

FEDERAL ASSISTANT GRANTS

Deputation from the



with

The Minister for Local Government, Territories & Roads

The Honourable Jim Lloyd M.P

Parliament House - Canberra

Thursday 24th of February 2005

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1 Introduction and Background

1.1 *About the Urban Local Government Association of Queensland*

Membership of the Urban Local Government Association of Queensland (ULGA) is open to the Local Governments that are predominantly urban in character.

The Association's objectives are-

- To Consult with, and promote discussion on matters of interest to, members;
- To watch over and protect the interests of Members;
- To promote the efficient operation of members interests;
- To provide representation;
- To advise and instruct members in matters of doubt and difficulty
- Generally to undertake or promote any activity which the association determines to be for the betterment and or general interest of the members.

The ULGA currently has 27 members representing approximately 80% of the State's total population. A membership list is attached at Appendix A.

1.2 *Background*

The Membership of the ULGA is concerned that the administration of the Federal Assistance Grant scheme (FAG's) is disadvantaging Urban Councils.

This briefing paper has been prepared on the occasion of the deputation between the ULGA and the Minister for Local Government Territories and Roads to discuss these concerns.

2 Federal Funding Issues affecting the ULGAQ

2.1 The Issues:

The ULGA wish to alert the Minister to a number inadequacies and inequities associated with FAG, as they relate to the ULGA membership.

Over recent decades, the functions of Local Government have increasingly expanded. This was acknowledged by the inquiry into Local Government and Cost Shifting where it was found that “There is no doubt that Local Government has, over a number of years, been on the wrong end of cost shifting” The Australian Local Government Association (ALGA) estimate the effect of cost shifting at between \$500 million and \$1.1 billion annually. This equates to an average annual cost of between \$650,000 and \$1,500,000 per Council.

Commonwealth and State Grants contribute some 19 percent to Local Government Finances. Of this, more than 50 percent is derived from the Commonwealth in FAG and specific purpose payments¹. The FAG is therefore considered to be an important component of Local Government Revenue.

Unfortunately, the administration of the distribution of the FAG, both at the inter and intrastate level, is flawed and inequitable.

At the interstate level the use of per capita distribution significantly disadvantages Queensland, which has the highest per capita Local Government outlays of all States and Territories. The Local Government Association of Queensland (LGAQ) estimates that this treatment, which takes no account of the needs of a highly dispersed population, has cost Queensland Local Governments more than \$1 billion over the last decade.²

Of equal concern is the Queensland Local Governments Grant Commission (QLGGC) approach to intrastate distribution. The QLGGC methodology overall, and the use of the Equalisation method of scaling as opposed to the more common Proportional approach particularly, continues to see Urban Local Governments disadvantaged in favour of Rural constituents.

This disadvantage is profound. Representing some 80 percent of the States population, the membership of the ULGA collectively receives less than 35 percent of the states FAG allocation. The level of disparity is evident in a comparison of Queensland and National per capita grant outcomes by classification as provided by Table 1.

¹ Draft Report of the review of the operation of the Local Government (Financial Assistance) Act 1995 P8.

² Townsville City Council submission – Review of Local Government (Financial Assistance) Act 1995

Table 1³: General Purpose Grant - Average Per Capita Distribution

ACLG	Qld GPG	Population	Qld Per Capita	National Per Capita
URL Group	5,008,684	244,672	\$20	\$51
UFV Group	5,046,237	249,357	\$20	\$34
UFS Group	1,798,705	50,321	\$36	\$48
UFM Group	3,132,005	151,146	\$21	\$35
UFL Group	3,636,560	231,861	\$16	\$26
UDV Group	2,631,206	167,808	\$16	\$26
UDM Group	859,200	49,717	\$17	\$18
UDL Group	1,916,024	89,928	\$21	\$26
UCC Group	14,040,207	898,480	\$16	\$15
URV Group	11,171,432	670,973	\$17	\$34
URS Group *	20,854,329	168,571	\$124	\$79
URM Group	6,318,614	180,534	\$35	\$56
RTX Group	4,380,113	1,276	\$3,433	\$820
RTS Group	10,270,158	5,512	\$1,863	\$557
RTM Group	13,083,990	15,091	\$867	\$439
RTL Group	4,057,116	8,943	\$454	\$277
RAV Group	20,838,891	259,695	\$80	\$93
RAS Group	8,918,797	8,786	\$1,015	\$398
RAM Group	36,919,640	97,190	\$380	\$238
RAL Group	15,103,150	83,355	\$181	\$149

*URS includes many ATSI councils and therefore cannot be used as an indicative reference

Under the QLGGC treatment of FAG, this grant has become a de facto rural subsidy as opposed to a way of improving the financial capacity of local governments. This is estimated to cost ULGA members more than \$23 million annually in additional funding to Rural Councils as a result of using the Equalisation Method of Scaling.

Fortunately, the distribution methodology is mitigated by the 30 percent minimum grant allocation. This minimum grant, instigated in order to ensure some level of vertical fiscal redistribution, is an important source of revenue for Urban Councils. Without it, a significant proportion of the States population would receive no Federal Assistance at the Local Level.

As at 2003-04 8 ULGA members, representing some 57 percent of the population, are currently on the minimum Grant⁴. The ULGA is concerned that any attempt to abolish or adversely amend this provision would further disadvantage its members. The ULGA estimates that a move to a purely needs basis of grants distribution would result in a further reduction in its members share of the General Purpose Grant to less than 20 percent.

³ QLGGC Methodology Review Draft Report.

⁴ QLGGC Methodology Review – Final Report – January 2003 – P.45

2.2 ULGAQ Position:

2.2.1 Need for Revenue Reform

This Association is in strong agreement with the Australian and Queensland Local Government Associations position that Australian councils are attempting to cater to the needs of 21st century communities with an archaic federal funding model.

The ULGA advocates structural reform that will allow Local Government the ability to keep pace with the changing demands for Council services. The ULGA policy on Federal/Local fiscal arrangements includes –

1. Recognition of Local Government as an equal partner in delivering local services; and,
2. A fair share of federal tax revenue to help pay for local services. This would come in the form of a fixed 1 percent of Federal taxation receipts, allowing Local Government access to a growth form of revenue; and,
3. The removal of restrictions on the ability of Members to raise their own revenue.

2.2.2 Interstate Distribution

The Association would like recognition that the dispersed nature of Queensland's population, and the broader range of service provision, substantially increases the cost of Local Government service delivery. Table 2 outlines per capita spending by State.

Table 2⁵: Local government expenditure per capita, by purpose, Queensland and National Average, 2001-02

	Queensland	National Average
General public service	281.44	149.70
Public order and safety	14.17	17.84
Education, health and welfare	20.98	64.37
Housing and community amenity	324.48	197.63
Recreation and culture	106.53	112.41
Tpt and communication	294.51	240.53
Other	116.06	75.99
Total	1158.44	858.53

Consistent with the local distribution of federal assistance, the Association is advocating the adoption of a model of partial horizontal equalisation.

⁵ 2002-2003 Report on the Operation of the Local Government (Financial Assistance) Act 1995

2.2.3 Minimum Grant

The Membership of the Association is concerned that reform to the Minimum Grant requirement will further disadvantage its Members.

The membership of the ULGA represents 80 percent of the population of Queensland. Currently, the Associations members receive less than 35 percent of the states FAG allocation. Without the minimum grant component, this figure would be significantly worse with some Council's receiving nothing. Significant reform to the minimum grant requirements, whilst maintaining the current scaling methodology, could reduce the Associations share to less than 20 percent. This would result in some 57 percent of the population receiving no direct benefit from FAG⁶.

The ULGA is strongly advocating the maintenance of the 30 percent minimum grant to be distributed on a proportional basis.

2.2.4 Queensland Methodology

The membership of the ULGA has collectively experienced a nominal decline in FAG's of more than 10 percent over the past decade. In real terms, this figure is far greater. This is significantly attributable to the QLGCC approach to scaling, and specifically its use of the Equalisation Ratio Method as opposed to the widely accepted Proportional approach. This factor alone costs ULGA members more than \$23 million annually.

The ULGA attests that the current methodology has delivered outcomes that are inequitable and cannot be justified in terms of addressing the relative needs of Queensland Councils.

The complexity of the methodology has resulted in members being unable to understand the principles, factors and their comparative position when compared to other councils. This inhibits constructive feedback and disenfranchises local governments generally. The current approach lacks transparency and accountability, and for the sake of equity, should be standardised.

The ULGA does advocate the adoption of a single methodology, which may or may not involve States Grants Commissions, to deliver a consistent, transparent and equitable result for Councils.

2.2.5 Phasing in

Where changes to the distribution of FAG are determined, the ULGA demands that any adjustment not affect any member council by more than 5 percent in any one year. This is essential if confidence is to maintain and the ability to forward plan permitted.

⁶ See Table 3

3 Conclusion:

The membership of the ULGA has experienced increasing frustration and annoyance with a failing system of revenue raising that is unable to keep pace with the needs of their communities.

The effects of cost shifting, increasing and aging infrastructure, increased regulatory requirements and community expectations has greatly boosted demand for local government resources. Unfortunately, a limited ability to grow own source revenue, static real revenues from other spheres of government, and in the case of Queensland Urban Councils, a rapidly diminishing share of Federal Assistance, has many urban councils confronting a fiscal crisis.

The ULGA is advocating the following in response to this situation:-

1. Removal of restrictions on own source revenue growth;
2. Recognition of Local Councils as an equal partner in the delivery of local services;
3. A fair share of federal tax revenue to help pay for local services. This would come in the form of a fixed 1 percent of Federal taxation receipts, allowing Local Government access to a growth form of revenue;
4. A review of national distribution of Federal Assistance Grants. Specifically, the ULGA is advocating a greater recognition of state needs, similar to the approach currently utilised for horizontal equalisation;
5. Maintenance of the minimum grant. Removal of this component would greatly disadvantage Queensland Urban Councils and would deny access for some 60 percent of Queenslanders to any vertical fiscal assistance at the local level;
6. The adoption of a single methodology for the local allocation of grants. This approach should be simple and transparent and should allow a greater degree of revenue certainty than is currently exhibited by the Queensland approach; and,
7. The adoption of an adjustment phase in requirement that would limit any annual movement in a local governments FAG allocation to not more than 5 percent. This will ensure a higher degree of certainty for planning purposes.

*Urban Local Government Association of Queensland**List of Members*

Local Government Area	Population 2003
Brisbane	938,251
Bundaberg	45,300
Caboolture	121,117
Cairns	124,496
Caloundra	82,893
Cooloola	34,702
Dalby	10,111
Gladstone	27,772
Gold Coast	455,409
Goondiwindi	4,951
Ipswich	131,728
Livingstone	27,574
Logan	171,265
Mackay	78,252
Maroochy	136,443
Maryborough	25,473
Mount Isa	20,622
Noosa	46,455
Pine Rivers	133,760
Redcliffe	51,716
Redland	124,664
Rockhampton	59,112
Roma	6,725
Toowoomba	92,542
Townsville	95,825
Warwick	21,440
Total	3,068,598

Table 3: Councils on minimum grant and proportion of State population covered, by State, 1996-97 and 2003-04

Conclusion:	NSW	Vic	Qld	WA	SA	Tas	NT	Total
1996-97								
no. of councils	21	5	0	14	4	1	0	45
% of population	22	10	0	43	10	10	0	15
2003-04								
no. of councils	22	7	8	28	17	2	0	84
% of population	26	14	57	70	44	19	0	34

Source: Department of Transport and Regional Services.

Table 2.9 Average general purpose grant per capita to councils by State and ACLG category, 2002-03 (\$)

Classification	Queensland Per Capita	National Per Capita	Population	Total Grant - Qld	Relative (Loss)/Gain
UCC	15.59	15.76	938251	\$14,627,333	(\$159,503)
UDM	15.92	18.35	51716	\$8,233,319	(\$125,670)
UDV	15.69	26.77	171265	\$2,687,148	(\$1,897,612)
URS	111.63	86.57	151002	\$16,856,353	\$3,784,110 ⁷
URM	33.60	62.90	185786	\$6,242,410	(\$5,443,530)
URL	20.55	50.55	349512	\$7,182,472	(\$10,485,360)
URV	15.78	39.19	577583	\$9,114,260	(\$13,521,218)
UFS	47.74	46.91	72255	\$3,449,454	\$59,972
UFM	17.82	40.50	159836	\$2,848,277	(\$3,625,080)
UFL	15.44	27.64	379601	\$5,861,039	(\$4,631,132)
UFV	20.69	35.02	268171	\$5,548,458	(\$3,842,890)
Total Urban	\$25.00		3304978	\$82,650,523	(\$39,887,913)
RSG	37.27	55.73			
RAS	1306.02	437.54			
RAM	401.92	260.32			
RAL	165.06	170.63			
RAV	75.98	102.05			
RTC	2455.70	555.12			
RTM	947.57	534.25			
RTL	331.76	302.72			

⁷ Includes 32 Aboriginal & Islander Councils with a combined population of 19,480 and per capita grant of \$277.31. This distorts the figures beyond meaningful comparison.