

## ITEM-8 LMM 26/04/2022 - RESTORE OUR FINANCIAL ASSISTANCE GRANTS

### MOTION

That City of Newcastle:

1. Note that CN's operations are largely self-funded. 91.3% of CN's operational expenditure is from its own sourced operating revenue, with just 8.7% from external grants and contributions. This significantly exceeds the OLG benchmark, which requires all councils to be greater than 60% own sourced revenue.
2. Notes that CN has been excluded from numerous Government grant programs. Analysis by the University of Newcastle found that Newcastle, based on share of Gross State Product, could have received additional grants of up to \$170 million from these programs had the City been eligible to apply (UON's HRFC found that CN was systematically excluded from applying for \$5.86 Billion in funding due to inconsistent regional/metropolitan classifications).
3. Notes that all Australian Councils have received some revenue from the Commonwealth Government via the Financial Assistance Grants (FAGs), first introduced in 1974.
4. Acknowledges the ongoing importance of the FAGs as a reliable annual source of revenue that supports CN's services and operations, including infrastructure delivery and road maintenance.
5. Notes CN's support for the Local Government NSW and the Australian Local Government Association's campaign to increase annual FAG funding to at least 1% of Commonwealth taxation revenue. In 2021-22, FAGs equated to 0.6% of Commonwealth taxation revenue. In the 2022-23 budget, this has fallen to just 0.55%.
6. Notes that the current Federal Liberal/National Government froze Financial Assistance Grants indexation in 2014-15 for three years, and funding levels have not been restored. This means that in real terms, the value of the grants has reduced over the last decade.
7. Notes with alarm that CN received correspondence from the Local Government Grants Committee advising that in 2023 CN's share of FAGs will be reduced in nominal terms by up to 4% (**Attachment A**). In addition to failing to keep pace with inflation, this would cut a further \$435,000 annually from CN's budgets.
8. Writes to the Prime Minister, NSW Premier and Local Government Grants Commission opposing the cut in Financial Assistance Grants, seeking a commitment to increase FAGs up to 1% of Commonwealth taxation revenue, and seeking a guarantee that no council will be worse off under the revised funding arrangements.

### **BACKGROUND:**

Local government is the third tier of government in the Australian system of government. Councils are primarily responsible for providing a wide range of critical local area services including planning, libraries, and waste management and for infrastructure provision (e.g. roads and footpaths, parks, sporting grounds and swimming pools) required by the local community.

Local government nationally employs about 194,000 Australians (around 10 percent of the total public sector). It also owns and manages non-financial assets with an estimated written down value of \$457 billion (2018-19), raises around 3.4 percent of Australia's total taxation revenue per annum and has an annual operational expenditure of around \$39 billion (2018-19), just under 6 percent of total public sector spending.

Nationally, local government derives nearly 90 percent of its revenue from its own sources (including rates and services charges), compared to around 50 percent for state governments.

Grants from other levels of government make up just over 10 percent of local government's total revenue, however these grants are particularly important in areas with a low rate base, and/or high growth rate, and rapidly expanding service and infrastructure needs.

Local government's expenditure is directed towards the provision of local services across the nation. These services include housing and community amenities, transport and communications, recreation and culture and general public services. These services are critical to the productivity, wellbeing, and liveability of local communities and cumulatively of the nation.

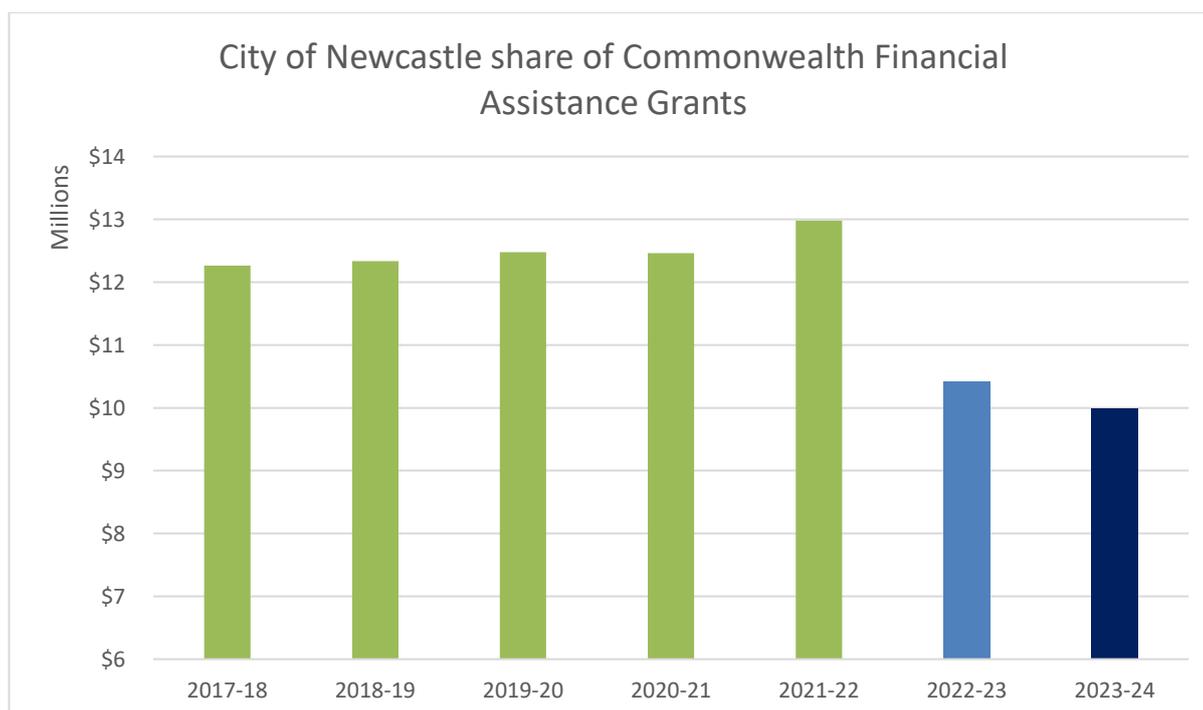
CN has joined LGNSW and ALGA in advocating that local government's share of tax revenue increases significantly to meet increasing demands on local infrastructure and services and ultimately that it reaches a level of at least 1 percent of Commonwealth taxation revenue. In 2021-22, FAGs equated to 0.6% of Commonwealth taxation revenue. In 2022-23, this has fallen to 0.55%.

In 2017, the NSW Local Government Grants Commission determined to revise the FAG allocation methodology. This revised methodology proposes to introduce a 'negative floor' on council's annual FAG share, meaning that allocations could fall in both nominal and real terms.

On 5 April 2022, the Commission wrote to CN seeking views on whether this 'negative floor' should be minus 2% or minus 4%. In addition to falling behind inflation, the latter would remove \$435,604 in real terms from CN's budgets annually.

In the 2022-23 Commonwealth Budget, the Federal Government committed \$2.113 Billion in funding for FAGs nationally for early payment. This funding has been allocated to Councils by the respective state Local Government Grant Commissions. CN's share, as determined by the NSW Local Government Grant Commission in April 2022, is \$10.41 million and is shown below (see [here](#)).

The graph below demonstrates the impact of a minus 4% cut in CN's share of FAG grants, as proposed by the Local Government Grants Commission.



**Figure:** City of Newcastle's historic share of Commonwealth Financial Assistance Grant revenue (source: Australian Government. 2022-23 based on NSW Local Government Grants Commission determination (April 2022), and 2023-24 inclusive of proposed 4% cut).

**Attachments:**

1. Letter from Local Government Grants Commission - 5 April 2022



## Local Government Grants Commission

NSW Local Government Grants Commission  
5 O'Keefe Avenue NOWRA NSW 2541  
Locked Bag 3015 NOWRA NSW 2541

OUR REFERENCE: A808545  
YOUR REFERENCE:  
CONTACT: Helen Pearce  
(02) 4428 4131  
helen.pearce@olg.nsw.gov.au

Mr Jeremy Bath  
Newcastle City Council

By email: [jbath@ncc.nsw.gov.au](mailto:jbath@ncc.nsw.gov.au)  
cc: [mail@ncc.nsw.gov.au](mailto:mail@ncc.nsw.gov.au)

5 April 2022

Dear Mr Bath

The NSW Grants Commission is writing to Council to inform you of a proposed change to the allocation of Federally Funded Financial Assistance Grants (FAGs) which will likely impact Council.

Council will appreciate that the greatest challenge confronting the Commission is how to achieve the intent of the NSW Government's policy of distributing the grants, as far as possible, to the councils in greatest relative need when all councils must receive at least a minimum per capita grant based on 30% of the annual General Purpose Component (GPC) of the FAGs, as mandated by the Federal legislation.

Council will recall that after a review of the FAGs allocation model, in 2017 the Commission decided to utilise a refined model for the allocation of the expenditure allowance within the GPC of the FAGs. This decision was communicated to the sector generally and more specifically when the Commission met with councils.

### **Transitional Arrangements**

When the Commission began the process of refining the existing allocation model in 2018- 19, it suspended its past practice of capping allocations to councils to within a range of between +5% (ceiling) to - 5% (floor) on councils' previous year's GPCs. The capping of the ceiling and negative floor was well understood in the sector as it allowed councils to have greater certainty, noting that whether or not there would be an increase in allocations was always dependent on the level of Federal funding in any given year. As the 2014 paused indexation period demonstrated, and lower levels of CPI in 2020-21 and 2021-22, there is no certainty of outcomes.

The Commission has also been advising councils that, during this transition period, allocations have been subject to a 0% floor, but they have maintained the +5% ceiling.

In all of the Commission's visits to councils, and in its fact sheets, the Commission has signalled that as it moves to fully implement the refined model, the Commission anticipated that 0% floor transition principle could not be maintained. As such, councils were advised that when the transition period ceases, some councils will be at risk of receiving less GPC than they received the year before, consistent with past historical practice.



The Commission has been operating on the refined model (within those interim capping parameters) now for the past four years. At its recent meeting the Commission reviewed the allocation model and noted that the continuation of the 0% floor was disadvantaging regional and remote councils thereby skewing the allocations.

### **Pathway out of Transition**

The Commission believes it is therefore time to consider reinstating the negative floor principle. While it will remain in transition in making the 2022-23 recommendations, beyond that date the Commission is looking to reset the parameters with a ceiling of +6% and floor of -4%. These settings will assist the Commission to better respond to fulfilling the requirements of the National Principles and the policy of the NSW Government.

There are 2 options for setting the 2023-24 recommendations:

- **Option 1** offers an **immediate implementation in 2023** of a ceiling and floor of +6% to - 4% setting, or
- **Option 2** offers a **2 stage transition commencing 2023** with a ceiling and floor of +5% to - 2% setting and the following year's recommendation 2024 moving to the +6% to -4% setting.

Moving back to these ceilings and floors, the Commission anticipates that around 12- 31 councils, including your Council, will be impacted. As a council that will likely be immediately affected by the new policy settings, the Commission is writing to Council to seek its views on the matter. In considering the impacts of the restoration of the negative floor, it is to be noted that during the 0% transition period, Council has been financially benefiting from the transition policy – see attached table 1.

Based on the 2021-22 estimated FAG recommendations, moving out of transition will enable approximately \$6-10M to be released for distribution to councils in greater relative need. These greater disadvantaged councils are missing out on this grant funding annually while there is a 0% floor. Each of the councils that will benefit from resuming the lower floor have demonstrated greater relative need whether due to remoteness and/or having relatively greater costs of providing services but having less capacity to raise revenue. These councils have difficulties with economies of scale being generally geographically larger in area but often having small and declining populations. They are also disadvantaged in having on-going infrastructure costs, such as large road networks.

The Councils listed in table 2 attached are 10 Councils that could have received the highest % increase in *additional* grant funding within the 2021-22 current funding pool had the negative floor been released. All the councils are rural or regional with populations of <30K and have either long term population decline (since 2006) or populations that have increased at a slower rate than the state average in that period.

### **Council's preference is sought**

The Commission would invite Council to comment on the proposal to reinstate the historical ceiling and floor principle, in particular, whether Council would favour the immediate implementation of the +6% to -4% floor, or whether it would prefer a two stage transition.

Councils are respectfully asked to respond before 30<sup>th</sup> May 2022. More information about the FAGs scheme is available on the Office of Local Government (OLG) Website: <https://www.olg.nsw.gov.au/commissions-and-tribunals/#lqgc>.

The Commission looks forward to receiving your response.

## Attachment

**Table 1:****ADDITIONAL funding received due to transition arrangement**

<b>Newcastle City Council</b>				
<b>GPC</b>	<b>ACTUAL GPC 2020-21 \$</b>	<b>GPC 2021-22 \$</b>	<b>% Change on 2020-21</b>	<b>ADDITIONAL \$ received compared to ACTUAL 2021-22</b>
<b>2021-22 Actual \$ 0%+5%</b>	10,862,943	10,864,770	0.0%	N/A
<b>2021-22 Test \$ - 2%+5%</b>	10,862,943	10,646,425	-2.0%	218,345
<b>2021-22 Test \$ - 4%+6%</b>	10,862,943	10,429,166	-4.0%	435,604

Note: The last two years of total FAG funding has been indexed at a lower rate than it has been on average for the last 10 years (which include three years of paused indexation).

**Table 2:****ADDITIONAL \$ increase based on -2% +5% compared to actual 2021-22 GPC**

<b>Council</b>	<b>Council OLG Category</b>	<b>% increase on 2020- 21</b>	<b>ADDITIONAL \$ Increase had the floor been lowered to -2% in 2021-22</b>
Kempsey (S)	Urban Regional Small	5.3%	126,618
Mid-Western Regional	Urban Regional Small	5.8%	123,445
Inverell (S)	Rural Agricultural Very Large	5.9%	122,847
Griffith (C)	Urban Regional Small	5.8%	117,222
Broken Hill (C)	Urban Regional Small	6.4%	116,130
Lithgow (C)	Urban Regional Small	5.4%	97,688
Richmond Valley	Urban Regional Small	5.4%	96,633
Leeton (S)	Rural Agricultural Very Large	6.6%	96,439
Cowra (S)	Rural Agricultural Very Large	5.9%	94,494
Goulburn Mulwaree	Urban Regional Medium	4.4%	88,852

These calculations are only estimates and will vary year on year depending on the changes to councils' data and the size of the FAGs funding pool.

I trust this information is of assistance.

Yours sincerely



**Helen Pearce**  
Executive Officer