



NSW Local Government Grants Commission

Annual Report

2017-18



NSW LOCAL GOVERNMENT GRANTS COMMISSION

ACCESS TO SERVICES

The NSW Local Government Grants Commission is located at:

5 O'Keefe Avenue
NOWRA NSW 2541

Locked Bag 3015
NOWRA NSW 2541

Phone: 02 4428 4100
Fax: 02 4428 4199
TTY: 02 4428 4209

Email: olg@olg.nsw.gov.au

Website: www.olg.nsw.gov.au (follow the "Commissions and Tribunals" links)

OFFICE HOURS

Monday to Friday

9.00am to 5.00pm

(Special arrangements may be made if these hours are unsuitable)

All offices are wheelchair accessible.

ALTERNATIVE MEDIA PUBLICATIONS

Special arrangements can be made for our publications to be provided in large print or an alternative media format. If you need this service, please contact us on 02 4428 4100.

DISCLAIMER

While every effort has been made to ensure the accuracy of the information in this publication, the Office of Local Government expressly disclaims any liability to any person in respect of anything done or not done as a result of the contents of the publication or the data provided.

© NSW Office of Local Government 2018

ISBN XXX-X-XXXXXX-XX-X

Produced by the Office of Local Government



www.olg.nsw.gov.au

Table of Contents

Foreword.....	4
About NSW Local Government Grants and the Commission	6
Principal Legislation	6
Membership.....	6
Staff.....	6
2017-18 Achievements.....	7
Reviews.....	7
National Forums of Grants Commissions.....	7
Hearings.....	7
Data Collection Returns.....	8
2017-18 Payments	8
2017-18 Grant Outcomes	9
Total allocation of funds	9
2017-18 General Purpose Component	13
2017-18 Local Road Component	15
How Financial Assistance Grants Operate	15
Grant entitlements.....	15
National principles for the allocation of general purpose grants.....	16
National principles for the allocation of local road grants.....	17
Considerations in grant calculations	17
Expenditure allowances.....	17
Disability factors	17
Property Values	18
Pensioner rebate allowance	19
Isolation allowance	19
Revenue allowance	19
Population Changes.....	19
Efficiency.....	19
Standard cost	19
Specific purpose grant.....	19
Rate pegging	20
Non-rateable properties	20
Schedule of 2017-18 Grant Entitlements	20
Appendix 1: Member profiles.....	25
The Hon Jenny Gardiner, B.Bus - Chair	25
Mr Grant Gleeson - Deputy Chair	25
Mr Alan McCormack, PSM - Commissioner	25
Mr Graeme Fleming, PSM – Acting Commissioner	25

Foreword

This report contains information on the key activities of the NSW Local Government Grants Commission (Commission) during 2017-18, as well as the distribution of over \$748 million in grant entitlements to NSW local governing bodies, paid as unconditional grants under the provisions of the *Federal Local Government (Financial Assistance) Act 1995*.

This year has again proven to be a very busy year on the federal assistance grants front, and I am pleased to advise that, in 2017-18, the estimated entitlement for NSW has increased by over \$25 million on the 2016-17 final entitlement with 94% of NSW local government bodies receiving increases in their overall grants. This welcome increase is mainly attributed to the Federal Government's resumption of indexation in its 2017-18 budget, after pausing indexation of the financial assistance grants in its 2014-15 budget.

The Federal Government brought forward payment of half of the 2017-18 grant allocation, making the payment late in 2016-17 and basing the advance payment on councils' 2016-17 grant, plus indexation. This early payment was, broadly, balanced out by the Federal Government again making an advance payment of half of the 2018-19 grant in the 2017-18 financial year.

The Commission has continued its focus to target grants towards communities with the greatest need and, with the NSW Government's support, the Commission has continued to identify opportunities to achieve this over time, within the constraints imposed by the national funding principles.

During 2017-18, the Commission has also ensured transitional protection for those councils with lower levels of need, to minimise the impact of any redistribution of funds and decided to limit movements in the general purpose component grant to maximum variations of -5% and +5% on the previous year's grant.

We recognise that the biggest impediment to distributing a fair proportion of the grants to councils with the greatest relative need is the per capita minimum payment (stipulated in the federal statute) and the impact of depopulation in the vast majority of rural and remote areas. However, we are pleased that our focused efforts have achieved some success with the most relatively disadvantaged rural and remote councils, often those with the least capacity to raise revenue, receiving steady increases in recent years.

This year the Commission held 21 public hearings across the state, and we appreciate the opportunity to meet with councils, to hear from them and to explain the Commission's approach to the assessment of grants. I would like to extend a sincere thank you for the co-operation, assistance and hospitality extended to the Commission during those visits.

The Commission continues to remind councils that the grants to individual councils will fluctuate as we make our annual assessments based on a calculation of relative need. Therefore, while indexation has recommenced, the Commission strongly urges all councils to exercise extreme caution with their financial assistance grant budget forecasts.

In 2016, the Office of Local Government (OLG) appointed Ernst and Young to assist the Commission to develop a modernised funding model that streamlines elements of the

current model in the allocation of general purpose grants to those NSW local councils with the greatest relative need, while remaining within the constraints imposed by the national principles.

During 2017-18, the Commission continued to make significant progress in evaluating the Ernst and Young proposal to ensure that it will provide a transparent, accountable and statistically verifiable method of calculating financial assistance grants for the sector, while retaining the model's characteristic versatility.

The Commission would like to acknowledge the efforts and thank those councils that submitted their information data returns by the required date in 2016 for the 2017-18 grant calculations. However, we remain concerned about the failure of some councils to submit data collection returns either on time or not at all. This may result in councils receiving an inaccurate allocation, potentially to the detriment of council.

I would like to take this opportunity to thank my fellow Commissioners, Grant Gleeson, Graeme Fleming, PSM, and Alan McCormack, PSM, for their contributions to the 2017-18 grant determination. Thanks are also due to the Commission's Executive Officer, Helen Pearce, for her invaluable assistance over the past year. The Commission greatly appreciates the extra lengths Helen exhibits in supporting the Commission's work.

Importantly, I would also like to take this opportunity to recognise the invaluable contributions made by the out-going Executive Officer, Mr Bruce Wright. Mr Wright initially worked as the Research Officer for the Commission for a year and then as the Executive Officer for 25 years before retiring in 2017. Mr Wright provided support to many Grants Commissions over the years and, on behalf of all the Commissioners who have had the benefit of his professionalism and extensive experience and knowledge, it is with great pleasure that I thank Mr Wright for his exemplary service. I wish Mr Wright all the best for his well-earned retirement.



The Hon Jennifer Gardiner
Chair

About NSW Local Government Grants and the Commission

Local government financial assistance grants are general purpose grants paid to local councils under the provisions of the Federal *Local Government (Financial Assistance) Act 1995*. This legislation details how the total amount of grant funds is determined and how the funds are to be distributed between the States (including the ACT and the NT).

In NSW, the primary function of the NSW Local Government Grants Commission is to make recommendations to the NSW Minister for Local Government. If adopted by the Minister, the recommendations are referred to the Federal Minister for Local Government for final approval, and subsequent payment.

The Commission may also report on any matter referred to it by the Minister.

Principal Legislation

The NSW Local Government Grants Commission operates under two sets of legislation; the Federal *Local Government (Financial Assistance) Act, 1995* and the *NSW Local Government Act 1993*.

While the Commission is constituted under the NSW Act, it is the Federal Act that gives the context for the allocation program.

Membership

The Commission consists of four members appointed for terms of up to five years, consisting of:

- three members nominated by the Minister, one of whom is the chair;
- the deputy chair, who is an officer of the NSW Office of Local Government (OLG).

Of the members, at least two must be or have been associated with local government in NSW. The members of the Commission are eligible for reappointment.

The members of the Commission are all part-time. The Deputy Chair is also a full-time officer of the OLG as Director of the Legal Team. From 1 July 2017 to 30 June 2018 the members were:

- The Hon Jennifer Gardiner, Chair B. Bus
- Mr Grant Gleeson, Deputy Chair
- Mr Alan McCormack, Commissioner, PSM
- Mr Graeme Fleming, Commissioner, PSM

Member profiles for the current members are included in Appendix 1 of this report.

Staff

The Commission's staff consists of one full-time officer of the OLG:

- Helen Pearce, Executive Officer

2017-18 Achievements

Reviews

In January 2016, OLG engaged Ernst and Young (EY) to review the existing funding model, which had become complex over time, in order to simplify and streamline the model and to allocate a higher proportion of the grants to councils that have the greatest relative need.

Currently, the Commission calculates the grants after taking into account 20 functions (or services provided by councils) and 47 disability factors across 131 local governing bodies. In addition there were 98 instances of councils receiving at least one discretionary disability factor outside of disabilities already recognised in the model. The quantity of functions and disability factors have gradually increased over time, resulting in a reduction in the significance of each factor and a model that had become far too complex.

During 2017-18, the Commission continued to review and test the EY model, as well as attend a number of related briefings and workshops. Methodologies from other states and the approach undertaken by the Federal Grants Commission were also evaluated.

The review identified that councils and the Commission had been going to a lot of effort to provide, review and calculate data and because of the need to scale allocations to available funds - this effort often resulted in insignificant changes in the final grant outcome for councils.

Improvements proposed to the existing model include adopting a materiality approach, meaning that the real drivers of difference are taken into account. There are many similarities between the current model and the proposed model. The proposed model only applies to the general purpose component and retains most of the current features including the isolation allowance, the pensioner rebate allowance, roads and bridges length data, population cost drivers, the revenue allowance and also uses the direct assessment approach. The current local roads component model is also retained.

In 2017-18, the Commission decided to continue with its existing allocation model and will commence using the proposed model to calculate and distribute grants to NSW councils' in the 2018-19 financial year. The Commission will implement a transition period to ensure councils have some stability through the implementation process.

National Forums of Grants Commissions

The Chair and Executive Officer attended a national forum of grants commissions. The forum, which was hosted by the South Australian Grants Commission, was held in Adelaide on 30-31 October 2017.

The forum was attended by Grants Commissions' Executive Officers and Commissioners from other States and Territories and the Australian Government and provided the opportunity to discuss issues common to all jurisdictions.

Hearings

The Commission is required to hold public hearings enabling local authorities and their associations to make submissions concerning grant recommendations.

The Commission aims to meet with all councils over a four to five year cycle. The meetings provide a forum for the Commission to explain the grant process and, more importantly, provide councils with an opportunity to meet with the Commission, ask specific questions about the grant process and present their particular challenges.

The good working relationship that exists between the Commission and local councils in NSW is also an important aspect of the consultative approach taken by the Commission.



During 2017-18, the Commission held 21 public hearings at:

Council	Date	Council	Date
Yass Valley	5 February 2018	Tenterfield (S)	19 July 2017
Goulburn Mulwaree	6 February 2018	Campbelltown (C)	18 September 2017
Tweed (S)	9 April 2018	Blacktown (C)	18 September 2017
Byron (S)	9 April 2018	Fairfield (C)	19 September 2017
Ballina (S)	10 April 2018	Port Stephens	21 November 2017
Lismore (C)	10 April 2018	Lake Macquarie (C)	22 November 2017
Clarence Valley	11 April 2018	Upper Hunter (S)	22 November 2017
Kempsey (S)	11 April 2018	Liverpool Plains (S)	23 November 2017
Port Macquarie-Hastings	12 April 2018	Mid-Western Regional	23 November 2017
Walcha	18 July 2017	Bathurst Regional	24 November 2017
Uralla (S)	18 July 2017		

Key	
City	(C)
Municipality	(M)
Shire	(S)

Data Collection Returns

During 2017-18, councils were required to complete three data collection returns in relation to information required for the Grants Commission. The distribution of the returns was staggered over two months (October and November) to ease the burden on councils.

The accuracy and timely lodgement of the returns is important, as the information supplied is used in the calculation of the annual grant allocations. Late lodgement of, or failure to lodge the returns by councils, causes delays in processing the data and creates complications in formulating the grants.

2017-18 Payments

During 2017-18, NSW councils received total cash payments of \$748,503,677 in federally funded financial assistance grants. The payments made to councils in 2017-18 comprised:

- \$366,986,295 for the second half of the 2017-18 grant (after half was paid in advance on 8 June 2017); and
- \$381,517,382 as an advance amount of half the 2018-19 grant, paid to councils on 21 June 2018.

Date	Description	\$ Payment
21 August 2017	Quarterly instalment	91,746,573
16 November 2017	Quarterly instalment	91,746,573
16 February 2018	Quarterly instalment	91,746,573
16 May 2018	Quarterly instalment	91,746,576
21 June 2018	Advance amount of half the 2018-19 grant	381,517,382
	Total	748,503,677

2017-18 Grant Outcomes

Total allocation of funds

The total estimated national entitlement for 2017-18 is \$2.367 billion. This is made up of a general purpose component of \$1.640 billion and a local roads component of \$727 million.

The general purpose component is distributed on a basis that takes into account each State's share of the national population. NSW receives \$525 million, or 32.01% of the national pool.

The local roads component is distributed on the basis of fixed shares of the national pool. For NSW it amounts to \$211 million, or 29.01% of the national funds.

The Federal Act provides for two funding pools:

1. General Purpose Component
2. Local Roads Component

The total grant is "untied"



The cash payment made to councils is based on the Federal Government's estimated entitlement for a year plus or minus adjustments for under or overpayments in the previous year. In 2017-18, there was a decrease of almost \$1 million to NSW's 2016-17 final entitlement due to the State's relative decrease in its share of the national population.

The total grant funds are passed on to councils, with the Commission's operating costs met by the NSW State Government.

In NSW, as at 30 June 2018, there were 128 general purpose councils, as well as the Lord Howe Island Board, and the Village Committees of Silverton and Tibooburra, that each receive grant funding.

The 2017-18, estimated entitlements for NSW, compared to the 2016-17 final entitlements, are:

Component	2016-17 Final Entitlement	2016-17 Share of National allocation	2017-18 Estimated Entitlement	2017-18 Share of National Allocation	% Change
General Purpose	506,960,261	31.97%	524,987,494	32.01%	3.56%
Local Roads	204,156,262	29.01%	211,136,302	29.01%	3.42%
Total	711,116,523	31.06%	736,123,796	31.11%	3.52%

The following table shows the overall percentage changes to 2017-18 grant allocations to councils, in comparison to the previous year allocation:

% change in grant	General Purpose Component - No. of Councils	Local Roads Component - No. of Councils	Total Grant – No. of Councils
<-5%	0	1	1
-5% to -2.5%	8	0	7
-2.5% to 0%	2	0	1
0% to 2.5%	4	24	5
2.5% to 5%	117	94	112
>5	0	9	6
*Total	131	*128	131

* Excludes Lord Howe Island Board and the Silvertown and Tibooburra Village Committees

Of the 131 local governing bodies, which includes 128 general purpose councils, the Lord Howe Island Board and the Silvertown and Tibooburra Village Committees, 123 (or 94%) received increases in their overall grants compared to their 2016-17 preliminary entitlement when 75 (or 57%) received an increased grant. The increase in improved grant outcomes is primarily due to restoration of indexation in 2017-18.

In 2017-18, the following sixty councils received increases in their overall grant of more than \$200,000:

LGA	Total Increase	GPC Per Capita	LGA	Total Increase	GPC Per Capita	LGA	Total Increase	GPC Per Capita
Berrigan (S)	\$203,816	\$16.93	Inverell (S)	\$242,505	\$8.53	Maitland (C)	\$312,082	\$1.92
Ballina (S)	\$204,012	\$2.02	Kempsey (S)	\$246,323	\$5.38	Coffs Harbour (C)	\$322,329	\$2.36
Hills (S)	\$204,923	\$0.38	Sydney (C)	\$248,172	\$0.38	Murray River	\$338,113	\$19.77
Goulburn Mulwaree	\$209,604	\$3.59	Armidale Regional	\$251,508	\$5.34	Hilltops	\$343,861	\$11.00
Richmond Valley	\$210,613	\$5.01	Parkes (S)	\$257,419	\$11.90	Lachlan (S)	\$373,268	\$39.32
Greater Hume (S)	\$210,632	\$12.52	Wentworth (S)	\$259,419	\$20.16	Blue Mountains (C)	\$377,837	\$3.89
Bega Valley (S)	\$210,943	\$3.54	Walgett (S)	\$260,075	\$31.40	Snowy Monaro Regional	\$401,568	\$12.43
Cootamundra-Gundagai Regional	\$212,918	\$15.44	Queanbeyan-Palerang Regional	\$261,558	\$1.65	Port Macquarie- Hastings	\$407,237	\$2.79
Northern Beaches	\$214,928	\$0.38	Lismore (C)	\$268,873	\$3.83	Wagga Wagga (C)	\$434,896	\$3.58
Wingecarribee (S)	\$217,694	\$1.88	Mid-Western Regional	\$271,251	\$6.34	Campbelltown (C)	\$442,923	\$1.39
Forbes (S)	\$220,801	\$14.54	Narrabri (S)	\$280,903	\$17.31	Clarence Valley	\$460,905	\$6.20
Griffith (C)	\$224,922	\$5.63	Federation	\$282,156	\$17.63	Tweed (S)	\$471,775	\$2.40
Edward River	\$225,313	\$22.95	Port Stephens	\$283,918	\$2.43	Penrith (C)	\$482,543	\$1.09
Central Darling (S)	\$226,981	\$95.40	Albury (C)	\$289,416	\$3.08	Newcastle (C)	\$533,754	\$2.36

LGA	Total Increase	GPC Per Capita	LGA	Total Increase	GPC Per Capita	LGA	Total Increase	GPC Per Capita
Snowy Valleys	\$227,550	\$11.30	Warrumbungle (S)	\$291,956	\$22.41	Dubbo Regional	\$551,901	\$5.71
Shellharbour (C)	\$229,655	\$1.89	Bathurst Regional	\$293,785	\$2.69	Shoalhaven (C)	\$557,264	\$2.86
Camden	\$237,338	-\$0.75	Cessnock (C)	\$294,564	\$ 3.28	Lake Macquarie	\$698,954	\$2.46
Carrathool (S)	\$237,594	\$44.54	Eurobodalla (S)	\$302,359	\$ 5.41	Mid-Coast	\$756,164	\$5.13
Bourke (S)	\$238,820	\$87.27	Moree Plains (S)	\$304,389	\$19.07	Wollongong (C)	\$818,490	\$2.66
Cobar (S)	\$240,628	\$33.29	Bland (S)	\$307,302	\$39.17	Central Coast	\$1,094,126	\$2.55

The following nine councils received decreases in their overall grant in 2017-18:

LGA	Total Decrease	GPC Per Capita	LGA	Total Decrease	GPC Per Capita	LGA	Total Decrease	GPC Per Capita
Lockhart (S)	-\$303,368 or 8.4%	-\$53.01	Blacktown (C)	-\$565,940 or -3.3%	-\$3.12	Inner West	-\$179,567 or -3.3%	-\$1.40
Cumberland	-\$286,271 or -3.7%	-\$3.89	Canterbury-Bankstown	-\$368,551 or -3.3%	-\$1.58	Hay (S)	-\$70,241 or -2.6%	-\$24.40
Fairfield (C)	-\$348,820 or -3.7%	-\$2.44	Parramatta	-\$314,905 or -3.3%	-\$1.65	Liverpool (C)	-\$46,244 or -0.5%	-\$1.60

The eight council areas receiving the greatest percentage increases in their overall grant in 2017-18 are:

LGA	% change	LGA	% change
Camden	6.8%	Singleton	5.1%
Kiama	6.7%	Lane Cove	5.1%
Bellingen	5.5%	Ballina	5.0%
Dubbo Regional	5.2%	Bathurst Regional	5.0%

2017-18 General Purpose Component

The method used to determine the general purpose component of the grant has generally not changed since last year. The Commission attempts to equalise (horizontal equalisation) the financial capacity of councils. The methodology considers cost disabilities in the provision of services on the one hand (expenditure allowances) and a theoretical assessment of revenue raising capacity on the other (revenue allowances). This approach is objective and excludes, as far as practicable, councils' policies and practices (effort neutral).

Movements in the grants from year to year are usually caused by population changes, road and bridge length changes and changes in the data used to assess relative disadvantage.

In 2017-18, NSW received an estimated entitlement of \$524,987,494, which equates to a 32.01% share of the national general purpose allocation and an increase of \$18,027,233 on the previous year's allocation. The State's share of the national allocation has slightly decreased by -0.04% from 2016-17, as a result of NSW's relative decrease in its share of the national population.

For 2017-18, 73% of the grants go to non-metropolitan areas, which account for 35% of the State's population. The metropolitan area (the Greater Sydney Statistical Area) receives the remaining 27% of the grant allocation.

On average, non-metropolitan councils saw an increase of 4.7% in their general purpose component grants. The overall average increase for metropolitan councils is 0.9%.

In the case of amalgamations, the general purpose component grants for 2016-17 and 2017-18 were determined on the basis of the former council areas and then:

- In the case of full amalgamations, the grants for the former entities were aggregated; and
- In the case of amalgamations involving boundary changes, the grants were apportioned to the new areas on the basis of the per capita amounts and population shifts.

Capping +5% to -5%

In an effort to maintain stability in grant outcomes, the Commission has adopted a -5% to +5% limit to variations in the general purpose component of the grant, from the previous year. This limit recognises those councils that are most disadvantaged on the

one hand and on the other hand, is fair, reasonable and manageable for those councils that have reductions.

Eighty-seven councils' grants were increased by, or capped at, 5% in the general purpose component and eight councils were protected by the -5% capping arrangement, as follows:

General purpose component increased by 5% or capped at 5%		
Albury (C)	Edward River	Narrandera (S)
Armidale Regional	Eurobodalla (S)	Newcastle (C)
Ballina (S)	Federation	Oberon
Balranald (S)	Forbes (S)	Parkes (S)
Bathurst Regional	Glen Innes Severn	Penrith (C)
Bayside	Goulburn Mulwaree	Port Macquarie-Hastings
Bellingen (S)	Greater Hume (S)	Port Stephens
Berrigan (S)	Griffith (C)	Richmond Valley
Bland (S)	Gunnedah (S)	Shellharbour (C)
Blayney (S)	Gwydir (S)	Shoalhaven (C)
Blue Mountains (C)	Hawkesbury (C)	Singleton
Bogan (S)	Hilltops	Snowy Monaro Regional
Bourke (S)	Inverell (S)	Tenterfield (S)
Brewarrina (S)	Junee (S)	Tweed (S)
Broken Hill (C)	Kempsey (S)	Upper Hunter (S)
Byron (S)	Kiama (M)	Uralla (S)
Cabonne	Kyogle	Wagga Wagga (C)
Camden	Lachlan (S)	Walcha
Campbelltown (C)	Lake Macquarie (C)	Walgett (S)
Carrathool (S)	Lane Cove (M)	Warren (S)
Central Coast	Leeton (S)	Warrumbungle (S)
Central Darling (S)	Lismore (C)	Weddin (S)
Cessnock (C)	Liverpool Plains (S)	Wentworth (S)
Clarence Valley	Maitland (C)	Wingecarribee (S)
Cobar (S)	Mid-Coast	Wollondilly (S)
Coffs Harbour (C)	Mid-Western Regional	Wollongong (C)
Coolamon (S)	Moree Plains (S)	Yass Valley
Coonamble (S)	Murray River	
Cootamundra-Gundagai Regional	Nambucca (S)	
Dubbo Regional	Narrabri (S)	

Councils protected by the -5% capping arrangement		
Blacktown (C)	Fairfield (C)	Lockhart (S)
Canterbury-Bankstown	Hay (S)	City of Parramatta
Cumberland	Inner West	

Per Capita Minimum

The Federal Act specifies that all councils are entitled to a per capita minimum grant, based on 30% of the general purpose component. In 2017-18, twenty councils, all

located in the Sydney metropolitan area received the “safety net” minimum entitlement of \$20.38 per capita. They are:

Councils on the minimum per capita grant			
Bayside	Hornsby (S)	North Sydney	Sutherland
Burwood	Hunter's Hill (M)	Northern Beaches	Sydney (C)
Canada Bay (C)	Ku-ring-gai	Randwick	Waverley
Georges River	Lane Cove (M)	Ryde (C)	Willoughby
Hills (S)	Mosman (M)	Strathfield (M)	Woollahra (M)

2017-18 Local Road Component

The local roads component is calculated according to principles agreed to with local government and consistent with the national principles. The formula, originally developed by Roads and Maritime Services, is based on each council's proportion of local road and bridge length, as well as resident population numbers. Therefore annual variations in grant outcomes are the direct result of changes in ABS population estimates or changes in the length of local roads and bridges, as reported by councils.

New South Wales receives a fixed 29% share of the national local roads allocation. The 2017-18 estimated entitlement is \$211,136,302, an increase of \$6,980,040 on last year's entitlement.

Of the State's \$211.1 million allocation, \$197.5 million is distributed on the basis of councils' local road length and population, and \$13.6 million is distributed on the basis of the length of bridges on local roads.

The councils with the largest percentage increase in the local roads component are The Hills (11.8%), followed by Kiama (10.8%) and Camden (10.5%). The only council with a percentage decrease in the local roads component is Lockhart (-13.3%).

The largest increase in absolute dollar terms is for The Hills (\$202,144), followed by Dubbo Regional (\$177,606), Mid-Coast (\$175,630) and Tamworth (\$16,858). The only council with a decrease in absolute dollar terms in 2017-18 was Lockhart (\$-198,074).

Although the local roads component is separately identified, it forms part of the total financial assistance grants, which are untied. This means that councils are not required to spend the local roads component on local roads and it is up to individual councils to decide how the funds should, most appropriately, be spent.

The Commission publishes local road and bridge length data on the Office of Local Government website at www.olg.nsw.gov.au, by following the “Commissions and Tribunals” links.

How Financial Assistance Grants Operate

Grant entitlements

Financial assistance grants are provided to local governing bodies (councils), defined in Section 4(2) of the Federal Act as:

“(a) a local governing body established by or under a law of a State, other than a body whose sole or principal function is to provide a particular service, such as the supply of electricity or water; or

(b) a body declared by the Minister, on the advice of the relevant State Minister, by notice published in the Gazette, to be a local governing body for the purposes of this Act.”

National principles for the allocation of general purpose grants

The national principles relating to the allocation of general purpose grants payable, under Section 9 of the *Local Government (Financial Assistance) Act 1995*, are as follows:

Horizontal Equalisation

General purpose grants will be allocated to local governing bodies, as far as practicable, on a full horizontal equalisation basis as defined by the Act. This is a basis that ensures each local governing body in the State or Territory is able to function, by reasonable effort, at a standard not lower than the average standard of other local governing bodies in the State or Territory. It takes account of differences in the expenditure required by those local governing bodies in the performance of their functions and in the capacity of those local governing bodies to raise revenue.

Effort Neutrality

An effort or policy neutral approach will be used in assessing the expenditure requirements and revenue-raising capacity of each local governing body. This means as far as practicable, that policies of individual local governing bodies in terms of expenditure and revenue effort will not affect grant determinations.

Minimum Grant

The minimum general purpose grant allocation for a local governing body in a year will not be less than the amount to which the local governing body would be entitled if 30% of the total amount of general purpose grants to which the State or Territory is entitled under, Section 9 of the Act, in respect of the year were allocated among local governing bodies in the State or Territory, on a per capita basis.

Other Grant Support

Other relevant grant support provided to local governing bodies to meet any of the expenditure needs assessed should be taken into account using an inclusion approach.

Aboriginal Peoples and Torres Strait Islanders

Financial assistance shall be allocated to councils in a way which recognises the needs of Aboriginal peoples and Torres Strait Islanders within their boundaries.

Council Amalgamation

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.

National principles for the allocation of local road grants

The national principle relating to the allocation of the amounts payable under section 12 of the Act (the identified road component of the financial assistance grants) among local governing bodies is as follows:

Identified Road Component

The identified road component of the financial assistance grants should be allocated to local governing bodies as far as practicable on the basis of the relative needs of each local governing body for roads expenditure and to preserve its road assets. In assessing road needs, relevant considerations in grant calculations include length, type and usage of roads in each local governing area.

Considerations in grant calculations

The following are some further considerations of the Commission in determining the expenditure functions and the revenue raising capacity of councils.

Expenditure allowances

Expenditure allowances are part of the general purpose component of the grant. They are calculated for each council for a selected range of council functions, such as libraries, health, building control, recreation and roads. Expenditure allowances attempt to compensate councils for the extent of their relative disadvantage resulting from issues that are beyond their control.

Council policy decisions concerning the level of service provided, or if there is a service provided at all, are not considered (effort neutral principle).

The general formula for the calculation of expenditure allowances is:

Allowance = No. of Units x Standard Cost x Disability

No. of units is the measure of use of the function for the council. For most functions the number of units is the population. For some others it may be the number of properties or the length of roads.

The standard cost is the average of annual average net expenditure, per unit, by all councils in the State, averaged over five years.

The disability is the measure of the extent of relative disadvantage a council faces in providing a standard service because of issues beyond its control. For each function the characteristics likely to influence the cost are identified and measured. The measure is then related to the potential additional costs to councils.

Disability factors

A disability factor is the Commission's estimate of the additional cost, expressed as a percentage, of providing a standard service due to issues that are beyond a council's control.

The general approach for calculating a disability factor is to take each disability relating to a function and apply the following formula:

$$\text{Disability Factor} = \left(\frac{\text{Standard Measure}}{\text{Council Measure}} - 1 \right) \times 100 \times \text{weighting}$$

Council measure is the individual council's measure for the disability being assessed, for example population growth.

Standard measure is the state standard (generally the average) measure for the disability being assessed.

The weighting attempts to reflect the significance of the particular measure in terms of its likely cost impact.

Property Values

The Commission has found that property values provide the useful State-wide basis for comparative analysis. The assessment of revenue raising capacity is an issue that involves more than councils' rates. In that broader context, property values provide a measure of the changes that occur in the relative economic wealth between council areas from year to year.

As a result, property values form the basis of the Commission's assessment of revenue allowances. Changes in relativities between councils' per-property-values and those of the State average affect grant outcomes.

For comparative purposes, the Commission purchases valuation data that has been calculated to a common base date for all councils by the Valuer General. To reduce seasonal and market fluctuations in the property market, the valuations are averaged over three years.

Councils showing the greatest decreases in their revenue allowances generally represent those LGAs where property values have remained stable or are rising, compared to the State average. Councils in areas of declining economic activity (generally reflected in falling property values) have generally shown increases in their revenue allowances.

Based on the aggregate land values reported by the Valuer General for base date 1 July 2015 56 council areas showed "double-digit" percentage increases on the previous year, including: Blacktown (39.76%), Holroyd (37.15%), Camden (33.14%), Shellharbour(32.48%), Fairfield (30.70%) and Burwood (30.53%).

However, the aggregate land values across 23 council areas fell. The most significant decreases being: Urana (-7.57%), Muswellbrook (-6.53%), Hay (-6.45%), Narrabri (-4.97%), Moree Plains (-3.95%), Gloucester (-3.88%), Coolamon (-2.94%) and Murrumbidgee (-2.57%).

State-wide there was an increase in the aggregated land value of 19.7%, compared to the previous year's 11.8% increase. This increase was recognised in urban (residential and business) properties reported by councils. This was accompanied by a reduction in the value of mines (-11%) and farmland (-8%).

The changes have generally not translated into significant shifts in grant outcomes where those changes are off a low base (e.g., rural areas). Shifts in the Sydney property market, which have not been uniform across the region, have generally contributed to most Sydney council areas receiving reductions in their grants. However, the Commission's long-standing approach of averaging values over three years, together with the effect of significant discounting of the revenue assessment, to align it with the expenditure allowance, has helped to moderate the effect of property value changes on overall grant outcomes.

Pensioner rebate allowance

A pensioner rebate allowance recognises the differential impact of compulsory pensioner rebates, based on the relative disadvantage to the state average.

Isolation allowance

Weighted isolation allowances are calculated for all non-metropolitan councils. The allowance is calculated using a regression analysis formula based on population, distance from Sydney and the nearest major regional city.

Revenue allowance

The calculation of revenue allowances involves determining each council's theoretical capacity to raise revenue by comparing a council's land value per property to the state standard (or average) per property land value and applying the state standard (or average) rate-in-the-dollar. Councils with low property values compared to the state average receive a positive outcome and councils with higher property values compared to the state average receive negative outcomes.

Population Changes

The source for estimated resident population as at 30 June 2016 (preliminary) is ABS publication *Regional Population Growth, Australia*, released 30 March 2017 (cat. no. 3218.0).

As a result of amalgamations and boundary changes, the Commission has revised its population figures.

Efficiency

A council's grant is assessed independent of its policy decisions and efficient councils are not penalised as a result. A council that provides a cost effective service still receives grant funding which it can allocate to other areas according to its priorities. Efficient councils will benefit from their efficiencies.

Standard cost

In an attempt to improve the stability of grant outcomes the Commission uses a five-year rolling average of the annual standard costs. Averaging over five years produces shares that are more stable than annual averages.

Specific purpose grant

Specific purpose grants are payments made by Federal or State governments to a council for a specific purpose. Such specific purpose grants usually require a council to meet conditional arrangements in order to receive a grant.

The Commission uses the inclusion approach in the treatment of specific purpose grants, for example, library services and local roads. This means that the disability allowance is discounted by the specific purpose grant as a proportion of the standardised expenditure.

For other functions the deduction approach is used. This method deducts grant amounts from all councils' expenditure in the calculation of standard costs. This approach is considered more appropriate for functions where the level of specific purpose payment assistance is related to council effort. The deduction approach is, therefore, considered to be more consistent with the "effort neutral" requirement specified in the principles.

Rate pegging

Grant calculations are essentially dealing with the extent of relative disadvantage between councils. Since rate pegging affects all councils, it is not specifically considered by the Commission, with the Commission's approach excluding the rating policies of individual councils.

Councils that are given approval by the Independent Pricing and Regulatory Tribunal to increase their rates are not penalised or rewarded in the grants calculation. This is because the calculations are based on the State average rate-in-the-dollar. Similarly, councils that forgo rate increases, or apply increases below the pegging limit, are neither rewarded nor penalised.

Non-rateable properties

Non-rateable properties are excluded from the Commission's calculations. The calculations deal with relativities between councils, based on an assessment of revenue raising capacity of rateable properties for councils.

Schedule of 2017-18 Grant Entitlements

The Commission's recommendations for the distribution of funds to local government in NSW for 2017-18 are set out in the following table.

Information on grant entitlements for previous years is available from the Commission's web page at www.olg.nsw.gov.au and following the "Commissions & Tribunals" links.

LGA	Estimated Resident Population 30/06/2016	Recommended General Purpose Entitlement 2017-18	Recommended Local Roads Entitlement 2017-18	Recommended Total Entitlement 2017-18
Albury (C)	52,411	4,892,156	1,342,703	6,234,859
Armidale Regional	30,045	3,964,306	2,341,119	6,305,425
Ballina (S)	42,556	2,961,561	1,322,982	4,284,543
Balranald (S)	2,385	2,511,793	1,274,238	3,786,031
Bathurst Regional	43,080	4,312,684	1,904,250	6,216,934
Bayside	160,944	3,280,700	1,105,467	4,386,167
Bega Valley (S)	33,662	4,944,181	1,877,133	6,821,314
Bellingen (S)	13,066	2,609,502	915,330	3,524,832
Berrigan (S)	8,420	3,126,236	1,331,450	4,457,686
Blacktown (C)	348,138	13,294,546	3,226,453	16,520,999
Bland (S)	5,917	4,391,286	2,843,267	7,234,553
Blayney (S)	7,457	1,674,935	814,417	2,489,352
Blue Mountains (C)	80,072	7,314,212	1,338,178	8,652,390
Bogan (S)	3,007	2,454,955	1,398,687	3,853,642
Bourke (S)	2,814	3,686,186	1,834,287	5,520,473
Brewarrina (S)	1,875	2,441,370	1,257,224	3,698,594
Broken Hill (C)	18,557	3,908,552	486,814	4,395,366
Burwood	36,505	744,123	251,615	995,738
Byron (S)	33,278	1,857,706	1,109,098	2,966,804
Cabonne	13,999	2,669,015	1,982,268	4,651,283
Camden	77,504	2,446,087	1,271,969	3,718,056
Campbelltown (C)	161,998	8,275,675	1,674,994	9,950,669
Canada Bay (C)	90,427	1,843,274	611,465	2,454,739
Canterbury-Bankstown	359,671	8,273,270	2,566,323	10,839,593
Carrathool (S)	2,760	3,355,823	2,220,126	5,575,949
Central Coast	334,857	20,956,549	4,254,636	25,211,185
Central Darling (S)	2,070	3,637,933	1,535,041	5,172,974
Cessnock (C)	56,532	5,415,068	1,615,249	7,030,317
Clarence Valley	51,211	7,481,369	3,167,621	10,648,990
Cobar (S)	4,989	3,828,686	1,663,128	5,491,814
Coffs Harbour (C)	73,892	5,184,279	2,084,542	7,268,821
Coolamon (S)	4,419	2,226,404	1,181,061	3,407,465
Coonamble (S)	4,188	2,302,765	1,423,390	3,726,155
Cootamundra-Gundagai Regional	11,392	3,394,566	1,508,984	4,903,550

LGA	Estimated Resident Population 30/06/2016	Recommended General Purpose Entitlement 2017-18	Recommended Local Roads Entitlement 2017-18	Recommended Total Entitlement 2017-18
Cowra (S)	12,527	2,940,767	1,396,804	4,337,571
Cumberland	222,758	5,876,619	1,574,947	7,451,566
Dubbo Regional	51,449	7,860,201	3,271,514	11,131,715
Dungog (S)	9,323	1,565,322	880,701	2,446,023
Edward River	8,876	3,690,023	1,471,857	5,161,880
Eurobodalla (S)	38,119	5,191,492	1,588,829	6,780,321
Fairfield (C)	207,022	7,463,512	1,666,597	9,130,109
Federation	12,569	4,380,621	2,137,526	6,518,147
Forbes (S)	9,768	3,178,570	1,867,699	5,046,269
Georges River	149,489	3,047,200	1,065,166	4,112,366
Gilgandra (S)	4,349	2,265,776	1,344,262	3,610,038
Glen Innes Severn	9,001	2,557,512	1,331,380	3,888,892
Goulburn Mulwaree	29,918	3,181,589	1,650,050	4,831,639
Greater Hume (S)	10,406	2,995,978	1,971,900	4,967,878
Griffith (C)	26,125	3,592,410	1,567,438	5,159,848
Gunnedah (S)	12,989	2,722,507	1,543,415	4,265,922
Gwydir (S)	5,030	2,455,398	1,802,775	4,258,173
Hawkesbury (C)	66,782	2,719,083	1,666,378	4,385,461
Hay (S)	2,956	1,838,364	777,385	2,615,749
Hills (S)	164,802	3,359,342	1,910,466	5,269,808
Hilltops	18,993	4,934,129	2,709,567	7,643,696
Hornsby (S)	151,237	3,082,831	1,437,868	4,520,699
Hunters Hill (M)	14,843	302,562	143,697	446,259
Inner West	189,576	4,017,981	1,304,099	5,322,080
Inverell (S)	17,042	3,626,454	1,983,937	5,610,391
Junee (S)	6,329	1,788,902	889,950	2,678,852
Kempsey (S)	29,842	3,952,899	1,778,646	5,731,545
Kiama (M)	21,671	1,098,010	490,935	1,588,945
Ku-ring-gai	124,179	2,531,278	1,087,556	3,618,834
Kyogle	9,542	2,533,249	1,587,616	4,120,865
Lachlan (S)	6,749	5,460,375	3,261,385	8,721,760
Lake Macquarie (C)	205,748	13,235,080	2,678,467	15,913,547
Lane Cove (M)	36,996	754,131	271,772	1,025,903
Leeton (S)	11,712	3,003,724	1,007,904	4,011,628
Lismore (C)	44,993	4,275,492	1,893,142	6,168,634
Lithgow (C)	21,474	3,255,434	1,216,190	4,471,624
Liverpool (C)	210,113	6,554,970	2,158,340	8,713,310

LGA	Estimated Resident Population 30/06/2016	Recommended General Purpose Entitlement 2017-18	Recommended Local Roads Entitlement 2017-18	Recommended Total Entitlement 2017-18
Liverpool Plains (S)	7,738	2,190,462	1,322,542	3,513,004
Lockhart (S)	3,103	2,017,361	1,291,909	3,309,270
Lord Howe Island (Bd)	401	209,322	0	209,322
Maitland (C)	78,096	5,525,809	1,307,362	6,833,171
Mid-Coast	91,648	12,191,222	5,172,056	17,363,278
Mid-Western Regional	24,313	3,771,233	2,321,955	6,093,188
Moree Plains (S)	13,866	4,500,870	2,781,386	7,282,256
Mosman (M)	30,646	624,692	233,460	858,152
Murray River	11,596	5,067,331	2,840,472	7,907,803
Murrumbidgee (new)	4,071	2,574,490	1,542,716	4,117,206
Muswellbrook (S)	17,414	2,418,036	898,706	3,316,742
Nambucca (S)	19,808	2,574,187	1,172,333	3,746,520
Narrabri (S)	13,717	4,589,836	2,260,108	6,849,944
Narrandera (S)	5,912	2,971,361	1,523,999	4,495,360
Narromine (S)	6,796	2,688,671	1,394,309	4,082,980
Newcastle (C)	162,766	10,508,688	1,775,932	12,284,620
North Sydney	73,514	1,498,518	472,908	1,971,426
Northern Beaches	268,849	5,480,246	2,187,431	7,667,677
Oberon	5,350	1,617,828	907,311	2,525,139
Orange (C)	42,356	3,307,283	1,108,443	4,415,726
Parkes (S)	15,328	3,911,455	2,009,210	5,920,665
Parramatta (new)	235,981	7,369,538	1,952,364	9,321,902
Penrith (C)	202,076	8,560,602	2,326,144	10,886,746
Port Macquarie-Hastings	78,967	6,228,012	2,742,459	8,970,471
Port Stephens	71,406	5,317,727	1,190,540	6,508,267
Queanbeyan-Palerang Regional	57,334	3,563,657	2,307,642	5,871,299
Randwick (C)	147,408	3,004,781	937,613	3,942,394
Richmond Valley	23,426	3,260,204	1,536,646	4,796,850
Ryde (C)	119,544	2,436,798	894,675	3,331,473
Shellharbour (C)	70,734	4,209,719	858,047	5,067,766
Shoalhaven (C)	101,462	8,755,472	3,241,173	11,996,645
Silverton (VC)	57	32,433	0	32,433
Singleton	24,061	2,275,050	1,251,438	3,526,488
Snowy Monaro Regional	20,880	6,516,611	2,669,080	9,185,691

LGA	Estimated Resident Population 30/06/2016	Recommended General Purpose Entitlement 2017-18	Recommended Local Roads Entitlement 2017-18	Recommended Total Entitlement 2017-18
Snowy Valleys	15,013	4,048,925	1,339,419	5,388,344
Strathfield (M)	40,963	834,995	277,312	1,112,307
Sutherland (S)	227,312	4,633,552	1,978,927	6,612,479
Sydney (C)	210,931	4,299,640	1,258,328	5,557,968
Tamworth Regional	61,800	6,104,358	4,057,853	10,162,211
Temora (S)	6,088	2,062,662	1,172,577	3,235,239
Tenterfield (S)	7,038	2,855,634	1,602,760	4,458,394
Tibooburra (VC)	128	72,832	0	72,832
Tweed (S)	94,011	7,621,004	2,765,355	10,386,359
Upper Hunter (S)	14,522	2,816,226	1,884,134	4,700,360
Upper Lachlan (S)	7,794	2,574,790	1,841,371	4,416,161
Uralla (S)	6,376	1,476,557	936,595	2,413,152
Wagga Wagga (C)	64,272	6,898,628	3,132,620	10,031,248
Walcha	3,054	1,204,993	900,338	2,105,331
Walgett (S)	6,750	4,089,837	1,896,829	5,986,666
Warren (S)	2,901	1,582,814	1,003,696	2,586,510
Warrumbungle (S)	9,688	4,343,827	2,379,614	6,723,441
Waverley	73,366	1,495,501	431,061	1,926,562
Weddin (S)	3,708	1,517,765	971,582	2,489,347
Wentworth (S)	6,962	3,997,812	1,953,070	5,950,882
Willoughby (C)	77,833	1,586,557	573,650	2,160,207
Wingecarribee (S)	48,845	3,118,984	1,796,732	4,915,716
Wollondilly (S)	49,109	2,355,372	1,330,151	3,685,523
Wollongong (C)	211,213	15,888,415	2,359,997	18,248,412
Woollahra (M)	59,860	1,220,193	428,398	1,648,591
Yass Valley	16,870	1,564,576	1,307,895	2,872,471
NSW Total	7,726,426	524,987,494	211,136,302	736,123,796

Appendix 1: Member profiles

The Hon Jenny Gardiner, B. Bus - Chair

Ms Gardiner was a Member of the Legislative Council of NSW (1991 to 2015). Ms Gardiner's roles in the NSW Parliament included serving as Deputy President and Chair of Committees in the Legislative Council (2011-2015), Shadow Minister, Assistant Shadow Minister and Shadow Parliamentary Secretary for various portfolios, including Rural Health, Fisheries and Ports, and Deputy Leader of The Nationals in the Legislative Council.

Ms Gardiner chaired and/or served on many parliamentary inquiries including ones that examined local government and NSW elections and electoral law, transport needs in both metropolitan and non-metropolitan NSW, planning and environment, rural and metropolitan health services, privileges and ethics, state and regional development, and the Committees on the Independent Commission Against Corruption and the Offices of the Ombudsman and Police Integrity Commission. Before being elected to the NSW Parliament, Ms Gardiner was General Secretary of the National Party of Australia - NSW.

Mr Grant Gleeson - Deputy Chair

Mr Gleeson BA, LLB, LLM, was appointed as the NSW Office of Local Government's representative on the Commission on 30 June 2017 and as such Grant assumes the role of Deputy Chair. Accredited Specialist Local Government & Planning Law, Mr Gleeson is Director Legal at the OLG having been appointed to that role in March 2016. Prior to joining OLG, Mr Gleeson was a Partner for nearly 30 years with the long established regional law firm RMB Lawyers. Mr Gleeson worked in the firm's Local Government and Planning Law Division and was the manager of that Division. At the time Mr Gleeson retired from the firm in 2016, Grant was its senior partner.

Mr Alan McCormack, PSM - Commissioner

Mr McCormack's appointment to the Commission follows a long and distinguished career in local government, including Deputy Shire Clerk at Balranald Council and Lachlan Council and Shire Clerk at Balranald Council and Hay Council. Mr McCormack retired in 2010 following 20 years as General Manager at Parkes Council. Since his retirement Mr McCormack has been the Acting General Manager at a number of Shire Councils. Mr McCormack has qualifications as a Master of Business in Local Government Management; a Graduate Diploma in Local Government Management; and a Graduate Certificate in Financial Planning. Mr McCormack was awarded a Public Service Medal in 2007 for outstanding service to local government and recently resigned as the Chair of Central West Regional Development Australia.

Mr Graeme Fleming, PSM – Commissioner

Mr Fleming brings to the Commission a wealth of local government knowledge gained through a thirty-nine year career in local government across seven councils in regional NSW. Twenty-five of those 39 years were as General Manger, most recently, before retiring, at Cabonne Council. Mr Fleming's career highlights include Chair of the AR Bluett Trust and Executive Member, NSW Strategic Alliance Network. Mr Fleming has served on a range of regional boards from libraries to noxious weeds, economic development to emergency services, and tourism to mining. Mr Fleming was awarded the Public Service Medal for outstanding service to Local Government, to name but a few. Mr Fleming is currently Chair of the LG Innovation Fund Assessment Panel.

