THE COUNTRY MAYORS ASSOCIATION OF NSW INC

"What we want is nothing more than equity"

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Ms Linda Scott
Chair
NSW Grants Commission
Locked Bag 3015
Nowra, NSW, 2541

Dear Linda

Response to the Methodology Review of the Financial Assistance Grants Distribution

I am writing on behalf of the Board and the 89 General Purpose Council Members of the NSW Country Mayors Association (CMA) to provide feedback on the review of the methodology used to distribute Financial Assistance Grant's (FA Grants) funding to NSW councils.

CMA recognises and welcomes the Local Government Grants' Commission's intent of producing a new methodology for the distribution of FA Grants based on equity and financial need.

In addition, the CMA supports the Commission's objectives in relation to the distribution of the FA Grant which aims to assist councils to improve in five areas:

- Financial Capacity
- Capacity to provide equitable services
- Certainty of Funding
- Efficiency and Effectiveness
- Services to ATSI communities

We further support the additional objectives that informed the new methodology:

- Simplicity – reduce model inputs and only use factors with material impact
- Reliability - Data is consistent and obtained from trusted sources
- Equalising Financial Sustainability - equalizing the financial sustainability of council across the State and reducing financial disparity.

Virtually all our Members are in an almost daily battle with financial sustainability. The proposed Methodology has provided much needed additional funding for many of our Members but has also resulted in funding cuts for others. Some Members are understandably rejoicing in the outcomes while others are bitterly disappointed and left wondering how they will make ends meet. The CMA understands that the FA Grant is a finite pool of funds, consequently if some go up, others must go down.

The focus of our submission however is not on the outcomes, but on the process. Does the proposed methodology meet the above objectives and goals? Will it provide the consistent, reliable, predictable

funding outcomes year in, year out that will enable our Members to confidently plan for the future of the communities under their care?

The Commission first started talking to councils about reviewing the methodology over 12 months ago and sought informal feedback from the sector about how change could be achieved. It was clear at the presentation that was made in Orange in June 2025 during the CMA's Transport Forum that all agreed the current methodology lacked transparency, was complex and difficult to understand.

It was agreed that it was time to consider new ways of approaching the distribution methodology that would improve outcomes particularly for remote and rural councils who have very limited avenues to raise own-source revenue and are often servicing small, dispersed populations over vast geographic areas.

We appreciate that the Commission and the Minister for Local Government, the Hon Ron Hoenig MP have taken on-board these concerns regarding the need to improve allocation of funds to rural, remote and regional councils in developing the new methodology. Nevertheless, there have been "winners and losers" for our sector, and this of course has driven the need for all of us to better understand the Methodology and its underlying assumptions and calculations.

Given the complexity and importance of the issue along with its potential for far-reaching effects it was surprising to be presented with only one possible approach for consideration. It appears the Commission has presented us with a "this or nothing" outcome when the sector was expecting choice, an opportunity for robust analysis of different approaches with room to reach a negotiated outcome.

Councils across NSW are struggling with their financial sustainability, they are balancing budgets every day, consequently their financial capabilities and competence are very high. Therefore, the Commission should have been expecting and been prepared for the robust interrogation of its methodology that occurred once it was released. The presentation of the new Balanced Budget approach via PowerPoint without a single supporting background paper that provided genuine information on how calculations were made, averages reached and revenue needs determined has been extremely disappointing.

Multiple presentations of PowerPoint about the distribution methodology, which resulted in some councils receiving millions more and some millions less, did not provide any clarity as to the underlying calculations used to achieve these wildly different outcomes.

We understand from our Members that many sought furthermore detailed information, particularly during one-on-one meetings with the OLG and this could not be provided. The common refrain we are hearing from all our Members is their frustration at the lack of detail about how their grant amount was calculated. The CMA has also sought more information on the calculations in order to inform our response, however we have struggled to get anything including on matters such as:

- why did the Commission only use two Key Drivers: population and remoteness, what other key drivers were discounted in the process?
- what were the "preferred proxy variables" that were used to capture financial need (pg 23 of the Presentation)
- how was estimated council operating expenditure "given their inherent factors" calculated and what were those inherent factors? (pg 23)
- was averaging used to calculate expenditure and revenue and if so, how was it used: across a basket of like councils, across the entire sector, using a sample of councils?
- why is household income (residential rates only) part of the consideration for rates revenue (pg 25)
- how the inclusion of tied operational grants like Disaster Recovery will be managed to ensure they do not adversely impact on the untied Financial Assistance Grant.

- how is the weighted average Financial Need referred to multiple times on page 26 calculated? What weighting were applied?

The use of ARIA+ as an index for determining remoteness has caused frustration because of the Commission's advice to councils that the data is commercial-in-confidence and therefore cannot be shared. The CMA contends the use of any index that cannot be shared and interrogated by the sector does not support the need for the methodology to be transparent and easily understood.

We are concerned that the Key Drivers used for determining Expenditure Need are restricted to population and remoteness. Remoteness does not necessarily determine or represent disadvantage, nor does the size of a population dictate the level of demand. For example, in many of our rural communities have higher than average aging populations with their accompanying needs for services and facilities. How is this accounted for in determining expenditure need?

We are very concerned about the Commission's apparent disregard of rate pegging in NSW. The PowerPoint makes no reference to it and yet it is the single most powerful determinant of rates income. How does, or would, the new methodology account for a 0% increase in the rate peg? We struggle to understand how Household Income, which plays no role in the calculation of the rate peg, is listed as a factor in determining the capacity for rates revenue. At least on the surface it would seem that this index would more appropriately determine discretionary fees and charges.

The CMA is very concerned about what appears to be the lack of nuance in the new methodology. Given the diversity that is represented by the NSW Local Government sector which encompasses the largest City in Australia to some of the smallest villages that stretches across beaches, deserts, snowfields and forests using just two Key Drivers fails to account for that diversity.

We note that the Victorian Grants Commission, which has also adopted the Balanced Budget approach, uses adjustors to provide more nuanced calculations for both expenditure and revenue. In addition, the Victorian Commission provides the actual calculations about how the adjustors are applied. The CMA strongly supports this type of approach which we believe would result in a fairer distribution.

We appreciate that there is a finite amount of funds in the pool and therefore where one council gets more, another must get less. However, the wide variation in funding that results from the application of the methodology is very concerning. We note that councils that share boundaries and therefore could be reasonably expected to share similar demographics and geographic characteristics along with similar population and remoteness drivers, have very different funding outcomes.

We also note that all the Regional Cities will receive an increase in funding but many communities in proximity to a Regional City suffer a decrease, the explanation given is that the proximity impacts on their remoteness and by extension their funding. We struggle to understand how proximity to a Regional City lessens the cost of operating a rural council. It can in fact increase costs, particularly for skilled staff when the rural council is in competition with the Regional City.

We are unsure if the quite divergent results for the funding distribution is an indicator of volatility – one year a council might have a substantial increase and then the following year it might suffer a substantial decrease. If a council receives substantial tied operational grants one year, will that mean it loses millions in FA Grant funding? Feedback to councils during one-to-one meetings appears to indicate that this would be the case.

The lack of any modelling means that we are unable to make a firm assessment either way. However, if it is an indicator of volatility in funding then this cannot be supported. Councils need certainty about their funding, if their FA Grant funding is likely to fluctuate significantly each year, say due to the receipt of tied operational grants then this would be unacceptable.

The Commission does not appear to have considered or applied any approaches that smooth out the large variances the new methodology has produced. There has been some discussion about "collars and caps" but again no detail about how this would work or any modelling on the impact has been provided. The CMA does not have the resources to undertake this type of modelling work for the OLG.

We are disappointed that the Commission has sought to mask the decrease in General Purpose funding by aggregating it with an increase in roads' funding. We note the advice that councils can use roads' funding for General Purpose activities. However, we would suggest that if roads' funding has increased then it is because the new methodology has determined that the council needs more money for roads and not for the purpose of offsetting a decrease in its General Purpose grant.

The CMA has requested that the Commission provide us with a spreadsheet specifying the allocation of the grant funding for each NSW council as this would have assisted us in our response on behalf of the Members. Unfortunately, the request was refused, and we were advised to go to each of our 89 councils to request a copy of their letters from the OLG that contained the advice. We remind the Commission that the CMA operates with staff of one EFT and therefore does not have the resources to undertake this level of data gathering and collation.

The CMA notes the new approach to roads funding and the apparent increase we believe it provides for most remote and rural councils. However, the approach uses ARIA+ and as stated above as this data is not transparent, we are concerned as to whether it provides the best possible outcome.

Given the number of "unknowns" in relation to the calculations that underpin the new methodology it is not possible for the CMA to support its adoption. Our stance at this point is that the existing methodology should remain in place and that further work be undertaken on the new methodology to address the concerns of the sector.

Feedback from our Members is that the new methodology should aim to not leave any CMA Member Council worse off than the application of the existing distribution methodology. Therefore, it is important that the Commission address how it can achieve a "no worse off" outcome for councils when it looks to implement a new methodology.

It may be appropriate providing the funding is not volatile, meaning it does not change significantly year-on-year for each council depending on the variables and data used for its calculation, to introduce a transitional arrangement over a period of perhaps 5 years which would provide councils with the opportunity to budget for the loss of FA Grant funding. Some of our Member Councils have lost millions in funding and will need time to develop strategies to mitigate the loss.

We note the Labor Party's recent commitment to the Federation Compact, which the Prime Minister spoke about at our CMA Dinner in August. While we are hopeful that the Compact will become Government Policy, we firmly believe that the increase in funding should be delivered along with a distribution methodology that is understood and fully supported by Local Government in NSW.

The CMA would therefore welcome the opportunity to work with the Commission and the OLG on the development of 2-3 methodology scenarios that encompass a more nuanced, transparent and robust approach.

Yours sincerely,

Mayor Rick Firman *OAM*
Chairman