

Financial Assistance Grants 2022-23

Fact Sheet 2 of 2022

Local Government Financial Assistance Grants are paid to local councils to help them deliver services to their communities. The funds are paid annually by the Australian Government. Councils are free to use these funds at their discretion and are accountable to their communities. The Australian Government paid approximately 75% of the 2022-23 grants in advance. The remainder of the grant allocation will be paid in quarterly instalments.

2022 Update

In 2013 the Independent Local Government Review Panel recommended, *"Subject to any legal constraints, seek to redistribute Federal Financial Assistance Grants and some State grants in order to channel additional support to councils and communities with the greatest needs."* Following an extensive review of the financial assistance grant model 2013 to 2016, recommendations were made to refine and improve parts of the expenditure allowance under the General Purpose Component (GPC). In 2018 the Commission (Commission) implemented refinements consistent with the National Principles and the NSW Government policy to allocate grants, as far as possible, to councils with the greatest relative disadvantage. However, the model refinements remain in a transition stage.

Since entering transition in 2018-19, the Commission has implemented transition arrangements, which limit the variation percentage of individual councils' annual GPC levels, as follows:

- Upper limit (cap) of +5%
- Lower limit (collar) of 0%

Historically, the Commission set a range between +5% and -5%. The Commission is looking to restore caps and collars within a range of +6% to -4%. Retaining a 0% collar is resulting in more funds continuing to shift from councils with greater relative disadvantage to councils with more relative advantage. The Commission will keep the transitional arrangements for the 2022 recommendations. It continues to consult with the sector about the recommendations for 2023-24 and beyond and the most appropriate approach to resume the original lower limit, which may including a staged option.

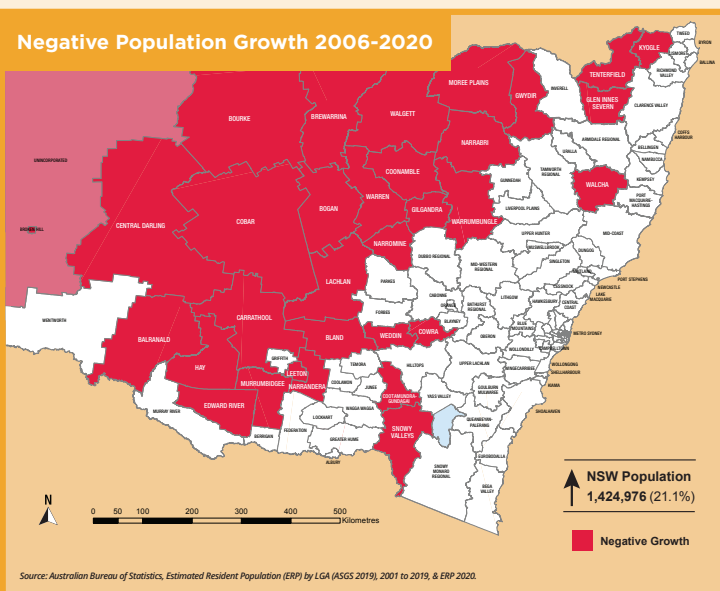


Councils with greatest relative disadvantage:

Councils with greatest relative disadvantage are generally rural and remote councils with:

- Small and declining populations
- Limited capacity to raise revenue
- Financial responsibility for sizeable networks of local roads/infrastructure & diminishing financial resources
- Relative isolation

The ongoing challenge for the Commission has been how to allocate a fairer share of the GPC to such councils when a fixed 30% of the GPC grant must be allocated based on population increases/decreases.



General information

Funds are allocated to NSW on the basis of the National Principles under the Federal legislation - *the Local Government (Financial Assistance) Act 1995*. It comprises two pools of funds - the GPC and the Local Roads Component (LRC). For 2022-23 the estimated entitlement for the GPC is \$617,920,637, and the LRC is \$251,184,230, but the funds are untied. The GPC incorporates:

- Expenditure Allowance
- Revenue Allowance
- Isolation Allowance
- Pensioner Rebate Allowance
- Relative Disadvantage Allowance

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Why refine the model?

It's important to note that the Commission is not implementing a new model. Over time, the model had become very complex with an increasing number of functions and disability factors. The model had 20 expenditure functions and 47 disability factors applied across 128 councils plus more than 100 individual occurrences of discretionary disability factors. The Commission has taken advice, tested the competing propositions and decided to implement the recommended refinements and improvements.

The refined model:

- Allocates a higher proportion of grant funding to councils with greatest relative disadvantage
- Is consistent with the National Principles
- Is consistent with NSW policy of grant allocation
- Is transparent and publishable
- Is robust, statistically verifiable and auditable
- Uses best practice financial and modelling principles
- Is modern, simplified and more flexible

Per capita minimum grant

The legislation provides for a per capita minimum grant. The per capita minimum for 2022-23 is \$22.64. Councils on the minimum grant generally:

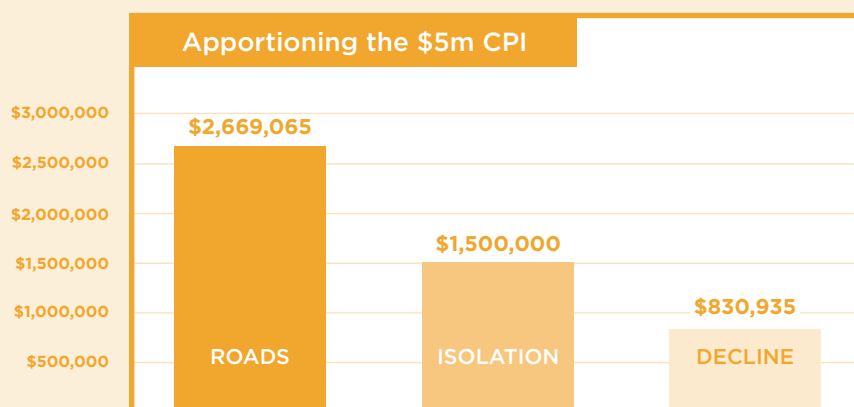
- Have greater revenue raising capacity
- Are not relatively disadvantaged
- Have economies of scale
- Are geographically smaller
- Experience year on year growth

There are 18 councils on the minimum grant, all located in the Sydney area. Just under 35% of the State's population live in those council areas.

Three minimum grant councils received a higher than state average increase of 3.3%, including The Hills Shire with an increase of 5.8%.

Relative Disadvantage Allowance

The Commission quarantined \$5m of the CPI increase and apportioned it as an allowance for relative disadvantage.



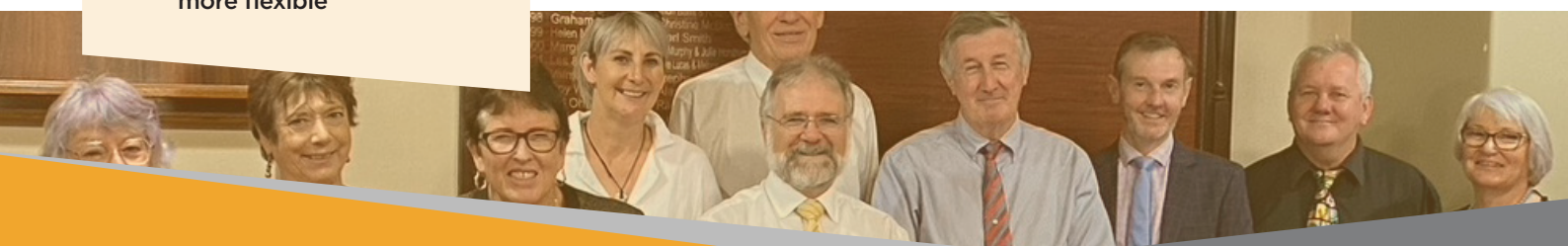
Roads = unsealed local roads. Isolation = increased weighting for isolation allowance. Decline = councils with population decline between 2006-20 (see negative population growth 2006-20 map page 1).

General Purpose Component (GPC)

The GPC expenditure allowance remains based on council expenditure reported against Financial Data Return grouped as follows:

- Administration & Governance
- Recreation & Culture
- Community Amenity
- Community Services & Education
- Roads, Bridges, Footpaths & Aerodromes
- Public Order, Health, Safety & Other

The 20 council functions are being retained but consolidated to six. The state average per capita cost for each function is still calculated by aggregating expenses (reported by all councils in their Financial Data Returns) for each function and divided by NSW's population.



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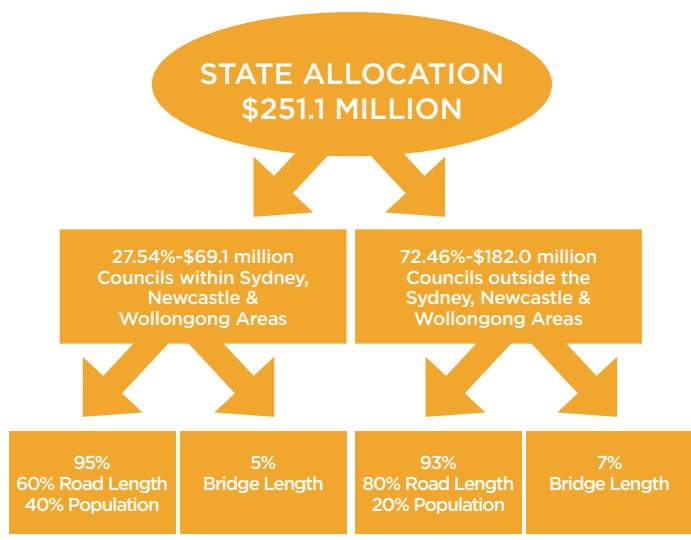
The **GPC expenditure allowance** includes five Cost Adjusters (or Disability Factors/Measures) to enable the Commission to compare councils' relative disadvantage/advantage:

- Population (ABS - Total for LGA)
- Aboriginal & Torres Strait Islanders (ABS - %)
- Local road length (council - km)
- Environment (ABS - ha environmental land)
- Rainfall, topography and drainage
(Consultants Willing & Partners - index)

The expenditure allowance formula is also retained:

$$\text{No. of Units (LGA Population)} \times \text{State Ave \$Cost/capita for the function} \times \text{council's disability factor} = \$ \text{expenditure allowance.}$$

Distribution of Local Roads Component 2022-23 (29% of the national pool)



Submissions

Special submissions from councils will be considered by the Commission. The purpose of a submission is to give a council the opportunity to present information on the financial impact of inherent expenditure disabilities beyond its control that are not generally recognised in the current methodology. This allows the Commission to adequately consider all legitimate factors that affect councils' capacity to deliver services.

Contact the NSW Local Government Grants Commission

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Related information:

<https://www.olg.nsw.gov.au/commissions-and-tribunals/grants-commission>
Includes information such as prior fact sheets, Grants Commission Circulars, reports and grant schedules.

Background and call for the review

The Independent Local Government Review Panel recommendation (Fact Sheet page 1) was supported by a number of other reviews and reports including:

2008 Assessing Local Government Revenue Raising Capacity, Productivity Commission Research Report:

"A number of councils, particularly in capital city and urban developed areas, have the means to recover additional revenue from their communities sufficient to cover their expenditures without relying on grants. However, a significant number of councils, particularly in rural (87%) and remote (95%) areas would remain dependent on grants from other spheres of government to meet their current expenditure. Given the differences in the scope to raise additional revenue across different classes of councils, there is a case to review the provision of Australian Government general purpose grants to local governments."

2010 Australia's Future Taxation System Report:

"The current requirement that each council receives 30% of its per capita share of untied financial assistance grants may prevent state grants commissions from redistributing to councils that require greater assistance."

2013 The NSW Local Government Grants Commission submission to the Commonwealth Grants Commission Review:

... "we have seen an increase in concerns being raised about:

- the widening gap in revenue raising capacity for larger metropolitan councils versus smaller rural councils;
- increasing infrastructure needs;
- declining population."

2014 The NSW Government's Response to the Local Government Review Panel:

"The Government supports targeting Financial Assistance Grants to communities with the greatest need. It will ask the NSW Grants Commission to continue to identify opportunities to achieve this over time, within the constraints imposed by the national funding principles. It will also ask the Commission to ensure transitional protection for those councils with lower levels of need, to minimise the impact of any redistribution."

2017 Shifting the Dial: 5 year Productivity Commission Review:

"The Commission's study into transitioning regional economies noted that where populations have declined in Local Government areas, related declines in revenue are hampering efforts to maintain infrastructure designed to service (and be funded) by larger populations."