

From: Lisa Caban
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Subject: Changes to Financial Assistance Grants - NSW Local Government Grants Commission
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From: Owen Cox <Owen.Cox@olg.nsw.gov.au>
Sent: Friday, 31 May 2019 2:56 PM
To: council <council@richmondvalley.nsw.gov.au>
Subject: Changes to Financial Assistance Grants - NSW Local Government Grants Commission

Doc ID: A643827
Contact: Helen Pearce
Phone: 02 4428 4131

Good afternoon

Please find attached correspondence from the NSW Local Government Grants Commission.

Yours sincerely



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Local Government Grants Commission

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OUR REF: A643827
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Mr Vaughan Macdonald
General Manager
Richmond Valley Council

By email: council@richmondvalley.nsw.gov.au

Dear Mr Macdonald

Local government financial assistance grants (grants) are paid to local councils under the provisions of the *Federal Local Government (Financial Assistance) Act 1995*. The grants have two components, the general purpose component (GPC) and the local roads component (LRC).

The NSW Local Government Grants Commission (Commission) has been reviewing the grant methodology in line with NSW policy to direct the general purpose component of the grant to councils with the greatest relative need. Further to earlier advice sent to all councils about this transition (available on: <https://www.olg.nsw.gov.au/commissions-and-tribunals/grants-commission>), the Commission can provide updated information about the transition for your information.

Refinement to GPC model: Transitional arrangements

Following an extensive process of reviewing the NSW grant allocation model, and in accordance with subsequent recommendations, the Commission is transitioning to a refined GPC model. The GPC is made up of a revenue allowance, expenditure allowance, isolation allowance and a pensioner rebate allowance. While most of the existing GPC methodology is being retained, the refinements to the GPC are limited to the expenditure allowance. Specifically, this comprises the consolidation of council expenditure functions and streamlining the disability factors.

These refinements were adopted after best practice modelling was undertaken, including testing for materiality and significance against all councils' data.

As previously advised, to limit the variation percentage of individual councils' 2017-18 GPC levels in 2018-19, the Commission implemented transition arrangements. At present this means that there is an upper limit (ceiling) of +5% and a lower limit (floor) of 0% applied to general purpose grant allocations.

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Historically, the Commission set a variation range between +5% and -5%. The Commission is currently consulting with councils about restoring those historical limits. This is because by retaining a 0% floor more funds will continue to be diverted from councils with the greatest relative disadvantage.

For illustrative purposes, the Commission has scenario tested the results for each council, using the 2018-19 GPC grants, had the -5% floor been implemented. The Commission can advise that, based on this scenario, Council's grant did not reduce.

No changes to LRC methodology

After reviewing the LRC methodology, and in accordance with subsequent independent recommendations, the Commission determined not to make any changes to this methodology. A list of the National Principles is attached.

Relative disability allowance

In 2018-19, the Commission also included a relative disability allowance in the allocation of Grant funds. It is proposed to continue this adjustment in the current allocation.

Questions?

The Commission always advises councils to use caution when budgeting for the following year's grant, especially in light of these transitional arrangements and bearing in mind that fresh data used to calculate the grant each year are likely to change individual grant outcomes.

Information about the transition and other Commission publications is accessible at <https://www.olg.nsw.gov.au/commissions-and-tribunals/grants-commission>. The Commission's 2018-19 annual report will contain further updates and will be published in due course.

Yours sincerely



Helen Pearce
Executive Officer

Encl

NATIONAL PRINCIPLES FOR THE ALLOCATION OF GENERAL PURPOSE AND LOCAL ROAD GRANTS

- A. The National Principles relating to the allocation of general purpose grants payable under Section 9 of the Local Government (Financial Assistance) Act 1995 (the Act) among local governing bodies are as follows:

1. 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 that each local governing body in the State/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. 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.

2. Effort Neutrality

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

3. Minimum Grant

The minimum general purpose grant allocation for a local governing body in a year will be not 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/Territory is entitled under Section 9 of the Act in respect of the year were allocated among local governing bodies in the State/Territory on a per capita basis.

4. 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.

5. 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.

6. 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.

- B.** 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:

1. 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 include length, type and usage of roads in each local governing area.

Financial Assistance Grants 2018-19

Fact Sheet June 2019



Per capita minimum grant

The legislation provides for a per capita minimum grant. The per capita minimum for 2018-19 is \$20.76. 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 19 councils on the minimum grant, all located in the Sydney area. Just over 31% of the State's population live in those council areas.

Nine minimum grant councils received a higher than state average increase of 3.7%, including the City of Sydney with the highest increase of 12.6%.

Why refine the model?

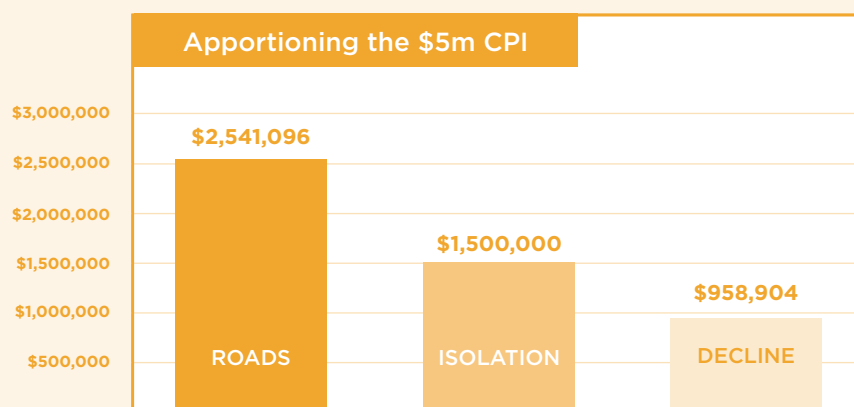
It's important to note that the Commission is not implementing a new model. Over time, the model had become very complex with an increasing number of functions and disability factors. The model had 20 expenditure functions and 47 disability factors applied across 128 councils plus more than 100 individual 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

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 2006-16 (see negative population growth 2006-16 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 Financial Data Return) for each function and divided by NSW's population.

Financial Assistance Grants 2018-19

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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:

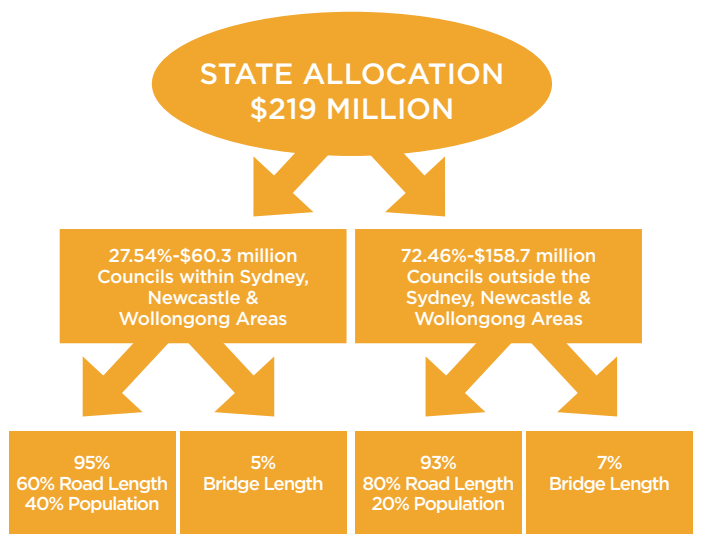
- Population (ABS - Total for LGA)
- Aboriginal & Torres Strait Islanders (ABS - %)
- Road length (council - km)
- Environment (ABS - ha environmental land)
- Rainfall, topography and drainage (Consultants Willing & Partners - index)

The expenditure allowance formula is also retained:

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

Distribution of Local Roads Component

(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 the original factsheet, 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."