

2021 Queensland Local Government Grants Commission - Methodology review

Discussion paper

Need for review

The Queensland Local Government Grants Commission (the Commission) has commenced a review of its methodology for allocating the Commonwealth Financial Assistance Grant (FA Grant). The Commission strongly believes a more equitable distribution of the FA Grant can be achieved in accordance with the National Principles formulated by the Commonwealth Government.

Although there is one local government sector, there are 77 local governments in Queensland, each facing different financial, social and regulatory challenges. The emergence of COVID-19 presented challenges to local governments on a scale that has never been seen before and further exacerbated sustainability challenges already faced by the sector. The Commission asks that all stakeholders view this review as an opportunity to improve the FA Grant allocations to achieve the most equitable and sustainable outcomes for the whole sector.

There are a number of reasons why the Commission has determined a review of the allocation methodology is required:

- Structural and demographic change:
 - Population is a key driver of a council's ability to fund the delivery of services to the community. Population trends in Queensland represent a challenge for small councils.
 - There is a base cost to run a council. As such, as council size decreases, costs and revenue per capita diverge.
 - Councils with a small population do not have the capacity to derive sufficient revenue to meet their cost base.
- Equitable distribution:
 - The Commission strongly believes a more equitable distribution of the FA Grant can be achieved in accordance with the Commonwealth National Principles. The review of the allocation method will focus on achieving greater horizontal fiscal equalisation for Queensland local governments.
- Feedback from councils:
 - A resolution for a review of the allocation methodology was endorsed by more than 60% of the voting attendees at the Local Government Association of Queensland (LGAQ) conference in October 2020.
- Timing:
 - It is now ten years since the Commission last implemented a new methodology (2011) and the review prior to that was implemented in 2003.
 - The 2011 review did not consider the IRG component. The current Commission believes there is benefit in reviewing this component of the allocation.

How to have your say

The Commission welcomes written feedback on some or all of the questions raised in this paper. You can email any submissions, questions or concerns to QLGGC.Enquiries@dlgrma.qld.gov.au with the subject line '2021 Methodology review', by COB Friday 16 July 2021.

The Commission will also be attending Regional Organisations of Councils (or similar) meetings and the LGAQ Annual Conference 2021 to discuss the review directly with councils. Alternatively, you can phone (07) 3452 6760 to discuss this or other Commission matters.



Purpose of this paper

The purpose of this discussion paper is to receive feedback from councils and other stakeholders to assist in the review of the current framework for grant allocation. Feedback received will inform the Commission on any changes to the allocation methodology.

The discussion paper is set out as follows:

- 1.0** Background
 - 1.1** About the Commission
 - 1.2** About the Financial Assistance Grant

- 2.0** Methodology framework
 - 2.1** Framework for grant allocation
 - 2.2** Commission's objectives in reviewing allocation methodology
 - 2.3** Overview of the Fiscal Capacity approach
 - 2.4** Initial assessment of potential benefits of the Fiscal Capacity approach

- 3.0** Next steps

- 4.0** Appendix A: National Principles



1.0 Background

1.1 About the Commission

The Commission is an independent statutory authority whose primary role is to make recommendations to the state and federal ministers for local government on the allocation of the FA Grant to all Queensland councils.

The Commission’s statutory powers come under both state and federal legislation.

Federal legislation provides the framework for how the Commission must make recommendations on the allocation of the FA Grant to councils, including a set of National Principles (see Appendix A) that guide the methodology used to determine relative need between councils.

In Queensland, the Commission comprises of six members (there is currently one vacancy). The Deputy Chairperson must be an officer of the Department of State Development, Infrastructure, Local Government and Planning (DSDILGP), one member must have a knowledge of Indigenous local governments and others must have a knowledge of local government.

The current members of the Commission are:

- Chair Paul Bell AM
- Deputy Chair Natalie Wilde, Deputy Director General (DDG) DSDILGP
- Members Janelle Menzies
Jo Sheppard
Deirdre Comerford
[Vacant]

The Commission is appointed to a three year term by Governor-in-Council and members can be re-appointed.

1.2 About the Financial Assistance Grant

Before analysing the method for allocating the FA Grant, it is important to first understand what it is and why the Commonwealth Government established it.

Under the Commonwealth legislation – *Local Government (Financial Assistance) Act 1995* (s3) – the objective of the FA Grant funding is to assist councils to improve in five areas, depicted below:



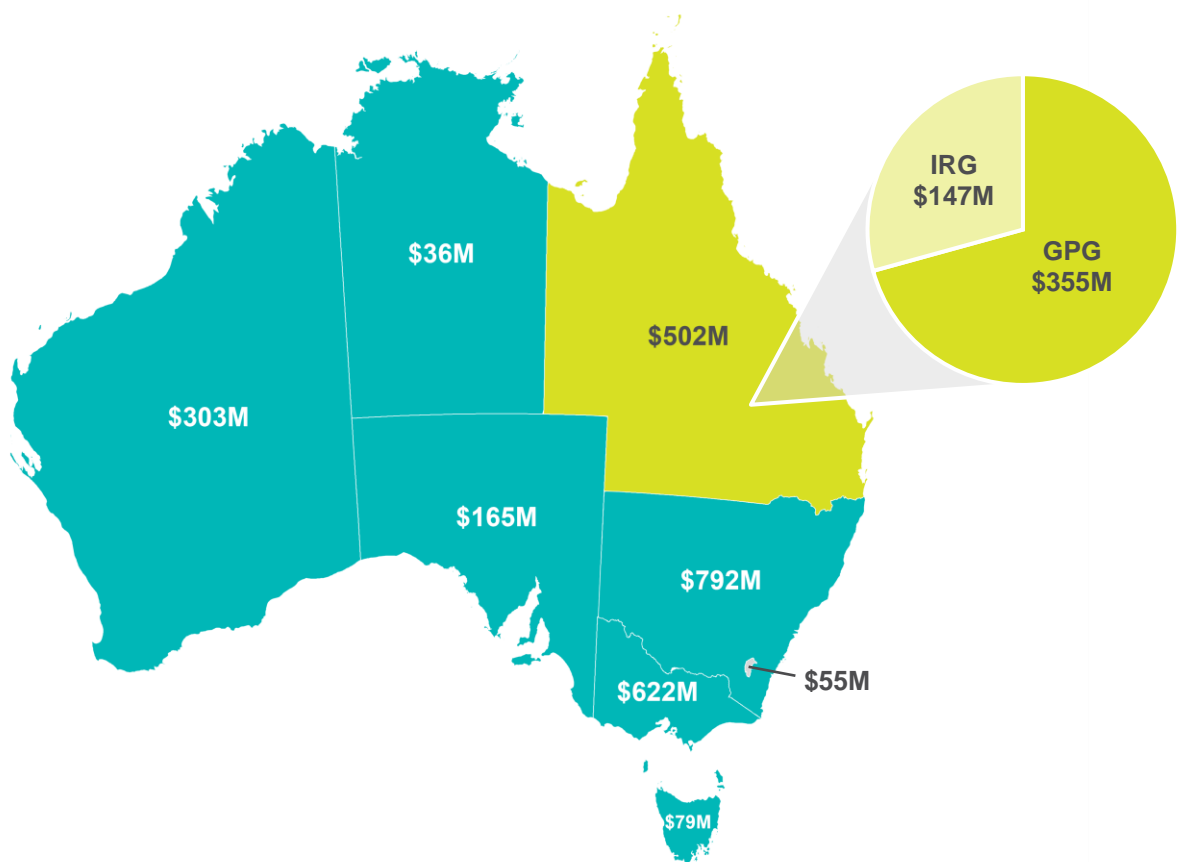
The legislation establishes horizontal equalisation as a key concept for the FA Grant. This concept requires the funding to be allocated such that, to the extent possible, councils are able to deliver at least an average standard of services to the community.

All local governments in Australia receive an FA Grant allocation, as determined by state and territory grants commissions.

For 2020-21, the Federal Government allocated \$2.55 billion for the FA Grant, of which Queensland received \$502.5 million (a 19.7% share to the total pool). All of this funding is disbursed to local government. Any costs of administering Grants Commissions are borne by their state/territory.

There are two components to the FA Grant, the General Purpose Grant (GPG) component and the Identified Road Grant (IRG) component. Queensland's 2020-21 FA Grant comprised of \$355.4 million in GPG funding and \$147.1 million in IRG funding.

These components are relevant for the allocation of the grant. From a local government perspective, all of the funding is completely untied and may be spent on any local council priorities.



The Commission acknowledges the following matters:

- The size of the FA Grant funding pool and the share provided to Queensland is determined by the Commonwealth. The total funding allocated to Queensland governments is therefore fixed.
- The National Principles specify that 30% of GP component must be allocated on a per capita basis, not based on relative need.

The Commission notes that these issues are important to many councils, however they are matters for consideration of the Federal Government and are outside of the scope of this review.



2.0 Methodology framework

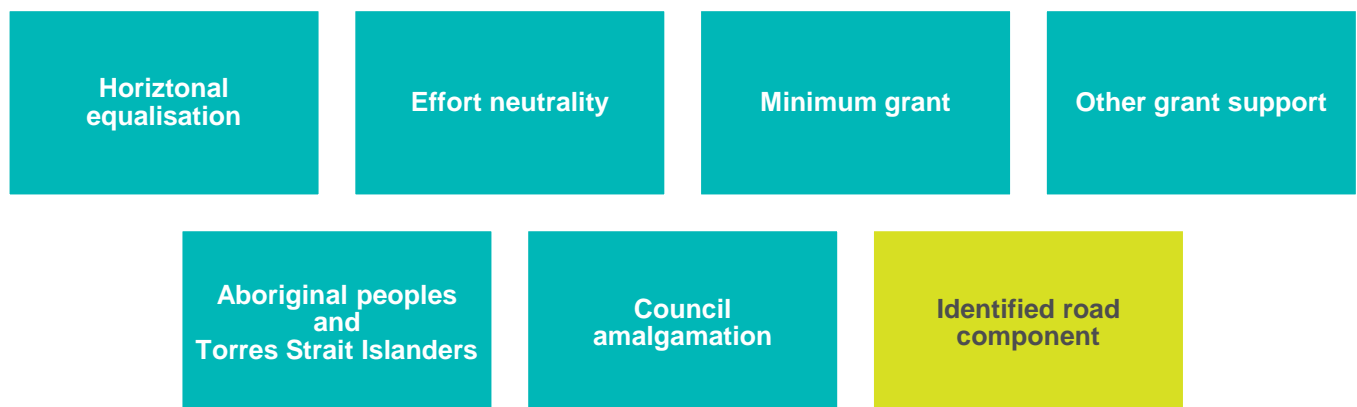
The Commission is exploring a 'Fiscal Capacity' allocation methodology that considers the relative ability of councils to raise revenue and the factors that impact their cost to deliver services. Such an approach recognises the per capita cost advantages of councils with large populations within small geographic areas relative to councils with small populations over large geographic areas.

This section of the discussion paper seeks your feedback on:

- The application of the National Principles in a Queensland context.
- The Commission's objectives in undertaking a review.
- The potential Fiscal Capacity approach (outlined below), how revenue and expenses are treated and what information sources can be used while adhering to the Effort neutrality principle.
- Whether additional councils should become minimum grant councils.

2.1 Framework for grant allocation

Any proposed methodology must conform with the National Principles (Principles), formulated by the Commonwealth Government in accordance with requirements under the *Local Government (Financial Assistance) Act 1995*. As depicted, there are six principles that govern allocation of the GPG, with one for the IRG. The key features of these principles are summarised below:



Horizontal equalisation

The principle of horizontal equalisation sets out the concept of relative need for councils. In doing so it seeks to enable councils to function to at least the average standard and recognises:

- the cost to perform functions is not consistent between councils; and
- the capacity to raise revenue is not consistent between councils.

Effort neutrality

This principle requires that the policies of individual councils do not affect the grant allocation. Councils are neither rewarded nor penalised based on the scope of services they have decided to provide, or not provide, or the level of efficiency with which they are delivered. Any methodology therefore needs to ensure that it operates at a level that 'as far as practicable' is not skewed by individual councils' approach to service delivery.

Minimum grant

The minimum grant component requires 30% of the GPG be allocated on a per capita basis. As this is a fixed mandate under the legislation, this allocation will be the same under any model.

Other GPG principles

The other GPG principles ensure that other grants are taken into account, that the specific needs of Aboriginal peoples and Torres Strait Islanders are recognised and that, should councils amalgamate, there is stability of FA Grant funding for the four years post amalgamation.

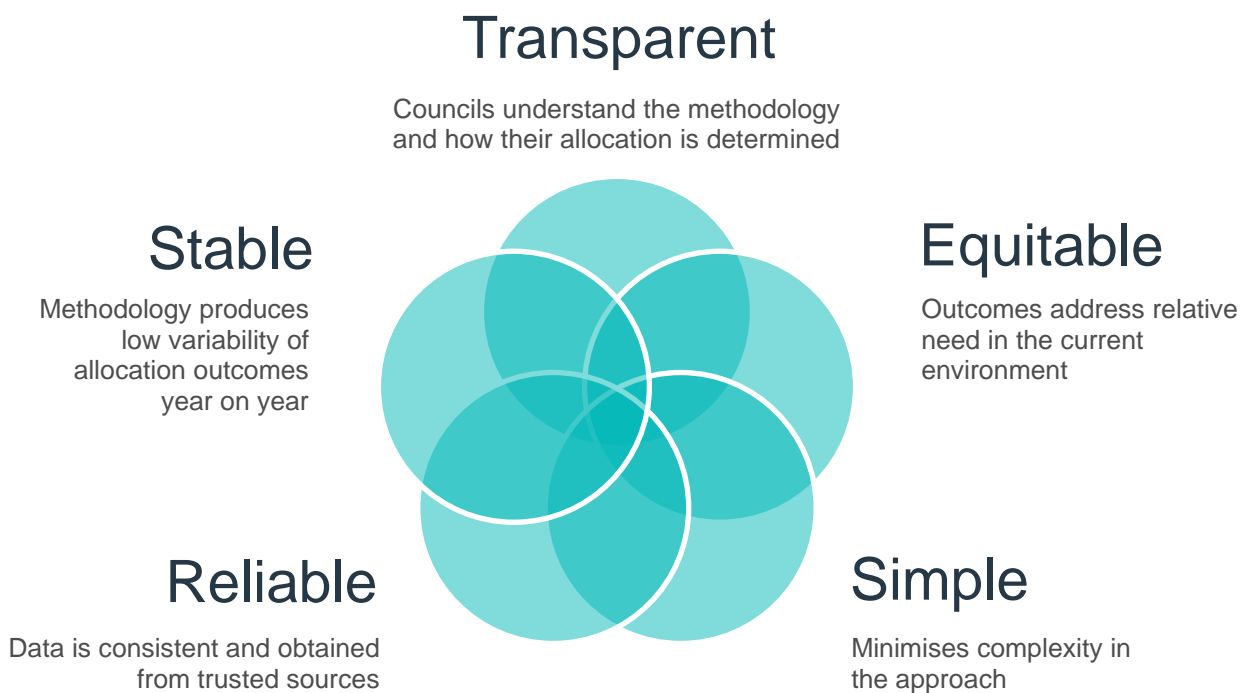
Identified Road Grant principle

The IRG funding is allocated based on relative need, which is to be assessed by considering the length, type, and usage of roads.

Question 1: Do you have any views on how the Principles (Appendix A) should apply in a Queensland context?

2.2 Commissions objectives in reviewing the allocation methodology

The Commission believes that a more equitable distribution of the FA Grant can be achieved within the principles. With this in mind, the Commission’s review of the current allocation method and exploration of a new method is governed by five objectives, which are depicted and explained below.



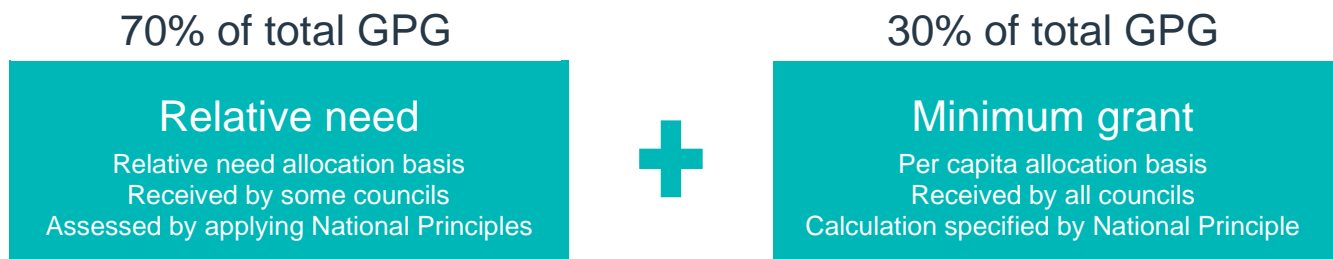
Any proposed methodology will need to address these objectives as far as practical and may need to trade one off in favour of another. The diversity and complexity of Queensland’s councils compared to other Australian jurisdictions – from the largest to the smallest on a population basis, to among the largest and smallest geographically – means the methodology may require a level of sophistication that makes it less Simple and Transparent in order to achieve an Equitable outcome.

Further, consistent like-for-like data will be a key challenge. The 77 councils do not provide the same scope of services, they may not classify activities or costs the same way, and particular data may not be captured. Therefore, the use of validated data from independent sources would be ideal, however the Commission acknowledges this will not always be possible.

Question 2: Do you agree with the Commission’s objectives (Transparent, Equitable, Simple, Reliable, Stable)?
Question 3: Are some objectives more important and therefore should be given priority over others?

2.3 Overview of Fiscal Capacity approach

Based on the requirements of the National Principles, the GPG can be broken down as follows:



For allocating the ‘relative need’ portion of the GPG, the Fiscal Capacity approach would assess each council to determine whether there is a fiscal gap. A fiscal gap is the shortfall between what a council needs to fund services and its actual capacity to raise revenue. Not all councils will have a fiscal gap. For some their capacity to raise revenue will be greater than or equal to their calculated funding need. The concept is depicted below:



The **potential** to raise revenue would be determined using state averages and high-level, council-specific data to calculate what a 'generic' council in the same situation would earn. The **capacity** to raise revenue would also use state average data but apply it to the unique demographics or attributes of a council. The capacity approach therefore determines the revenue any council could earn under those specific conditions. Both calculations of revenue reflect a council's individual circumstances while still complying with the Effort neutrality principle.

As an example, **potential** revenue for General Rates could be calculated using the number of rateable properties in a council area and a state average for general rates per property. The **capacity** of that council to raise revenue however could be based on the total unimproved property value for that area and the Queensland average rate-in-the-dollar for general property rates.

The council revenue streams that could be assessed for their potential and their capacity are:

- general rates
- user fees and charges
- garbage
- interest
- water and wastewater
- grants
- sales and recoverable works
- rental income.

But revenue is just one element of assessing fiscal gap. The cost to deliver services is also critical. The outlay to deliver an identical service can vary between councils for a number of reasons. The Commission is seeking to address only those cost factors that are material and long-term, to align with its objectives of Simple, Equitable and Reliable. Factors the Commission would expect the methodology to address include:

- economies of scale
- socio-economic advantage and disadvantage
- population distribution and indigenous population.

Revenue

Question 4: Are there material sources of revenue that have not been captured that you think are relevant (precluding individual council policy decisions – see page 6, 'Effort neutrality')?

Question 5: What publicly available data would assist in determining these revenue categories?

Cost

Question 6: What material costs should be considered to determine the funding need of councils (precluding individual council policy decisions – see page 6, 'Effort neutrality')?

Question 7: What publicly available data would assist in determining these costs?

Minimum grant councils

As mentioned above, the Minimum grant principle ensures all councils receive an allocation of GPG funding on a per capita basis (their population as a proportion of the total state population). Under the current methodology, 11 Queensland councils are deemed to be 'minimum grant councils' and their per capita entitlement is therefore the total they receive from the GPG – there is no allocation required on the basis of relative need. These 11 councils have been deemed by the Commission to have the ability to deliver their functions at a standard not lower than the overall average for the state, and are:

- Brisbane City Council
- Cairns Regional Council
- Logan City Council
- Mackay Regional Council¹
- Redland City Council
- Sunshine Coast Regional Council

¹ Mackay Regional Council was previously deemed a Minimum Grant Council and is still transitioning to this position.

- Gold Coast City Council
- Ipswich City Council
- Moreton Bay Regional Council
- Noosa Shire Council
- Townsville City Council.

On the basis there is a finite amount of FA grant monies provided, and relative need sits predominantly with the smaller councils, one material way to increase the quantum of funds available for smaller councils is to expand the list of minimum grant councils.

Question 8: Should additional councils be considered minimum grant councils and, if so, what criteria should be applied to determine the basis for their inclusion?

Identified Road Grants

The Identified road component principle, the only principle for IRG funding, requires the allocation based on the relative need of each council, as far as practicable, taking into consideration road needs including length, type and usage. The current methodology uses local government data to assess length and type, with 18 different ‘types’ nominated, and uses population data as a proxy for usage. This data is not publicly available and relies on self-assessment, which reduces transparency and reliability. Any change to the methodology would aim to reduce the reliance on self-reported data (increasing reliance on publicly available data) to increase transparency and reliability.

2.4 Initial assessment of potential benefits of the Fiscal Capacity approach

The allocation of FA Grants by any grants commission is subjective. There is no single ‘correct’ answer. The purpose of this review is to determine whether the concept of relative need can be determined differently so that a more transparent, equitable, simple, reliable and stable allocation can be achieved.

From the work completed to date, the Commission believes the Fiscal Capacity approach provides opportunities for improved performance under each objective. These include:

Transparent	Where possible, the new approach will use publicly available information, enabling the Commission to potentially provide more detail on how allocations are determined.
Equitable	Relative need underpins the approach, with larger councils generally better able to fund their requirements. As part of the review, the number of councils that receive only the minimum grant will be considered.
Simple	The proposed approach seeks to focus on long-term, material factors, reducing the number of elements considered and therefore the number of calculations required.
Reliable	Where possible, the Fiscal Capacity approach will use validated, independently sourced data, reducing reliance on council supplied information.
Stable	The model will use more stable data points and apply averages to reduce the risk of year-on-year variation in outcomes. The use of caps and collars in the methodology will also be reviewed.

Based on the above, the Commission is keen to pursue exploration of the Fiscal Capacity approach and is seeking your input to assist in this process.

3.0 Next steps

The Commission is seeking feedback on the following questions:

Application of National Principles

Question 1: Do you have any views on how the principles (Appendix A) should apply in a Queensland context?

Commission Review Objectives

Question 2: Do you agree with the Commission's objectives (Transparent, Equitable, Simple, Reliable, Stable)?

Question 3: Are some objectives more important and therefore should be given priority over others?

Fiscal Capacity approach

Revenue

Question 4: Are there material sources of revenue that have not been captured that you think are relevant (precluding individual council policy decisions – see page 6, 'Effort neutrality')?

Question 5: What publicly available data would assist in determining these revenue categories?

Cost

Question 6: What material costs should be considered to determine the funding need of councils (precluding individual council policy decisions – see page 6, 'Effort neutrality')?

Question 7: What publicly available data would assist in determining these costs?

Minimum Grant Councils

Question 8: Should additional councils be considered minimum grant councils and, if so, what criteria could be applied to determine the basis for their inclusion?

Timeline

You can email any submissions, questions or concerns to QLGGC.Enquiries@dlgrma.qld.gov.au with the subject line '2021 Methodology review'.

Feedback on this discussion paper will close on Friday 16 July 2021.

What happens next?

The Commission will continue to engage with stakeholders and collate and consider feedback in the coming months. In October 2021 the Commission will report back to councils and stakeholders on this engagement, with proposed outcomes for any new methodology.

Following this it will seek endorsement of the Commonwealth Minister for Local Government for a new or revised methodology, with a view to implementing it in the 2022-23 FA Grant allocations.

It is anticipated that there will be a transition period, to ease short term impacts to affected councils.

4.0 Appendix A

National Principles for the allocation of grants under the Local Government (Financial Assistance) Act 1995

4.1 General Purpose Grants

Horizontal equalisation	General purpose grants will be allocated to local governing bodies, as far as practicable, on a full horizontal equalisation basis as defined by the Act. This is a basis that ensures that each local governing body in the state/territory is able to function, by reasonable effort, at a standard not lower than the average standard of other local governing bodies in the state. It takes account of differences in the expenditure required by those local governing bodies in the performance of their functions and in the capacity of those local governing bodies to raise revenue.
Effort neutrality	An effort or policy neutral approach will be used in assessing expenditure requirements and revenue raising capacity of each local governing body. This means as far as practicable, policies of individual local governing bodies in terms of expenditure and revenue effort will not affect the grant determination.
Minimum grant	The minimum general purpose grant allocation for a local governing body in a year will be not less than the amount to which the local governing body would be entitled if 30% of the total amount of general purpose grants to which the state/territory is entitled under section 9 of the Act in respect of the year were allocated among local governing bodies in the state/territory on a per capita basis.
Other grant support	Other relevant grant support provided to local governing bodies to meet any of the expenditure needs assessed should be taken into account using an inclusion approach.
Aboriginal peoples and Torres Strait Islanders	Financial assistance shall be allocated to councils in a way which recognises the needs of Aboriginal peoples and Torres Strait Islanders within their boundaries.
Council amalgamation	Where two or more local governing bodies are amalgamated into a single body, the general purpose grant provided to the new body for each of the four years following amalgamation should be the total of the amounts that would have been provided to the former bodies in each of those years if they had remained separate entities.

4.2 Local Road Grants

Identified road component	The identified road component of the financial assistance grants should be allocated to local governing bodies as far as practicable on the basis of the relative needs of each local governing body for roads expenditure and to preserve its road assets. In assessing road needs, relevant considerations include length, type and usage of roads in each local governing area.
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The principles can be accessed at www.legislation.gov.au



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