Minimum Grant**
The minimum grant for a local government will be not less than the amount to which, it would be entitled if 30% of the total amount of the equalisation component of general purpose grants were allocated on a per capita basis.
- 4 **Other Grant Support**
Other relevant grant support to local government to meet any of the expenditure needs should be taken into account using an inclusion approach.
- 5 **Aboriginal Peoples and Torres Strait Islanders**
Financial assistance shall be allocated to local governments in a way, which recognises the needs of Aboriginal peoples and Torres Strait Islanders within their boundaries.
- 6 **Identified Road Component**
The identified road component of the financial assistance grants should be allocated to local governments, as far as practicable, on the basis of the relative need of each local government for roads expenditure and to preserve its road assets.

The general purpose funding is comprised of two pools - an *equalisation* component and the *local road* component (although the latter is untied and *not required* to be used on roads). While local governments therefore have complete discretion as to where the funds are spent the former City of Wanneroo, resolved that funds received by way of road grants should be spent on roads in recognition of asset preservation. This principle has been retained and applied at the City of Joondalup.

Due to implementation of the principle of **equalisation** in Commission formulas, the trend in recent years has been for larger, more urban councils to experience declining grants and smaller rural local governments to experience increasing grants.

Equalisation funding is allocated on a *HORIZONTAL-EQUALISATION, EFFORT-NEUTRAL* basis.

Horizontal Equalisation, as per the National Principles, means the Commission seeks to equalise the capacity of every local government in the State to provide an average range of services at a standard level. In effect, this means that the capacity of the Shire of Ashburton or the Shire of West Arthur to provide services is equalised with the capacity of the City of Joondalup.

Effort-Neutrality, as per the National Principles, means that the revenue raising and expenditure policy decisions made by a local government will not affect the grant assessment made by the Commission. For example, it is not true that a local government which *increases* or *decreases* its level of rating will receive an increased grant from the Grants Commission; the actual rating policy of a local government will not materially affect the grant outcome.

The **Balanced Budget Method** is used by the Commission to establish the amount of funding (known as the **equalisation requirement**) required for each local government. This involves assessing the revenue raising capacity and expenditure needs of each local government, with the final equation being:-

$$\text{Equalisation Requirements} = \text{Assessed Expenditure} - \text{Assessed Revenue}$$

Each local government is currently assessed against five revenue categories and eight expenditure categories. The figures for the City of Joondalup for 2000/01 are as follows:-

Revenue Raising Capacity	\$m	Expenditure Needs	\$m
Residential/Commercial Industrial Rates	33.351	General Admin	7.775
Agricultural Rates	nil	Law, Order & Public Safety	2.100
Pastoral Rates	nil	Education, Health and Welfare	2.215
Mining Rates	nil	Community Amenities	2.945
Extraordinary Revenue	nil	Recreation & Culture	16.488
Recreation & Culture	5.706	Building Control	1.035
Building Control	0.765	Capital Works	1.437
		Transport	3.555
Total	\$39.822		\$37.550

This means that using the Grants Commission Balanced Budget Methodology, the City of Joondalup is not in need of financial assistance as the Revenue Raising Capacity exceeds the Expenditure Needs by \$2.272m (ie \$39.822m assessed revenue minus \$37.550m assessed expenditure). By comparison a small country local government with the following profile:-

Revenue Raising Capacity	\$459,692
Expenditure Needs	\$2,741,187

has an Equalisation Requirement of \$2,281,495.

This indicates that the small country local government should receive equalisation funding of \$2.281m. However that local government only received slightly more than \$1.452m. The reasons for the variance are as follows:-

1 Minimum Grant Provision

For most local governments, the assessed expenditure needs exceed the assessed revenue capacity. In some 24 cases (eg, City of Joondalup), revenue capacity is greater than expenditure needs. However these local governments still receive a grant. Federal legislation requires that local governments do not get less than 30% of what they would have been allotted had the funding been distributed solely on the basis of population. In the 1999/2000 assessment, there were 24 local governments with little or no equalisation need and received grants based on this minimum grant provision (\$14.06 per capita). Together these local governments accounted for \$15.8m of the \$85.9m equalisation funding pool (and 61% of the State population).

2 Four Year Average Equalisation Requirement

The Commission uses a four year average of equalisation requirement to provide a measure of stability to the grant allocations. The four year average of equalisation requirement for the small local government in the example above was \$2,294,243.

3 Factoring Back

This is the difference between the amount required and the amount available means that the grant for each local government must be *factored back* to equal the amount allocated by the Commonwealth.

On a State-wide basis, the equalisation requirement for 1999/2000 was \$110.4m, but only \$70.3m was available to allocate against that need. This means the grants had to be 'factored back' to around 64%. That is, the Commission had only 46% of the funds required to achieve equalisation and local governments only received about half of their requirement.

Revenues and Expenditures assessed by the Commission are determined using 'standards' across the State.

Some standards are based on simple averages (such as \$30.11 per person for education, health and welfare), or are the results of statistical analyses based on a regression approach. Details of the calculations are provided to local governments each year in the document "Balanced Budget Detailed Calculations". Councillors have previously been given a copy of this documentation.

Disability factors (sound economic or physical characteristics) which affect a local governments ability to provide services or to raise revenue are also used. These are recognised by the Grants Commission in the assessment of grants, and include issues such a location, terrain, tourism, socio-economic disadvantage and climate. These tend to be the main issues which local governments raise with the Commission. Typically a local government submits that the Commission has not given sufficient recognition to the cost impacts of a factor such as location.

The Commission receives about 50 submissions from local governments each year and considers the issues raised. At the end of the process the Commission provides the local governments with a detailed response.

Identified Local Road Funding

This funding component is allocated using the *ASSET PRESERVATION MODEL*. This model recognises the existing road assets of each local government and regional differences in the cost of maintenance.

The Asset Preservation Model assesses the average annual cost to local government of maintaining its road network. The model recognises the different needs of urban and rural roads and the different levels of development of these roads. It takes account of:-

- annual and recurrent maintenance costs; and
- reconstruction at the end of the road's useful life.

The Asset Preservation Model has been accepted by the Associations of Local Government as a rational and equitable method of allocating funds for road preservation. Not only is it used for allocating Federal road funds, but also for assessing the Commission's transport standard within the equalisation component. It is also used by Main Roads WA in allocating the Direct Grant component of State road funds.

The asset preservation needs across the State in 1999/2000 were assessed at \$317.8m. However, as the Federal road funds available for distribution were only \$55.5m, the assessed needs of each local government were factored back to the available funds.

Asset preservation needs are updated each year to reflect growth in the road network and also the increased costs associated with high traffic volumes on gravel roads.

Special Projects receive 7% of the identified local road funding (approximately \$4.2m in 1999/2000). Some 2/3 of this segment is allocated to bridges and 1/3 to roads which serve remote Aboriginal communities.

INFORMATION SOURCES

Information from *authoritative data sources*, such as the Australian Bureau of Statistics and the Valuer General, are used in the grant assessments.

HEARING AND SUBMISSIONS

The Grants Commission conducts public hearings and inspections with local governments all over the State on a four to five year cycle. Local governments can lodge submissions for amended disability factors. These are considered by the Commission prior to the grant determination process each year.

COMMENT/FUNDING

The City's grant from the WA Local Government Grants Commission is based upon a minimum grant allocation as its assessed revenue capacity is greater than its assessed expenditure needs.

This City, together with 23 other metropolitan local governments, are 'minimum grant Councils'. Under the present grant determination methodology the ability to change this is considered impossible.

As Councillors will be aware the City of Joondalup did submit a submission to the recent review of the Local Government (Financial Assistance) Act. This review was mooted to be considering deleting the Minimum Grant provision. While this review is not yet finalised it is understood that the minimum grant provisions will remain.

The WA Local Government Grants Commission visited the City on Monday 19 March 2001 for a public hearing. At that hearing the Mayor and Councillors and Officers presented the City's submission and discussed the determination process within the Commission.

The City's total 2000/01 allocation is \$3,465,836 dissected as follows:-

Equalisation Grant	\$2,269,216
Roads Grant	\$1,196,620

Both elements will increase marginally in 2001/02.

Whilst the City is grateful for the assistance given by the Grants Commission to ratepayers of the City of Joondalup it has concerns with the inequities of grant allocations across the nation, as the following depicts:-

Council	State	Population (1997)	General Purpose Grant \$	General Purpose Grant Per Capita \$ c
Liverpool City	NSW	130,523	3,990,520	30.57
Yarra Ranges	VIC	138,115	6,308,097	45.67
Onkaparinga	SA	145,429	5,465,371	37.55
Campbelltown City	NSW	148,815	7,183,892	48.27
Joondalup	WA	151,124	2,095,856	13.87*
Casey	VIC	153,619	5,103,090	33.22
Boroondara	VIC	155,573	2,149,876	13.82*
Brimbank	VIC	156,610	7,354,628	46.96
Monash	VIC	160,913	2,223,632	13.82*
Logan	QLD	164,758	2,531,182	15.36
Bankstown City	NSW	166,270	2,940,796	17.69
Stirling	WA	174,119	2,414,900	13.87*
Fairfield City	NSW	190,132	6,193,872	32.58
Sutherland Shire	NSW	206,483	2,854,748	13.83*
Blacktown City	NSW	244,176	8,667,361	35.50

Note - These comparisons are several years out of date as current data has not been sought

Repeated representations by this City and the former City of Wanneroo to both the State and Federal Grants Commissions over many years has been to no avail.

RECOMMENDATION

That the report be noted.

J B TURKINGTON
Director Resource Management

Report Completion Date: Tuesday 29 May 2001
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