

## BUSINESS PAPERS

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### 10. FINANCIAL ASSISTANCE GRANTS METHODOLOGY

Author: Graham King, Acting Chief Executive Officer, Flinders Shire Council  
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#### EXECUTIVE SUMMARY

The Commonwealth Grants Commission has been asked to identify tangible measures for improving the impact of the Local Government Financial Assistance Grants (FAGs) on the effectiveness of local governments and their ability to provide services to their residents within the current funding envelope. It is to report by December 2013.

One of the questions the Commonwealth Grants Commission has been asked to address is as follows:

“identifying the impact of the Minimum Grants principle on the intra-state distribution of FAGs”

Flinders Shire Council would like to discuss this matter with the NWROC and foreshadows the following recommendation:

#### Recommendation/Action

“The NWQROC write to the Queensland Premier and the Minister for Local Government, Community Recovery and Resilience as well as the Commonwealth Treasurer strongly supporting the total abolition of the “minimum grant principle” under the National Principles for the allocation of grants under the Local government (Financial Assistance) Act 1995 and setting out the reasons”.

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### Financial Sustainability and the Financial Assistance Grants

- In respect to the financial sustainability indicators, provided for under the Local Government Act 2009, namely the operating surplus ratio; net financial liabilities ratio; and capital replacement ratio, the Flinders Shire Council was considered to by the Auditor General in his Report to Parliament to have 'lower' financial risk for the years 2009-10 to 2011-12.

The following is how Council's income is derived:

	2013/14 (\$,000) (Budget)	%	2012/13 (\$,000)	%	2011/12 (\$,000)	
Rates, Levies and charges	3,255		3,155		3,072	
Fees and Charges	504		1,016		797	
Rental Income	133		92		72	
Interest Revenue	157	16.0	325	13.2	452	19.0
Sales Revenue	15,903	63.0	22,957	66.2	11,275	49.0
Other Income	1,706		635		431	
Grants, Subsidies and Donations	3,681	14.5	6,481	18.7	7,062	30.5
<b>Total</b>	<b>\$25,341</b>		<b>\$34,661</b>		<b>23,161</b>	

- From the Table above , for 2012/13 Financial Year, 'own source revenue' accounted for 13.2 per cent of total operating revenue; general purpose grants 18.7 per cent; and Department of Transport and Main Road Contract together with Flood Damage restoration accounts for some 66.2 per cent of total revenue.
- In respect to the 2013/14 Budget, 'own source' revenue accounted for some 16% of total operating revenue; grants 14.5 % and the Department of Transport and Main Roads and Flood Damage around 63 per cent.
- Council's ability to raise 'own source' revenue is very limited with approximately 84% of total general rates coming from the rural property owners who have over many years been exposed to very high production and transport costs with little change in operating income. Residential rates accounts for some 13% of total general rates and commercial and industrial accounting for some 3%.
- While the existing level of total operating revenues have maintained Council's financial sustainability to this point, subject to continued road construction works being available to Council, such level of operating revenues does not provide Council with the ability to deliver improved quality of services that could be considered necessary to grow the population base.

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- Council's labour productivity ratio of some 6 employees per 100 population is in accordance with other rural and remote Councils in Category 1 and 2 local governments.
- Similar financial outcomes as identified above for Flinders are experienced by many rural and remote councils where own source revenue is low, grants are very important component of total revenue and high reliance on external contract works to maintain workforces.
- The QTC has set a benchmark of around 60% for own source revenue for Council's to be operating with some financial flexibility.

### **Council's reliance on road construction works to remain financial sustainable**

- Given Council's very low 'own source' revenue, Council, historically, has relied on external contract work to ensure continuity of work for its workforce. Over the years with flood damage and regular contract work with the Department of Transport and Main Roads this has put Council in a position to offer local employment opportunities in road construction and maintenance.
- As well as undertaking external contract works, Council has just on 2,000km of local roads to maintain and has therefore built up a sizeable plant fleet and together with Main Roads works Council has become a efficient and effective road making authority. This can be verified by the Department of Transport and Main Roads, Cloncurry.
- Council's position is not that funding should be provided by the State for road works so that Council's workforce can be employed. Council's position is that with the level of National and State Highways in the Flinders Shire, an equitable amount of Commonwealth and State funding should be made available for capital road works and that Council's workforce should be given preferred supplier status for the construction and maintenance of such works.

The National and State Highway road system in Flinders Shire consists of a total of:

14B, Flinders Highway East (Charter Towers to Hughenden) – 107.338 km

14C, Flinders Highway West (Hughenden to Richmond) – 198.917 km

99B, Kennedy Developmental Road (Hann Highway, The Lynd – Hughenden) – 162.83 km

99C, Kennedy Developmental Road (Hughenden – Winton) – 117.06 km

5701, Hughenden to Muttaborra Road – 158.78 km

5703, Aramac to Torrens Creek Road – 121.90 km

**Total length of DTMR Network in Shire: 759.487 km (National Network: 198.917km, State Network: 560.57km)**

### **Community Sustainability**

- Council is the biggest single employer in Hughenden and region and significant reduction in its workforce would have a very significant negative economic impact on the town and the region.
- The commercial business operating in Hughenden are finding it hard due to the drought and economic circumstances in generally.

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### Population Decrease

- The population of Flinders Shire has decreased from 2,016 in 2002 to 1,831 in 2012 a decrease of some 9 per cent.
- In respect to North West and Gulf Rural Remote Councils listed below the total estimated resident population between 2002 and 2012 increased by some 6 per cent. However, excluding Mount Isa City, the total resident population fell from 12,690 in 2002 to 12,225 in 2012 representing an overall decrease of some 4 per cent.
- The above only serves to illustrate that, outside the mining industry areas, continual population decrease is likely without increased or new investment in the Region.
- In the MITEZ Report 'Grow Mid Western Queensland Towns Project – Hughenden, Richmond, Julia Creek' the population of the three towns has been decreasing significantly since 1947 and in the case of Flinders population fell by one-third during the period 1947 to 2001.

Local Government	Population 2002	Population 2012	Population Change over 10 years %	Area KM2
Burke	496	555	X +11.9%	40,167
Carpentaria	2253	2186	X -2.9	64,334
Cloncurry	3664	3425	X -6.5	48,117
Doomadgee	1166	1374	X +17.8	1,841
Etheridge	972	924	X -4.9	39,324
Flinders	2016	1831	X -9.2	41,306
McKinlay	1033	1086	X +5.1	40,849
Mount Isa	20276	22628	+11.6	43,314
Richmond	1090	844	X -22.6	26,656
Total	32,966	34,853	+5.7	345,908
Qld Total	3,653,123	4,565,529	+25.0	1730648

302,594 ✓

Source: ABS 3218.0, Regional Population Growth, Australia 2012

### Financial Assistance Grants

- As shown above, Council relies on external grant funding to remain financially sustainable. Revenue from Financial Assistance Grants is the single most important revenue source for Council. This is the same for other Special, Category 1 and Category 2 local governments. Commission.
- Council considers that the only way to improve the quality of services is for local government in rural and remote areas, where the opportunity to increase 'own source revenue' is very limited, is through a greater share of the Commonwealth Financial Assistance Grants Program.

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- Over the past 12 months the Commonwealth Grants Commission has been undertaking a review of the Financial Assistance Grants scheme.
- The Commonwealth Grants Commission has been asked to identify tangible measures for improving the impact of the Local Government Financial Assistance Grants (FAGs) on the effectiveness of local governments and their ability to provide services to their residents within the current funding envelope. It is to report by December 2013.
- One of the questions the Commonwealth Grants Commission has been asked to address is as follows:
  - “identifying the impact of the Minimum Grants principle on the intra-state distribution of FAGs”
- In addressing the matter of the “impact of the Minimum Grant principle on the intrastate distribution of FAGs” the Qld State Grants Commission stated, in its submission to the Commonwealth Grants Commission Review stated:

*“It is the opinion of the (Queensland State) Commission that the minimum grant be maintained at the existing level of 30%. Queensland local governments have historically accepted the minimum grant at the level of 30%. If a change was recommended, there would be difficulty in ascertaining a more appropriate percentage. Preliminary modelling indicates that any change in the level of minimum grant would cause substantial disruption to the group of councils that are either only entitled to the minimum grant or those that receive an additional minimal amount of fiscal equalisation funding. The modelling indicated that over 60% of the Queensland population resides in a local government area that would be adversely affected by the removal of this principle.*

*Additionally, many amalgamated councils are still adjusting to the reduction in General Purpose Grant (GPG) funding as a result of the removal of the Amalgamation Principle in 2012/13. For some larger amalgamated councils, further decreases in funding levels as a result of the removal of the minimum grant would cause added distress on both short and long-term finances. It is the opinion of the Commission that an increased level of minimum grant funding would leave too little for appropriate distribution of the remaining fiscal equalisation funding, resulting in inequities to the local governing bodies that are reliant on FAG funding.”*

It is submission to the same Review the Queensland Local Government Association stated:

**“Table 3.1: Minimum Grant Councils Queensland 2012/13**

	GPG Allocation 12/13	Population 2011
Brisbane	\$20,873,751	1,089,743
Cairns	\$3,292,092	162,740
Gold Coast	\$10,376,652	513,954
Ipswich	\$3,342,479	172,147
Logan	\$5,559,907	287,517
Moreton Bay	\$7,538,147	389,661
Redland	\$2,803,200	143,628
Sunshine Coast	\$6,484,086	316,858

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State Total GPG	\$295,069,872	4,470,631
GPG to minimum grant councils	\$60,270,314	20.4%
Population in minimum grant councils	3,076,248	69%

Source: Qld LGGC and ABS 3218.0

While the minimum grant does detract from what is regarded as the primary aim of FAG in relation to horizontal fiscal equalisation, the key arguments for retaining the minimum grant appear to be:

- They are a safety net against the possibility of errors in LGGCs' assessments;
- Every council receives a share of Commonwealth assistance and this helps to address the narrowness of local government's tax base;
- They come at a small cost to other councils as removing them completely would increase the available pool by less than 10% nationally, although potentially more in Queensland; and
- They are a long standing element of the financial assistance scheme, and removal of these grants would have a significant impact on councils currently on the minimum.

The key issue to consider is the first purpose of FAG in relation to improving the financial capacity of local government bodies (vertical fiscal equalisation).

This purpose would not appear to be achieved if more than 60% of the population in a State did not receive a GPG. In addition, the "safety net" concept is essentially about the potential for LGGCs to "get it wrong" when assessing horizontal fiscal equalisation across a large number of diverse recipients.

Given the differences in methodology between LGGCs particularly in relation to the assessment of revenue capacity, this is a very real issue. In NSW for example, the LGGC effectively discounts the impact of the revenue capacity assessment whereas in Queensland the "scaling back" approach effectively increases the significance of the revenue capacity assessment.

On balance, LGAQ considers that the minimum grant should be retained with each council entitled to receive, as a minimum, 30% of its per capita share of the GPG.

The New South Wales State Grants Commission stated to the same question:

***"We note the tension between the objectives of the Act; equalisation principles; and the minimum grant.***

- ***We can see no basis for the current 30 per cent minimum.***
- ***Our preferred position is for the removal of the minimum grant principle.***
- ***If the minimum grant principle were to be retained our preferred position is at a lower level.***
- ***If the minimum grant were to be removed or changed then flexible phase-in arrangements should apply."***

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In regard to the Henry Review of Australia's Future Tax System, the Report states:

*"There seems little reason that local government with large fiscal capacities should receive a guaranteed minimum grant which allows them to tax their residents less than they otherwise would at the expense of local governments with relatively small fiscal capacities which result in them taxing their residents more than they otherwise would. The current requirement that each council receives 30 per cent of its per capita share of untied financial grants may prevent State grants commissions from redistributing to councils that require greater assistance".*

Refer Table attached:

- With respect to the 2012-13 Financial Assistance Grant Allocations, there were 8 local governments in Queensland that received the 'minimum grant' only. These Council's account for some \$60.3 million of the total per capita pool of \$88.5 million. It is a fact that Council's that receive the 'minimum grant' only have an 'assessed revenue raising capacity' greater than their 'assessed expenditure need'. Therefore under strictly 'horizontal' fiscal equalisation principles, these councils would not be receiving any general purpose grants if the 'minimum grant' principle did not apply.
- Flinders Shire Council considers that the current 'minimum grant' national principle should be abolished by the Commonwealth which would allow the whole of the 'general purpose' pool of funding to be distributed on a 'horizontal fiscal equalisation' basis. This change could deliver significantly higher general purpose grants to Special, Category One and Category Two local governments, which have limited capacity to increase 'own source' revenue.
- Flinders Shire Council considers that the total General Purpose Grant pool should be distributed on a horizontal equalisation basis and that the Queensland State Government should ask the State Grants Commission to review its position in this regard.
- Given the current financial constraints on rural and remote Council's revenue raising ability, for the State Grants Commission to be more concerned with those Council's with an 'assessed revenue capacity' greater than their assessed expenditure need' requires urgent justification.
- The State Grants Commission should be more concerned with local governments, such as those in North West Qld, with decreasing populations, lack of community infrastructure, and complete reliance on scarce grant funding to fund new capital works services, rather than be concerned for Council's whose general purpose grants are a mere fraction of their total operating revenues compared to Councils such as Flinders and other Special, Category 1 and Category 2 local governments. For example, Flinders Shire Council's total general purpose Grant for 2012-13 was \$3,764,655 and represented 11 per cent of total operating revenue. Brisbane City Council received a total general purpose grant of \$20,873,751 which represented less than 1 per cent of total income. Gold Coast City Council received a total general purpose grant of \$10,376,652 for 2012-13 which represented just over 1 per cent of total operating revenue for 2011/12.

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### Future Economic and Community Development

- It is difficult for Council's to play any significant role in implementing needed community development initiatives (and thereby attracting and retaining people to live in rural and remote communities) when they have to rely on scarce external grant funding to fund such activities, particularly capital improvements.
- Increased funding through Financial Assistance Grants is the only way local governments with very limited 'own source' revenue will become less reliant on State and Commonwealth Government to fund their operations, particularly in the short to medium term. Given the Financial Assistance Grants were introduced to assist councils with less capacity to raise revenue, the abolition of the 'minimum grant' component will allow the full general purpose grant component to be distributed on a full horizontal equalisation basis.
- Council's received a recent letter from the Premier and the Minister for Local Government regarding the importance of Tourism to the Queensland economy and asking councils to stop relying so heavily on assistance from state and federal government and to get creative in the way they capitalise on their local resources.
- It is hard to identify, with own source revenue so limited, how Councils such as Flinders are going to be able to take up the Premier's challenge without additional general purpose revenue.
- In regard to the new Commonwealth Government plans for 'stronger regions' fund:

**Source: The Australian August 29<sup>th</sup>**

***"A Coalition government would roll out a \$1 billion fund to support regional areas and set its own road and rail priorities, but scrap any Rudd government programs that are not under signed contract.***

***Nationals leader Warren Truss today said the Coalition would spend \$200 million a year over five years of a new national stronger regions fund.***

***Mr Truss said the fund, to start in 2015, would be used for social and economic infrastructure in regions with high unemployment.***

***Each project would require a 50 per cent matching contribution from the proponent or local or state government."***

- Where are Councils in rural and remote areas going to get 50/50 funding from with such limited 'own source' revenue. Take a significant project of some \$2 million. Where do we get \$1million in funding from to be able to implement meaningful projects?
- If Council had access to a greater share of Financial Assistance Grants it may have some hope.



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GENERAL PURPOSE FINANCIAL ASSISTANCE GRANTS 2012/2013			
Local Government	Est. Resident Pop.	\$19.34 P/C	2012-13 Cash
	2011		
Aurukun	1203	23,266	1,772,362
Balonne	4847	93,740	3,246,894
Banana	15593	301,568	5,495,947
Barcaldine	3416	66,065	4,727,392
Barcoo	344	6,652	2,745,855
Blackall-Tambo	2084	40,304	2,824,547
Boulia	471	9,109	2,070,684
Brisbane	1079392	20,875,441	20,873,751
Bulloo	377	7,291	3,776,382
Bundaberg	97762	1,890,717	5,064,161
Burdekin	18535	358,466	2,226,325
Burke	566	10,946	2,679,769
Cairns	170586	3,299,135	3,292,092
Carpentaria	2140	41,387	3,664,146
Cassowary Coast	31263	604,626	2,180,123
Central Highlands	31784	614,702	6,131,984
Charters Towers	12978	250,994	4,557,967
Cherbourg	1303	25,200	407,209
Cloncurry	3428	66,297	3,711,693
Cook	4222	81,653	6,580,503
Croydon	270	5,222	2,208,799
Diamantina	326	6,305	2,138,334
Doomadgee	1298	25,103	970,685
Etheridge	931	18,005	2,880,921
Flinders	1810	35,005	3,764,655
Fraser Coast	103358	1,998,943	3,714,531
Gladstone	62319	1,205,249	5,548,331
Gold Coast	536480	10,375,523	10,376,652
Goondiwindi	11437	221,191	4,416,884
Gympie	50011	967,212	3,331,445
Hinchinbrook	12258	237,069	1,381,688
Hope Vale	858	16,593	718,103
Ipswich	172738	3,340,752	3,342,479
Isaac	22956	443,969	3,663,836
Kowanyama	1207	23,343	1,216,968
Lockhart River	640	12,377	1,134,379
Lockyer Valley	37367	722,677	2,541,868
Logan	287472	5,559,708	5,559,907

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Longreach	4384	84,786	5,822,987
Mackay	121072	2,341,532	3,983,623
Mapoon	270	5,222	918,411
Maranoa	13422	259,581	10,289,875
McKinlay	951	18,392	3,485,782
Moreton Bay	389684	7,536,488	7,538,147
Mornington	1109	21,448	1,439,339
Mount Isa	22091	427,240	3,276,673
Murweh	4930	95,346	4,881,167
Napranum	968	18,721	776,168
North Burnett	10832	209,490	7,276,386
Northern Peninsula Area	2441	47,208	3,164,252
Palm Island	2258	43,669	869,065
Paroo	1957	37,848	3,305,754
Pormpuraaw	708	13,692	979,165
Quilpie	1034	19,997	3,445,318
Redland	144936	2,803,062	2,803,200
Richmond	938	18,141	2,779,533
Rockhampton	116722	2,257,403	5,714,514
Scenic Rim	38617	746,853	1,819,312
Somerset	23137	447,469	1,975,183
South Burnett	33406	646,072	5,380,098
Southern Downs	36367	703,337	5,472,957
Sunshine Coast	335273	6,484,179	6,484,086
Tablelands	47282	914,433	6,231,777
Toowoomba	163936	3,170,522	10,097,196
Torres	3700	71,558	2,779,385
Torres Strait Island	5035	97,376	9,005,356
Townsville	189931	3,673,265	4,265,593
Western Downs	32831	634,951	13,592,593
Whitsunday	35065	678,157	3,023,933
Winton	1430	27,656	3,906,605
Woorabinda	1033	19,978	369,447
Wujal Wujal	363	7,020	338,648
Yarrabah	2739	52,972	638,093
<b>Total</b>	<b>4,575,679.00</b>	<b>88,516,869</b>	<b>295,069,872</b>

Notes: Councils with Per Capita Grants only have assessed revenue capacity greater than the assessed expenditure needed. Of the \$88,516,869 (30% of total General Purpose Grant) these 8 Councils identified in red account for some \$60,270,314, which represents 68 per cent of this pool.

Special, Cat 1 and 2 Councils are identified in Blue and represent 37 of the 73 local governments in Qld.