

POSITION PAPER FINANCIAL ASSISTANCE GRANTS

NOVEMBER 2024

ABOUT THE KIMBERLEY REGIONAL GROUP

The Kimberley Regional Group (KRG) is an alliance of the four Kimberley Shires, being the Shire of Broome, the Shire of Derby West Kimberley, the Shire of Halls Creek and the Shire of Wyndham East Kimberley. Our Vision is to maintain and enhance the rich diversity and liveability of the Kimberley for its people and the world. Collaboratively the group seeks to drive positive impact across the region through improved social, economic and cultural outcomes. This paper is designed to highlight the issues as known to Local Government at the time of writing and the potential pathways that are supported.

CONTEXT

A Financial Assistance Grant (FA Grant) is funding provided by the Australian Federal Government to Local Governments to support the delivery of essential services and infrastructure. The two components are:

- 1. General Purpose Component: Distributed to States and Territories based on population, providing flexible funding for Local Governments to use according to their specific requirements.**
- 2. Identified Local Road Component: Allocations based on historical shares, specifically supporting the maintenance and development of local roads.**

The grant's value has declined over time, as it is now only 0.5% of Commonwealth Tax Revenue (CTR), compared to the original 2% of Federal Governments personal income tax revenue, then 1% CTR. Freezes on grant indexation (2014-2017) further compounded this problem.

This reduction has negatively impacted Local Governments, particularly in remote areas, because of the following reasons:

Dependence on Grants: Remote Local Governments, in particular, rely heavily on FA Grants for revenue as they have limited capacity to raise their own source revenue. For example, grants constitute 67% of revenue for the Shire of Halls Creek, far above the national average of 14%.

High Costs of Service Delivery: Infrastructure and services are significantly more expensive in remote areas to deliver; for example, construction costs in Kununurra are at least 60% higher than in metropolitan Perth, and up to 400% when working remotely from town centres.

A report commissioned by the Kimberley Regional Group identified Equalisation and Allocation Issues with FA Grants:

The current funding does not cover assessed needs; in 2023-24, only 64% of the funding needs in Western Australia were met.

The population-based allocation favours densely populated states, whilst the minimum grant principle diverts funds from higher-need Local Governments.

OBJECTIVE

- » **To propose improvements to the FA Grant model to both the Australian Government and the WA Grants Commission which addresses the inequitable assessment of regional and remote Local Government's equalisation requirements.**

GUIDING PRINCIPLES

The following guiding principals should inform a proposed adjustment to the current FA Grant model:

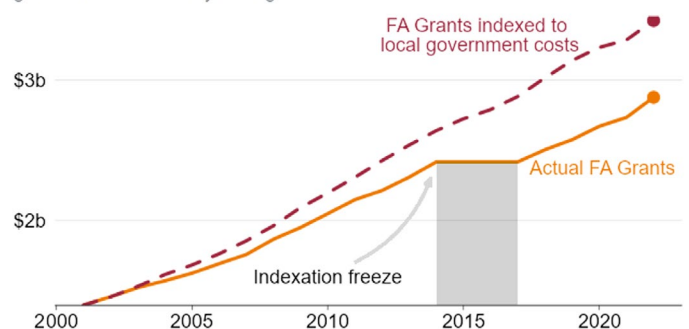
- State and Federal Governments be open to exploring revised grant allocations which are more aligned to genuine horizontal equalisation principals and deliver parity between like for like Councils across jurisdictions
- Cost per capita to deliver essential services in sparsely populated areas should be taken into consideration
- Appropriate recognition of the needs of remote First Nation communities
- FA grant adjustments be implemented in a staged way and in a manner which does not impact negatively on any Local Government in the short term

POLICY PRIORITIES

The following recommendations are proposed to improve the FA grant model for the Kimberley Local Governments:

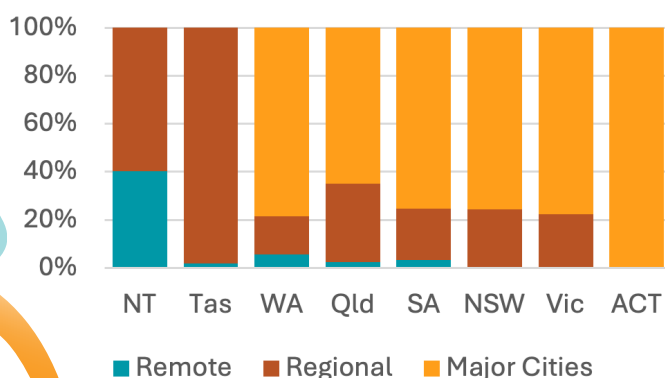
- **That the Australian Government:**
 - » review the quantum of the Financial Assistance Grant. Consideration be given to increasing the total Financial Assistance Grant pool to at least 1% Commonwealth Tax Revenue to ensure a more sustainable funding pool for Local Governments and restoration of the Financial Assistance Grant funding lost following the 2014-15 to 2016-17 indexation freeze
 - » develop an appropriate indexation methodology to ensure that Financial Assistance Grants keep up with the cost pressures faced by Local Governments, whilst also providing consistency to the funding to enable Local Governments to better forward plan and budget
 - » 'reset the payment cycle' with an additional once-off payment to correct the current practice of bringing payments forward and then implement a standard payment schedule that doesn't change each year.

Value of the Financial Assistance Grants (2001-2022). Actual versus if grants were indexed by local government costs

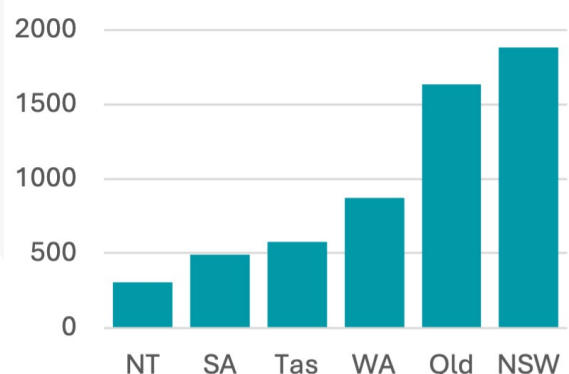


- » change the method of distribution of funds to the States from the current method, which is primarily based on population, to one that will enable every Local Government to provide a similar level of service to their community by considering factors beyond population size.
 - » reconsider the guiding principle of Effort Neutrality in the allocation of funds.
 - » review the National Principle relating to Minimum Grant Funding. Consideration should be given to either removing or reducing the 30% requirement or allowing state or territory grant commissions to adjust the minimum grant percentage based on need. For example, a range between 10% and 30% could be established.
 - » Reducing or eliminating the 30% minimum would enable a greater allocation of funds to Local Governments that need it most to achieve horizontal equalisation
 - » strengthen the National Principle for Aboriginal People and Torres Strait Islanders to make it explicit that the needs of Aboriginal people must be recognised in equalisation assessments and to take into account the number of remote Aboriginal communities in a State or Territory when distributing the FA Grant funding.
 - » change the minimum grant principle to be “ensuring a local government’s combined General Purpose Grant and Local Road Grant cannot be less than 30% of the amount it would have received if the Grant were calculated on a per capita basis”
- **That the Western Australian Local Government Grants Commission:**
 - » review the Aboriginality cost adjustor calculation
 - » provide feedback from the Commission on the inclusion of Aboriginal Communities into the population dispersion calculations
 - » review the population dispersion calculation to consider the asset base required by Local Governments with additional townsites
 - » review the climate cost adjustor to consider the wet season rainfall impacts and humidity in the calculation, and review the population weighting
 - » review the location cost adjustor weighting to increase the weighting based on the ARIA+ score and reduce the weighting attributed to population, i.e. 80% based on the ARIA+ score and 20% based on population
 - » review the socio-economic cost adjustor so that only Local Governments with an ARIA+ score of more than 4 are eligible.
 - » include the capacity of a Local Government to raise its own funds for road renewal works
 - » Consideration of additional loading for disaster relief funding requirements for Local Governments in high risk areas







Share of Population by Remoteness and State 2021



FA Grant per capita by Remote Councils 2021



Case Study: Shire of Wyndham East Kimberley (WA) versus Cobar Shire (NSW)

Shire of Wyndham East Kimberley		Cobar Shire
8,209 people 43.5% Aboriginal and Torres Strait Islander		4,078 people 33% Aboriginal and Torres Strait Islander
ABS Remoteness Area = Very Remote 121,000 sq km (Size) 800km from Darwin		ABS Remoteness Area = Very Remote 45,579 sq km (size) 650km from Dubbo
SEIFA Score 934 SEIFA Rank: 192		SEIFA Score 937 SEIFA Rank 203
2,802 Rateable properties		2,502 rateable properties
2 airports		1 airport
2 swimming pools 2 public libraries		1 swimming pool 1 public library

Examining the 2022-23 General Purpose Grant figures, the average funding per capita for remote Local Governments in NSW was \$1,742.85. The average funding per capita for the Kimberley Local Governments was \$515.84.

In 2022-23, the Cobar Shire in NSW, received \$5,150,785 in General Purpose funding, equating to \$1,180.02 per capita. In contrast, the Shire of Wyndham East Kimberley (SWEK), received \$2,733,635, or \$372.58 per capita.

Despite both shires both being classified as Very Remote, having similar SIEFA scores and a comparable number of rateable properties, Cobar's per capita General Purpose funding was three times higher than SWEK's.

Additionally, SWEK's larger area (121,000 km² vs. Cobar's 45,579 km²) also requires more infrastructure, including two airports, two swimming pools and two libraries, compared to Cobar's single facilities.

ENDNOTES

Sources: Department of Infrastructure, Transport, Regional Development, Communications and the Arts 2023a, The South Australian Centre for Economic Studies 2023, ABS 1999. Grattan Institute 2023
 Analysis of FA Grants indexation from Grattan Institute. Source: Grattan Institute – Potholes and Pitfalls How to fix local roads report 2023
 Analysis of GA Grants by Remoteness and State 2021. Source: Grattan Institute 2023