IDENTIFIED ROAD COMPONENT & SUPPLEMENTARY 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.

Special Local Roads Program

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.

Funding is sourced at the rate of 15% from the Identified Road Component of regional significance. It is responsible for assessing submissions from regional associations on local road projects of regional significance.

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METHODOLOGY REVIEW

The Commission has an ongoing program of reviewing the methodology used in the assessment of Councils capacity to provide an average level of service to their communities. Reviewing the methodology ensures that the Commission, in making recommendations to the State and Commonwealth Ministers for distribution of Financial Assistance Grantees, take into account factors which affect Councils capacity to provide an average level of service, as they develop.

The most recent reviews undertaken by the Commission include a review of the cost relativity indices (previously known as disability factors) and the cost driver for the Stormwater Maintenance Expenditure Function. The results of this review were incorporated into the 2008-09 recommendations.

Previous reviews have investigated ratespayer’s capacity to pay. These investigations resulted in the inclusion of the Socio Economic Index for Areas (SEIFA) – Economic Resources Indicator. This index is issued by the Australian Bureau of Statistics and has been used to modify the valuation assessments in the Financial Assistance Grants recommendations from 2004-05.

While there have been no changes incorporated into the 2009-10 round of grants, the review of the methodology is scheduled to re-commence in 2009-10 in time for the 2010-11 round of grants.

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 base 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.

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

KEY DATES FOR 2009 - 2010

<table>
<thead>
<tr>
<th>Date</th>
<th>Event Description</th>
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<tbody>
<tr>
<td>17 Aug 2009</td>
<td>Earlier Date for payment of the first quarterly instalment of 2009-10 grants</td>
</tr>
<tr>
<td>10-12 Nov 2009</td>
<td>National Conference of Local Government Grants Commissions (Hobart, Tasmania)</td>
</tr>
<tr>
<td>15 Nov 2009</td>
<td>Second quarterly instalment of 2009-10 grants paid</td>
</tr>
<tr>
<td>30 Nov 2009</td>
<td>General Information Returns, Supplementary Return and Audited Financial Statements</td>
</tr>
<tr>
<td>31 Dec 2009</td>
<td>Annual Report due</td>
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<tr>
<td>15 Feb 2010</td>
<td>Third quarterly instalment of 2009-10 grants paid</td>
</tr>
<tr>
<td>15 May 2010</td>
<td>Fourth quarterly instalment of 2009-10 grants paid</td>
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</tbody>
</table>

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 and Advisory and Minister for State/Local Government Relations;

• Mary Patetsos, Commissioner, nominee of the Minister for State/Local Government Relations;

• John Ross, Commissioner, nominee of the Minister for State/Local Government Relations.

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

The Grants Commission’s offices are located on:

7th Floor, Roma Mitchell House, 136 North Terrace, Adelaide, 5000.
Postal address: PO Box 8120, Station Arcade, Adelaide, 5000.
Telephone (08) 8204 8719, Fax (08) 8204 8735
E-mail: grants@sa.gov.au
COMMONWEALTH FINANCIAL ASSISTANCE GRANTS

For 2009-10, the Commonwealth Government distributed a total of $1.93 billion to the States. South Australia received $132.4 million, which includes both the general financial assistance and identified local road grants.

The general financial assistance component for South Australia was $99.7 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 is a proportion of the Australian population declines.

Local Road Component

The identified local road component for South Australia was $32.7 million, which includes a special local road component of $4.9 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 2009-10 allocations there were 68 Councils, the Oakbank Areas Community Development Trust and five Aboriginal communities eligible for grants.

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% 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.

Council Amalgamation (New Principle in 2006-07)

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.

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.

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.

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Commonwealth General Revenue Assistance for Local Government: State Entitlements 2009-2010

Commonwealth General Purpose and Identified Local Roads Grants: State Entitlements 2009-2010

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 for expenditure needs, which is the standardised expenditure of the Council per capita is greater than 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 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. The Average Council is 1.0 and consequently they are centred around 1.0. In the case of roads, CRIs measure relative costs of factors such as material hardship, 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.

Expenditure Grant Functions


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 a total raw grant figure. Where the raw grant calculation per head of population for a Council is less than the per capita minimum entitlement set out in the Act, ($18.66 for 2009-10), 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 2009-10 grants, changes in grant for all councils range from minus 2% to an increase of 9%.