



Report to General Manager

Attachments:
Nil

SUBJECT: Financial Assistance Grant (FAG)

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ENDORSED BY: Sandra Moore, Acting Director Corporate Services

EXECUTIVE SUMMARY:

The local government Financial Assistance Grant (FAG) is a general purpose grant paid to Council under the provisions of the *Commonwealth Local Government (Financial Assistance) Act 1995*.

The objective of the grant is to strengthen NSW Local Government to enable it to provide a wider range of services and to promote equity between councils and certainty of funding. The grants are untied, thus Council is able to spend the grant according to the priorities of the community.

The FAG has two separately identified components. A general purpose component (distributed in accordance with each state's share of the national population) and a local roads component (Council's proportion of local road and bridge length and residential population numbers).

FINANCIAL IMPLICATIONS:

Council's FAG for 2018/19 is \$2,000,199.00. The Commonwealth legislation provides for annual indexation that takes into account CPI and population estimates, with subsequent adjustments for actual reported data.

Comment by Responsible Accounting Officer:

The grant funding will be allocated in accordance with Council's *Financial Management Policy*.

RECOMMENDATION:

1. THAT the report on the Financial Assistance Grant (FAG) be received.

LINK TO COMMUNITY STRATEGIC PLAN

The relationship with the Community Strategic Plan is as follows:

Direction: 5. Our Civic Leadership

Outcome: 5.1 Council leads the strategic direction of North Sydney

BACKGROUND

The Australian Government has operated the Financial Assistance Grant (FAG) program for local government since 1974/75. The grant is provided under the *Local Government (Financial Assistance) Act 1995*.

The FAG program consists of two components:

- a general purpose component which is distributed between the states and territories according to population (i.e. on a per capita basis), and
- an identified local road component which is distributed between the states and territories according to fixed historical shares.

Both components of the grant are untied, which means councils can spend the grants according to local priorities. Although councils are not tied to spending the roads grant on roads, North Sydney Council has always allocated the roads component of the grant to roads projects.

Local government grants commissions in each state and the Northern Territory recommend the distribution of the funding under the FAG program to local governing bodies in accordance with the respective States' interpretation of the Act and the National Principles for allocating grants.

The grant is paid in quarterly instalments to state and territory governments for immediate distribution to local governing bodies.

The quantum of the grant pool changes annually in line with changes in population and the Consumer Price Index (CPI). The Act provides discretion to the Treasurer to alter this annual indexation.

CONSULTATION REQUIREMENTS

Community engagement is not required.

SUSTAINABILITY STATEMENT

The following table provides a summary of the key sustainability implications:

QBL Pillar	Implications
Environment	• There are no perceived short or long-term environmental implications.
Social	• There are no perceived short or long-term social implications.
Economic	• Provides Council with a significant source of income.
Governance	• Compliance with all legislative requirements and statutory obligations.

DETAIL

In the 2014/15 Federal Budget, the Government announced that it “*will achieve savings of \$925.2 million over four years by pausing indexation of the Local Government Financial Assistance Grants program for three commencing 1 July 2014*”

This decision meant that there would be no significant adjustments to the overall national funding pool for CPI and population growth until 2017/18. The impact of the indexation freeze has meant that the value of the funding pool has dropped in real terms and local councils have missed out on \$925 million in funding to provide essential infrastructure improvements and service delivery.

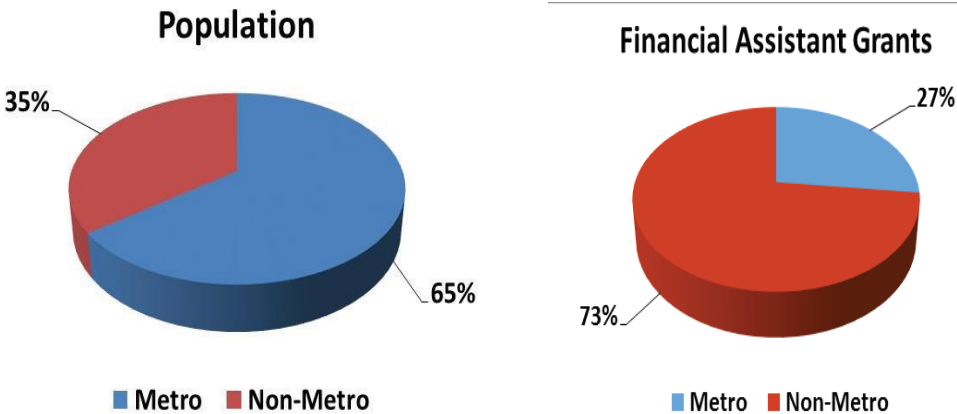
The following table details North Sydney Council’s FAG funding since this announcement:

Year	General Purpose	Local Roads	Total	Change%
2018/19	\$1,517,383	\$482,816	\$2,000,199	1.44%
2017/18	\$1,498,970	\$472,846	\$1,971,816	3.03%
2016/17	\$1,453,168	\$460,733	\$1,913,901	0.70%
2015/16	\$1,440,015	\$460,628	\$1,900,643	0.40%
2014/15	\$1,431,089	\$461,921	\$1,893,010	1.11%

The general purpose component of the grant attempts to assess the extent of relative disadvantage between councils. The approach taken considers the extent of cost disadvantage in the provision of services (expenditure allowances) and the assessment of the relative capacity of councils to raise revenue (revenue allowances).

The general formula for the calculation of Expenditure allowances is:

- No. of Units x Standard Cost x Disability
 - No. of Units – Council’s population
 - Standard Cost – the average of annual average net expenditure, per unit, by all councils in the state, averaged over five years
 - Disability – relative disadvantage in providing a standard service because of issues beyond the council’s control. (rural isolation)
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The annual net cost of services from Special Schedule 1 of councils financial statements is used by the Grants Commission in formulating the Standard Cost calculation. In an attempt to improve stability of the grant allocation, a five year moving average of the standard costs is preferred, thus removing the volatility of annual fluctuations.

By estimating the cost each council would incur in providing a normal range and standard of services and by also estimating the revenue each council could obtain through the normal range and standard of rates and charges, the grant is allocated to compensate for those variations and bring all councils up to the same level of financial capacity.

Councils with relative higher costs in providing normal services, for example remote areas or councils with a high proportion of elderly or pre-school aged people, will receive more grant funding.

The calculation of revenue allowances involves determining each council’s theoretical capacity to raise revenue by comparing land values per property to a state standard and applying the state standard rate-in-the-dollar. The Grants Commission purchase valuation data from the Valuer-General which is used to calculate the allowance. The valuations are averaged over three years to reduce seasonal and market fluctuations.

Councils with high values per property, as is the case with North Sydney Council, are assessed as being advantaged (positive allowance).

The influence of the Sydney property values is considered in the allowance by applying a “discount” factor, which helps overcome the impact the valuations have on the allowance and attempts to achieve equilibrium with the expenditure allowance.

Councils showing the greatest decreases in their revenue allowances generally tend to receive less grant funds. It should be noted that Council’s current financial position, capital expenditure or major infrastructure renewal and higher than average standard of service delivery are not considered. In addition, non-rateable properties are excluded from the Grants Commission calculations.

All councils are entitled to a per capita minimum grant, based on 30% of the general purpose component. Nineteen councils, all located in the Sydney metropolitan area, receive the “safety net” entitlement and are protected by this provision. The councils on the per capita minimum are: Bayside, Burwood, Canada Bay, Georges River, the Hills, Hornsby, Inner West, Ku-ring-

gai, Lane Cove, **North Sydney**, Northern Beaches, Randwick, Ryde, Strathfield, Sutherland Shire, Sydney, Waverley, Willoughby and Woollahra.

According to the Grants Commission allocation methodology, “councils on the minimum grant are relatively affluent compared to the remaining councils within the state”.

The roads component of the grant is distributed in accordance with a formula originally developed by Roads and Maritime Services (RMS) and is based on each council’s proportion of local road and bridge length and residential population numbers. Road and bridge data is collected from all councils annually, as per the National Local Roads Data Survey.

For urban councils, 95 per cent of the allocation is based on the length of local roads (60 per cent) and population (40 per cent), while 5 per cent is distributed on the basis of bridge length. Variations in the local roads component grant are the results of changes in council’s population shares and changes in reported road and bridge data. North Sydney Council’s local roads grant has remained at the same funding levels over the past five years.

The NSW Government policy is to allocate grants, as far as possible, to the councils with the greatest relative needs. North Sydney Council will continue to receive the minimum grant.
