

Financial Assistance Grants 2023-24

Fact Sheet 2 of 2023-24



Photo: Linda Fury Photography

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 100% of the 2023-24 grants in advance. The remainder of the grant allocations are being paid in quarterly instalments.

2023-24 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) began transitioning to 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. In 2023, the NSW Government re-affirmed its support to target grants to the most disadvantaged councils and the need to implement the revised model.

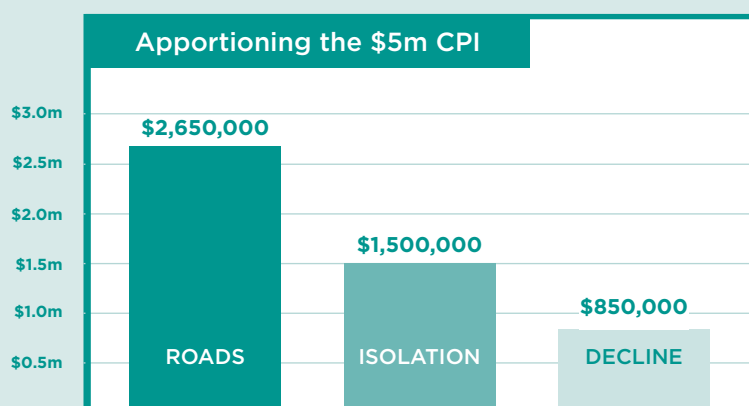
Since 2018-19, the transition arrangements have been limiting the percentage which an individual council's annual GPC can vary as follows:

- 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%. The Commission has maintained the transitional arrangements for the 2023 recommendations, giving councils a sixth year to prepare. Had the Commission applied these parameters in 2023-24 the grants would have been able to better target communities with the greatest relative disadvantage in NSW. Consultation continues with the sector about the recommendations for 2024-25 and beyond and the most appropriate approach to resume the original lower limit, which may include a staged option, which the Commission has resolved to commence in 2025-26.

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 2002-2022 (see negative population growth 2006-22 map page 1).



Fact-sharing with Mozambique Ministry of Finance Officials 2023

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. This can result in councils on the per capita minimum grant receiving significant increases such as occurred this year for Camden (+16.4%) and The Hills (+10.3%).

Where the Federal Government allocates a CPI increase, as occurred this year (4%), the Commission quarantines a proportion of the increase to allocate to councils with greatest relative disadvantage based on returns against 'unsealed local roads,' 'isolation' and 'population decline' (see box to the left).

In this way, some of these councils are able to achieve slightly greater than the 5% cap, consistent with the Commission's mandate from the Government.

Isolation Allowance Review

As part of its ongoing scrutiny of the currency and effectiveness of the Isolation Allowance, from 2022 onwards, the Commission has been engaged in testing and analysing various indicators of real cost impacts of isolation on councils.

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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 disadvantage factors. The model had 20 expenditure functions and 47 disadvantage factors applied across 128 councils plus more than 100 individual occurrences of discretionary disadvantage 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

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 2023-24 the estimated entitlement for the GPC is \$675,648,877, and the LRC is \$277,534,692 but the funds are untied. The GPC incorporates:

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

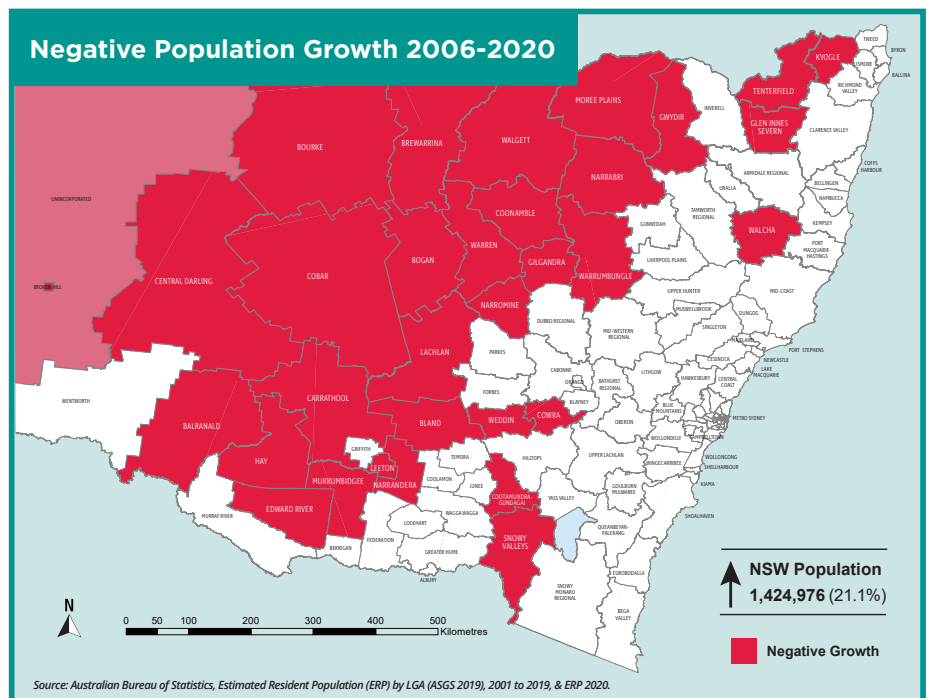
Per capita minimum grant

The legislation provides for a per capita minimum grant. The per capita minimum for 2023-24 is \$24.85. Councils on the minimum grant generally:

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

There are 10 councils on the minimum grant, all located in the Sydney area. Almost 24% of the State's population live in those council areas.

Three minimum grant councils received a higher than state average increase of 4.0%, including Camden with 16.4%, The Hills with 10.3% and Hornsby on 5.2%.



General Purpose Component (GPC)

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

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

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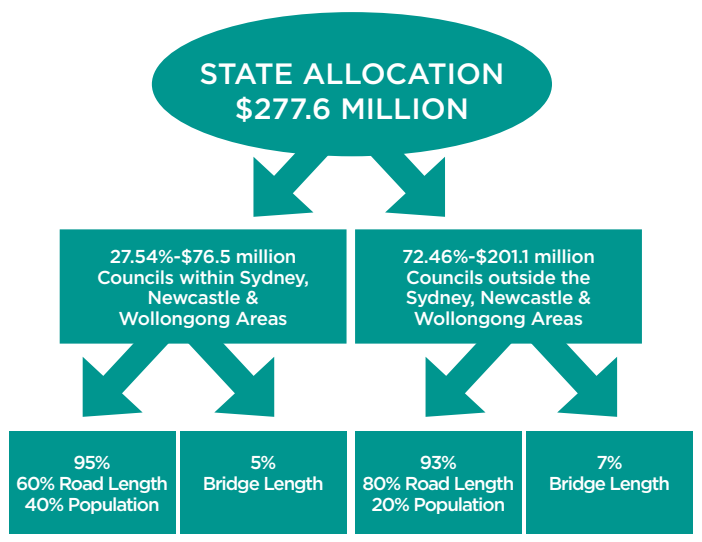
The **GPC expenditure allowance** includes five Cost Adjusters (or Disadvantage Factors/Measures) to enable the Commission to compare councils' relative disadvantage/advantage:

- 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:

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

Distribution of Local Roads Component 2023-24 (29% of the national pool)



Submissions

The Commission invites council submissions annually. The purpose of a submission is to give a council the opportunity to present information on the financial impact of inherent expenditure disadvantages 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."