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Western Australian Regional Development Trust

Issues Paper

Review of the Royalties for Regions Country Local Government Fund

August 2011

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Invitation to provide submissions to the Review of the Country Local Government Fund

The Minister for Regional Development; Lands has referred a review of the Country Local Government Fund (CLGF) to the Western Australian Regional Development Trust (Trust) pursuant to section 12(b) of the *Royalties for Regions Act 2009* (Act).

The Trust is an independent statutory body established under the Act that provides advice and recommendations on the allocation and management of funds from the Fund.

The CLGF is in its fourth year of operation and the Trust will conduct an independent, evidence-based review.

The CLGF is one of three subsidiary accounts of the Royalties for Regions Fund (Fund) established under the Act. The CLGF was originally a four-year budget program. Section 5(1)(a) of the Act went beyond this timeframe, as it gave the CLGF permanence by entrenching it as a subsidiary account of the Fund.

The Trust's own consultation over the past year has led it to believe that overall to date, the CLGF expenditure has been welcomed and valued by regional local government and regional communities, and that there has been a need for an individual local government component to the Fund, for small community grants, and for sub-regional pooled grants.

There has been debate and commentary on the CLGF policy and performance to date, including matters of quantum, design, process, governance, allocation, timelines and execution.

The purpose of the Review is to determine whether there is a continuing need for the CLGF, and if so, in what form, with what budget parameters, and with what purpose.

In undertaking this Review, the Trust will seek the views of and consult with relevant stakeholders. Submissions are particularly sought from those with a direct interest in the CLGF, but written submissions are welcome from any source.

Submissions are due by 31 October 2011, and consultation will occur thereafter. The Review report will be presented to the Minister by the end of January 2012.

I encourage you to take the time to make a submission to the Review. Your views and experiences will be important to the Trust in forming its conclusions.

Andrew Murray
Chair
Western Australian Regional Development Trust

1 Key Dates

The Trust has to report by 31 January 2012. To enable the Trust to consult with relevant stakeholders in 2011, it would be appreciated if written submissions could be sent in as early as practicable, but no later than 30 October 2011.

2 Extract from the Terms of Reference¹

The issues for Trust consideration in the Review are:

“Overall, whether there is a continuing need for the CLGF, and if so, in what form, with what budget parameters, and with what purpose.

1. The extent to which the stated aims of the CLGF are being met, in particular, have the objectives of the CLGF been materially achieved:
 - how the CLGF is addressing local governments’ infrastructure backlogs and enhancing local governments’ capacity building
 - how the financial sustainability of country local governments is being improved through improved asset management
 - the effectiveness of funds directed to voluntary amalgamation
 - how CLGF is assisting groups of country local governments to fund larger scale infrastructure projects
 - the effect or impact of funds allocated under the CLGF
2. Whether country local government or the Department of Regional Development and Lands has experienced difficulties in applications and approvals, executing, acquitting, reporting, or managing projects under the CLGF.
3. The efficacy of the current formula in allocating funds to individual and groups of local governments, including whether this approach should be retained reformed or replaced²
4. The appropriate proportional allocation of funding between individual, group and regional components over time
5. The scope of initiatives that should be funded and in particular, whether the existing focus on infrastructure and capacity building should be retained, narrowed, broadened or otherwise changed
6. Matters that would improve the efficiency and effectiveness of the Fund’s implementation including the existing processes for forward capital works development, and business plan development.
7. Any other relevant matters.”

¹ The full Terms of Reference - Review of the Royalties for Regions CLGF is contained in Attachment A of this document.

² The current formula is outlined in Attachment B of this document.

3 CLGF in the context of the Act

The CLGF will be assessed by the Trust in the context of the Act.

Section 4 Object

The object of this Act is to promote and facilitate economic, business and social development in regional Western Australia through the operation of the Fund.

Section 5 Subsidiary accounts of Fund

- (1) The Fund is to consist of the following subsidiary accounts-
 - (a) the Country Local Government Fund;
 - (b) the Regional Community Services Fund;
 - (c) the Regional Infrastructure and Headworks Fund;
 - (d) any other account determined by the Treasurer, on the recommendation of the Minister, to be a subsidiary account.
- (2) The Treasurer, on the recommendation of the Minister, is to determine from time to time the way in which money standing to the credit of the Fund is to be allocated between the subsidiary accounts.

Section 9(1) Application of Fund

- (1) The Minister, with the Treasurer's concurrence, may authorise the expenditure of money standing to the credit of the Fund for the following purposes-
 - (a) to provide infrastructure and services in regional Western Australia;
 - (b) to develop and broaden the economic base of regional Western Australia;
 - (c) to maximise job creation and improve career opportunities in regional Western Australia.

4 CLGF – History and Program

The Trust is advised that a major reason for establishing the CLGF was to address an infrastructure backlog identified in a 2006 report. The report was sponsored by the Western Australian Local Government Association (WALGA), and had estimated a \$1.75 billion infrastructure backlog that existed in Western Australia.³

A recommendation of the report was that WALGA develop a campaign strategy to leverage funding, to eliminate the infrastructure backlog in conjunction with improved asset management practices, recognising that sustainable progress will not be made on reducing the backlog, unless additional annual revenues of approximately \$120 million per year are secured, based on current calculations of the infrastructure deficit.

The CLGFs overall aims are to:

- address infrastructure needs and support capacity building;
- improve the financial sustainability of country local governments in Western Australia through improved asset management;
- provide financial assistance to country local governments which choose to amalgamate voluntarily; and
- assist groups of country local governments to fund regionally significant infrastructure projects.

CLGF program delivery⁴

- The Department of Regional Development and Lands (RDL) administers and monitors CLGF expenditure.
- The Department of Local Government (DLG) delivers capability building programs to individual local governments and groups of country local governments, funded through CLGF. This includes assistance towards the development of strategic plans, asset management plans, the costs of amalgamation; and scoping plans to cost the delivery of municipal services to Aboriginal communities.
- Regional Development Commissions (RDCs) facilitate the Regional Group projects that have been developed through a regional planning process. Applicants are required to include a letter of support from their local RDC, specifically commenting on the strategic and regional relevance of the application.

³ See the December 2006 report “In Your Hands – Shaping the Future of Local Government in Western Australia”, sponsored by the WALGA.

⁴ Please see the RDL website for further information on the CLGF program and funding rounds <http://www.rdl.wa.gov.au/grantandfunding/country/Pages/For-Country-Local-Gov.aspx>

Some issues

Public debate and commentary on CLGF policy and performance to date has included matters of quantum, design, process, governance, allocation, timelines and execution.

Through the current formula, CLGF funding is primarily directed to population. Western Australia's population is concentrated in the south of the State; the shires are similarly concentrated in the south of the State. Consequently the regional allocation of the CLGF has been concentrated to the south of the State, as shown by this approximate summary of allocations:

North:	Kimberley, Pilbara, Gascoyne regions – 18%
Mid:	Mid West, Goldfields regions – 23%
South:	Peel, Great Southern, South West, Wheatbelt regions – 59%

• 2008-09

In 2008-09, over 600 projects totaling \$97.5 million were funded from the Royalties for Regions' CLGF first round allocation. Allocations for the first year of the fund ranged from a minimum of \$469,000 to \$2 million. Expenditure of CLGF allocations were directed to individual local government infrastructure asset renewal and/or infrastructure asset creation.⁵ A total of \$98.281 million was disbursed in 2008-09.

• 2009-10

As a result of the Global Financial Crisis in this year the Minister decided to defer expenditure. The overall allocation to Royalties for Regions dropped and funding available for CLGF was reduced. Nevertheless some expenditure was directed to forward planning. In recognition of the need for local government to adequately plan for forward capital works an amount of \$10 million was made available through the CLGF in 2009-10 as follows⁶:

Local Government Authorities

Up to \$35,000 was provided to each country local government to access expertise to develop a forward capital works plan consistent with strategic plans and asset management plans. The provision of adequate forward capital works plans, informed by strategic and asset management plans, was a pre-requisite to accessing individual local government allocations from the CLGF in 2010-11. A total of \$3.85 million was disbursed.

Department of Regional Development and Lands

With the transfer of the CLGF from the DLG in April 2010, RDL received an allocation for administration. A total of \$275,000 was disbursed to RDL.

⁵ Information sourced from the Royalties Regions Progress Report December 2008 – June 2009 and further detail is available in the Progress report at <http://www.rdl.wa.gov.au/publications/Pages/Reports.aspx>

⁶ Information sourced from the Royalties for Regions Progress report 2009-10 and further details on allocations for country local governments is available at <http://www.rdl.wa.gov.au/grantandfunding/country/Pages/For-Country-Local-Gov.aspx>

Regional Development Commissions

Up to \$100,000 was provided through each RDC to support regional groups of country local governments in the nine regions to identify, scope and plan their regional infrastructure priorities. The provision of adequate business cases for each regional priority infrastructure project that were put forward was a pre-requisite to accessing the regional component of CLGF in 2010-11. Approximately \$900,000 was disbursed.

Department of Local Government

The DLG was provided with \$2.47 million to deliver complementary capacity building initiatives, with a particular focus on strategic and asset management planning. In addition, up to \$2.50 million was provided to DLG to assist those local government groups who had formalised their position and wished to proceed to amalgamation by investing in, for example, common operating systems and infrastructure. A total of \$4.97 million was disbursed.

- **2010-11**

In 2010-11 funds were allocated 35 percent to regional groups of country local governments and 75 percent to individual local governments.

The intention of the regional groupings component was to provide financial assistance to local governments to fund larger scale infrastructure projects which clearly demonstrate wider community benefits across a region. Regional Groups may include Regional Collaborative Groups, Regional Transitional Groups, those local governments that have agreed to amalgamate, regional organisations of councils, strategic alliances or any other grouping of local governments that wishes to work together for the purpose of delivering a regionally significant infrastructure project.

Groups were required to provide RDL with a completed CLGF 2010-11 Regional Groups Application Form and attach a completed Business Case for each project for which CLGF funding is requested prior to entering into a Financial Assistance Agreement (FAA) with RDL.

For individual local governments expenditure of allocations was to be on individual local government infrastructure asset renewal and/or infrastructure asset creation. The CLGF is aimed at encouraging additional expenditure by the local government on planned infrastructure needs. The local government received its 2010-11 allocation upon RDL's receipt of a satisfactory acquittal of the 2008-09 allocation and approval of the local government's forward capital works plan, and upon entering into a FAA with RDL.

- **2011-12**

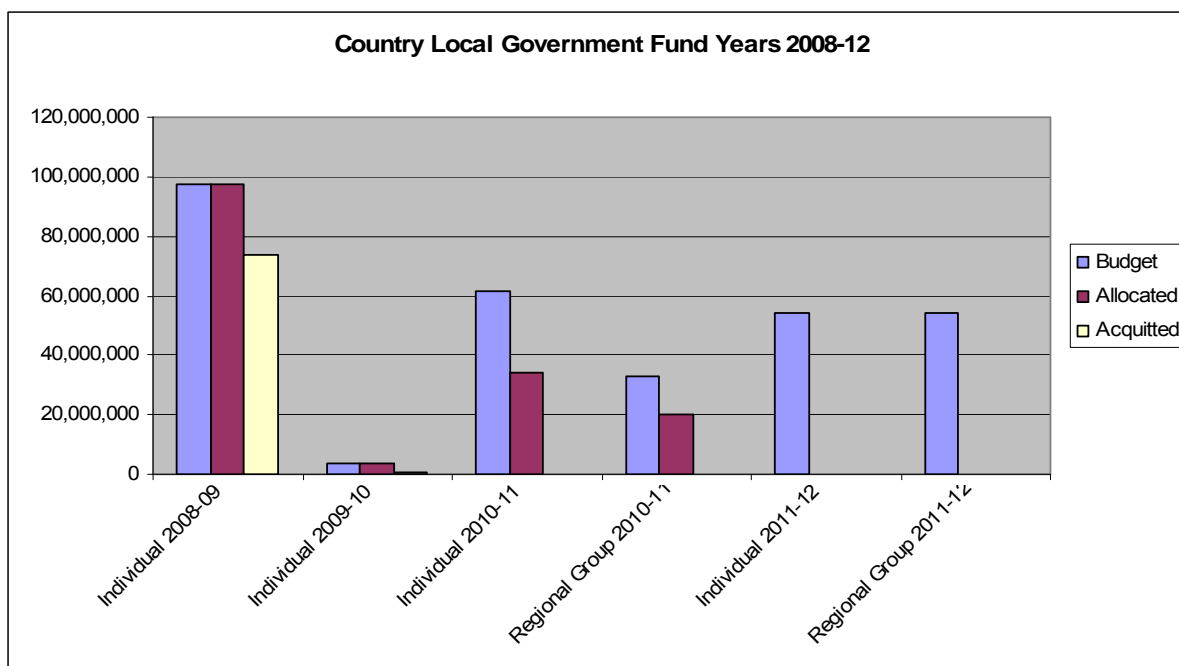
The CLGF 2011-12 funding will be provided to individual country local governments and groups of country local governments for infrastructure asset renewal and/or infrastructure asset creation.

The 2011-12 allocations have been finalised for individual local governments and groups of local governments.⁷

The Trust is advised by RDL that guidelines for applying for the CLGF 2011-12 funding will be available in ‘the near future’.

The following graph summarises the total CLGF budget, allocations and acquitted funds for Regional Groups and Individual Components by year of funding.

Graph 1 - Country Local Government Fund Years 2008-12⁸



⁷ CLGF allocations for 2011-12 are available at <http://www.rdl.wa.gov.au/grantandfunding/country/Pages/2011-12-Funding.aspx>

5 CLGF Funding

The following table summarises the total CLGF budget, allocations and acquitted funds for Regional Groups and Individual Components by year of funding.

Table 1 - Country Local Government Fund Years 2008-12⁹

	Individual 2008-09 100% CLGF Allocation	Individual 2009-10 (Planning)	Individual 2010-11 (65% CLGF Allocation)	Regional Group 2010-11 (35% CLGF Allocation)	Individual 2011-12 (50% CLGF Allocation)	Regional Group 2011-12 (50% CLGF Allocation)
Budget	97,500,000	3,850,000	61,464,000	33,096,000	54,030,000	54,030,000
Allocated ¹⁰	97,500,000	3,850,000	34,263,046	20,225,298		
Acquitted	73,726,814	315,000				

Key for Graph 1 and Table 1:

- Allocated – Funds committed to the shire to be provided to a project and spent accordingly.
- Acquitted – Funds which have received audited acquittals from an independent registered auditor.
- Regional Group refers to any grouping of local governments that agrees to work together for the purpose of delivering a regionally significant infrastructure project. Examples include:
 - Regional Collaborative Groups
 - Regional Transitional Groups
 - Local governments which have amalgamated or are undergoing amalgamation
 - Regional organisations of councils
 - Strategic alliances
 - Regional local governments
 - Informal groups that sign an agreement to undertake a specific CLGF Regional Group project.

Attachment C to this Issues Paper details the CLGF Budgets the 2008-09 to 2011-12 financial years and by region and shire with figures as at 26 August 2011.

⁹ These figures are current as at 30 June 2011.

¹⁰ Please note money is only allocated to local governments once they have acquitted the previous years funding and have completed their FAA

6 Submissions and Consultation

How to provide a submission

The Trust has not established a particular template for submissions. Your submissions should address the Issues for Consideration in the Terms of Reference (Attachment A). It is not necessary to address all the issues. If you have any other issues you would like to raise in your submission that are relevant to the CLGF you are welcome to do so.

Please note in your submissions which particular issue you are responding to and please provide an executive summary in your submission.

The Trust is interested in getting feedback from a variety of stakeholders who have been involved with the CLGF. If you represent a group or organisation please provide those details in your submission.

The Trust has been asked to consider whether there is a continuing need for the CLGF, and if so, in what form, with what budget parameters, and with what purpose – the Trust asks that you take a strategic longer-term view in addressing these issues.

Submissions and any enquiries regarding the Issues Paper should be directed to the Trust's Executive Officer Michele Howard. Submissions can be emailed, mailed or faxed. The Trust asks that submissions be submitted as early as practicable, but no later than 31 October 2011.

The email address for submissions is clgfreview@rdl.wa.gov.au. Further contact details are in the last page of this document.

Responses to the Submissions and Consultation

In addition to taking evidence from written submissions, the Trust will be consulting with as many stakeholders as is possible within the relatively short period of time before it has to report. This will include meetings with individual stakeholders and meetings with groups, for example regional groups of country local governments.

Apart from an acknowledgement of receipt, the Trust will not be responding directly to individual submissions. However, where necessary the Trust may contact you with questions arising from your submissions.

Confidentiality and FOI for Submissions

Your feedback may be quoted in the final report. Please note that submissions will be made publically available at the conclusion of the Review on the Trust's website.

If you do not want your written evidence automatically made public, please mark your submission 'CONFIDENTIAL'. Please note however that even if marked confidential the requirements under the *Freedom of Information Act 1992* will apply.¹¹

Reporting

The Trust is due to report to the Minister by 31 January 2012.

7 Provision of services and facilities to the Trust

Pursuant to section 27 of the Act RDL provides the Trust with the services and facilities necessary for the Trust to perform its function. RDL will provide the Trust with assistance for the Review, which will include staff to assist with research, analysis and secretariat support.

8 Contact Details for Review

Contact details for the Review of the Royalties for Regions CLGF are:

Email address for submissions: clgfreview@rdl.wa.gov.au

Street Address:

Review of the Royalties for Regions Country Local Government Fund
Western Australian Regional Development Trust
Level 2, 140 William Street, Perth WA 6000

Postal Address:

Review of the Royalties for Regions Country Local Government Fund
PO Box 1143
West Perth WA 6872

Support for the Review:

Michele Howard
Executive Officer, Western Australian Regional Development Trust
Direct phone: (08) 6552 4498
Fax: (08) 6552 4417
Freecall: 1800 735 784 (Country callers only)
Email: michele.howard@rdl.wa.gov.au (**not for submissions**)

The Trust's website is located on the RDL website at:

<http://www.rdl.wa.gov.au/aboutus/partners/RegionalDevelopmentTrust/Pages/default.aspx>

¹¹ The Western Australian Freedom of Information Act 1992 (the FOI Act) gives people the right to apply for access to documents held by State Public Sector agencies which includes: Government Departments; Local Authorities; Statutory Authorities and Ministers. The Trust is subject to FOI requirements. The FOI Act can be accessed at: http://www.slp.wa.gov.au/legislation/agency.nsf/foi_menu.htmlx

Attachment A - Terms of Reference

TERMS OF REFERENCE FOR THE REVIEW OF THE ROYALTIES FOR REGIONS COUNTRY LOCAL GOVERNMENT FUND

Purpose of the Review

The Country Local Government Fund (CLGF) is in its fourth year of operation. The CLGF was originally a four-year budget program. S5(1)(a) of the *Royalties for Regions Act 2009* (Act) went beyond this timeframe, as it gave the CLGF permanence by entrenching the CLGF as a subsidiary account of the Royalties for Regions Fund.

The purpose of the Review is to determine whether there is a continuing need for the CLGF, and if so, in what form, with what budget parameters, and with what purpose.

BACKGROUND

The CLGF is one of three subsidiary accounts of the Royalties for Regions Fund (Fund) established under the Act.

On 15 December 2008, the Minister for Regional Development and Lands (Minister) launched CLGF with \$400 million over four years to assist country local governments to build and maintain their community infrastructure.

The Fund's stated aims are to:

- address infrastructure backlogs and support capacity building
- improve the financial sustainability of country local governments in WA through improved asset management
- provide financial assistance to country local governments which choose to amalgamate voluntarily
- assist groups of country local governments to fund larger scale infrastructure projects.

Who is to conduct the Review

The Western Australian Regional Development Trust (Trust) is established under the Act. The Trust is an independent statutory body that provides advice and recommendations to the Minister on the allocation and management of funds from the Fund. The Trust is the appropriate body to conduct the Review.

Timing

The Review is to be conducted in the 2011-12 financial year and presented to the Minister by the end of January 2012.

ISSUES FOR CONSIDERATION IN THE REVIEW

Overall, whether there is a continuing need for the CLGF, and if so, in what form, with what budget parameters, and with what purpose.

1. The extent to which the stated aims of the CLGF are being met, in particular, have the objectives of the CLGF been materially achieved:
 - how the CLGF is addressing local governments' infrastructure backlogs and enhancing local governments' capacity building
 - how the financial sustainability of country local governments is being improved through improved asset management
 - the effectiveness of funds directed to voluntary amalgamation
 - how CLGF is assisting groups of country local governments to fund larger scale infrastructure projects
 - the effect or impact of funds allocated under the CLGF.
2. Whether country local government or the Department of Regional Development and Lands has experienced difficulties in applications and approvals, executing, acquitting, reporting, or managing projects under the CLGF.
3. The efficacy of the current formula in allocating funds to individual and groups of local governments, including whether this approach should be retained reformed or replaced
4. The appropriate proportional allocation of funding between individual, group and regional components over time
5. The scope of initiatives that should be funded and in particular, whether the existing focus on infrastructure and capacity building should be retained, narrowed, broadened or otherwise changed
6. Matters that would improve the efficiency and effectiveness of the Fund's implementation including the existing processes for forward capital works development, and business plan development.
7. Any other relevant matters.

REQUIREMENTS

In conducting the Review the Trust will consult with relevant stakeholders, including but not limited to:

- Country local governments
- Western Australian Local Government Association and its zones
- Local Government Managers Australia (Western Australia)
- Department of Regional Development and Lands
- Department of Local Government
- Regional Development Commissions
- Regional Development Council
- Office of the Auditor General
- Minister for Regional Development
- Minister for Local Government
- Parliamentary Secretary to the Minister for Regional Development
- Regional Development Australia
- Appropriate industry bodies.

Attachment B - Formula for the Country Local Government Fund

The CLGF formula uses WA Local Government Grants Commission (LGGC) factors which attend to needs components¹²; equalisation criteria¹³; and roads components¹⁴. This formula was first applied in the determination of CLGF grants in 2008-09.

Allocations will be determined on the basis of population and needs

(1) The population formula used to determine the funding allocation for each of the 110 councils was as follows:

Formula

$$1) A_i = k.p_i + R/2(g_i+r_i)$$

or

$$A_i = k.p_i + R/2.g_i + R/2.r_i$$

where

A_i is the final funding allocation to a local government;
 p_i is the local government population used in the 2007 LGGC Financial Assistance Grants assessments; and
 i represents each country local government.

$$2) k = CG/Pop$$

where

CG is total allocation of funds and
Pop is the total country local government population used in the (2007) LGGC Financial Assistance Grants assessments.
In 2007, CG was \$97,500,000

$$3) \$400,000 < k p_i < \$900,000$$

that is

$k p_i$ is constrained to be in the range [\$400k to \$900k]

$$4) R = CG - \sum k p_i$$

that is

R is the difference (residual) between the total allocation (CG) and the sum of constrained allocations to individual local governments ($\sum k p_i$).

¹² The total Financial Assistance Grant pool (both general purpose and roads allocation) is the surrogate measure for need.

¹³ Where local governments have limited capacity to fund service provision needs.

¹⁴ Reflecting asset preservation needs reflecting different road lengths, standards and costs.

$$5) g_i = G_i / \sum G_i$$

where

G_i is the local governments FAG grants amount arising from needs assessment by the LGGC

$$6) r_i = R_i / \sum R_i$$

where

R_i is the local governments Road grants amount arising from roads assessment by the LGGC

(2) The needs criteria used to determine the Country Local Government Fund allocation to the 110 councils are included within the assessments of the WA Local Government Grants Commission, which annually assesses revenue capacity and expenditure needs using key data, and approximately 20 disability factors, to determine horizontal equalisation funding requirements. It also uses detailed road inventory data and regional costings to assess asset preservation needs for each local government as a basis for allocating local road grants. A local government's share of these allocations was considered to be a suitable indicator of funding needs.

To achieve the above, the following steps were undertaken:

1. Calculate each local government share of the total Financial Assistance Grant pool (both general purpose and roads allocations) (this is the surrogate measure for need)
2. Calculate the per capita allocation, if the whole pool was allocated on population basis

\$97.5m for 565,000 people
Equates to \$172.50 per capita

3. Work out the allocation to each local government if the whole pool was allocated on population basis,
Equates to \$172.50 times the population of each local government
The sum of these allocations should be \$97.5m
4. A decision was made to limit the influence of population on the final allocations, such that there was a minimum population component of \$400,000 and maximum population component of \$400,000.

These limits and caps on the allocation are calculated via 'IF' statements.

Some local governments will be allocated \$400,000, and some \$900,000, with the balance receiving a floating figure between these two figures based on population.

5. Sum the allocations to each councils calculated in step 4.
\$61.15m allocated on population basis
Balance of \$36.35m of pool can be allocated on basis of need (step 1)
6. For each local government, work out the entitlement by summing the population component (step 4) and the needs component (step 5).
The sum of these allocations should be \$97.5m

Any additional funds can be allocated on a basis of the existing percentage share of the \$97.5m pool.

Attachment C - CLGF Budget

By Regional Groups and Individual Local Governments (C.1)

and

Country Local Government Fund 2008-09 to 2011-12 (C.2)

(Attached as separate files)