



4 Sandringham Avenue, PO Box 3137,
Thornton, NSW 2322 - 02 4978 4040
www.hunterjo.nsw.gov.au

Linda Scott,
Chair, Office of Local Government Grants Commission
Locked bag 3015,
Nowra, NSW 2541 Australia

grantscommission@olg.nsw.gov.au

30 June 2025

Dear Mrs Scott

Re: Recommendations to inform the allocation of general purpose grants to local governing bodies in New South Wales under the provisions of the [Commonwealth Local Government \(Financial Assistance\) Act 1995](#).

The ten Member Councils of the Hunter Joint Organisation (JO) welcome the opportunity provided by the NSW Grants Commission to provide feedback on the NSW methodology to distribute the Federal Government's Financial Assistance Grants.

The Hunter Joint Organisation is the statutory local government entity established by the NSW Government, through the *NSW Local Government Act 1993*, to support the ten member Councils of the Hunter Region to work together for better rural and regional outcomes, and to enhance the way local and state governments work together to plan and deliver important regional infrastructure and investment.

Member Councils of the Hunter JO include:

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|-------------------------------|------------------------------|
| • Cessnock City Council | • Muswellbrook Shire Council |
| • Dungog Shire Council | • City of Newcastle |
| • Lake Macquarie City Council | • Port Stephens Council |
| • Maitland City Council | • Singleton Council |
| • MidCoast Council | • Upper Hunter Shire Council |

The core statutory functions established by the NSW Government for the Hunter JO include:

- Strategic planning and priority setting
- Intergovernmental collaboration
- Shared leadership and advocacy

The ten Mayors of the Region, through the Hunter Joint Organisation, are strongly aligned in recognising the on-going concern of financial sustainability of local government. We appreciate the efforts of the NSW Grants Commission to increase the non-metro allocation compared to the state average in the 24/25 financial years.

However, we are calling on the NSW Government to lead systems reform across all levels of government to improve the planning, administration and delivery of funding, to ensure equity in Financial Assistance Grant distribution to rural and regional councils by ensuring nationwide adherence to the principle of Horizontal Fiscal Equalisation established under the Federal Local Government (Financial Assistance) Act 1995.

Our recommendations include:

1. Commit to addressing the inequities of the current distribution of Financial Assistance Grants (FA Grants).
2. Undertake a 12-month review of the NSW general-purpose grant distribution methodology, with recommendations submitted to the Minister in advance of the 2026–27 allocation, including consideration of:
 - a. the difference between a council's potential to raise revenue and its actual capacity to raise revenue given the limitations imposed by legislation, or the economic conditions within their jurisdiction.
 - b. allowing for the difference in costs in providing services in rural and regional areas instead of state averages on a per capita basis.
 - c. cost factors that better reflect an individual council's operating environment in relation to climate change impacts, natural disasters, management of public infrastructure and provision of water/sewerage.
 - d. a significant increase in the proportion of annual CPI adjustments quarantined for councils facing the greatest relative disadvantage.
 - e. any increases in the total FA Grants allocation are quarantined for councils facing the greatest relative disadvantage.
3. Undertake extensive consultation with metropolitan councils on the challenges faced by regional councils under the current methodology, to build a broader understanding and grow support for a more equitable redistribution of FA Grants in favour of councils with a greater need.
4. Provide greater certainty in the timing of FA Grants payment to allow councils to strategically plan for current and future years.
5. Develop improved communications materials that provide greater transparency in the calculation methodology for distribution, including information on the:
 - a. Annual percentage variances in distribution and how these can be anticipated and incorporated into planning.
 - b. Criteria within the cost adjustment factors (20 expenditure functions and 47 disadvantages factors)
 - c. Changes that have been made annually to address the inequities of distribution, and examples of the challenges faced by rural and regional councils.

I encourage you to consider our recommendations to inform the focus and scope of the Financial Assistance Grants general-purpose distribution methodology and would welcome the opportunity to further discuss our ideas with State Government, given the enormous opportunities and impacts facing the Hunter region and NSW more broadly.

As an organisation representing 10 diverse councils, we are well placed to serve as a test bed for reviewing different methodologies and would welcome the opportunity to collaborate with you throughout the review process.

Should you have any further queries please don't hesitate to contact Kim Carland, Advocacy and Government Relations Lead, Hunter JO at kimc@hunterjo.com.au or on 0460 034 614.

Yours Sincerely



Cr Sue Moore
Mayor Singleton Council
Chair Hunter Joint Organisation

The challenge

- The value of Financial Assistance Grants provided to local government has declined over the past three decades from around 1 percent of Commonwealth taxation revenue to around 0.55 percent.
- Rural and regionals councils continue to rely heavily on financial support from other levels of government to meet their expenditure needs and a growing asset backlog. As an example, more than 60% of Dungog Shire Council's revenue is from external sources provided through grants, and the volatility of operations.
- Service delivery costs are higher in rural and regional areas; however, the current NSW methodology does not account for this. Instead, it calculates the state average per capita cost for each function by aggregating all council expenses reported in Financial Data Returns and dividing this total by the overall NSW population.
- Financial Assistance Grants (FA Grants) must be allocated on the basis of the National Principles under the Federal legislation - the Local Government (Financial Assistance) Act 1995, whereby a fixed 30% of the General-Purpose Component (GPC) must be allocated based on population increases/decreases. Any change to Federal Principles would require agreement from all State and Territory Ministers, ALGA and both Houses of Parliament.

The opportunity

- The Hunter Joint Organisation, representing ten diverse local governments, stands united in advocating to address the current inequities in the distribution of Financial Assistance Grants.
- Many councils, especially those in capital cities and urban centres, are able to generate enough revenue from their communities to fund their operations without needing government grants.
- The differences in revenue-raising capacity across council types highlight the need to reconsider how general-purpose grants are allocated to local governments.

Our request

We encourage the NSW Grants Commission to identify additional levers within their constraints to address the structural inequities that currently exist. As an example, we understand reviews have been undertaken in both Victoria and Queensland to address these inequities and request the NSW Grants Commission to consider these options over the next 12 months review.

Victoria

Through recent consultation with the Commission, we understand the Office of Local Government Victoria (OLGV) Grants Commission is committed to addressing the inequities of the current distribution of funds.

Within the current constraints, each year Victoria makes changes to provide a greater distribution to councils with a greater need. They do this by:

- Annual comprehensive consultation undertaken with all councils, marked by open, transparent communication and a strong focus on highlighting the unique challenges faced by regional councils. As a result, there is now a broader understanding and growing support—particularly among metropolitan councils—for a more equitable redistribution of Financial Assistance Grants (FA Grants) in favour of regional councils with greater need.

- The methodology for distributing the remaining 70% of the general-purpose component of FA Grants was reviewed, with adjustments made using levers within state control to enable a gradual, ongoing reallocation of funds from metropolitan to regional areas in Victoria each year.
- All future increases to the overall FA Grants general-purpose allocation from the Federal Government will be prioritised for regional councils with greater need. This approach ensures that councils currently receiving the minimum grant are not adversely affected.
- A detailed review of the Federal Principles was completed, including modelling to assess the impact of lowering or removing the minimum population threshold for general-purpose grants. Based on this analysis, a recommendation to reduce the minimum to 10% was recommended to the Victorian Minister for Local Government in November 2024.

Queensland

The Queensland Local Government Grants Commission engaged Queensland Treasury Corporation to undertake a comprehensive review of the Financial Assistance Grant allocation methodology in 2021.

A more equitable funding distribution was achieved with more funding being distributed under the new model to councils with a greater need, predominantly small and indigenous councils.

Key features of the new model include:

- focusing on the difference between a council's potential to raise revenue and its actual capacity to raise revenue in acknowledgement of the revenue raising challenge faced by many councils
- allowing for the difference in costs in providing services (on a per capita basis)
- including cost factors that better reflect an individual council's operating environment (remoteness, dispersion and socio-economic conditions)
- reducing the sensitivity of the model to road network input data, which means road length and related information is not as influential in determining grant allocations.
- establishing four more councils as minimum grant councils given their higher revenue raising capacity when compared to other Queensland councils.
- 57 councils (74%) out of 77 councils in Queensland will receive a greater funding allocation under the new FA Grant methodology in 2022-23.
- 26% of councils will receive a reduced allocation in 2022-23. For these councils the average reduction is approximately 0.3% of operating revenue.

Previous reviews

The case for this review is reinforced by findings from several other reviews and reports, including:

- 2008 Productivity Commission - Assessing Local Government Revenue Raising Capacity, Productivity Commission Research Report.
- 2010 Australian Treasury - Australia's Future Taxation System Report.
- 2013 NSW Local Government Grants Commission submission to the Commonwealth Grants Commission Review
- 2014 NSW Government's Response to the Local Government Review Panel
- 2017 Productivity Commission - Shifting the Dial: 5 year Review.

- 2024 Federal Inquiry - House of Representatives Standing Committee on Regional Development, Infrastructure and Transport adopted Inquiry into local government sustainability
- 2025 Federal Inquiry - Interim report into local government sustainability
- Nov 2024 - NSW Government Standing Committee on State Development – Inquiry into ‘Ability of local governments to fund infrastructure and services.
- May 2025 - NSW Government Response to the Inquiry into ‘Ability of local governments to fund infrastructure and services.

As outlined in the 2025 NSW Government Response to the Inquiry into ‘Ability of local governments to fund infrastructure and services:

In recognition of the financial challenges faced by smaller rural and remote councils, a continual review of the Federal Assistance Grants distribution model will also be part of the ongoing process of the NSW Local Government Grants Commission in its allocation of grants to NSW councils.

Grants as a method to provide funding

Local government is fundamentally under-resourced to deliver on the services they’re expected to provide. Current staffing levels at councils are already stretched, and ongoing challenges in recruiting and retaining skilled staff, particularly in regional areas, further constrain delivery.

Uncertainty in timing, or short-term, competitive grant funding is not an adequate or sustainable solution. This model creates uncertainty, limits strategic planning, and ultimately embeds vulnerability rather than building long-term resilience.

Councils are forced to chase fragmented funding opportunities, which leads to:

- Loss of local skills and capability, as short-term funding undermines job security and continuity. Councils often lose talent to the private sector or rely on metropolitan consultants, limiting regional employment and local knowledge retention.
- Boom-bust delivery cycles, where sudden influxes of grant funding inflate supplier costs and reduce value for money, with little ability to coordinate investment over time.

To improve efficiency, certainty and impact for both funding agencies and recipients we recommend:

- Longer-term block funding aligned to councils’ four-year Delivery Programs, enabling proactive planning, integration with core council business, and delivery of sustained climate adaptation and mitigation outcomes.
- Multi-year funding for positions (minimum 4–5 years), which is essential to attract and retain qualified staff, particularly in regional areas. Longer-term roles help build institutional knowledge, strengthen delivery capability, and embed adaptation across council functions.
- Build consistency in the governance frameworks, systems and documentation required across various funding programs and governing agencies to reduce the administrative burden on local government.
- Identify potential efficiencies across NSW Government to reduce the bureaucratic requirements placed on councils to pay taxes/charges to state government only to be processed by NSW government staff to be repaid back from other budget areas to local government eg waste levy, emergency services levy.

Investing in stable, long-term funding mechanisms is a critical step toward realising the NSW Government’s commitment to ensure NSW councils are efficient and financially sustainable.