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.

METHODOLOGY REVIEW

In 2006-07 as part of its ongoing review of the methodology, the Commission is reviewing two related aspects of the expenditure assessments.

The first part examines the calculation and documentation of the method of depreciation used by each local government in South Australia and the benefit or otherwise of its inclusion into the expenditure assessments.

The second part involves the examination of the range of expenditure functions that are currently included in the Commission’s assessments and any particular problems experienced by Councils which might not be adequately covered within current procedures, and

• to provide a forum for discussion between the Commission and Council with regard to both the grant calculation procedures and any particular problems experienced by Councils which might not be adequately covered within current procedures, 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.

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 between the Commission and Council with regard to both the grant calculation procedures and any particular problems experienced by Councils which might not be adequately covered within current procedures, and

• if necessary, to inspect particular physical features or structures of the area which are considered relevant to the distribution of funds.

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KEY DATES FOR 2006-07

<table>
<thead>
<tr>
<th>Date</th>
<th>Event Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>15 Aug 2006</td>
<td>Earlier date for first quarterly instalment of 2006-07 grants paid</td>
</tr>
<tr>
<td>15 Nov 2006</td>
<td>Second quarterly instalment of 2006-07 grants paid</td>
</tr>
<tr>
<td>30 Nov 2006</td>
<td>General Information Returns, Supplementary Returns and Audited Financial Statements due</td>
</tr>
<tr>
<td>7 Dec 2006</td>
<td>Proposed Methodology Workshop</td>
</tr>
<tr>
<td>31 Dec 2006</td>
<td>Annual Report due</td>
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<tr>
<td>February 2007</td>
<td>Proposed Methodology Workshop</td>
</tr>
<tr>
<td>15 Feb 2007</td>
<td>Third quarterly instalment of 2006-07 grants paid</td>
</tr>
<tr>
<td>15 May 2007</td>
<td>Fourth quarterly instalment of 2006-07 grants paid</td>
</tr>
</tbody>
</table>
For 2006-07, the Commonwealth Government distributed a total of $1.68 billion to the States. South Australia received $116.7 million, which includes both the general financial assistance and identified local road grants.

The general financial assistance component for South Australia was $188.2 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 $28.4 million, which includes a special local road component of $4.5 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 2006-07 allocations there were 68 Councils, the Outback Areas Community Development Trust and five Aboriginal communities eligible for grants.

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

Equalisation refers to the financial capacity of the Council, it does not ensure that the service 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.

### 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 average costs of service provision.

#### Effect 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% 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 peoples within their boundaries.

### 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 of grants.

1. a per capita distribution (to the States) for the general financial assistance component;
2. the continued separate identification of local road funding and maintenance of existing state shares for that funding;
3. a national report on the operation of the Act, specifically the achievement of horizontal equalisation, which is a method used by the Commissions, the provisions of Councils including their efficiency, and the provision of services to Aboriginal & Torres Strait Islander communities; and
4. 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.

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 receive a minimum entitlement per head of population as prescribed in the Commonwealth legislation.

The South Australian Local Government Grants Commission uses a direct approach assessment 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 free Aboriginal Communities), allocations are made on a per capita basis. The initial per capita allocation was determined by an independent consultancy.

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### The Commission's Methodology

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The revenue component estimates a grant component, which depends on which expenditure the standard 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 population) and those for the State as a whole, and multiplying this back by the Council's population.

The SEIFA Index of Economic Resources (Economic Resources) is 1.

The average Council = 1.0 and consequently they are centred around 1.0. In the case of roads, CRLs measure relative costs of factors such as material handling, soil type, rainfall and drainage. CRLs 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 restored road lengths) are averaged over three years.

### 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 equal to what the standardised expenditure of the Council per capita is greater or less than the 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 case 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

CRLs (Cost Relativity Indices) are a measure of a Council's 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.

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### Expenditure Grant Functions

- Aged Care
- Animal & Plant Control
- Emergency Services
- Garbage, Health, Inspec
- Housing, Planning & Buildin
- Public Buses
- Other Needs Assessment
- Roads, Services to Famili
- 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 or set out in the Act, 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.

Council determined limits may then be applied to minimize the impact on Council's budgetary processes. In the calculation of the 2006-07 grants, changes in grant for all Councils range from an increase of 10% to a reduction of 5%, with the exception of Yalata Community Council. Yalata received a per capita, general purpose grant equivalent to Maslinga Tjarra (an increase of 40%).