

Attachment D

**Letter from the Office of Local Government
Pertaining to 2023/24 Financial Assistance
Grants – Advice to Councils**

NSW Local Government Grants Commission
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Ms Monica Barone
General Manager
Council of the City of Sydney

By email: mbarone@cityofsydney.nsw.gov.au
cc: council@cityofsydney.nsw.gov.au

5 September 2023

Dear Ms Barone

In accordance with the NSW Local Government Grants Commission's (Commission) policy of providing information to councils about the way the Commission calculates financial assistance grants (FA Grants), please find attached a summary of Council's 2023-24 estimated FA Grants entitlement (**Appendix A**).

2023-24 ESTIMATED ENTITLEMENTS

The national FA Grants total estimated entitlement for 2023-24 is \$3.11 billion and is made up of \$2.15 billion for the general purpose component (GPC) and \$0.96 billion for the local roads component (LRC). The national estimated entitlement for 2023-24 increased by \$161 million to account for final adjustments to the Consumer Price Index (CPI) and population shares for the year.

The Commonwealth Treasury's estimate of the CPI for 2022-23 was adjusted up in July 2023. When compared to the 2022-23 final adjusted amount, the total national estimated FA Grants for 2023-24 increased by 5.5%. Accordingly, the State's FA Grants allocation for 2023-24 is slightly higher than last year, however the ongoing economic impact of the pandemic and other external factors are difficult to predict.

The national GPC was distributed across the states and territories on a population basis. NSW received 31.34% or \$675.7 million in the GPC, which represents a 4.05% increase on last year's final figure. The LRC is based on a historical formula. NSW's share of the total national road funding is a fixed 29% share, or \$277.5 million, which represents a 5.5% increase. The total 2023-24 FA Grants estimated entitlement for NSW is \$953.2 million.



EXTERNAL FACTORS IMPACTING THE GPC POOL OF FUNDS IN NSW

The Commonwealth decided to pause indexation for three years from 2014-15 to 2016-17 due to budget constraints. In 2021, the impact of the global economic downturn (GED) was closely followed by the Covid-19 Pandemic. NSW also experienced devastating natural disasters, including bushfires and floods. During recent years, the Commission has been faced with these challenges, including a substantially reduced CPI in 2021. In 2023-24, the CPI has continued to trend towards previously average levels of about 3.5% to 4%. But further fluctuations cannot be ruled out.

Change of Annual Grant Entitlements	CPI % Change GPC	# of LGAs on 0% or <0%
2012-13 Final and 2013-14 Estimated	3.4	22
2013-14 Final and 2014-15 Estimated no CPI	-0.2	72
2014-15 Final and 2015-16 Estimated no CPI	-0.2	75
2015-16 Final and 2016-17 Estimated no CPI	0.1	56
2016-17 Final and 2017-18 Estimated	3.6	10
2017-18 Final and 2018-19 Estimated	3.6	12
2018-19 Final and 2019-20 Estimated	4.0	10
2019-20 Final and 2020-21 Estimated GED	0.9	33
2020-21 Final and 2021-22 Estimated Covid	1.7	29
2021-22 Final and 2022-23 Estimated Covid	3.3	9
2022-23 Final and 2023-24 Estimated Covid	4.0	*18

KEY
<i>Three years of paused CPI (only change applied was national movements in jurisdictional population shares)</i>
<i>Transition entered: # of LGAs on 0% or less had the -5% floor been retained</i>
<i>*8 metropolitan councils moved to the negative floor due to population decline as applying the per capita minimum produced a lower result than the negative floor</i>

A notable by-product of the pandemic flowing through the 2022-23 and 2023-24 grant calculations has been population decline in some metropolitan areas. This has resulted in eight metropolitan councils moving off the per capita minimum grant and instead, benefiting from the 0% floor, as councils cannot breach below 0% floor until the negative floor is resumed. This further demonstrates the need to expedite the pathway out of transition.

Council's 2023-24 FA Grants estimated entitlement, compared to the 2022-23 final entitlement is as follows:

Council of the City of Sydney				
Year	General Purpose	Local Roads	Total	Change
2022-23 final	\$5,763,024	\$1,618,443	\$7,381,467	
2023-24 est.	\$5,763,024	\$1,594,372	\$7,357,396	-0.3%

To assist councils with budgets and bank reconciliations, a breakdown of the 2023-24 quarterly instalments is attached (**Appendix A**). The NSW Schedule of Payments is also attached (**Appendix B**).

IMPACT OF THE ADVANCE PAYMENTS

The Commonwealth Government decided to make an early payment of the 2023-24 estimated FA Grant entitlement to help manage the cumulative impacts of the floods and the pandemic. In June 2023, all councils were paid 100% of the estimated entitlement in advance, as calculated at that point in time (plus councils received 25% of the 2022-23 entitlement in the same year). This has resulted in the adjusted quarterly instalments for 2023-24 being significantly less than in recent years. The remainder of the grant entitlements (totalling \$45,227,839 for the state) will be paid in quarterly instalments in August 2023, November 2023, February 2024 and May 2024.

The Council of the City of Sydney and Randwick City Council's population decreases flowed through the grant calculations in the 2023-24 financial year, with both councils due to receive a reduction in the LRC. However, as the Commonwealth advance of 100% was based on the prior year's grant recommendations, both Councils received an overpayment in the LRC advance (Sydney \$35,538 and Randwick \$25,555, totalling \$62,083).

As a temporary measure to address the overpayment, the Commission made an accounting adjustment to the 2023-24 recommendations, spreading the overpayment proportionately over the other 126 councils' LRCs. This process will be reversed in 2024-25 to ensure the over and under payments reconcile with actual entitlements.

However, the Commission is concerned about the unpredictability the practice of advance payments creates. Long-term and annual budgeting forecasts are subject to changes, and annual financial statement results can often be skewed. The latest development of overpayments is beginning to impede the Commission's ability to make annual recommendations.

CHALLENGES IN FAIRLY DISTRIBUTING THE GPC FUNDS

As councils will be aware, the Commission is required to adhere to the National Principles which mandate a per capita payment based on population growth/decline. This inhibits the full application of the Horizontal Fiscal Equalisation (HFE) Principle, to distribute the grants on the basis of greatest relative need. It is also the policy of the NSW Government to explore opportunities to direct grants to communities with the greatest relative need. The Commission has had regard to these policies in allocating the grants. The map contained in **Appendix D** identifies the rate of population change in NSW from 2002 to 2022.

Appendix D lists the revised expenditure categories, disadvantage factors, data sources used in calculating the expenditure allowance and the relative disadvantage allowance.

The Commission has been investigating ways to direct funds to councils with greatest relative need. Information about the methodology review and subsequent transition has been provided to councils, including about the recommendations for model refinements. The Commission is currently considering options for a pathway out of transition and resuming the negative floor, which is likely to commence in 2024-25. Further information about the transition and general information about the FA Grants can be found on the Commission's webpage at

<https://www.olg.nsw.gov.au/commissions-and-tribunals/#lggc>.

SPECIAL SUBMISSIONS 2023-24

Special submissions from councils for 2023-24 will be considered by the Commission. The purpose of a submission is to give councils the opportunity to present information on the financial impact of inherent expenditure disadvantages beyond councils' control that are not generally recognised in the current methodology. Please refer to the expenditure functions and Council's disadvantage factors listed in **Appendix A**. This process allows the Commission to adequately consider all legitimate factors that affect councils' capacity to deliver services.

Appendix C, titled ***Guidelines for Special Submissions***, contains guidance for preparing submissions – please read the guidelines carefully.

Submissions should be e-mailed to the Commission at olg@olg.nsw.gov.au by **30 November 2023**.

A MESSAGE OF CAUTION

There is no guarantee that a council will receive an increased FA Grant each year. There are a number of changing variables, including a council's changing measure of relative disadvantage compared to the state average measure and the size of the total FA Grant pool. Last year, the Commission advised of a possible decision to return to the GPC to a negative floor in 2024-25, which would result in some councils receiving less in the 2024-25 than they will in 2023-24. Councils have been consulted and have now been given six years to prepare. It is no longer sustainable to protect those councils with greatest relative advantage. The pathway out of transition is essential to distribute the GPC more fairly, allowing greater application of the HFE, consistent with the National Principles and NSW policy.

I would ask that this letter please be tabled at the next Council meeting.

If you have any questions concerning these matters, please contact me on (02) 4428 4131.

Yours sincerely



Helen Pearce
Executive Officer